
**PAPER 2:ADVANCED AUDITING
NOVEMBER 2002**

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

Question 1

As a Statutory Auditor for the year ended 31st March , 2002, how would you deal with the following?

- (a) P Ltd., has filed a petition in the High Court for adjustment of product development expenses of Rs.50 cores against the balance in Securities Premium account. While finalizing the accounts, the directors carried out the said adjustment since they were certain that the High Court approval would be received. The said petition has not come up for hearing till the date of signing of the accounts by the auditor.
(5 Marks)
- (b) As on 31/3/2001, the Equity Share Capital of Q Ltd., is 10 crores divided into shares of Rs.10 each. During the financial year 2001-02, it has issued bonus shares in the ration of 1:1. The net profit after tax for the years 31/3/2001 and 31/3/2002 is Rs.8.50 crores and Rs.11.50 crores respectively. The Earnings per share (EPS) disclosed in the accounts for two years is Rs.8.50 and rs5.75 respectively.
(5 Marks)
- (c) R Ltd., has borrowed Rs.25 crores from financial institutions during the financial year 2001-02. These borrowings are used to invest in shares of a Ltd., a subsidiary company, which is implementing a new project estimated to cost 50 crores. As on 31st March, 2002 since the said project was not yet complete, the directors of R Ltd., resolved to capitalize the interest on the borrowings amounting to Rs.3 crores and add it to the cost of investments.
(5 Marks)
- (d) S Ltd., a listed company, was incurring heavy losses since the last several years and the industry in which it was functioning was not expected to perform better in the next few years. While finalizing the accounts for the year ended 31st March, 2002, the CFO of the company decided to create a Deferred Tax Asset for the tax benefits that would arise in future years from the earlier years losses that had remained unabsorbed in Income Tax.
(5 Marks)

Question 2

Discuss the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

- (a) A Chartered Accountant in practice has been suspended from practice for a period of 6 months and he had surrendered his certificate of practice for the said period. During the said period of suspension, though the member did not undertake any audit assignments, he undertook representation assignments for income tax whereby he would appear before the tax authorities in his capacity as a Chartered Accountant.
(4 Marks)
- (b) Mr.R, a Chartered Accountant in practice has been elected as the treasurer of a Regional Council of the Institute. The Regional Council had organized an international tour through a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr.R had received a personal benefit of Rs.50,000 from the tour operator.
(4 Marks)
- (c) Mr. Q, a Chartered Accountant in practice as a proprietor died in a road accident. His widow sold the practice of her husband to another Chartered Accountant in practice for Rs.5 Lakhs. The price also included right to use the firm name of Mr.Q.
(4 Marks)
- (d) M/s.XYZ, a firm in practice, develops a website “xyz.com”. the colour chosen for the website was a very bright green and the website was to run on a “push” technology where the names of the partners of the firm and the major clients were to be displayed on the website.
(4 Marks)

Question 3

Answer the following in brief:

- (a) How can an Auditor identify Related Parties? **(8 Marks)**
- (b) How does an Auditor evaluate the work of an expert? **(8 Marks)**

Question 4

- (a) Section 292 A of the Companies Act, 1956 provide that every Public Company having paid up capital not less than Rs. 5 crores shall constitute a committee of the Board known as “Audit Committee”. Briefly discuss the additional requirements as per section 292A, which are silent in clause 49 of the Listing Agreement. **(8 Marks)**

- (b) “There should be sufficient liaison between a principal auditor and other auditors” Discuss the above statement and state in this context the reporting considerations, when the auditor uses the work performed by other auditor. **(8 Marks)**

Question 5

Answer the following:

- (a) What is meant by True and Fair Cost of Production ? **(6 Marks)**
- (b) Discuss some problems that will be encountered in an EDP system in implementation of Internal Control. **(10 Marks)**

Question 6

Answer the following:

- (a) Describe the audit procedures to be followed by a Statutory Auditor of a bank for audit of Contingent Liabilities. **(8 Marks)**
- (b) Describe the audit procedures to be followed for verification of premiums by a Statutory Auditor of a General Insurance Company. **(8 Marks)**

Question 7

Answer the following:

- (a) Mention the difference between “report” and “certificate” **(4 Marks)**
- (b) What are the contents of Reports and Certificates for special purposes? **(6 Marks)**
- (c) What are the reporting requirements for closing stocks in the Manufacturing and other Companies (Auditors Report) Order, 1988? **(6 Marks)**

Question 8

Write short notes on any four of the following :

(4×4=16 Marks)

- (a) Environment Audit.
- (b) Maintenance of Branch Offices by a Chartered Accountant in practice.
- (c) Changes in Accounting Policies.
- (d) Key Management Personnel.
- (e) Audit Committee.