

Test Series : October, 2013

MOCK TEST PAPER -2

FINAL COURSE: GROUP – I

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

Time Allowed- 3 Hours

Maximum Marks -100

1. Comment on the following:
 - (a) Included under Current Assets of XYZ Ltd. is inventory aggregating to ₹ 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 ₹ 20 crores.
 - (b) 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.
 - (c) Y Ltd. has accumulated losses of ₹ 12 crores. The Reserves and Surplus of the said company also include "Securities Premium Account" of ₹ 15 crores. The company intends to adjust the accumulated losses against the "Securities Premium Account". Is the company permitted to do so under the provisions of the Companies Act, 1956?
 - (d) 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. (4 x 5 = 20 Marks)
2. Give your comments with reference to the Companies Act, 1956 and the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) Mr. Karan, a practicing Chartered Accountant, received a sum of ₹ 1 lac on 1.9.2012 from a Client who intends to leave abroad for a period of a year, with a request that his advance tax liabilities to be paid over the three instalments. On 15th September, 2012, 15th December, 2012 and 15th March, 2013. After remitting the 1st instalment of advance tax on 15.9.2012, Karan did not keep the Balance Money in a separate Bank account and he is of the opinion he will remit the money within reasonable time as per payment schedule of Advance tax.
 - (b) M/s ABC, a partnership firm carrying on business has complained to the Institute of Chartered Accountants of India (ICAI) that Mr. Shivam, a Chartered Accountant has charged the firm excessive fees for a professional assignment.

- (c) Mr. Rohan, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of ₹ 25 lakhs. He has also informed the Manager that if the loan is sanctioned, the Income Tax return of the Manager and staff will be filed without charging any fees, as quid Pro quo for the loan sanctioned.
- (d) A firm of Chartered Accountants 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. (4 x 4=16 Marks)
3. (a) What are the duties of an auditor regarding disqualification of directors under Section 274(1)(g) of the Companies Act, 1956? (6 Marks)
- (b) As Auditor of Act Fast Ltd. what steps will you take to ensure that the dividend has been paid only out of profit? (6 Marks)
- (c) G Co. Ltd. has not included in the Balance Sheet as on 31-03-2013 a sum of ₹ 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2013. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2013. The auditor came to know the result of the negotiations on 15-05-2013. Comment (4 Marks)
4. (a) As a tax auditor how would you deal and report the following:
- (i) An assessee has borrowed ₹ 50 lakhs from various persons. Some of them by way of cash and some of them by way of Account payee cheque /Draft. (3 Marks)
- (ii) An assessee has paid Rent to his brother ₹ 2,50,000/- and paid interest to his sister ₹ 4,00,000/- (2 Marks)
- (iii) An assessee has incurred payment to clubs. (2 Marks)
- (b) As a bank branch auditor, what aspects will be considered while reporting on credit appraisal, sanctioning /disbursement and documentation in respect of advances in the LFAR ? (5 Marks)
- (c) ABC Private Ltd. has granted loan of ₹ 20 crores to XYZ Ltd. a sister concern and it remains outstanding at the year end. How would you report the fact? (4 Marks)
5. (a) The audit report of Jay Ltd. for the year 2011-12 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2012-13, how would you report, if:
- (i) The company does not make provision for doubtful debts in 2011-12?
- (ii) The company makes adequate provision for doubtful debts in 2011-12? (8 Marks)
- (b) As a Statutory Auditor, how would you report on the following under CARO:
- (i) LMN Pvt. Ltd. Is a dealer in Shares and Securities.
- (ii) Q Pvt. Ltd is a Manufacturer of jewellery. A senior employee of the Company

informed you that the Company does not properly disclose the purity of gold used on the jewellery. (8 Marks)

6. 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 set out in prospectus under Section 60(3);
- (iii) Report to be given to the Central Government as special auditor under Section 233A;
- (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. (4 × 4 Marks = 16 Marks)

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

- (a) Walk through Tests
- (b) Vostro and Nostro Accounts.
- (c) *Frauds through supplier ledger*
- (d) Mark to Market margins
- (e) *Peer review.*

(4 × 4 = 16 Marks)