QUESTION BANK

Auditing Standards, Statements and Guidance Notes

1. State your views on the following:
   (a) "Auditor's assessment of materiality may be different at the time of planning the engagement than at the time of evaluating the results of his audit procedures."

   [Nov,1997,Question 3(a); 10 marks]

   (b) "The auditor should take into account the aggregate of all uncorrected misstatements, including those involving estimates." *[Nov,1997, Question 3(b); 6 marks]*
2. (a) Indicate briefly the purposes for which analytical procedures are applied by the Auditor.

   [May, 1999, Question 6(a); 6 marks]

   (b) "The extent of reliance on analytical procedures depends on several factors." – Explain.

   [May, 1999, Question 6(b); 10 marks]
3. "An auditor while analysing the errors in a sample need not consider the qualitative aspects of errors detected." Please comment. *[Nov, 2001, Question 3(b), 8 marks]*
4. Explain what is meant by "Representations by Management" and indicate to what extent an auditor can place reliance on such representations. *[May, 2002, Question 3(b), 6 marks]*
5. The auditor "should take into account the aggregate of all uncorrected misstatements including those involving estimates in his assessment of materiality in audit".

   [May, 2002, Question 4(b), 8 marks]
6. What are the responsibilities of Joint Auditors as laid down in SAP-12?

   [Nov,2003,Question 3(b), 8 marks]

7 (a) What are 'Initial Audit Engagements'?

   (b) In an Initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balance' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow in cases (i) when the financial statements are audited for the preceding period by another auditor; and (ii) when financial statements are audited for the first time.

(c) If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances'; what approach you will adopt in drafting your audit report in two situations mentioned in (b) above? *[Nov, 2004, Question 3,2+7+7=16 marks]*

8. Answer the following

   (a) Enumerate the basic principles governing an audit. *[Nov, 2005, Question 3(a); 5 marks]*

   (b) While examining the going concern assumption of an entity, what important indications should be evaluated and examined? *Nov, 2005, Question 3(c); 6 marks]*

9. Short Notes

   (a) Management representations *[May, 1996, Question 8(c); 4 marks]*

   (b) Audit Evidence *[May, 1997, Question 8(a); 4 marks]*

   (c) Analytical Review Procedures *[Nov, 1997, Question 8(b); 4 marks]*

   (d) Management Representation Letter *[Dec, 1999, Question 8(b); 3 marks]*

   (e) Financial indications to be considered for evaluating the assumption of going concern *[Nov, 2001, Question 8(b), 4 marks]*

   (f) Substantive Procedures *[Nov, 2001, Question 8(c), 4 marks]*

   (g) Auditor's responsibilities regarding comparatives. *[Nov., 2003 Question 8(a), 4 marks]*

   (h) Reporting on the compilation engagement. *[Nov., 2003 Question 8(b), 4 marks]*

   (i) Human Resource Accounting *[May, 2004, Question 8(b); 4 marks]*

   (j) Treatment of foreign currency monetary items on balance sheet date. *[May, 2004, Question 8(d); 4 marks]*

Audit Strategy, Planning and Programming

1. State your views on the following requests made by the management of X Ltd:

   The teaming and lading detected was subsequently deposited by the Executive Director of the company and therefore need not be reported upon. *[Nov, 1999, Question 1(c); 4 marks]*

2. "Materiality and Audit Risk is determined at the time of Audit Planning and should not be changed during the course of audit." Please offer your comments on the statement. *[Nov, 1999, Question 3(a); 4 marks]*

3. (a) Explain the concept of audit evidence? *[Dec, 1999, Question 3(a); 2 marks]*

   (b) What factors affect choice of audit evidence? *[Dec, 1999, Question 3(b); 4 marks]*

   (c) Indicate briefly the methods usually employed by the auditor in the collection of audit evidence. *[Dec, 1999, Question 3(c); 10 marks]*

4. Comment on the following:

   "The auditors need not review Accounting Policies unless there is a change in the basis of Accounting." *[May, 2000, Question 4(a); 8 marks]*

5. You have been appointed the statutory auditor of a private limited company for the first time. Apart from adopting the conventional audit procedures such as posting, casting and vouching, what other auditing techniques would you employ for conducting the statutory audit? *[May, 2001, Question 6, 16 marks]*

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 programme for the above. *[May, 2005, Question 6(a), 10 marks]*

7. Comment on the following:

   "Obtaining audit evidence in performing compliance and substantive procedures.

   [May, 2005, Question 7(b); 10 marks]

8. When can a company be said to have 'Not maintained' proper books of account? Draft a suitable audit programme for the above.

9. Short Notes

   Enquiry. *[Nov., 2003 Question 8(c), 4 marks]*

Risk Assessment and Internal Control

1. "Flow chart is one of the very important tools for testing the effectiveness of the Internal Control System of an organisation." Discuss. What are the salient features of an ideal flow chart? *[May, 1996, Question 5; 10+6 marks]*

2. State your views on the following request made by the management of X Ltd:

   Inspite of the internal control weakness commented upon by the audit manager, no further tests need to be carried out, as the purchase and sales figure as a percentage of gross profit was same as in the previous year. The audit manager's comments were in regard to control over purchase and sales. *[Nov, 1999, Question 1(a); 4 marks]*

3. Briefly discuss the compliance procedures and their use in evaluation of internal controls.

   [Nov, 2001, Question 3(a), 8 marks]

4. A partnership firm is engaged in the business of manufacturing and distribution of Mineral Water in a metro city. It is keen in having internal control system established in its main areas of activity i.e.,

   (i) Purchases of Raw Material

   (ii) Sales of Mineral Water

You are required to enumerate at least 8 points for each of the above two areas for the consideration of the management. *[Nov, 2002, Question 6, 16 marks]*

5. "Surprise Checks" help the auditors to ascertain whether the internal control system is operating effectively in a Company or not. Discuss. *[May, 2003, Question 3(a), 8 marks]*

7. Short Notes

   (a) Control Risk *[Nov, 1997, Question 8(a); 4 marks]*

   (b) Audit Risks *[May, 2002, Question 8(b); 4 marks]*

   (c) Underwriting function and its internal control procedures

   [May, 2003, Question 8(a); 4 marks]

   (d) Flow chart technique for evaluation of internal control

   [*May, 2004, Question 8(c); 4 marks]*

   (e) Factors relevant in evaluation of Inherent Risk

Audit under Computerized Information System (CIS) Environment

1. What are the limitations of a Computer System? How can they be remedied?

   [May, 1996, Question 6; 16 marks]

2. Discuss the advantages and disadvantages of computer audit programmes.

   [Nov, 1996, Question 7(b); 8 marks]

3. The use of audit software systems increases the probability of detecting fraud.

   [May, 1997, Question 3(c);4 marks]

4. "The method of collecting audit evidence and evaluating the same, changes drastically under the EDP auditing." Discuss the correctness of the said statement.

   [Nov, 1997, Question 7; 16 marks]

5. Draw up a check list for evaluation of output controls on accounts maintained under EDP system. *[Nov, 1998, Question 7(b); 8 marks]*

6. (a) Outline the special points that are required to be considered in establishing and evaluating a system of internal control for Computer applications processed at a service bureau. *[May, 1999, Question 4(a); 12 marks]*

   (b) What are the advantages and disadvantages of using the service bureau from Auditor's point of view? *[May, 1999, Question 4(b); 4 marks]*

7. Comment on the following:

   "Where the Financial Accounting System has not been computerised, the auditor need not verify Computerised Management System." *[May, 2000, Question 4(b); 8 marks]*

8. (a) Describe the role of Computer-assisted Audit Techniques in EDP Environment.

[May, 2000, Question 6(a); 10 marks]

(b) Briefly explain the uses of test packs while conducting examination of accounts in the absence of audit trail. *[May, 2000, Question 6(b); 6 marks]*

9. What is an Audit Trail? Briefly describe the special audit techniques using the computer as an audit tool. *[Nov, 2000, Question 3(a), 8 marks]*

10. A limited company having turnover of approximately Rs.50 crore uses a tailor made accounting software package. In the said package, all transactions are recorded, processed and the final accounts generated from the system. The management tells you that in view of the voluminous nature of day books, there is no need to print them and that audit can be conducted on the computer itself. The management further assures you that any 'query based reports' as required can be generated and printed. As a statutory auditor of the company, enumerate the procedures you would adopt to conduct the audit.

[May, 2001, Question 3, 16 marks]

11. "On-line real time processing system and batch processing system have their inherent strengths and weaknesses." Please comment. *[Nov, 2001, Question 5(a), 8 marks]*

12. Indicate the control procedures which the auditor should adopt in applying CAAT (Computer Assisted Audit Technique) in an audit under EDP environment.

[May, 2002, Question 7, 16 marks]

13. (a) The role of an Auditor in collecting evidence under the EDP system is more complex than under the Manual System. Discuss.

(b) What are the characteristics of an on-line computer system?

[Nov, 2002, Question 4(a) & (b), each 4 marks]

14. Discuss the control procedures which the auditor should adopt in applying CAAT (Computer Assisted Audit Technique) in an audit under EDP environment.

[Nov., 2003 Question 4(a), 8 marks]

15. State the important characteristics of an effective computer audit program system.

[May, 2004, Question 4(a); 8 marks]

16. (a) State the specific problems, which may arise in the implementation of internal control in an EDP system.

(b) What are the characteristics of 'On-line Computer System'?

(c) Explain: Tagging and Tracing *[Nov, 2004, Question 5(a), (b)&(c); 8+4+4 marks]*

17. In determining whether to use Computer Assisted Auditing Techniques (CAATs), what are the factors that a statutory auditor has to consider? *[Nov., 2005, Question 7(b), 8 marks]*

18. Enumerate the risks and internal control characteristics in an audit conducted in Computer Information system (CIS) environment. *[Nov.,2005, Question 7(b), 8 marks]*

19. Short Notes

(a) Tagging and Tracing *[May, 1998, Question 8(a); 4 marks]*

(b) Systems Development Control *[May, 1998, Question 8(b); 4 marks*

(c) Decision Tree *[Nov, 2000, Question 8(i), 4 marks]*

(d) Utility Routine [*Nov, 2000, Question 8(iv), 4 marks]*

(e) Walk Through Tests *[May, 2005, Question 8(a) 4 marks]*

Special Audit Techniques

1. How does an Auditor apply Statistical Sampling in auditing?*{Nov. 2003, Question 3(a), 8 marks]*

The Company Audit

1. As an auditor state your views on the following situations:

(i) Where the company has changed the format relating to items of income and expenditure to be disclosed in the profit and loss account.

[Nov, 1996, Question 1(a)(i); 4 marks]

(ii) Where the company has charged depreciation on straight line method while computing net profit for the determination of managerial remuneration.

[Nov, 1996, Question 1(a)(ii); 4 marks]

(iii) A company having several departments with separate payrolls and where payments of wages are spread over several days, makes lump-sum deposits of estimated amounts of provident fund and Employees State Insurance dues and adjusts the excess or deficit against the following month's deposit. *[Nov, 1996, Question 1(a)(iii);4 marks]*

2. Enumerate the procedure for vouching in respect of the following items:

(a) Legal Charges

(b) Preliminary Expenses

(c) Dividends Received/Receivable on Shares

(d) Carriage outwards *[Nov, 1996, Question 8(a),(b),(c)&(d); 4×4 = 16 marks]*

3. In the previous year 'Y' Ltd. has made a provision of 10% of the contract value on an ongoing project. The actual loss on completion of the contract in the subsequent year was 11%. The management adjusted the difference in the previous year's account.

As an Auditor, state your views on the above subject. *[May, 1997, Question 1(b); 8 marks]*

4. Comment on the following statement:

Any violation of the provisions of the Income-tax Act will make the payment of dividend illegal.

[May, 1997, Question 3(b); 4 marks]

5. As an auditor, state your views on the following situations:

   A well-established manufacturing public limited company proposes to issue fully paid bonus shares:

   (i) in lieu of dividend;

   (ii) without converting partly paid up shares into fully paid up shares.

   [May, 1997, Question 7(b); 6 marks]

6. As an auditor state your views on the following situations:

   (a) To set up the marketing and distribution division, a company carried out trading activities during the construction period. The company capitalised all general administrative expenses as it had not commenced commercial production

   [Nov, 1997, Question 1(a); 5 marks]

   (b) A computerised machinery was purchased by two companies jointly. The price was shared equally. It was also agreed that they would use the machinery equally and show in the Balance Sheets, 50% of the value of the machinery and charge 50% of the depreciation in their respective books of account. *[Nov, 1997, Question 1(b); 5 marks]*

   (c) X Ltd. prior to receipt of their management consultants suggestions, had been valuing its stock consistently by adding factory overheads to its prime cost. The consultants had recommended a better procedure which would ensure a fair allocation of overheads. The company intends to adopt the new basis but unwilling to accept the fact that this was a change in the basis as stated by their consultants.

   [Nov, 1997, Question 1(c); 5 marks]

   (d) Y Ltd. purchased an existing bottling unit. The method of charging depreciation on machinery of the acquired unit, was different from that followed by the company in its other units. The company wants to continue to charge depreciation for the acquired unit, in the method followed earlier by them and which was not consistent with their own method. *[Nov, 1997,, Question 1(d); 5 marks]*

7. Excel Ltd. is a Manufacturing Company in durable consumer goods with an annual turnover of Rs.1,000 lakhs. The company receives orders from its commission agents all over the country, but goods are despatched directly to the customers. The documents including transport bills are sent through the bank for collection.

   At the end of the year, it is found that documents covering the despatch of goods worth Rs.100 lakhs were still lying with the banks not cleared by the customers even though the normal collection period of 20 days from the date of despatch has expired. Should Revenue be recognised in the above case/ *[May, 1998, Question 1(d); 5 marks]*

8. As an auditor, state your views on the following situations:

   (a) The debenture trust deed executed by Trust Me Ltd. stipulated the creation of a sinking fund for redemption of debentures. In terms of the Trust Deed, a specific amount was to be transferred to the sinking fund from out of the profits of each year. In spite of substantial profits in the year 1997, no amount is found transferred to the Sinking Fund Account. *[May, 1998, Question 2(a); 4 marks]*

(b) A suit for damages of Rs. 1 lakh for breach of contract of sale (breach occurred in 1995) was decreed in favour of May Ltd. in March, 1997. The company has included the amount in its turnover for the financial year, 1997. *[May, 1998, Question 2(b); 4 marks]*

(c) Note No.7 of Published Accounts of December Ltd. is as follows:

"The cost of work-in-process materials estimated to remain in several pots of smelting plant is not taken into account, both at the beginning and at the end of the year for the following three reasons:

(i) The cost of work-in-process material put into the pots immediately before commissioning of the smelting plant stood capitalised.

(ii) The quantity of work-in-process materials is expected to be the same at any point of time.

(iii) It is extremely difficult to measure exactly the amount of fill in the pots".

[May, 1998, Question 2(c); 4 marks]

(d) In the course of audit of a manufacturing company, it comes to light that it has outstanding forward contracts for purchase of raw materials at a price, which is higher than the current market price. However, there is no mention of this in the financial statements of the year. *[May, 1998, Question 2(d); 4 marks]*

9. Discuss with reference to the Accounting Standards the nature of classification and disclosure requirements in the statement of Profit & Loss of an entity in the following cases:

(a) Losses sustained as a result of enemy action.

(b) Disposal of Long-term investments of a trading entity.

(c) Setting up of group gratuity scheme where there was none.

(d) Payment of arrears of Bonus for the earlier year as a result of settlement with the workers in the current year. *[May, 1998, Question 5(a),(b),(c)&(d); 4×4 = 16 marks]*

10. (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.50 lakhs. They also want to transfer 15% of the profits to Reserves. Other informations are as follows:

(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.

Advise the Directors on the proposed transfer to reserves

. *[Nov, 1998, Question 2(a); 6 marks]*

(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.

[Nov, 1998, Question 2(b); 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:

Favourable exchange difference on items other than fixed assets	Rs.50 lakhs
Less: Unfavourable exchange difference on account of increase in Term liability on purchase of fixed assets	Rs.30 lakhs
Net exchange difference transferred to profit and loss account	Rs.20 lakhs

Do you agree with the views of Vice-President Accounts? Give brief reasons for your answer. *[Nov, 1998, Question 2(c); 5 marks]*

11. (a) At the Annual General Meeting of a Public Limited Company held on April 1, 1996. M/s Bat and Ball a firm of chartered accountants was appointed to audit the accounts of the company for the calendar year, 1996. However the next Annual General Meeting of the company did not take place until January 1, 1999. M/s Bat and Ball insist that they alone are entitled to audit the accounts not only for the year 1996, but also for the years 1997 and 1998 respectively.

Advise the company on the contention of M/s Bat and Ball.

[May, 1999, Question 1(c); 5 marks]

(b) The Chief Accountant of Stumps Ltd. is of the opinion that before declaration of dividends it would not be necessary to set off the carried forward amount of debit balance in the Profit and Loss Account against current revenue profits but the same could be set off against existing revaluation reserve – Do you agree?

[May, 1999, Question 1(d); 5 marks]

12. As an Auditor, state your opinion on the following situations:

    (a) Note No.6 of Published Accounts of Kambakadi Ltd. reads as follows:

    "The company being a manufacturer of pollution control equipments has entered into collaboration agreements with foreign manufacturers for technical know-how comprising the supply of drawings and designs and training of personnel for manufacture of different types of pollution control equipments. These agreements were concluded after the commencement of production at the beginning of the year. The collaboration amount of Rs.100 lakhs is payable in five annual instalments. The company has amortised the entire cost of technical know-how as a depreciable asset and has shown the same in the schedule of fixed assets." *[May, 1999, Question 2(a); 5 marks]*

    (b) Note No.7 to the Balance Sheet of RNR Ltd. as on 31-12-98 is as follows:

    "The company had a large engineering contract with a Foreign Government, work to be carried out in foreign country and payments to be received in dollars. The work was completed in the year 1995 and the entire contracted amount was duly recorded in the books of the company at the prevalent exchange rate on the date of completion of the work. However, payments to the extent of Rs.20 crores could not be released by the foreign Government because of temporary foreign exchange crisis in that country. This Rs.20 crores unrealised at the end, if converted at the year end rate would amount to Rs.20.50 crores. The company has adopted and follows the following accounting policy:

    In respect of foreign currency transactions, current assets and current liabilities are revalued at year end rates. However, if there is net loss due to exchange difference, the same is charged off to the profit and loss account but if there is net gain the same is ignored in view of the prudent accounting principle of not recording unrealised gains due to exchange rate fluctuations."

    Comment on the appropriateness of above. *[May, 1999, Question 2(b); 5 marks]*

    (c) A Public Charitable Institution registered u/s 25 of the Companies Act, 1956 is running a printing press and a transport system as feeder of funds to carry on charitable activities.

    The accounting policies by way of notes to accounts are stated as follows:

    (i) Accounts are maintained on cash basis.

    (ii) Accounting Standards are not being followed as they are considered to be inapplicable to Charitable entities. *[May, 1999, Question 2(c); 6 marks]*

13. State with reasons whether the following proposition is true or false:

    Special Audit can be ordered by the Central Government u/s 233A of the Companies Act, 1956 if a company sustained losses continuously for two years and the special auditor may not be a chartered accountant in practice. *[May, 1999, Question 3(a); 4 marks]*

14. State your views on the following requests made by the management of X Ltd.:

    (a) Proposed Dividend does not represent a liability and therefore, no provision need be made. *[Nov, 1999, Question 1(d); 4 marks]*

(b) Revaluation Reserve is available for issue of Bonus Shares.

[Nov, 1999, Question 1(e); 4 marks]

15. The Board of Directors of Fair Brother Ltd. seek your advice in the finalisation of financial statements for the year ended 30-6-99. On a review of financial statements, it is noticed that:

    (i) The company has written up its fixed assets by Rs.50 lakhs and the accumulated depreciation of Rs.10 lakhs stands transferred to profit and loss account.

    [Nov, 1999, Question 3(c)(i); 3 marks]

    (ii) Research and development cost of Rs.15 lakhs which was charged to profit and loss account a few years before is written back to profit and loss account of the current year.

    [Nov, 1999, Question 3(c)(ii); 3 marks]

    (iii) Sale of goods costing Rs.54,000 with a profit margin of 10% on selling price is included in the inventory as delivery of goods was postponed at buyer's request.

    [Nov, 1999, Question 3(c)(iii);3 marks]

    Advise the company on changes to be effected in the draft financial statements. Give reasons in support of your advice. There is no necessity to discuss disclosure requirements in this regard.

16. As an Auditor state your views on the following situations:

    (a) During the year ended 31-10-99 Long Ltd. sent its application to the excise authorities for refund of duty and grant of cash assistance amounting to Rs.50 lakhs in pursuance of a scheme yet to be finally approved by the authorities. The Chief Accountant of the company would like to include the said amount of Rs.50 lakhs in the income statement for the year ended 31-10-99. *[Dec, 1999, Question 1(a); 5 marks]*

    (b) Short Ltd. purchased an equipment for Rs.100 lakhs against which it received government grant of Rs.40 lakhs. The prescribed rate of depreciation for the equipment is 10% p.a. The accountant of the company insists that the amount of grant should be credited to capital Reserve and Depreciation on the original cost should be charged.

    [Dec, 1999, Question 1(b); 5 marks]

    (c) Tall Ltd. valued at the year end its stock of goods ready for export at realisable value yielding a margin of 10% on cost. Further the company wants to include in the value of stock the amount of export incentives to which it may be entitled.

    [Dec, 1999, Question 1(c); 5 marks]

    (d) In the draft balance sheet of Small Ltd. long term unquoted investments were valued at Rs.80 lakhs. During the course of audit it transpired that there has been a decline in the value of investments which is other than temporary as at the date of the balance sheet. The Chief Accountant contends that such diminution should not be taken into account.

    [Dec, 1999, Question 1(d); 5 marks]

17. (a) Briefly mention the statutory requirements for payment of dividends out of current profits. *[Dec, 1999, Question 6(a); 12 marks]*

    (b) In what circumstances dividends may be declared out of accumulated reserves?

    [Dec, 1999, Question 6(b); 4 marks]

18. As an auditor state your views on the following situations:

    (a) T Ltd. purchased goods on credit for Rs.5 crores for export from ABC Ltd. Upon the export order being cancelled T Ltd. decided to sell the same in the domestic market at a discounted price. Accordingly ABC Ltd. was requested to offer a price discount of 25%. ABC Ltd. wants to adjust the sales figure to the extent of discount requested by T Ltd.

    [May, 2000, Question 1(a); 5 marks]

    (b) During the year under audit, Z Ltd. credited to the Profit and Loss Account, the entire profit of Rs.20 lakhs on the sale of land not required for its use. You are informed that the directors would like to propose dividend out of the above profit.

    [May, 2000, Question 1(b); 5 marks]

    (c) Y Ltd. provided Rs.25 lakhs for inventory obsolescence in 1998-1999. In the subsequent year, it was determined that 50% of such stock was usable. The company wants to adjust the same through prior period adjustment account as the provision was made in the earlier year. [May, 2000, Question 1(c); 5 marks]

    (d) VV Ltd. announced a voluntary retirement plan for its employees on January 1, 2000. The scheme is scheduled to close on June 30, 2000. The scheme envisaged an initial lump sum payment of maximum of Rs.2 lakhs and monthly payments over the balance period of service of employees coming under the plan. 200 employees opted for the scheme as on March 31, 2000. The total lump sum payment for these employees would be Rs.250 lakhs and the aggregate of future payments to them would amount to Rs.1,500 lakhs. However, no payment had been made to the employees under the scheme up to 31st March, 2000. Nor the company made any provision in its accounts towards any liability under the scheme. *[May, 2000, Question 1(d); 5 marks]*

19. You have been appointed a statutory auditor of a limited company engaged in the manufacture of chemicals. What would be your views on the following?

    (a) The management tells you that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved and in any case the value of opening and closing work in process would be more or less the same.

    (b) The company has a turnover exceeding Rs.5 crores for a period of three consecutive financial years immediately preceding the financial year concerned, but does not have any internal audit system.

    (c) The management tells you that there is no need for them to follow accounting standards specified by the Institute of Chartered Accountants of India as these are for the auditor to follow.

(d) The company has suffered a net loss for the year. The directors however declared and paid an interim dividend @ 30% based on the half-yearly performance.

[May, 2001, Question 1(a),(b),(c),(d), 20 marks]

20. Answer the following:

(a) Briefly describe the auditor's responsibility regarding subsequent events.

[May, 2001, Question 2(a), 10 marks]

(b) Briefly describe the reporting requirements by a statutory auditor of a company for personal expenses of directors. *[May, 2001, Question 2(b), 6 marks]*

21. Comment on the following:

(a) The Accounting Standards issued by the Institute of Chartered Accountants of India need to be followed only by limited companies and not by partnership firms or proprietorships. *[May, 2001, Question 4(a), 4 marks]*

(b) For Excise Duty on finished goods in stock as at the end of the year, there is an option available to provide for the same or to show the same as a Contingent liability.

[May 2001, Question 4(c), 4 marks]

22. As a statutory auditor of a Public Limited Company, how would you deal with the following situations?

(a) The company has sold some old machinery for Rs. one crore. The details of the cost of such machinery are not available since the entire records relating to fixed assets have been destroyed in an earthquake. *[May 2001, Question 7(a), 5 marks]*

(b) The company had subscribed to shares of associate companies amounting to Rs.5 crores. These associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The company does not want to make any provision for the fall in the value of the investments.

[May 2001, Question 7(b), 5 marks]

(c) As at the beginning of the year, the company has a capital of Rs.2.50 crores, free reserves of Rs.0.50 crores and Revaluation Reserve of Rs.4.50 crores. In the relevant year under audit the company has incurred a loss of Rs.4 crores. The company proposes to adjust the loss with the Revaluation Reserve.

[May 2001, Question 7(c), 6 marks]

23. As an auditor state your views on the following situations:

(a) Included under Current Assets of XYZ Ltd. is inventory aggregating to Rs.20 crores. A part of the said inventory manufactured for export had to be sold earlier at a discounted price off-shore due to moisture content present at the time of delivery. A part of similar inventory is included in Rs.20 crores. *[Nov, 2001, Question 1(a), 5 marks]*

(b) A construction company accounted for a contract entered into with a Government Department on completed contract method and that with a Private Sector Company on percentage of completion method. Both the contracts were for development of a township. *[Nov, 2001, Question 1(b), 5 marks]*

(c) X Ltd. entered into a contract with Y Ltd. to despatch goods valuing Rs. One lakh every month for six months upon receipt of entire payment. Y Ltd. accordingly made the payment. In 3rd month due to a natural calamity, Y Ltd. requested X Ltd. not to despatch until further notice.

X Ltd. accounted Rs. two lakhs as sales and transferred the balance to Advance Receipt against sales. *[Nov, 2001, Question 1(c), 5 marks]*

(d) XYZ Ltd. entered into a collaboration agreement with a U.S. based company to acquire knowhow for both manufacturing process and design, drawing of the factory at a total cost of Rs.10 crores. 75% of the knowhow cost was for design and drawings. XYZ Ltd. capitalised the cost of drawings, etc., with factory building and cost for manufacturing process with the cost of machinery. *[Nov, 2001, Question 1(d), 5 marks]*

24. Answer the following:

(a) Briefly describe the Auditor's responsibilities regarding disqualification of Directors.

[Nov, 2001, Question 4(a), 8 marks]

(b) Briefly describe how an auditor can use the work of an expert.

[Nov, 2001, Question 4(b), 8 marks]

25. Y Ltd. Has accumulated losses of Rs.12 crores. The Reserves and Surplus of the said company also include "Share Premium Account" of Rs. 15 crores. The company intends to adjust the accumulated losses against the "Share Premium Account". Is the company permitted to do so under the provisions of the Companies Act, 1956?

[Nov, 2001, Question 7(b), 6 marks]

26. As an auditor, state your view on the following:

(a) M Ltd. manufactures machinery used in Steel Plants. It quotes prices in various tenders issued by Steel Plants. As per terms of contract, full price of machinery is not released by the steel plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. The company accounts for only 90% of the invoice value as sales income and the balance amount in the year of receipt to the extent of actual receipts only.

(b) A company had imported raw materials worth US dollars 2,50,000 on 15th January, 2002 when the exchange rate was Rs.46 per US dollar. The company had recorded the transaction at that rate. The payment for the imports was made only 15th April, 29002 when the exchange rate was Rs.49 per US dollar. However, on 31st March, 2002 the rate of exchange was Rs.50 per US dollar. The company passed an entry on 31st March, 2002 adjusting the cost of raw materials consumed for the difference between Rs.49 and Rs.46 per US dollar.

(c) A Public Company defaulted in the repayment of deposits together with interest on the due date for more than a year and the Chief Accountant contends that the auditor need not report on the default committed by the company.

[Nov, 2001, Question 1(a), (b) & (d), each 5 marks]

27. (a) Following is the data regarding six segments of Z Ltd.:

(Rs. in '000s)

Particulars	A	B	C	D	E	F
Segment Revenue (Rs.)	150	310	40	30	40	30
Segment Result (Rs.)	25	(95)	5	5	(5)	15
Segment Assets (Rs.)	20	40	15	10	10	5

The Finance Director is of the view that it is sufficient that segments A and B alone be reported. Advise.

(b) Y Ltd. wishes to obtain a machine tool costing Rs.20 lakhs by way of lease. The effective life of the machine tool is 12 years but the company requires it only for the first five years. It enters into an agreement with R Ltd. for a lease rental of Rs.2 lakhs p.a.

The Finance Director of Y Ltd. is not sure about the treatment of these lease rentals and hence requests your assistance in proper disclosure of the same. For calculation purposes, the implicit rate of interest may be taken at 15%. Discount factors : 0.87, 0.76, 0.66, 0.57 and 0.50. *[May, 2002, Question 2(a) & (b) each 4 marks]*

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

(a) X Ltd. Acquired a machine costing Rs.50 lakhs on a finance lease on 1st October, 2001. The terms of payment were Rs.5.50 lakhs every six months for a period of 5 years. While preparing the accounts for the year ended 31st March, 2002, the Directors of the company debited the amount paid to Lease Charges Account that was finally charged to the Profit and Loss Account.

(b) A machinery costing Rs.1 lakh and presently having book value of Rs.20,000 is not put to active use by the company for various reasons. The machinery has been identified for disposal and is reasonably expected to realise Rs.5,000 on sale. Pending the disposal, in the Balance Sheet as on 31.3.2002, the said machinery stands included with other Plant and Machinery and shown at book value.

(c) The total sales of a partnership firm for the year ended 31.3.2002 are Rs.41 lakhs, which include Rs.2 lakhs for sale of a car. The partners of the firm are of the opinion that their firm is not subject to tax audit Section 44AB of the Income Tax Act, 1961.

(d) Y Ltd. Decided on 31st March, 2002, to convert a part of its Fixed Assets consisting of land and building acquired before 30 years into "stock-in-trade". The book value of the said Land and Building on 1.4.2001 was Rs.5 lakhs and the same is converted into "stock-in-trade" at its market value of Rs.500 lakhs on the date of its conversion. The difference of conversion of Rs.495 lakhs was credited to the Profit and Loss Account.

From the final profit after tax of Rs.400 lakhs the company has declared a Dividend of Rs.300 lakhs. *[May, 2002, Question 1(a), (b), (c) & (d) each 5 marks]*

29. As a statutory auditor, how would you deal with the following?

    (a) ABC Ltd., is a company engaged in the business of construction of roads and bridges. It follows completed contract method for all its projects and therefore revenue is recognised only when the contract is completed or substantially completed. For the year ended 31st March, 2001, the ABC Ltd., has earned a sum or Rs. 25 lakhs as interest on short-term deposits with their bank. These deposits are made out of advances received from the customers towards the projects that they are executing. ABC Ltd. while filing their Return of Income for the year 31st March, 2001 with the tax authority declared NIL income for that year. While calculating progress payments at the year-end, the interest of Rs.25 lakhs earned was considered as part of the funds received for the project. Is the treatment given by ABC Ltd. with regard to the interest earned on short-term deposit correct?

    (b) XYZ Ltd., as part of overall cost cutting measure announced voluntary retirement scheme (VRS) to its employees, to reduce the employee strength. During the first half year ended 30.9.2002 the company paid a compensation of Rs.72 lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular salaries and wages paid by the company. Is this correct?

    (c) During the course of statutory audit of an investment company dealing in shares and securities, inspite of repeated reminders by the statutory auditor, the company officials did not provide the investments held by the company at the Balance Sheet date for verification and also did not provide the details for valuation of unlisted shares as on the Balance Sheet date. The statutory auditor, in his final audit report to the shareholders, reported as follows:

        "Subject to the verification of the existence and value of the investments, the Balance Sheet shows a true and fair view."

        Is the report made by the statutory auditor correct?

[May, 2003, Question 1(a), (b) & (c) each 6 marks]

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

    (a) A husband and wife are controlling 34% of voting power in XY Company Limited. They are having a separate partnership firm, which supplies mainly the raw material to the Company. The Management says that the above transaction need not be disclosed.

    (b) While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level.

    (c) While auditing accounts of a public limited company for the year ended 31st March, 2003, an auditor found out an error in the valuation of inventory, which affects the financial statement materially – Comment as per auditing and assurance standards.

(d) At the statutory audit of TOR Limited, the physical verification of fixed assets was conducted. However the auditor was not able to confirm the existence of valuables and important machinery. In this connection, the auditor obtained a certificate from the management to prove its existence and value and accepted the same blindly without any further procedures. *[Nov, 2003, Question 1(a), (c) 5 marks & (b) (d), 4 marks]*

31. An old car of a company having a nominal book value has found a buyer, who is willing to pay Rs. 1 lakh for it. The company proposes not to sell the car, but to neglect its valuation in its accounts at Rs. 1 lakh. Should the auditor permit the company to do so?

[Nov. 2003, Question 3 (b), 8 marks]

32. As a Statutory Auditor how would you deal with the following cases?

(a) During the course of audit of ABC Ltd. it is noticed that out of Rs. 12 lakhs of provident fund contribution accounted in the books, only Rs. 2 lakhs has been remitted to the authorities during the year. On enquiry the Chief Accountant informed that due to financial problems they have not remitted but will remit the same as and when the position improves.

(b) National Tourism Ltd., a wholly owned Government Company approaches you to give a revised report on the revised accounts, as the original accounts has undergone changes consequent to the audit of Comptroller and Auditor General of India.

(c) M/s LNK's group gratuity scheme's valuation by actuary shows wide variation compared to the previous year's figures.

(d) In the books of accounts of M/s OPQ Ltd. huge differences are noticed between the control accounts and subsidiary records. The Chief Accountant informs that this is common due to huge volume of business done by the company during the year.

[May, 2004, Question 1(a),(b),(c) & (d); each 4 marks]

33. State the salient features of Investors Education and Protection Fund.

[May, 2004, Question 3(b), 8 marks]

34. What are your views on the following?

(a) A Ltd. Was under audit for the year ended 31.03.2004. An appeal filed by A Ltd. Against the demand of Excise Duty of Rs. 26 crores was pending before the Supreme Court for which neither provision was made nor was disclosed in the notes to the financial statements. On 12th Jully, 2004, the auditor came to know through paper reports that the point involved in the appeal of A Ltd. was adjudicated by the Supreme Court in the case of some other assessee, which is in favour of the department of Excise Duty. The auditor insisted that provisions be made of Rs. 26 crores in the financial statements. The Management was of the view that since its own case is still pending, no provision is called for. It was also of the view that the event does not have any effect on the financial position of the company on the date of the Balance Sheet. Is the view of the Management tenable?

(b) Kevin Industries Ltd. has a paid up capital of Rs. 20 crores divided into equity shares of Rs. 10 each as on 31.03.2003. During the financial year 2003-04 it has issued bonus shares in the ratio 1:1. The net profit after tax for the years 31.03.2003 and 31.3.2004 is Rs.10 crores and Rs 15 crores respectively. The Earnings Per Share (EPS) disclosed in the financial statements for the above two years is Rs. 5.00 and Rs. 3.75 respectively. Is the disclosure correct?

(c) An auditor of Sagar Ltd. was not able to get the confirmation about the existence and value of certain machineries. However, the management gave him a certificate to prove the existence and value the machinery as appearing in the books of account. The auditor accepted the same without any further procedure and singed the audit report. Is he right in his approach?

(d) A firm of a father and a son is receiving Rs. 2 lakhs towards job work done for XYZ Ltd. during the year ended on 31.03.04. The total job work charges paid by XYZ Ltd. During the year over Rs. lakhs. The father is a Managing Director of XYZ Ltd. having substantial holding. The Managing Director told the auditor that since he is not involved in the activities of the firm and since the amount paid to it is insignificant; there is no need to disclose the transaction. He further contended that such payment made in the last year was not disclosed. Is Managing Director right in his approach?

[Nov, 2004, Question 1(a), (b), (c) & (d); each 5 marks]

35. Do you approve of the following? If not, why?

(a) A firm of Chartered Accountant was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company.

(b) Mr. Qureshi, Chartered Accountant, in practice died in a road accident. His widow proposes to sell the practice of her husband to Mr. Pardeshi, Chartered Accountant, for Rs. 5 lakhs. The price also includes right to use the firm name-Qureshi and Associates. Can widow of Qureshi sell the practice and can Mr. Pardeshi continue to practice in that name as a proprietor?

(c) Trimurthy Pan Masala (P) Ltd. Was incurring heavy losses in the last several years since it could not withstand the competition in the market. The State in which the company had its registered office and also its major sales had moved a bill in the State Assembly to ban manufacture and sale of all kinds of Pan Masalas in the State. While finalizing the accounts for the year ended 31-03-2004, the CFO of the company created 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.

(d) Big Ltd. has borrowed Rs. 30 lakhs from State Bank of India during the financial year 2003-04. The borrowings are used to invest in shares of Small Ltd., a subsidiary company of Big Ltd., which is implementing a new project estimated to cost Rs. 50 lakhs. As on 31st March, 2004, since the said project was not complete, the directors of

Big Ltd. Resolved to capitalize the interest accruing on borrowings amounting to Rs. 4 lakhs and add it to the cost of investments.

[Nov, 2004, Question 1(a),(b),(c) & (d); each 4 marks]

36. Miranda Spinning Mills Ltd. Is a sick company and has accumulated losses of Rs. 10 crores. The company has Rs. 12 crores in its share Premium Account. The Management desires to adjust the accumulated losses against the share premium balance. Advice the company giving your reasons. *[Nov., 2004, Question 6(b), 8 marks]*

37. A company has paid interim dividend at 10% based on its half-yearly performance while at the end of the year suffered a net loss. How you will deal with the matter in your audit report as a statutory auditor? *[Nov., 2004, Question 7(b), 4 marks]*

38. 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.

    (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 Interests 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.)

    (c) B Pvt. Ltd., implements a Voluntary Retirement Scheme (VRS) for its employees. It follows a policy of amortising the expenditure over 10 years. As at 1st April, 2004, the unamortised VRS expenditure was Rs. 15 lakhs. During the year 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 amortisation to 5 years. It also proposes to follow the revised period for the opening balance.

    (d) The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of debtors since the said balances are under dispute and the matter is pending in the Court. *[May, 2005, Question 1(a), (b), (c) & (d), 4+5+5+4 marks]*

39. 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.

    (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.

(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?

[May, 2005, Question 3 (a)(b)&(c); each 6+5+5 marks]

40. Comment on the following:

A company has a branch office, which recorded a turnover of Rs. 1,90,000 in the financial year 2004-05. 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.

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

(a) ABC Ltd. Commenced construction of a flyover in Mumbai in January, 2004 under BOLT scheme. The same was completed in February, 2005. Due to seasonal heavy rains in July, 2004 in the area, the work on the flyover had to be suspended for 1 month. The company accordingly suspended borrowing costs of Rs. 12.50 lakhs for that month from capitalization.

(b) LM Ltd. has 2 divisions L and M. The finished products of division L are transferred to division M where further processing is carried out before sale of customers. To achieve transparency and accountability between the divisions, division L raises an invoice on division M at cost plus normal margins. At the year end the unrealized profits on inter-division stocks are eliminated. However, the transfers are recorded at the invoice value as sales and purchases in the respective divisions for the purpose of preparing the Profit and Loss Account. Suitable disclosures, for this are given in then 'Notes to Accounts'.

(c) T Pvt. Ltd is an unlisted closely held company with turnover less than Rs. 50 crores. While finalizing the accounts, Mr. M the Director (finance) disputed the applicability of As 20 to the company. *[Nov, 2005, Question 1(a)(b), (c)&(d); 5+5+5+3 marks]*

42 Short Notes

(a) Special Audit under the Companies Act. *[May, 1996, Question 8(a); 4 marks]*

(b) Non-provision of tax liability in the accounts. *[May, 1996, Question 8(b); 4 marks]*

(c) Payment of unpaid/unclaimed dividend to shareholders.

[May, 1996, Question 8(d); 4 marks]

(d) Interim dividend. *[May, 1996, Question 8(e); 4 marks]*

(e) Verification of Ownership Flats. *[May, 1997, Question 8(b); 4 marks]*

(f) Personal Expenses of Directors. *[May, 1997, Question 8(e); 4 marks]*

(g) Provision for Unpaid Excise Duty *[May, 1998, Question 8(e); 4 marks]*

(h) Revaluation Reserve and its uses. *[Nov, 1998, Question 8(c); 4 marks]*

(i) Non-provision of proposed dividend in the Profit and Loss Account

[Nov,1998,Question 8(d); 4 marks]

(j) Depreciable assets as defined in AS-6. *[Nov, 1998, Question 8(e); 4 marks]*

(k) Permanent Difference and Timing Difference. *[May, 1999, Question 8(d); 4 marks]*

(l) Accounting for CDT *[Nov, 1999, Question 8(d); 4 marks]*

(m) Interest as Deferred Credits *[Dec, 1999, Question 8(a); 4 marks]*

(n) Cut-off Procedures *[May, 2000, Question 8(d); 4 marks]*

(o) Personal Expenses of Directors *[Nov, 2002, Question 8(c); 4 marks]*

(p) Personal Expenses of Directors *[May, 2003, Question 8(d); 4 marks]*

(q) Suspension of capitalisation of borrowing costs *[Nov, 2001, Question 8(a), 4 marks]*

(r) Monetary items and its treatment on balance sheet date

[Nov, 2001, Question 8(d), 4 marks]

(s) Divisible Profits *[May, 2002, Question 8(c), 4 marks]*

(t) Interim Dividend *[Nov, 2003, Question 8(d); 4 marks]*

(u) Record of Audit Assignments (as required by ICAI regulations)

(v) Capital Reserves *[Nov, 2001, Question 8(d), 4 marks]*

Liabilities of Auditors

1. One of the three joint auditors of a company differs from the views of the other two auditors with regard to certain matter to be covered by the report. Discuss his rights and duties in this regard. *[May, 1997, Question 4(b); 6 marks]*

2. The liability of audit fees of a company has been outstanding since last two years. This year after completion of audit, the auditor informs to the secretary of the company over phone to bring the cheque of all the three years and take delivery of the audit report.

   Discuss briefly the above statement in the context of the right of the auditor to receive remuneration. *[May, 1997, Question 6(a); 4 marks]*

3. Can the Statutory Auditor rely upon the work of an internal auditor? Discuss.

   [May, 1998, Question 3; 16 marks]

4. "The responsibilities of Joint Auditors are Joint and Several" – Discuss.

   [May, 1998, Question 7; 16 marks]

5. 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 in using the work of other auditors and

[Nov, 1998, Question 6(a); 12 marks]

(b) the reporting considerations that should receive your attention as principal auditor.

[Nov, 1998, Question 6(b); 4 marks]

6. State your views on the following requests made by the management of X Ltd.:

   The branch accounts were audited by another firm of chartered accountants and therefore, they could rely on the same and only check the consolidation.

   [Nov, 1999, Question 1(b); 4 marks]

7. You have signed the Audit Report of XYZ Ltd. and handed over the same to the company. After some time the company informs you that the accounts have been amended and requests you to make a report on the Amended Accounts. Discuss the issues involved.

   [Nov, 2002, Question 3(a); 8 marks]

8. Section 274 of the Companies Act, 1956 is applicable to appointment of Directors. Briefly explain your duty as a statutory auditor in this connection.

   [Nov, 2004, Question 7(a); 8 marks]

9. Short Notes

   (a) Responsibility of Joint Auditors

Audit Report

1. An Accountant's Report on the profits of a company for three years ending 31.3.1996 and on its assets and liabilities as on 31.3.1996 has been requested for inclusion in a prospectus to be issued for a public issue of shares.

   The following matters of material importance are noticed by the Chartered Accountant in the course of the investigation:

   (i) Some of the expenditure incurred in 1993 and later years on repairs to the building has been charged against reserves created out of profits of the earlier years.

   (ii) During 1992 and 1993, work was completed on a contract containing a costing clause but negotiations as to the final price were prolonged. A considerable additional sum was received in 1995 and included in the profit and loss account for that year.

   (iii) New service agreements providing for increased remuneration from 1.4.1996 have been entered into with the directors.

   (iv) On 31.3.1996, the market value of the company's quoted investments was below the value at which they appeared in the Balance Sheet.

   You are required to explain how, according to you, these matters should be dealt with by the Chartered Accountant. *[May, 1997, Question 1(a); 12 marks]*

2. The management of S Ltd. requested its auditors to issue a separate report to the Board of Directors in addition to his report to the shareholders under Section 227 of the Companies Act, 1956.

   State the matters the auditors could and should include in the said report.

   [May, 1997, Question 5(a); 6 marks]

3. As an auditor state your views on the following situations:

   (i) A qualified opinion *[Nov, 1997, Question 4(i); 6 marks]*

   (ii) An adverse opinion *[Nov, 1997, Question 4(ii); 5 marks]*

   (iii) A disclaimer of opinion *[Nov, 1997, Question 4(iii); 5 marks]*

4. As a chartered accountant, you are asked to conduct a review of "profit forecast" prepared by a company in connection with its request for Term Loan from a scheduled bank.

   (a) Can you accept the offer? *[Nov, 1998, Question 3(a); 4 marks]*

   (b) Mention any six important matters that should receive your attention in carrying out the review of "profit forecast". *[Nov, 1998, Question 3(b); 12 marks]*

5. The business of CRY Ltd. a chit fund company also consisted of granting of loans and advances 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? *[Nov, 1998, Question 4(a); 12 marks]*

   (b) Should you give a qualified report if proper accounts were not maintained during a part of the accounting period? *[Nov, 1998, Question 4(b); 4 marks]*

6. The phrase to the best of our information and according to the explanations given to us" which is usually found in the Auditor's Report on Financial Statements limits the liability of the auditor in one sense but extends it in another sense. *[May, 1999, Question 3(b); 4 marks]*

7. (a) Distinguish between Audit Certificate and Audit Report.

   [May, 1999, Question 5(a); 4 marks]

   (b) Discuss the requirements regarding Auditor's Certificate on profit forecast included in the "Offer Documents". *[May, 1999, Question 5(b); 12 marks]*

8. (a) Define Propriety Audit. *[Nov , 1999, Question 4(a); 4 marks]*

   (b) In the context of such audit, state in general terms the principles of propriety.

   [Nov , 1999, Question 4(b); 4 marks]

   (c) Briefly indicate the propriety elements that are found in MAOCARO 1988.

   [Nov , 1999, Question 4(c); 8 marks]

9. A leading finance company engaged in giving finance leases seeks your advice in the preparation of its draft financial statements. You are required to forward a suitable report to the management highlighting the important aspects to be covered in the financial statements.

[Dec, 1999, Question 7; 16 marks]

10. Indicate the precise nature of Auditor's liability in the following situations and support your views with authority, if any:

(a) (i) A misstatement had occurred in the prospectus issued by the company.

[May, 2000, Question 3(a)(i); 4 marks]

(ii) Certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor, who in turn brought the same to the knowledge of the Managing Director of the company. In the subsequent year a Huge Defalcation came to the notice of the Management. The origin of the same was traced to the earlier year. The management wants to sue the auditor for negligence and also plants to file a complaint with the Institute.

[May, 2000, Question 3(a)(ii); 4 marks]

(iii) Based upon the legal opinion of a leading advocate, X Ltd. made a provision of Rs.5 crores towards Income Tax liability. The assessing authority has worked out the liability at Rs.15 crores. It is observed that the opinion of the advocate was inconsistent with legal position with regard to certain revenue items.

[May, 2000, Question 3(a)(iii); 4 marks]

(b) Y Ltd. obtained an actuarial valuation for Gratuity liability at the year end. The actuary changed certain basic assumptions for working out the liability at this year and as compared to the ones adopted by him in the preceding year. State Auditor's responsibility in this matter. *[May, 2000, Question 3(b); 4 marks]*

11. (a) H.W.P. Private Ltd. Is having only two members H and W. During the audit of accounts for the year ended 31st March, 2000, you as auditor find that:

(i) H, who is incharge of purchase has introduced fictitious purchase bills of Rs.50 lakhs.

(ii) W, who is incharge of sales has sold goods worth Rs.1 crore without bringing the same in the books of account.

You raise the matter with H and W in their capacity as directors. They contest that as this is a position known to them and within their own fold, you should not report the same under the Companies Act, 1956.

Discuss whether the above arguments are acceptable under the Companies Act, 1956 for non-reporting. If not, state the reasons and the manner of reporting.

[Nov, 2000, Question 1(c), 6 marks]

(b) Under the Manufacturing and Other Companies (Auditor's Report) Order, 1988, an auditor is required to report on the regularity of payment of Provident Fund and Employees State Insurance dues.

Give alternative drafts of the report on this clause mentioning the circumstances of reporting. *[Nov, 2000, Question 1(d), 6 marks]*

12. Is the auditor of a company supposed to refer any paragraph in Director's report in his own report to the shareholders of the company? State your views in this regard.

[Nov, 2000, Question 2(b), 8 marks]

13. (a) How is an auditor concerned under the guidelines issued by Securities and Exchange Board of India relating to the following matters, while certifying financial information included in offer documents?

(i) Transactions with companies in promoter group

(ii) Bifurcated turnover

(iii) Return on net worth

(iv) Price earning ratio *[Nov, 2000, Question 4(a), 8 marks]*

(b) On 30th September, 2000 a company's issued and paid up capital was Rs.25 crores comprising of fully paid equity shares of Rs.10 each. This included Rs.50,00,000 capital issued for cash; Rs.4,50,00,000 capital issued for purchase of a business; Rs.20 crores on issue of bonus shares from time to time by capitalising various reserves including Rs.5 crores by capitalising capital redemption reserve.

The company had fixed assets costing Rs.2 crores on which depreciation provision was Rs.1.95 crores, which was equal to the full cost of depreciable assets. The balance Rs.5 lakhs represented the cost of land. It has discontinued its operations for last many years.

The company had made investments in various companies to the tune of Rs.30 crores. Unfortunately all these investee companies have turned out to be BIFR cases. Nothing is expected to be realised on such investments. The company has dues from customers totalling to Rs.4.95 crores of which Rs.4.90 crores are due from business which have become defunct. The balance Rs.5 lakhs are due for over 3 years. The accumulated losses are Rs.10 crores. The amounts due to suppliers are Rs.3 crores and they are overdue. The balancing figure in the Balance Sheet refers to loan from Financial Institutions.

Workers who had put in long years of service have lodged claims for termination benefits of Rs.10 crores, which have been decreed in their favour. No accounting entry has been passed for the same since the decree on 1.1.1997. In the light of Statement on Standard Auditing Practices (SAP) 16, relating to Going Concern, you are asked to write appropriate paragraph of audit report.

Give reason for supporting your report. *[Nov, 2000, Question 4(b), 8 marks]*

14. As an auditor, state your view on the following:

    The Statutory Auditors of a Government Company have issued a qualified Audit Report on the Accounts of the company. In his supplementary audit, the Comptroller and Auditor General of India (C & AG) has also made further qualifications on the accounts of the company. *[May, 2002, Question 1(c), 5 marks]*

15. In an Audit Report, the phrase, "to the best of our information and according to the explanations given to us" is normally used. Comment on the appropriateness of the same.

    [Nov, 2002, Question 5(b), 4 marks]

16. What is your understanding of the term "true and fair view" in a statutory audit report of a company? *[May, 2003, Question 7(a), 8 marks]*

17. Distinguish with suitable examples - Between a case where an auditor is obliged to state in his report to the members of a company that the accounts do not show a true and fair view, and a case where he states that he is unable to form an opinion as to whether or not the accounts give a true and fair view. *[Nov., 2003, Question 6(b), 8 marks]*

18. As Chartered Accountant you are required to give your reports on various financial statements under Companies Act, 1956 which are as under:

    (i) Report to the shareholders under Section 227;

    (ii) Report to be sent out in prospectus under Section 60(3);

    (iii) Report to be given to the Central Govt. as special auditor under Section 233 A;

    (iv) Report to be given on voluntary winding up under Section 488 (1)

    Explain the significance of each of these reports and your functional approach very briefly.

    [May, 2004, Question 3(a), 8 marks]

19. (a) Enumerate the 'Basic Elements of Audit Report' as enshrined in AAS-28.

    (b) Bring out the significance of the following two illustrative paragraphs found in the statutory auditor's report in recent days.

    (i) Opening Paragraph:

    "We have audited the attached Balance Sheet of ………as at 31st March, 2xxx and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements".

    (ii) Scope Paragraph:

    "We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion."

[Nov, 2004, Question 4(a), (b), 8+8 marks]

20. (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?

    (b) As the statutory auditor of B Ltd. To whom CARO, 2003 is applicable, how would you report in the following situations?

    (i) 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.

    (ii) 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.

    (iii) Accumulated losses of the company are 50.9% of its net worth and its is incurring continuous cash losses since last 2 years.

[May, 2005, Question 4(a)&(b), 4+12 marks]

21. Answer the following:

    (a) What are the statements of facts that an auditor has to report u/s 227 of the Companies Act, 1956?

    (b) Illustrate, as a statutory auditor, how would you give a report where all qualifications are not quantifiable.

    (c) Under CARO, 2003 how, as a statutory auditor would you comment on the following:

    (i). Fixed assets comprising 1/3rd of the total assets have been disposed off during the year.

    (ii). A Term Loan was obtained from a bank for Rs. 75 lakhs for acquiring R&D equipment, out of which Rs. 12 lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities.

[May, 2005, Question 4(a), (b)&(c), each 4 marks]

22. Short Notes

    (a) Propriety Elements in MAOCARO, 1988 *[May, 2002, Question 8(c), 4 marks]*

    (b) Audit Certificate as Distinguished from Audit Report *[May, 2002, Question 8(d), 4 marks]*

    (c) Disclaimer Opinion *[Nov, 2002, Question 8(a), 4 marks]*

    (d) Areas of propriety audit under Section 227(1A) of the Companies Act, 1956.

    (e) Certificate for Special Purposes vs. Audit Report *[May, 2004, Question 8(e), 4 marks]*

Audit Committee and Corporate Governance

1. Explain the Constitution and functions of Audit Committee under Section 292A of the Companies Act, 1956. *[May, 2004, Question 7(b); 8 marks]*
2. Short Note
   (a) Corporate Governance *[Nov, 2004, Question 8(g), 4 marks]*
   (b) Audit Committee *[Nov,2000, Question 8(iii), 4 marks]*

Audit of Consolidated Financial Statements

1. Short Notes
   (a) Consolidated Financial Statements *[Nov, 2000, Question 8(ii), 4 marks]*

Audit of Banks

1. Mention the special points that will receive the attention of Bank's auditor in verification of advances against Life Insurance Policies. *[Nov, 1999, Question 3(b); 3 marks]*
2. As a Central Statutory Auditor of a Bank, you have noticed that:
   (i) Bank is reluctant to classify those accounts as NPA's, where no stock statements have been received.
   (ii) 5 borrowal accounts have been regularised by sanction of fresh term loan, which had been earlier declined by the bank.

   Please state your views on the above approach by the Bank.

   [Nov, 1999, Question 5(b)(i)&(ii); 4$\times$2=8 marks]
3. As an auditor state your views on the following situations:
   (a) Citizen Bank has classified an advance of Rs.50 lakhs given to a public sector company as Non-performing Asset in its 1994-95 accounts. Further, in the bank books, a sum of Rs.12 lakhs is recorded as due from the said company towards interest on this advance for the earlier period. The advance is guaranteed by the Statement.
   (b) An industrialist with surplus funds decided to form a Private Sector Bank. What are the guidelines issued by the Reserve Bank for formation of private sector Banks?

   [Nov, 1996, Question 1(b); 8 marks]
4. Describe the procedure for verification of the following balances reflected in the Balance Sheet of a bank:
   (i) Branch adjustment account. *[Nov, 1996, Question 4(a)(i); 4 marks]*
   (ii) Documentary bills purchased account. *[Nov, 1996, Question 4(a)(ii); 4 marks]*
5. Draw up an audit programme of income and expenditure items of a nationalised Bank situation in a metropolitan city. *[May, 1997, Question 7(a); 10 marks]*

6. Your firm has recently been appointed as a Concurrent Auditor of a nationalised bank. Your principal has asked you to prepare an audit programme for the following areas:

   (a) Advances; and *[Nov, 1997, Question 5(a); 10 marks]*

   (b) Foreign Exchange Transactions. *[Nov, 1997, Question 5(b); 6 marks]*

   State briefly, the steps you would include in the audit programme.

7. (a) As Statutory Central Auditors of a Nationalised Bank, mention the aspects that are to be commented upon in the Long-form Audit Report in relation to

   (i) Bad and Doubtul Debts and

   (ii) Vigilance. *[May, 1998, Question 4(a)(i)&(ii); 8 marks]*

8. Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager:

   (a) In computing the aggregate of Funded and Non-funded exposure of a constituent for purpose of assigning risk weight in regard to capital adequacy, the bank "Netted off" the credit balance of Rs.10 lakhs in their Current Account against the total exposure of Rs. 1 crore. *[May, 2000, Question 5(a); 4 marks]*

   (b) The bank has recognised on accrual basis income from Dividends on Securities and Units of Mutual Funds held by it as at the end of financial year. The Dividends on Securities and Units of Mutual Funds were declared after the end of financial year

   . *[May, 2000, Question 5(b); 4 marks]*

   (c) The bank is a consortium member of Cash Credit Facilities of Rs.50 crores to X Ltd. Bank's own share is Rs.10 crores only. During the last two quarters against a debit of Rs.1.75 crores towards interest the credits in X Ltd's. account are to the tune of Rs.1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd. as performing. *[May, 2000, Question 5(c); 4 marks]*

   (d) In case of all such advances which have been classified as non-performing for the first time during the Current Financial Year, only the last date of the financial year has been reckoned as the date of account becoming non-performing.

   [May, 2000, Question 5(d); 4 marks]

9. How is the income recognised in the case of 'non-performing' assets of bank?

   [Nov, 2000, Question 1(a) 4 marks]

10. Describe the procedure for verification of the following balances appearing in the account books of a bank:

    (i) Drafts paid without advice *[Nov, 2000, Question 2(a)(i) 4 marks]*

    (ii) Branch adjustment account *[Nov, 2000, Question 2(a)(ii) 4 marks]*

11. As a branch auditor of a nationalised bank, how would you verify the following?
    (i) Advances to DOT COM Companies. *[May, 2001, Question 5(a)(I), 4 marks]*
    (ii) Balances in account of a bank situated in a foreign country.
    [May, 2001, Question 5(a)(ii), 4 marks]
12. As statutory central auditors of a Nationalised Bank, what special points are to be borne in mind in the audit of compliance with “Statutory Liquidity Ratio” (SLR) requirements?
    [May, 2002, Question 5(a); 8 marks]
13. As an auditor of a bank, how would you verify the following?
    (i) Advances against Life Insurance Policy
    (ii) Documentary bills purchased
    (iii) Advance against FDRs *[Nov, 2002, Question 5(a); 8 marks*
14. Discuss the scope of “concurrent audit” in the banks. *[May, 2003, Question 3(b), 8 marks]*
15 As statutory central auditors of a Nationalized bank, what special points are to be borne in mind in the audit of compliance with "Statutory Liquidity Ratio" (SLR) requirements?
    [Nov. 2003, Question 6 (a), 8 marks]
16. How will you evaluate the internal control system in the area of credit car operations in a bank? *[May, 2004, Question 5(a); 8 marks]*
17. What are the exceptions to the general rule of treating advances as Non-performing Assets (NPAs)? *[May, 2005, Question 5(c), 4 marks]*
18. Short Notes
    (a) Cash and Cash Equivalents *[May, 1998, Question 8(b); 4 marks]*
    (b) Permanent Investments in the case of Banks *[May, 1998, Question 8(c); 4 marks]*
    (c) Disclosure requirement in the case of Banks regarding “Balances with other banks and Money At Call and Short Notice” *[May, 1999, Question 8(e); 4 marks]*
    (d) Statutory Liquidity Ratio *[Dec, 1999, Question 8(c); 4 marks]*
    (e) Long form Audit Report *[Dec, 1999, Question 8(d); 4 marks]*
    (f) Principal Enactments Governing Bank Audit *[Nov, 2004, Question 8(f), 4 marks]*
    (g) Vostro and Nostro Accounts *[May, 2005, Question 8(b); 4 marks]*
    (h) Valuation of Investments “held to maturity” by banks *[Nov, 2005, Question 8(c), 4 marks]*

Audit of General Insurance Companies

1. As an auditor state your view on the following situation:

   Excell Insurance Co. Ltd. has made a provision of 30 percent for Unexpired Risks Reserve in its accounts. *[May, 1996, Question 1(b); 5 marks]*
2. State the procedure for verification of Agents’ Balances in the course of Audit of General Insurance Company. *[May, 1998, Question 4(b); 8 marks]*

3. (a) What are the steps to be taken while auditing re-insurance transactions in an Insurance Company? *[Nov, 2000, Question 3(b) 8 marks]*

   (b) Enumerate the steps to be taken by an auditor for the verification of the premium income received by a general insurance company *[May, 2001, Question 5(b), 4 marks]*

4. In the context of audit of general insurance business, state the provisions regarding management expenses. *[Nov, 2001, Question 5(a), 8 marks]*

5 Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward by a General Insurance Company. *[Nov. 2003, Question 6 (b), 8 marks]*

6. What are the specific areas to which you will give your attention while examining "Claims Paid" by a General Insurance Company. *[May, 2004, Question 5(b); 8 marks]*

7. State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company. *[Nov, 2004, Question 7(c), 4 marks]*

8. "In an audit of an insurance company, the Receipts and Payments Account is also subjected to audit". Comment on this statement in brief. *[May, 2005, Question 5(b), 6 marks]*

9. What are the steps to be taken by an auditor for the audit of re-insurance ceded?

   [Nov, 2005, Question 6(b), 8 marks]

10. Short Notes

   (a) Co-insurance *[Nov, 1997, Question 8(d); 4 marks]*

   (b) Unexpired Risk Reserve *[Nov, 1997, Question 8(e); 4 marks]*

   (c) Management Expenses of Insurance Companies *[May, 1999, Question 8(c); 4 marks]*

   (d) Co-insurance *[Nov, 1999, Question 8(c); 4 marks]*

   (e) Expenses of Management [*Dec, 1999, Question 8(e); 4 marks]*

   (f) Incoming and Outgoing Co-insurance *[May, 2000, Question 8(e); 4 marks]*

Audit of Co-operative Societies

1. As an auditor state your views on the following situations:

   A Cooperative Society decided to pay bonus to its members after transferring 9 percent, of its projects to Reserve Fund. *[May, 1996, Question 1(c); 5 marks]*

2. Discuss the circumstances in which an auditor of a cooperative society is required to submit a special report to the Registrar of cooperative societies. *[Nov, 1996, Question 4(b); 4 marks]*

3. Your assistant has just completed the audit of a Cooperative Society. You are going to submit the audit report. State in this connection the requirement of any additional information to be given in attached schedules with your main audit report. *[May, 1997, Question 5(b); 5 marks]*

4. A major part of the business of Cooperative Housing Society is to avail loans from Housing Finance Corporation and in turn give loans and advances to its members for construction of

houses. Indicate any eight (8) points that will receive your attention as auditor of the Cooperative Housing Society. *[Nov, 1999, Question 4; 16 marks]*

5. An auditor of a Cooperative Society governed by Cooperative Societies Act, 1912 is required to attach schedules giving certain information. Please list the information required to be given in the schedules. *[Nov, 2000, Question 5(b), 8 marks]*

6. Mention the duties of Auditor of Cooperative Societies in regard to the following:

   (i) Over-due interest

   (ii) Compliance with provisions of Cooperative Act and Rules thereunder

   (iii) Special Report to Registrar of Cooperative Societies

   [May, 2002, Question 6(a), 9 marks]

7. State the special features of Co-operative Societies Audit. *[May, 2004, Question 7(a); 8 marks]*

Audit of Non- Banking Financial Companies

1. As the Auditor of a NBFC, which is engaged in the acquisition of securities and trading in such securities? List out the special points that may be covered in your audit.

   [May, 2003, Question 6, 16 marks]

2. Short Notes

   (a) Categories of Non-Banking Finance Companies (NBFCs)

   [Nov., 2005, Question 8(a), 4 marks]

Audit under Fiscal Laws

1. (a) As an auditor of a public charitable trust, you are required to prepare an audit programme. *[Nov, 1996, Question 6(a); 12 marks]*

   (b) Also specify the requirements of audit report in form 10B prescribed by the Income Tax Act in case of public trusts. *[Nov, 1996, Question 6(b); 4 marks]*

2. Mr. Robertoson, the Marketing Manager of R.B.C. Ltd. of Calcutta had made for trips to Bangalore during the previous year ended 31st March, 1997. His expenditure for stay at Bangalore during these trips were as follows:

	No. of Days	Amount Rs.
1st Trip	3	3,600.00
2nd Trip	4	6,400.00
3rd Trip	5	6,500.00
4th Trip	5	9,000.00
Total	17	25,500.00

As Tax Auditor of the company, what should be your comment in respect of the above situation? *[May, 1997, Question 6(c); 4 marks]*

3. State with reasons whether an auditor conducting tax audit 'certifies' or 'reports' on information contained in the statement of particulars to the tax audit report under Section 44 AB of Income-tax Act, 1961. *[Nov, 2000, Question 1(b), 4 marks]*

4. A public charitable Trust earns 'income of Rs.10 lakhs from Unit Trust of India, which is not taxable under Section 10(33) of Income-tax Act, 1961.

   It spends Rs.7 lakhs on its activities. The entire expenditure is vouched and is in accordance with the trust objects and is fully allowable as 'application'.

   As Auditor of the Trust, would you require the trust to make any provision for tax in its accounts? *[Nov, 2000, Question 6(a), 4 marks]*

5. (a) Mr X, who conducts the tax audit u/s 44AB of the Income-tax Act, 1961 of M/s ABC, a partnership firm has received the entire audit fees of Rs.25,000 in April, 2000 in respect of the tax audit for the year ended 31.3.2000. The audit report was however signed in September, 2000. *[May, 2001, Question 4(b), 4 marks]*

   (b) Mr P carries on the business of dealing and export of diamonds. For the year ended 31st March, 2000, you as the tax auditor, find that the entire exports are to another firm in U.S.A., which is owned by Mr P's brother. *[May, 2001, Question 4(d), 4 marks]*

6. In the context of tax audit under Section 44AB of the Income-tax Act, 1961, discuss the provisions of Section 145 of the said Act regarding the method of accounting and accounting standards notified thereunder. *[Nov, 2001, Question 8(b), 8 marks]*

7. A leading jewellery merchant used to value his inventory at cost on LIFO basis. However, for the current year, in view of requirements of AS-2, he changed over to FIFO method of valuation. The difference in value of stock amounted to Rs.55 lakhs which is higher than that under the previous method. In such a situation, what are the reporting responsibilities of a Tax Audit under Section 44AB of Income Tax Act, 1961? *[May, 2002, Question 6(b), 7 marks]*

8. XYZ Private Limited is engaged in the wholesale business of buying and selling silk sarees. The accounts are maintained under the Companies Act from 1st October to 30th September each year. The Chief Accountant of the Company is requesting the tax auditor to conduct tax audit U/S 44AB of the I.T. Act for the period for which accounts have been maintained under the Companies Act. As the tax auditor of XYZ Private Limited, how will you react to the Chief Accountant's request? *[May, 2003, Question 7(b), 8 marks]*

9. As a tax auditor, which are the accounting ratios required to be mentioned in the report in case of manufacturing entities? Explain in detail any one of the above ratios and how does it help the tax auditor in his analytical review. *[May, 2003, Question 6(a),* 8 marks]

10. What is your understanding about the term "Audit of Indirect Taxes"? Explain the steps involved in the Indirect Tax Audit. *[Nov.,2003, Question 7(a), 8 marks]*

11. Enumerates some of the areas o concern in an audit of indirect taxes.

    [Nov 2005, Question 5(b), 6 marks]

12. Short Notes

    (a) Recognition of Deferred Tax Assets

Cost Audit

1. Comment on the advisability of combining Cost Audit and Financial Audit to produce a Composite Audit requirements. *[May, 1997, Question 6(b); 8 marks]*

2. State with reasons whether the following proposition is true or false:

   It is not possible to merge Cost Audit with Financial Audit to have a Composite Audit.

   [May, 1999, Question 3(c); 4 marks]

3. State briefly the matters on which the Cost Auditor has to give his observations and conclusions to be included in the Annexure to his report under the Cost Audit (Report) Rules, 1968. *[Nov, 1999, Question 5(a); 8 marks]*

4. For what purposes the Cost Auditor refers to financial records while conducting Cost Audit of an entity? *[May, 2002, Question 5(b); 8 marks]*

5. Short Notes

   (a) Propriety elements in Cost Audit Report. *[Nov, 1998, Question 8(a); 4 marks]*

   (b) Reconciliation of cost and financial accounts *{May, 2003, Question 8(c); 4 marks]*

   (c) Advantages of Cost Audit to Government *[Nov, 2004, Question 8(e), 4 marks]*

   (d) "Like every other audit, a systematic planning for cost audit is also necessary". Indicate the matters to be included in a Cost Audit Programme. [

   Nov, 2005, Question 5(a), 10 marks]

Special Audit Assignments

1. Your client has been recently registered as a stock broker under the Securities and Exchange Board of India Act, 1992. You are instructed to prepare a report indicating his obligations and responsibilities for maintenance of the prescribed books of account, records, etc.

   [Nov, 1996, Question 7(a); 8 marks]

2. As an auditor state your view on the following situation

   (a) Citizen Bank has classified an advance of Rs.50 lakhs given to a public sector company as Non-performing Asset in its 1994-95 accounts. Further, in the bank books, a sum of Rs.12 lakhs is recorded as due from the said company towards interest on this advance for the earlier period. The advance is guaranteed by the Statement.

   [May, 1996, Question 1(a); 5 marks]

   (b) A member of stock exchange communicates to its constituents orally daily purchases and sales of scrips as recorded in the Sauda Book followed by periodical statement indicating the amount due to/due by as the case be. No stamp is affixed on the periodical statement. *[May, 1996, Question 1(d); 5 marks]*

3. Your client has been recently registered as a stock broker under the Securities and Exchange Board of India Act, 1992. You are instructed to prepare a report indicating his obligations and responsibilities for maintenance of the prescribed books of account, records, etc

. *[Nov, 1996, Question 7(a); 8 marks]*

4. What are the key functions of an Energy auditor? *[May, 2004, Question 4(b); 8 marks]*

5. *Short Notes*

   (a) Odd Lot Dealers *[Nov, 1997, Question 8(c); 4 marks]*

   (b) Bought out deal *[Nov, 1999, Question 8(a); 4 marks]*

   (c) Carry Forward System *[Nov, 1999, Question 8(e); 4 marks]*

   (d) Rolling Settlements *[May, 2000, Question 8(a); 4 marks]*

   (e) Carry Forward system *[May, 2000, Question 8(b); 4 marks]*

   (f) Hit or take orders *[May, 2002, Question 8(a); 4 marks]*

   (g) Bought Out Deal *[Nov, 2002, Question 8(b); 4 marks]*

   (h) Contract notes. *[Nov, 2003, Question 8(e); 4 marks]*

   (i) Rolling Settlement *[May, 2004, Question 8(a); 4 marks]*

   (j) Sauda Book *[Nov, 2004, Question 8(c), 4 marks)*

   (k) Margins (Under Stock Exchange Trading Regulations)

   [May, 2005, Question 8(f); 4 marks]

   (l) Probable format of environmental statement. *[Nov, 2003, Question 8(d); 4 marks]*

   (m) Contract Notes (Under Stock Exchange Trading Regulations)

   [Nov., 2005, Question 8(d), 4 marks]

Audit of Public Sector Companies

1. Discuss the various areas of propriety covered under the provisions of Sections 227(1A) and 227(4A) of the Companies Act, 1956. *[May, 1996, Question; 16 marks}*

2. Comment on the following statement:

   Propriety audit has an inherent element of subjectivity *[May, 1997, Question 3(a); 8 marks]*

3. State the salient features of the directions to the Auditors of Government Companies issued by the Comptroller and Auditor General of India u/s 619(3) of the Companies Act, 1956 in relation to:

   (a) System of Accounts; and *[May, 1998, Question 6(a); 10 marks]*

   (b) System of Financial Control *[May, 1998, Question 6(b); 6 marks]*

4. State with reasons whether the following propositions true or false:

   Problems in Propriety Audit however arise mainly because of its distinct nature.

   [May, 1999, Question 3(d); 4 marks]

5. State your views on the following:

   (a) "The objectives and scope of public enterprise audit is different from a statutory audit."

   [Nov, 1999, Question 7(a); 8 marks]

   (b) "Problems of Proprietary audit dampen management initiative."

   [Nov, 1999, Question 7(b); 4 marks]

6. What are the principles involved regarding 'Propriety Audit' in the case of Public Sector Undertaking? *[Nov, 2000, Question 6(b), 8 marks]*

7. Define Propriety Audit? What are the principles involved regarding Propriety Audit in Public Sector undertakings? *[Nov., 2003, Question 5(b), 8 marks]*

8. Short Notes

   (a) Committees on Public Undertakings *[May, 1997, Question 8(d); 4 marks]*

   (b) Objectives and scope of Public Enterprises Audit *[May, 1999, Question 8(b); 4 marks]*

   (c) True and Fair Cost of Production *[May, 2001, Question 8(c), 4 marks]*

   (d) Propriety Audit *[May, 2001, Question 8(d), 4 marks]*

   (e) Propriety Audit *[May, 2003, Question 8(b); 4 marks]*

Internal Audit, Management and Operational Audit

1. Management auditor is often regarded by line staff as a critic, fault finder and private spying authority of the top management and hence they do not cooperate with him. As a Management auditor suggest the ways and means to inspire confidence to secure their cooperation. *[May, 1996, Question 3; 16 marks]*

2. "Much good work gets lost because the auditor's report fails to evoke the interest of the reader."

   Discuss the above statement in the context of the report of the operational auditor.

   [Nov, 1996, Question 5; 16 marks]

3. You have been appointed as an internal auditor of a departmental store. State briefly, how you will you plan your work. *[May, 1997, Question 4(a); 10 marks]*

4. "Operational Auditing is not different from Internal Auditing, it is merely an extension of Internal Auditing into operational areas."

   State your views on the above statement. *[Nov, 1997, Question 6; 16 marks]*

5. Mention the nature and causes of behavioural problems likely to be faced by Management auditor. *[Nov, 1998, Question 7(a); 8 marks]*

6. (a) Explain the concepts of Management Audit and Operational Audit.

[May, 1999, Question 7(a); 8 marks]

(b) What are the differences between these two Audits?

[May, 1999, Question 7(b); 8 marks]

(c) Summary Written Report *[May, 2000, Question 8(c); 4 marks]*

7. Draft a suitable questionnaire for a Management auditor in evaluation of over-all systems and procedures prevailing in a Trading Organisation. *[Nov, 1999, Question 6(b); 11 marks]*

8. Internal Audit is said to be an "Independent appraisal activity within an organisation for review of Accounting, Financial and other operations as a basis of service to the organisation, it is a managerial control which functions by measuring and evaluating the effectiveness of other controls" – Explain briefly. *[May, 2000, Question 7(b); 8 marks]*

9. You have been appointed to carry out Management-cum-Operational Audit of a Public Ltd. Company. State whether the use of Quantitative ratios is more effective than the use of Financial ratios to gain real insight into the Financial Statements.

[May, 2000, Question 7(a); 8 marks]

10. What are the Management Audit Questionnaires? Give a sample questionnaire for Audit of Inventory. *[Nov, 2001, Question 7(a), 10 marks]*

11. "Operational Auditing is no different from internal Auditing". Discuss.

[May, 2002, Question 4(a); 8 marks

12. Explain in brief the behavioral aspects encountered in the management audit and state the ways to solve them. *[May, 2004, Question 6(b); 8 marks]*

13. Briefly explain the objectives of Operational Audit *[Nov, 2005, Question 3(b); 5 marks]*

14. Short Notes

(a) Objectives of Operational Auditing *[May, 1998, Question 8(d); 4 marks]*

(b) Objectives of Operational Audit *[May 2001, Question 8(a), 4 marks]*

(c) Can a statutory auditor act as a book-keeper and as an internal auditor?

[May, 2003, Question 8(e); 4 marks]

Investigation and Due Diligence

1. A well-established manufacturing public limited company proposes to take over a small SSI unit engaged in the business of soaps and detergents. The managing director of the said company has approached you to make a detailed study and advise him about the said take over. Discuss the major areas which you would cover in your investigation.

[May, 1996, Question 7; 16 marks]

2. A company engaged in the manufacturing and in trading of small tools is recording higher sales value but declining net profits. Discuss the possible reasons for this situation and the procedure to be followed to investigate the causes of such an anomalous situation.

   [Nov, 1996, Question 3; 16 marks]

3. Outline the steps in order of sequence that are usually applicable for the conduct of investigation. *[Nov, 1999, Question 6(a); 5 marks]*

4. (a) "Both auditing and investigation are fact finding techniques, but their basic nature and objectives differ from each other" – Discuss. *[Dec, 1999, Question 5(a); 12 marks]*

   (b) Can the investigator place reliance on the already audited statement of accounts?

   [Dec, 1999, Question 5(b); 4 marks]

5. Sri Raghav is above 80 years old and wishes to sell his proprietary business of manufacture of speciality chemicals. C Ltd. wants to buy the business and appoints you to carry out a due diligence audit to decide whether it would be worthwhile to acquire the business.

   What procedures you would adopt before you could render any advice to C Ltd.?

   [May, 2002, Question 3(a); 10 marks]

6. An American Company engaged in the business of manufacturing and distribution of industrial gases, is interested in acquiring a listed Indian Company having a market share of more than 65% of the industrial gas business in India, request you to conduct a "Due Diligence" of this Indian Company and submit your Report. As due Diligence Auditor, what key areas you will cover in your review? List out the contents of your Due Diligence Review Report that you will submit to your USA based Client. *[May, 2003, Question 4, 16 marks]*

7. A nationalised bank received an application from an export company seeking sanction of a term loan to expand the existing sea food processing plant. In this connection, the General Manager, who is in charge of Advances, approaches you to conduct a thorough investigation of this limited company and submit a confidential report based on which he will decide whether to sanction this loan or not. List out the points you will cover in your investigation before submitting your report to the General manager. *[May, 2003, Question 5, 16 marks]*

8. You are the internal auditor of AB Manufacturing Co. Ltd. The Managing Director has asked you to enquire into the causes of abnormal wastage of raw materials during the month of September, 2003.The wastage percentages are as follows:

June, 2003	1.2%
July, 2003	1.1%
August, 2003	1.3%
September, 2003	3.6%

   How will you proceed to carry out the Assignment? *[Nov., 2003, Question 4(b), 8 marks]*

9. What are the important steps involved while conducting Investigation on behalf of an Incoming Partner? *[Nov., 2003, Question 5 (a), 8 marks]*

10. Mr. Clean who proposes to buy the proprietary business of Mr. Perfect, engages you as investigating account. Specify the areas, which you will cover in your investigation.

[May, 2004, Question 6(a); 8 marks]

11. You have been appointed Management Auditor of a large manufacturing company suffering from working capital crunch. Enlist and discuss the related areas which you would probe into to overcome the company's problem. *[Nov., 2004, Question 6(a) 8 marks]*

12. (a) Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets.

    State (in brief) the major areas you would examine for the above.

[Nov., 2005, Question 7(a), 8 marks]

13. Short Notes

    (a) Audit and Investigation *[May, 1997, Question 8(c); 4 marks]*

    (b) Audit and Investigation *[May, 2001, Question 8(b), 4 marks]*

    (c) Audit vs. Investigation [Nov, 2004, Question 8(b), 4 marks]

Peer Review

1. Short Notes

   Preliminary Report under Peer Review *[May, 2005, Question 8©; 4 marks]*

Professional Ethics

1. Is there professional misconduct committed in the following cases in the context of the provisions of Chartered Accountants Act and its regulations?

   (a) Mr Ram, a practising Chartered Accountant from Rameshwar, has entered into partnership with Rahim, a practising chartered accountant of a recognised professional body for sharing fees of their partnership within India.

[May, 1996, Question 2(a); 4 marks]

   (b) Mr. Clever, apractising chartered accountant, accepts appointment as a full time lecturer in a Commerce College affiliated to the Bombay University.

[May, 1996, Question 2(b); 4 marks]

   (c) Miss Moongi, a practising chartered accountant, accepts her appointment as a valuer of goodwill of a business for the purpose of determining the value of gift under the Gift Tax Act on the condition that she would be paid 5% of the value of the goodwill so determined as her fees. *[May, 1996, Question 2(c); 4 marks]*

(d) Mr. John, a practising chartered accountant, entered into partnership with Mr Salim a qualified chartered and cost accountant, holding certificate of practice as a Cost Accountant. *[May, 1996, Question 2(d); 4 marks]*

2. Is there professional misconduct in the following cases in the context of the provisions of Chartered Accountants Act and its regulations?

(i) Mr Rajesh has accepted his appointment as an auditor immediately after intimating his appointment over the phone to the previous auditor.

[Nov, 1996, Question 2(i); 4 marks]

(ii) Mr Rahul has accepted his appointment as an auditor at a lower fee than the audit fee demanded by the previous auditor on the ground that the volume of work had increased.

[Nov, 1996, Question 2(ii); 4 marks]

(iii) The client of Mr Rajgopal complains that he has charged an excessive fee for a professional assignment. *[Nov, 1996, Question 2(iii); 4 marks]*

(iv) Mr Jaydev has charged a fee for representing his client in an Income Tax appeal based on the expected relief to his client as a result of the appeal.

[Nov, 1996, Question 2(iv); 4 marks]

3. Is there professional misconduct committed in the following cases in the context of the provisions of Chartered Accountants Act, 1949 and its regulations?

(a) Mr. Fair, a practising Chartered Accountant, was appointed to carry out a Balance Sheet Audit of a Non-profit Organisation. The Internal Auditors detected certain irregularities at one of the Branches of the organisation which Mr Fair had failed to detect.

[Nov, 1997, Question 2(a); 4 marks]

(b) Mr False had been appointed by True Ltd., to represent them before the taxation authorities and to prepare statements required for the purpose, based on data to be provided by the management. The taxation authorities felt that claims made through the statements prepared by Mr False were incorrect and misleading.

[Nov, 1997, Question 2(b); 4 marks]

(c) Mr Brilliant, a practising chartered accountant, received a major professional assignment. To complete the said assignment he was required to buy for computers. Due to his inability to provide funds for acquiring the same he borrowed money from a firm, where one of the Articled Clerk's and his father were interested.

[Nov, 1997, Question 2(c); 4 marks]

(d) Mr Extraordinary, a practising Chartered Accountant, had failed to report regarding a material claim against the company of which he was aware and which the management intentionally did not include in their financial statements, as it would affect the price of their shares on the Stock Exchange. *[Nov, 1997, Question 2(d); 4 marks]*

4. (a) Mr K a Chartered Accountant not in practice was employed by Do-well Ltd. on salaried basis as Chief Internal Auditor to be in charge of internal control and internal audit department of the company. Mr K largely relied on the work of other unqualified employees of the company. The statutory auditor subsequently found that the internal control was weak, that there were omissions to record Cash Sales and collections from Debtors and the statements attested by the Chief Internal Auditor were all either untrue or false.

   The company seeks your advice whether any action could be taken against Mr K under provisions of Chartered Accountants Act. *[May, 1998, Question 1(a); 5 marks]*

   (b) A Chartered Accountant in practice entered into partnership with his uncle in Textile business which, however, did not take off. Will he be held guilty of professional misconduct? *[May, 1998, Question 1(b); 5 marks]*

   (c) A search under Section 132 of the Income-tax Act

   (i) In the premises of a leading merchant led to the discovery of two sets of account books – One set to record all the income correctly and another set to record only limited income. A chartered accountant has issued the Tax Audit Report on the basis of second set of account books. Is he liable to the Income-tax Department in the above circumstance? *[May, 1998, Question 1(c)(i); 3 marks]*

   (ii) Would your answer be different, if the first set of account books carried evidence of checking by the chartered accountant? *[May, 1998, Question 1(c)(ii); 2 marks]*

5. 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 of M/s Tick and Tag, a leading firm of chartered accountants established in Delhi in 1948. *[Nov, 1998, Question 1(a); 5 marks]*

   (b) A practising chartered accountant agreed to select and recruit personnel, conduct training programmes and work studies for and on behalf of a client.

   [Nov, 1998, Question 1(b); 5 marks]

   (c) A chartered accountant acting as liquidator of a company:

   (i) charged fees as a percentage of realisation of assets and

   (ii) refused to hand over accounting records and valuables of the company in liquidation to the successor appointed by the Court.

   [Nov, 1998, Question 1(a)(i)&(ii); 5 marks]

   (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 under Section 44AA of Income Tax Act

   [Nov, 1998, Question 1(d); 5 marks]

6. (a) A chartered accountant in practice was engaged by a businessman to represent him before the tax authorities on current matters and in the course of such employment he came across certain documents pointing to commission of tax frauds in the preceding years for which the client was not represented by him.

   Is the member liable to disclose the existence and contents of the document to tax authorities? *[May, 1999, Question 1(a); 5 marks]*

   (b) A chartered accountant in practice was alleged to have signed two balance sheets on two different dates for the same financial year, the first one with a clean report and the second one with a qualified report. In a criminal proceeding he made a statement before the magistrate that he had signed only the second balance sheet.

   Subsequently it was found that he had in fact given the clean report at a later date but signed the first balance sheet under an earlier date. Examine his conduct in the light of Chartered Accountants Act, 1949. *[May, 1999, Question 1(b); 5 marks]*

7. Comment on the Auditor's liability in the following cases:

   (a) Mr X, partner of X & Co. chartered accountants advised the Managing Director of True Ltd. to include in sales, orders under negotiation to reflect a better financial position for obtaining future bank loan. X & Co. are the internal auditors of True Ltd.

   (b) X & Co. chartered accountants, informed selected multinational oganisations, who are not their clients that Mr Y, the former partner-in-charge of Taxation of one of the largest accounting firms of the world, had joined them as a partner.

   (c) X & Co. chartered accountants were informed by True & Co. Ltd that they have been appointed as auditor of the company in place of ABC & Co., who have been removed, subject however to the approval of the shareholders in the ensuing Annual General Meeting. X & Co. accepted the appointment and commenced the work without their appointment being approved by shareholders of the company.

   (d) Mr X partner of X & Co. chartered accountants has compiled and signed the Balance Sheet of False Ltd. for submission to the bankers of the said company. Mr X has also compiled and signed at the request of the said company another Balance Sheet inflating the value of assets by 20% for submission to a term lending institution. Both the Balance Sheets were not in conformity with the books of account maintained by the company as they were not uptodate.

   [Nov, 1999, Question 2(a),(b),(c) & (d); 4×4=16 marks]

8. State your views on the following:

   A chartered accountant in practice holding Law Degree can practise both as a chartered accountant and as a Lawyer. *[Nov, 1999, Question 7(c); 4 marks]*

9. Give your views on the following situations in the context of Chartered Accountants Act, 1949 and the regulations thereunder:

(a) As auditor of cooperative society, Asha, agreed to charge 10% of the profits of the society as her audit fees. *[Dec, 1999, Question 2(a); 5 marks]*

(b) Priya, a chartered accountant entered into professional partnership with a non-resident chartered accountant on the following terms:

(i) Professional income arising in India is to be shared equally.

(ii) Professional income arising outside India is to be retained exclusively by the non-resident partner. *[Dec, 1999, Question 2(b)(i)&(ii); 5 marks]*

(c) Nandhini & Co. was appointed as auditors of a public sector company by the Central Government late in the financial year. The firm commenced work without communicating with the previous auditor as the financial year was almost coming to a close. *{Dec, 1999, Question 2(c); 6 marks]*

10. (a) A chartered accountant holding certificate of practice and having four articled clerks registered under him accepts appointment as a full time lecturer in a college. Also he becomes a partner with his brother in a business. Examine his conduct in the light of CA Act, 1949 and the regulations thereunder. *[May, 2000, Question 2(a); 4 marks]*

(b) XYZ Co. Ltd. has applied to a bank for loan facilities. The bank on studying the Financial Statements of the company notices that you are the auditor and requests you to call at the bank for a discussion. In the course of discussions, the bank asks for your opinion regarding the company and also asks for detailed information regarding few items in the Financial Statements. The information is available in your working paper file. What should be your response and why?

[May, 2000, Question 2(b); 4 marks]

(c) A chartered accountant in practice, in spite of repeated requests from the Secretary of the Institute, fails to submit form 18. Is he liable for misconduct?

[May, 2000, Question 2(c); 4 marks]

(d) A chartered accountant availed a term loan of Rs.10 lakhs from a Nationalised Bank for furnishing his office. He issued two cheques for Rs.1 lakh each towards repayment of the loan. The cheques were dishonoured with the remark "Refer to Drawer". Is the Chartered Accountant liable for misconduct? *[May, 2000, Question 2(d); 4 marks]*

11. Discuss briefly the role of a Statutory Auditor in relation to the unlawful acts by the clients.

[May, 1997, Question 2(a); 8 marks]

12. Is there professional misconduct in the following cases in the context of the provisions of Chartered Accountants Act and its regulations?

(i) Mr. Ramana, a Chartered Accountant in practice and a lawyer agree to pay to each other 12 percent of the gross fees received by them from clients referred by them to each other. It is agreed that both of them will maintain a record in respect of such clients' and the account will be settled at the end of each year. However, at the end of the first year, the Chartered Accountant refuses to receive or pay the referral fee as per the agreement and tells the lawyer that the agreement stands terminated.

[May, 1997, Question 2(b); 4 marks]

(ii) Mr. Sethi, a Chartered Accountant in practice, who is proposed to be removed as the auditor of a company, makes unsubstantiated and derogatory remarks against the management of the company in his representation under Section 225 of the Companies Act, 1956. *[May, 1997, Question 2(b); 4 marks]*

13. You are the auditor of a company, which raised finance from the capital market on the basis of a prospectus issued a few years back. The main object for raising the finance was specified to be setting up a project on information technology.

    The company advanced monies so raised to various parties 'related' to directors. These parties had no standing whatsoever with information technology. In the Balance Sheet, these advances appeared as a current asset under the head "loans unsecured – considered good". There was no mention in the notes to accounts about nature and purpose of such advances. You have given routine audit report without any qualifications.

    One fine morning the directors and these 'related' parties disappear. The company has just vanished.

    Can you be hauled up for professional misconduct? Do you have any liability under any law? *[Nov, 2000, Question 5(a), 8 marks]*

14. Ajay is a practising Chartered Accountant. Vijay is a practising Advocate representing matters in courts of law. Ajay and Vijay agree to help each other in matters involving their professional expertise. Accordingly Ajay recommends Vijay in all tax litigations in courts of law. Vijay consults Ajay on all matters relating to finance and related matters, which come to him for arguing in various courts of law.

    Ajay seeks your advise on how he and Vijay should (i) remunerate each other (ii) 'share' the remuneration. *[Nov, 2000, Question 6(c), 4 marks]*

15. Discuss whether the following actions by a Chartered Accountant would amount to misconduct or not.

    (i) A Chartered Accountant practising in India enters into partnership with

    (a) A Certified Public Accountant in New York.

    (b) A Chartered Accountant from the Institute of Chartered Accountants in England and Wales in London,

    and in each case, the members concerned take the profits earned in their own country.

    Will it make any difference, if an Indian Chartered Accountant is practising outside India and becomes a partner with the aforesaid accountants?

(ii) A Chartered Accountant in service agrees to entrust the work of investment broker to Mr. X on the specific understanding that 20% of commission Mr. X earns would be paid to him.

(iii) A practising Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant, as

(a) Tax Consultant

(b) Cost Accountant.

(iv) A Chartered Accountant in practice takes up the appointment as Managing Director of a Public Limited Company. *(Nov, 2000, Question 7(I),(ii),(iii),(iv), 16 marks]*

16. As a practising chartered accountant do you approve the following? If not, why?

(a) In a representation to be submitted to a company under section 225(3) of the Companies Act, 1956, the partner of the firm of auditors wants to include the contributions made by the firm in strengthening the control procedures of the company during their association with the company. *[Nov, 2001, Question 2(a), 4 marks]*

(b) A partner of a firm of chartered accountants during a T.V. interview handed over a bio-data of his firm to the chairperson. Such bio-data detailed the standing of the international firm with which the firm was associated. It also detailed the achievements of the concerned partner and his recognition as an expert in the field of taxation in the country. The chairperson read out the said bio-data during the interview.

[Nov, 2001, Question 2(b), 4 marks]

(c) The Chairman of an Audit Committee of a Bluechip Company, who is a chartered accountant asked the firm in which he was previously a partner to quote their fee on a success fee basis so as to ensure that a professional work is assigned to such firm.

[Nov, 2001, Question 2(c), 4 marks]

(d) A firm of chartered accountants were appointed by a company to evaluate the costs of the various products manufactured by it for their information system. One of the partners of the firm of chartered accountants was a non-executive director of the company. *[Nov, 2001, Question 2(d), 4 marks]*

17. What is a comprehensive audit of public enterprises? Discuss some of the areas to be examined therein. *[Nov, 2001, Question 6(a), 8 marks]*

18. Is there any misconduct on the part of a Chartered Accountant in the following circumstances:

(i) Mr. G, a chartered accountant in practice as a sole proprietor has an office in Mumbai near Church Gate. Due to increase in professional work, he opens another office in a suburb of MumbaI which is approximately 80 kilometers away from his existing office. For running the new office he employs three retired Income-tax Officers.

(ii) The offer document of a listed company in which Mr. D, a practising Chartered Accountant is a director mentions the name of Mr. D as a director along with his various professional attainments and spheres of specialisation.

[May, 2002, Question 2(c), 8 marks]

19. How should an incoming auditor ascertain that the company has complied with the relevant provisions of the Companies Act, 1956 regarding his appointment as an Auditor?

[Nov, 2002, Question 2(a), 10 marks]

20. Can a practising Chartered Accountant be held guilty of professional misconduct under the following circumstances? Give your views with reasons in brief.

    (a) A Chartered Accountant in practice has been appointed liquidator of a company and his fees has been fixed at 5% of the assets realised.

    (b) A Chartered Accountant is appointed as Statutory Auditor of a company in which his brother is a Director having substantial interest in the company.

    (c) Mr. X a Chartered Accountant enters into partnership with Y another Chartered Accountant and holding certificate of practice as 'Company Secretary' .

    (d) An Auditor of a company informs the Managing Director that audit report for the year ended 31.3.2002 is ready, but would be forwarded only on the receipt of audit fees. The auditor feels that the company may not pay his fees once he delivers the report.

[Nov, 2002, Question 7(a), (b), (c) & (d), 16 marks]

21. Mr. X, a Chartered Accountant accepted his appointment as tax auditor of a firm under Section 44AB, of the Income-tax Act, and commenced the tax audit within two days of his appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, Mr. X realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor and obtained the postal acknowledgement. Will Mr. X be held guilty under the CA Act?

[May, 2003, Question 2(a), 6 marks]

22. Mr. J started his practice as Chartered Accountant in 1996. During 1999, he got an offer for the post of Chief Accountant of a Software Development Company, as a fulltime employee, for a salary of Rs.60,000 per month. On accepting this offer, Mr. J converted his practice into a partnership firm by taking a fresh Chartered Accountant as his partner. Mr. J neither intimated the Institute nor obtained permission from the Institute about his employment. Will Mr. J be held guilty under the CA Act? *[May, 2003, Question 2(b), 6 marks]*

23 A Chartered Accountant in practice had confirmed in the application made by his articled clerk to the Council for permission to study that the normal working hours of his office were 11 a.m. to 6 p.m. and the hours during which the articled clerk was required to attend college classes were 7 a.m. to 9.30 a.m. On inquiry from Principal of College, it was ascertained that the articled clerk used to attend classes from 10 a.m. to 1.55 p.m. The Chartered Accountant

pleaded ignorance about the articled clerk attending the college classes during office hours. Will the Chartered Accountant be held guilty of professional misconduct?

[May, 2003, Question 2(c), 4 marks]

24. Can a Practicing Chartered Accountant be held guilty of Professional Misconduct under the following circumstances? Give your views with reasons in brief.

    (a) Z, a Chartered Accountant wrote several letters to Government Department, pointing out seniority of his firm, sending his life sketch and stating that he had a glorious record of service to the country as well as to the organization of accountancy profession with a view to get the audit work..

    (b) W, a Chartered Accountant has sent letters under certificate of posting to the previous auditor informing him his appointment as an auditor before the commencement of audit by him.

    (c) P, a Chartered Accountant had accepted appointment as an auditor of QRS Company Limited without ascertaining from the Company whether the requirement of Sections 224 and 225 of the Companies Act had been complied with. However, he realized this defect only after acceptance.

    (d) The Cashier of a company committed a fraud and absconded with the proceeds thereof. This happened during the course of the accounting year. The Chief Accountant of the company also did not know about fraud.

    In the course of the audit, at the end of the year, the auditor failed to discover the fraud. After the audit was completed, however, the fraud was discovered by the Chief Accountant. Investigation made at that time indicate that the auditor did not exercise proper skill and car and performed his work in a desultory and haphazard manner. With this background, the Directors of the company intend to file disciplinary proceedings against the auditor.

    Discuss the position of the auditor with regard to the disciplinary proceedings.

[Nov.2003, Question 2(a),(b),&(c) each 4 marks and (d) 6 marks]

25. Comment on the following with reference to Chartered Accountants Act, 1949 and schedules thereto:

    (a) Mr. Parekh, a Chartered Accountant was invited by the Chamber *of* Commerce to present a paper in a symposium on the issues facing Indian Leather Industry. During the course *of* his presentation he shared some *of* the vital information *of* his client's business under the impression that it will help the Nation to compete with other countries at International level.

    (b) Mr. Shah, a Chartered Accountant certified the financial statements *of* a company in which his wife is a Director holding substantial interest.

    (c) Mr. Joe, a Chartered Accountant during the course *of* audit *of* M/s XYZ Ltd. came to know that the company has taken a loan *of* Rs. 10 lakhs from Employees Provident

Fund. The said loan was not reflected in the books *of* account. However, the auditor ignored this information in his report.

(d) Mr. Jain, a Chartered Accountant certified the circulation of "Good Luck" a weekly magazine without examination *of* financial records and other required documents.

[May, 2004, Question 2 (a)(b)(c)&(d); each 4 marks]

(e) A charitable institution entrusted Rs. 10 lakhs with its auditors MIs Ram and Co., a Chartered Accountant firm, to invest in a profitable portfolio. The auditors pending investment *of* the money, deposited it in their Savings bank account and no investment was made in the next three months.

26. 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.

(b) M/s. ABC, a firm of Chartered Accountants has taken a loan for acquiring computers, from a company whose Managing Directors' son is an Articled Trainee with A, a partner of M/s ABC.

(c) M/s XYZ, a firm of Chartered Accountants created a website "www.xyzindia.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.

(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.

[May, 2005, Question 2 (a)(b)(c)&(d); 5+4+5+4 marks]

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

(a) Mr. S, a Chartered Accountant published a book and gave his personal details as the author. These details also mentioned his professional experience and his present association as partner with M/s RST, a firm.

(b) Mr C accepted the statutory audit of M/s PSU Ltd., whose net worth is negative for the year 2003-04.The audit was to be conducted for the year 2004-05. The audited accounts for the year 2004-05 showed liability for payment of tax audit fees of RS.15,000 in favour of Mr E, the previous auditor.

(c) M/s PQR, a firm of Chartered Accountants with 5 partners has accepted the audit of ABC Pvt. Ltd. for 2004-05 at an audit fee of Rs.2,500. ABC Pvt. Ltd was incorporated in April, 2002, but had commenced operations in January, 2005.

(d) Mr. P, a Chartered Accountant in practice entered into a partnership with Mr. L, an advocate for sharing of fees for work sent by one to the other. However, due to some disputes, the partnership was dissolved after 1 month without any fees having been received. *[Nov, 2005, Question 2 (a)(b)(c)&(d); 5+5+4+4 marks]*

28. Short Notes

    (a) Auditor's Liability in case of unlawful acts or defaults by clients *[Nov, 2000, Question 8(iv), 4 marks]*

    (b) Other Misconduct *[May, 2001, Question 8(c), 4 marks]*

    (c) Other Misconduct *[Nov, 2004, Question 8(d), 4 marks]*