Test Series: September, 2012

MOCK TEST PAPER – 2

IPCC/PCC: GROUP – II / GROUP – I

PAPER – 6/2: AUDITING AND ASSURANCE

Question No. 1 is compulsory.

*Attempt any **five** questions from the Rest.*

Time Allowed – 3 Hours | Maximum Marks – 100

1. Give your comments and observations on the following

(a) TT Ltd. has suffered recurring losses due to steep fall in production and has negative net worth. Its production head, an expert, have also left the company. Reply of the management is inadequate to these developments and there is no sound action plan to mitigate these situations. Comment. *(5 Marks)*

(b) The surplus arising from sale of investment was set-off against a non-recurring loss and was not disclosed separately. *(5Marks)*

(c) ABC Ltd. has not deposited provident fund contributions of ₹ 20 lakhs to the authorities, but accounted in the books. *(5 Marks)*

(d) A company has not provided depreciation on machinery on the plea that the machinery has been maintained in excellent condition and is as good as new.

(5 Marks)

2 (a) What is an Audit Engagement letter? Discuss the situations where it is necessary to issue audit engagement letter each year for repetitive audits. *(3+5= 8 Marks)*

(b) What are Audit working papers and why should they be carefully preserved by the Auditor? *(8 Marks)*

3 (a) What are accounting estimates according to the Standards on Auditing 540? Give examples. *(8 Marks)*

(b) What is meant by external confirmation? Mention four situations where external confirmation may be useful for auditors. *(8 Marks)*

4 (a) What is"Audit Evidence"? *(2 Marks)*

(b) Discuss the principles, which are useful in assessing the reliability of audit evidence. *(6 Marks)*

(c) Draft an audit programme for conducting audit of accounts of a Local Body. *(8 Marks)*

5 Comment on the following:

(a) In case the existing auditor(s) appointed at the Annual General Meeting refused to accept the appointment, whether the Board of Directors could fill up the vacancy.

(4 Marks)

(b) Due to the resignation of the existing auditor(s), the Board of directors of X Ltd appointed Mr. Hari as the auditor. Is the appointment of Hari as auditor valid?

(4 Marks)

(c) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted? *(4 Marks)*

(d) At the AGM of a company, in which a Nationalised Bank held 25% of the subscribed capital, Krishna & Co., Chartered Accountants, were appointed as auditor by passing an ordinary resolution. *(4 Marks)*

6 (a) Define Internal Check. What are the special steps involved in framing a system of Internal Check? *(2+8=10 Marks)*

(b) Explain briefly the Precautions to be taken in applying test check technique.

(6 Marks)

7 Write Short Notes on any four of the following :

(a) Scrutiny of General Ledger

(b) Vouching.

(c) Contingent Liability.

(d) Verification of credit sales.

(e) Audit against Rules and Orders. *(4 × 4 = 16 Marks)*