

Note:-all questions are compulsory.

Marks:-180

Question 1

Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term? (4 Marks) (PE-II Nov 2006)

Question 2

Give your comments on the following:

- (a) *M/s A & Co., Chartered Accountants, were appointed first auditors of KLM Ltd. By its Board of Directors. The shareholders of the company removed M/s A & Co. before the expiry of their term, by an ordinary resolution in an Extraordinary General Meeting and appointed another auditors in their place. M/s A & Co. have objected that without prior approval of Central Government their removal is illegal. (4 Marks)*
- (b) *W Ltd. approached SB & Co. a leading firm of Chartered Accountants having two partners S & B to conduct the audit for the year ended on 31st March, 2006. Mr. B is holding 500 equity shares @ Rs. 50 each in W Ltd. Can SB & Co. accept audit of W Ltd.? (4 Marks) (PE-II May2007)*

Question 3

Write a short note on - Provisions versus Specific Reserves.

(4 Marks) (PE-II May 2007)

Question 4

- (a) (i) *What is a qualified audit report? (3 Marks)*
- (ii) *Under what circumstances a qualified audit report is issued? (5 Marks)*
- (b) *On what companies the Companies (Auditor's Report) Order, 2003 is applicable and what companies are not covered by it? (8 Marks) (PE-II May 2007)*

Question 5

How will you vouch/verify the following ?

- (a) *Advance given to a director of a Company*
- (b) *Repayment of amount of foreign loan for purchase of an asset*
- (c) *Grant received for reimbursement of revenue expenditure*
- (d) *Deferred Tax Liability. (4X4 = 16 Marks) (PE-II Nov 2007)*

Question 6

As an Auditor, comment on the following:

- (a) Company has debited Rs. 1,75,000 to Delivery Van Account received from a customer against credit sales of Rs. 1,50,000 to him who is now is not able to pay the amount. The Delivery Van has not been registered in the name of the company with R.T.O. till date of Finalisation of accounts. (5 Marks)*
- (b) PQ Ltd. has given donations of Rs. 50,000 each to a charitable school and a trust for blinds, during the year ended 31.3.2007. The average net Profit of the company during last three Financial years amounts to Rs. 12 lacs. (5 Marks)*
- (c) AAS Limited had provided for doubtful debts to the extent of Rs. 23 lakhs during the year 2004-05. The amount had since been collected in the year 2006-07. Another debt of Rs. 25 lakhs had been identified to be doubtful during the year 2006-07. The Company made an additional provision of Rs. 2 lakhs during the year. The Profit and Loss account for the year ended 31.3.2007 disclosed in Debit side-provision for doubtful Debts Rs. 2 lakhs. (4 Marks)*
- (d) Alagar Limited is a company engaged in the business of chassis building and bus transportation services. It accounts all expenses and income in Profit and Loss account under various heads explaining clearly the nature of the operations. The auditor of the company requires that the Profit and Loss account should depict the Profit or Loss from the businesses of assembly as well as of operation of bus services separately. (4 Marks) (PE-II Nov 2007)*

Question 7

As on Auditor, comment on the following:

- (a) Sri Limited is a manufacturing company engaged in manufacture of cement. It had three plants already commissioned in its site at Chennai. The company expanded its plant capacity by contracting with a supplier for the purchase and installation of one additional plant. The project was commenced on 1.7.2007 and the new plant commenced commercial operations on 1.1.2008. The new plant was capitalized and shown as Fixed asset as on 31.3.2008 at cost which included, besides other things, the following:*
 - (i) Contract price of plant and equipment and installation costs*
 - (ii) Interest due for the period till 31.3.2008 for the term loan taken from scheduled bank for financing the project which is repayable over five years commencing from 1.7.2008.*

*(iii) Salaries, welfare expenses of the plant engineers of the company for the period from 1.7.2007 to 31.12.2007 who supervised the contract work.
(5 Marks)*

- (b) The Investments of ABC Limited includes 5,000 equity shares of Rs. 100 each in Amudhan Bank Limited. Amudhan Bank Ltd. declared 20% dividend for the year ended 31.3.2007 at its General Meeting held on 30.6.2007. ABC Limited finalised its accounts for the year ended 31.3.2007 on 30.8.2007 and it includes Rs. 1,00,000 being the amount of dividend received by it from Amudhan Bank Ltd. in its other income subsequent to its Balance Sheet date before approval by the Board of Directors. (5 Marks)*
- (c) AS Limited purchased on 1.4.2007 a machinery from a foreign country at a price of \$ 1, 50,000 upon terms of credit that the price should be settled within six months from the date of purchase. The company capitalised the Asset and created Liability for the capital goods converting the foreign currency liability to Indian Rupees at a rate of exchange prevailing as on 1.4.2007. When the company settled the liability on 18.7.2007, it had to incur an additional amount of Rs. 6, 75,000 due to change in foreign exchange rate on the date of settlement. It added this additional amount of exchange variation in the capital cost of the asset and charged depreciation upon the enhanced amount of asset value from 18.7.2007.
(4 Marks)(PE-II May 2008)*

Question 8

Comment on the following:

- (a) M/s. Seeman & Co. had been the company auditor for Amudhan Company Limited for the year 2006-07. The company had three branches located at Chennai, Delhi and Mumbai. The audits of branches-Chennai, Delhi were looked after by the company auditors themselves. The audit of Mumbai branch had been done by another auditor M/s Vasan & Co., a local auditor situated at Mumbai. The branch auditor had completed the audit and had given his report too. After this, but before finalization, the company auditor wanted to visit the Mumbai branch and have access to the inventory records maintained at the branch. The management objects to this on the grounds of the company auditor is transgressing the scope of audit areas agreed.(5 Marks)*
- (b) "AB & Associates" the Auditor of Ajanta Ltd. refused to deliver the Books of account of the company, which were given to them for the purpose of audit, as the audit fees is not paid to them in full.
(4 Marks)*
- (c) Mr. A was appointed as an auditor of X Ltd. for the year ended 31.3.2008 in the AGM held on 16.8.2007. Mr. A had indebted to the company for a sum of Rs. 2,500 as on 1.4.2007, the opening date of the accounting year which had*

been the subject to his audit. Upon learning that he might be appointed as the auditor, he repaid the amount on 14.8.2007. Mr. B, a shareholder complained that the appointment of Mr. A as auditor was invalid and he incurred disqualification under Section 226 of the Indian Companies Act, 1956 and his independence had been vitiated in relation to the accounting year of his audit.

(4 Marks)

- (d) The Financial Controller of AS Limited refuses to provide for proposed dividend in books of accounts for the year ended 31.3.2007 on the ground that it is pending *approval of shareholders in Annual General Meeting to be held on 16th September 2007.* (5 Marks) (PE-II Nov 2007)

Question 9

As an Auditor, comment on the following:

Enunciate the General principles of verification of Assets. (8 Marks) (PE-II May 2008)

Question 10

Give your assertions for the following items appearing in balance sheet of a Limited Company:

		Rs.
(i) Cash in hand		10,000
(ii) Investments		1,00,000
(iii) Secured Loans		10,00,000
(iv) Machinery:		
Opening cost	13,00,000	
Less: depreciation		
Current depreciation	1,30,000	11,70,000

(8 Marks) (PE-II Nov 2007)

Question 11

As an Auditor, comment on the following:

- (a) *Lehar Ltd. installed a new water treatment plant at its factory on 1.10.2007. The company estimated that the new plant will become obsolete after 4 years only and hence charged depreciation at a rate higher than that envisaged in Schedule XIV to the Companies Act. During the year 2007-08, the company therefore had written off 1/4th of the cost.* (5 Marks)

- (b) *Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2006-07 at a cost of Rs.100 lacs. Out of this they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment. During the Financial year 2007-08, Urja Ltd. waived off the balance 10% amount which was credited to Profit and Loss account by Fire Ltd. as discount received.*

(4 Marks) (PE-II Nov 2008)

Question 12

What is clean audit report? Explain, how it is different from qualified report affecting Auditor's opinion.

(8 Marks) (PE-II Nov 2007)

Question 13

Comment on the following:

- (a) *AAS Company Limited with its registered office at Chennai has two branch offices located at Mumbai and Kolkata. The accounting transactions of the branches are recorded and the accounting records are maintained in the branches themselves. Only quarterly summarized Trial balance, Profit and Loss account and Balance Sheet are sent to Chennai office by the branch Accountants. One of the assistants of your audit team raises an issue that the company is required to maintain its books and records at the registered office; the company, keeping its accounting records at the branches, hence is in default of not maintaining proper books at registered office as per the Company law provisions.* (5 Marks)
- (b) *During the year 2007-08, it was decided for the first time that the accounts of the branch office of AAS Company Limited be audited by qualified Chartered Accountants other than the company auditor. Accordingly, the Board had appointed branch auditors for the ensuing year. One of the shareholders complained to the Central Government that the appointments was not valid as the Board of Directors do not have power to appoint auditors, be they Company Auditor or Branch Auditors?* (4 Marks)
- (c) *The Chief Accountant of AAS Company Limited says that the company, being in loss, would not provide depreciation for the Fixed Assets during this year, it would provide for the arrears of depreciation when it has profits in the future years; there is nothing wrong in this treatment, as according to the Companies Act, 1956, the company is bound to provide for depreciation only when it intends to declare dividend; in the present case, the company does not declare dividend.* (4 Marks)
- (d) *Other liabilities in Balance Sheet of AAS Limited include Rs. 7.8 lakhs being the amount of excise duty payable since 1.5.2007 remaining unpaid till 31.3.08.*

However, the same had been paid by the company on 15.4.2008 upon getting clarification from its advocates that the liability is actually payable by it. (5 Marks) (PE-II May 2008)

Question 14

Write a short note on - Audit Report versus Audit Certificate. (4 Marks) (PE-II May 2008)

Question 15

Give your comments on the following:

- (a) Hum & Tum Associates, Chartered Accountants, have been appointed as auditors of SP Ltd. Mr. Tum, a junior partner, holds 10 shares of HP Ltd., which is holding company of SP Ltd. (5 Marks)*
- (b) Mr. Budha, Statutory Auditors of Secret Ltd. was not permitted by the Board of Directors to attend general meeting of the company on the ground that his right to attend general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed. (4 Marks)*
- (c) M/s Young & Co., a Chartered Accountant firm, and Statutory Auditors of Old Ltd., is dissolved on 1.2.2008 due to differences of opinion among the partners. The Board of Directors of Old Ltd. in its meeting on 6.2.2008 appointed another firm M/s Sharp & Co. as their new auditors for one year. (5 Marks)*
- (d) Mr. Fat, auditor of Thin Ltd., has his office and residence in the building owned by Thin Ltd. Mr. Fat has been given 10% concession in rent by the company as compared to other tenants. (4 Marks) (PE-II Nov 2008)*

Question 16

State the matters to be specified in the Auditor's report in terms of provisions of Section 227(3) of the Companies Act, 1956. (8 Marks) (PE-II Nov 2008)

Question 17

Write short notes on the following :

- (a) Responsibilities of Joint auditors.*
- (b) Process of Judgement formation by Auditor. (4 x 2 = 8 Marks) (PE-II Nov 2008)*