

Test Series: October, 2013

MOCK TEST PAPER – 2
INTERMEDIATE (IPC): GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Question No.1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

- (1) As an Auditor, comment on the following:
- (a) Company has debited ₹ 1,75,000 to Delivery Van Account received from a customer against credit sales of ₹ 1,50,000 to him who is now is not able to pay the amount. The Delivery Van has not been registered in the name of the company with R.T.O. till date of Finalisation of accounts.
 - (b) PQ Ltd. has given donations of ₹ 50,000 each to a charitable school and a trust for blinds, during the year ended 31.3.2013. The average net Profit of the company during last three financial years amounts to ₹ 12 lacs.
 - (c) AAS Limited had provided for doubtful debts to the extent of ₹ 23 lakhs during the year 2011-12. The amount had since been collected in the year 2012-13. Another debt of ₹ 25 lakhs had been *identified* to be doubtful during the year 2012-13. The Company made an additional provision of ₹ 2 lakhs during the year. The Profit and Loss account for the year ended 31.3.2013 disclosed in Debit side-provision for doubtful Debts ₹ 2 lakhs.
 - (d) Alagar Limited is a company engaged in the business of chassis building and bus transportation services. It accounts all expenses and income in Profit and Loss account under various heads explaining clearly the nature of the operations. The auditor of the company requires that the Profit and Loss account should depict the Profit or Loss from the businesses of assembly as well as of operation of bus services separately. (4 × 5 = 20 Marks)
2. Give your assertions for the following items appearing in balance sheet of a Limited Company:

		₹
(i) Cash in hand		10,000
(ii) Investments		1,00,000
(iii) Secured Loans		10,00,000
(iv) Machinery:		

Opening cost	13,00,000	
Less: depreciation		
Current depreciation	1,30,000	11,70,000

(16 Marks)

3. (a) Write a short note on the Contingent Liability. (8 Marks)

As an auditor, comment on the following situations/statements:

- (b) A Ltd wanted to treat the heavy advertisement expenditure incurred by them to launch a new product as Revenue expenditure. The product did not pick up and the sales were negligible. It is anticipated that no material benefit will accrue in future from such heavy advertisement expenditure. (4 Marks)
- (c) B Ltd. acquired a car for its Managing Director on hire-purchase basis. The interest payable as well as penalty for late payment of installments was added to the cost of the car. (4 Marks)
4. (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)
5. (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)
6. (a) Mention the special steps involved in the audit of Charitable Institutions (8 Marks)
- (b) Can the External Auditor rely upon the work of an Internal Auditor? (8 Marks)
7. Write Short Notes on any **four** of the following:
- (a) Audit Engagement letter
- (b) Reliability of audit evidence.
- (c) Advantages of Statistical sampling in Auditing.
- (d) Knowledge of Client's business.
- (e) What are the inherent limitations of Internal Control system? (4 × 4 = 16 Marks)