
PAPER 3: ADVANCED AUDITING
NOVEMBER-1998

Question 1

Examine whether there is professional misconduct in the following circumstances:

- (a) A Chartered Accountant in practice appearing on television on budget proposals was introduced to the viewers, on the basis of the bio-data furnished by him, as the senior most partner in M/s. Tick and Tag, a leading firm of Chartered Accountants established in Delhi in 1948. **(5 Marks)**
- (b) A practicing Chartered Accountant agreed to select and recruit personnel, conduct training programmes and work studies for and on behalf of a client. **(5 Marks)**
- (c) A Chartered Accountant acting as liquidator of a company: **(5 Marks)**
- i. Charged fees as a percentage of realization of assets and
 - ii. refused to hand over accounting records and valuables of the company in liquidation to the successor appointed by the Court.
- (d) A Chartered Accountant did not maintain books of account for his professional earnings on the ground that he was not obliged to keep them as his income did not exceed the limits prescribed U/s. 44AA of the Income Tax Act. **(5 Marks)**

Question 2

- (a) For the year ended 31st March, 1998 directors of Akash Ltd., want to declare dividend at 20% on the paid up equity capital of Rs.20 lakhs. They also want to transfer 15% of the profits to Reserves. Other informations are as follows: **(6 Marks)**
- i. Profit after tax for the relevant year is Rs.40 lakhs.
 - ii. Average rate of dividend in the immediately preceding three years is 21%
 - iii. Average amount of dividend in the immediately preceding three years is Rs.10.5 lakhs.
 - iv. Average amount of profit after tax in the immediately preceding two years is Rs. 55 lakhs.
 - v. There was bonus issue of shares in one of the immediately preceding three years.
- (b) Little Ruck Ltd., was incorporated on 1.4.97. During the year ended 31st March, 1998 there was no manufacturing or trading activity except raising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore the Chief Accountant of the Company contends that for the relevant year there was no need to prepare a statement of profit or loss or any other similar statement except a Balance Sheet as at 31st March, 1998. Give your comments on the views of Chief Accountant. **(5 Marks)**
- (c) Alert Ltd., based in India has branches in London. The Vice-president Accounts is of the opinion that the net exchange difference of Rs.20 lakhs on the translation of items in financial statements of London Branches should be credited to the profit and loss account of the company and disclosed as follows: **(5 Marks)**
- | | |
|--|--------------------|
| Favourable exchange difference on items other than fixed Assets | Rs.50 lakhs |
| Less: un-favourable exchange difference on account of increase in term liability on purchase of fixed assets | <u>Rs.30 lakhs</u> |
| Net exchange difference transferred to profit and loss account | <u>Rs.20 lakhs</u> |
- Do you agree with the views of Vice-President Accounts? Give brief reasons for your answer.

Question 3

As a Chartered Accountant , you are asked to conduct a review of “Profit forecast” prepared by a company in connection with its requests for Term Loan from a scheduled Bank.

- (a) Can you accept the offer? **(4 Marks)**
- (b) Mention any six important matters that should receive your attention in carrying out the review of “Profit forecast”. **(12 Marks)**

Question 4

The business of CRY Ltd., a chit fund company also consisted of granting of loans and advanced on the basis of security of shares and debentures. The audit report under MAOCARO 1988 as applicable to chit fund companies should specifically state whether adequate documents and records are kept in respect of such loans and advances.

- (a) As an auditor, how do you satisfy yourself about the adequacy of documents and records? **(12 Marks)**
- (b) Should you give a qualified report if proper accounts were not maintained during a part of the accounting period? **(4 Marks)**

Question 5

Outline the audit procedures regarding verification of investments held by public sector banks.

(16 Marks)

Question 6

A large business entity belonging to a partnership firm has several component units spread all over the country. You are appointed as auditor of the entity as a whole but the component units are to be audited by other auditors.

- (a) State any six procedures to be adopted by you in using the work of other auditors and **(12 Marks)**
- (b) the reporting considerations that should receive your attention as principal auditor. **(4 Marks)**

Question 7

- (a) Propriety elements in Cost Audit Report. **(4 Marks)**
- (b) “Margins” or deposits with stock exchanges. **(4 Marks)**
- (c) Revaluation reserve and its uses. **(4 Marks)**
- (d) Non-provision of proposed dividend in the profit and loss account. **(4 Marks)**
- (e) Depreciable assets as defined in AS-6. **(4 Marks)**