
PAPER 3: ADVANCED AUDITING
MAY 2005

Answer Questions Nos. **1** and **2** and any **Four** from the rest.

Question 1

As a Statutory Auditor, how would you deal with the following?

- (a) The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year end deposited in the Company. **(4 Marks)**
- (b) P Pvt Ltd., was amalgamated with PQR Ltd., with effect from 1st April, 2004. As per the scheme of amalgamation approved by the High Court, the amalgamation was to be accounted by the “Pooling of Interest method”. The scheme further provided that the balance in Revaluation Reserve of P Pvt Ltd., as on 31st March, 2004 was to be treated as a General Reserve on amalgamation. During the financial year 2004-05, PQR Ltd., issued bonus shares out of General Reserves (Which included the amount of revaluation reserve of P Pvt. Ltd.,) **(5 Marks)**
- (c) B Pvt. Ltd., implements a Voluntary Retirement Scheme (VRS) for its employees. It follows a policy of amortizing the expenditure over 10 years. As at 1st April, 2004, the unamortized VRS expenditure was Rs.15 lakhs. During the years 2004-05, it incurred further Rs.12 lakhs as VRS. For the year ended 31st March, 2005, the company proposes to revise the period of amortization to 5 years. It also proposes to follow the revised period for the opening balance. **(5 Marks)**
- (d) The accountant of C Ltd., has requested you, not to send balance confirmations to a particular group of debtors since the said balance are under dispute and the matter is pending in the court. **(4 Marks)**

Question 2

Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto:

- (a) L, a Chartered Accountant did not maintain books of account for his professional earnings on the ground that his income is less than the limits prescribed U/s. 44AA of the Income Tax Act, 1961. **(5 Marks)**
- (b) M/s.ABC, a firm of Chartered Accountants has taken a loan for acquiring computers, from a company whose Managing Director’s son is an Articled Trainee with A, a partner of M/s.ABC. **(4 Marks)**
- (c) M/s. XYZ, a firm of Chartered Accountants created a website “www.xzyindia. com”. The website besides containing details of the firm and bio-data of the partners also contains the photographs of all the partners of the firm. **(5 Marks)**
- (d) Z, a Chartered Accountant, certifies a financial forecast of his client which was forwarded to the client’s Bank based on which the Bank sanctioned a loan to the client. **(4 Marks)**

Question 3

Answer the following:

- (a) Enumerate, in brief, the important aspects to be evaluated by the external auditor in determining the efficiency and extent of reliance to be placed on the work and function of an Internal Auditor. **(6 Marks)**
- (b) While compiling the financial statements of a concern, you observed that the input information supplied by the concern is incomplete, incorrect and few of the Accounting Standards have not been followed. Describe, in brief, the procedure you will follow in the above. **(5 Marks)**
- (c) You have been appointed the sole statutory Auditor of a company where you were one of the Joint Auditors in the immediately preceding year. The concerned Joint Auditor has not been reappointed. What are the various steps you would take to ascertain the compliance of the requirements of the Companies Act, 1956 before accepting the audit? **(5 Marks)**

Question 4

- (a) A Pvt. Ltd., is incorporated on 1st July, 2004. During the year ended 31st March, 2005, it had issued shares (fully paid up) of Rs.40 lakhs, had borrowed Rs.7.5 lakhs each from 2 financial institutions and its turnover (Net of excise Rs.50 lakhs which is credited to a separate account) is Rs.475 lakhs. Will Companies Auditors Report Order, 2003(CARO) be applicable to A Pvt. Ltd.? **(4 Marks)**
- (b) As the Statutory Auditor of B Ltd., to whom CARO 2003 is applicable, how would you report in the following situations? **(4×3=12Marks)**
- The Company has stood guarantee to its sister concern, whose financial condition was not healthy for a sum of Rs.20 lakhs borrowed from a Bank.
 - Physical verification of only 50% (in value) of items of inventory has been conducted by the Company. The balance 50% will be conducted in next year due to lack of time and resources.
 - Accumulated losses of the company are 50.9% of its net worth and it is incurring continuous cash losses since last 2 years.

Question 5

- (a) In determining whether to use Computer Assisted Auditing Techniques (CAATs), what are the factors that a Statutory Auditor has to consider? **(6 Marks)**
- (b) "In an audit of an Insurance Company, the Receipts and Payments Account is also subjected to audit." Comment on this statement in brief. **(6 Marks)**
- (c) What are the exceptions to the general rule of treating advances as Non-performing Assets (NPAs) **(4 Marks)**

Question 6

- a. As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable Audit Program for the above. **(10 Marks)**
- b. When can a company be said to have "Not maintained" proper books of account? What is the role of the Statutory Auditor for the same? **(6 Marks)**

Question 7

- a. A Company has a Branch Office which recorded a turnover of Rs.1,90,000 in the financial year 2004-2005. No audit of the branch has been carried out. The Statutory Auditor of the Company has made no reference of the above branch in his report. The total turnover of the company is Rs.10 crores for the year 2004-05. **(6 Marks)**
- b. Obtain Audit Evidence in performing compliance and substantive procedures. **(10 Marks)**

Question 8**(4×4=16Marks)**

- Walk Through Tests
- Vostro and Nostro Accounts
- Special Report by Auditor to Registrar of Co-operative Societies.
- Factors relevant in evaluation of inherent risk
- Preliminary report under peer review
- Margin (Under Stock Exchange Trading Regulations).