

Roll No. ....

Total No. of Questions – 7

Total No. of Printed Pages – 4

Time Allowed – 3 Hours

Maximum Marks – 100

## NET

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any five questions from the remaining six questions.

**Marks**

1. As a statutory auditor of a company, comment on the following :

- (a) A fire broke out on 15<sup>th</sup> May, 2012, in which material worth ₹ 50 lakhs which was lying in stock since 1<sup>st</sup> March, 2012 was totally destroyed. The financial statements of the company have not been adopted till the date of fire. The management of the company argues that since the loss occurred in the year 2012-13, no provision for the loss needs to be made in the financial statements for 2011-12. **5**
- (b) While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws. **5**

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- (c) For the year ended 31<sup>st</sup> March, 2012, the financial statements of A Pvt. Ltd. were adopted on 31<sup>st</sup> July, 2012. At this meeting, the directors proposed a dividend for the year 2011-12 of 25% on the equity share capital amounting to ₹ 10 lakhs. No entry was passed for the proposed dividend in the books of the company, since in the view of the directors the same was not required as per Revised Schedule VI. 5
- (d) The accounting policy on Revenue Recognition for a company engaged in manufacture and sale of chemical products was stated as "*Revenue is recognized only when it can be reliably measured and it is reasonable to expect ultimate collection*". 5
2. Give your comments with reference to the Companies Act, 1956 and the Chartered Accountants Act, 1949 and Schedules thereto :
- (a) A Chartered Accountant who was in practice since last 20 years died in a road accident. His widow sold the practice to another Chartered Accountant in practice for ₹ 30 lakhs. The price also included the right to use the firm name. 4
- (b) K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in the suburbs of Chennai. Due to increase in the income tax assessment work, he opens another office near the income tax office. For running the new office, he has employed a retired Income Tax Commissioner. 4
- (c) Mr. A has been appointed statutory auditor of a private limited company where his spouses' sisters' husband is having 75% ownership. 4
- (d) Mr. E, proprietor of M/s. E & Co. is the statutory auditor of a Company which owns a store dealing in computer equipments. During the year 2011-12, E purchased a computer from the store costing ₹ 25,000 for his son. He did not make any payment for the same, but asked the company to adjust the same against the audit fees payable of ₹ 50,000. 4

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3. Comment on the following :
- (a) While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement ? 8
- (b) M/s. PQR has been appointed the sole statutory auditor of a large company for 2011-12, where till last year M/s. LMN was also one of the joint auditors along with M/s. PQR. Mention the steps that should be taken by M/s. PQR before commencing the audit. 8
4. Answer the following :
- (a) What are the considerations which an auditor should consider while evaluating the reliability of the accounting and internal control systems in a CIS environment ? 8
- (b) Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications ? What are the types of modifications possible to the said report ? 8
5. Answer the following :
- (a) Under CARO, 2003, how, as a statutory auditor would you comment on the following : 8
- (i) X Pvt. Ltd. is a subsidiary of a listed entity incorporated outside India. The management of the company believes that since X Pvt. Ltd. is a Private Company and satisfies all conditions under the Companies (Auditor's Report) Order, 2003, reporting under CARO is not applicable.
- (ii) A term loan was obtained from a bank for ₹ 50 lakhs for the purpose of purchase of assets for Research & Development (R & D). Out of these funds, a vehicle was purchased for the use of the concerned director who was in charge of the R & D activities.
- (b) As an auditor how will you verify the existence of Related Parties ? 8

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6. Answer the following :

- (a) You have been appointed to investigate a suspected embezzlement of cash receipts in a departmental store. What are the steps you would take in this regard ? **6**
- (b) As an auditor of a partnership firm under section 44AB of the Income Tax Act, 1961, how would you report on the following : **4**
- (i) Capital expenditure incurred for scientific research assets
- (ii) Expenditure incurred at clubs
- (c) As an auditor of a Non Banking Financial Company registered with the Reserve Bank of India (RBI), what are the prudential norms of RBI, whose compliance is to be verified ? **6**

7. Write short notes on any **four** of the following :

**4 × 4 = 16**

- (a) Responsibility of holding company for preparation of Consolidated Financial Statements.
- (b) Areas of proprietary audit under section 227(1A) of the Companies Act, 1956.
- (c) Circuit filters/Circuit breakers.
- (d) Environmental Audit.
- (e) Supplementary audit under section 619(3) of the Companies Act, 1956.

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