PCC May 2008 Question Paper

Answer **all** the Questions

1. State with reasons (in short) whether the following statements are True or False: (Answer any ten)

   (i). Procedural error arises as a result of transactions having been recorded in a fundamentally incorrect manner. ***(False, Refer Chapter 1);***

   (ii). When Inherent and Control risks are low, an auditor can accept a lower detection risk. ***(False, Refer AAS 6);***

   (iii). Audit procedure and Audit technique are not one and the same thing. ***(True, Refer Chapter 2);***

   (iv). An auditor can be appointed as first auditor of a newly formed company simply because his name has been stated in the Articles of Association. ***(False, Refer Chapter 7);***

   (v). AAS – 24 deals with responsibility of the auditor of the service organisation. ***(False, Refer AAS – 24);***

   (vi). Interest accrued but not due on "Secured Loans" is required to be shown under appropriate sub-heads under the head "Secured Loans". ***(True, Refer Chapter 10);***

   (vii). For the purpose of AAS – 10 "Principal Auditor" means the partner of the firm signing the Audit Report. ***(True, Refer AAS – 10);***

   (viii). The term 'fund' and 'reserve' can be used interchangeably. ***(False)***

   (ix). An expert for the purpose of AAS – 9 is a person, firm or association of persons possessing special skill, knowledge and experience in auditing. ***(False, Refer AAS – 9);***

   (x). CARO 2004 is also applicable to the audit of branch of a company, except where the company is exempt from the applicability of the order. ***(True, Refer Chapter 11);***

   (xi). All the joint auditors are jointly and severally responsible for the work, which is not divided and carried on jointly by all the auditors. ***(True, Refer AAS – 12);***

   (xii). Compliance Procedures are tests designed to obtain audit evidence as to completeness, accuracy and validity of the data produced by the accounting system. ***(False, Refer Chapter 1, these are substantive procedures)***

2. As an auditor how would you react to the following situations/ comments?

   (a). Director (Finance) of KK Ltd. Informed their newly appointed statutory auditor that they have sound Internal Control System implemented by a renowned professional firm and he is satisfied with its effectiveness and functioning and therefore, the statutory auditor concentrate on verifying only the routine books and financial statements. ***(Refer AAS – 2, AAS – 11, CARO and Chapter 7);***

(b). 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. ***(Refer AAS – 16);***

(c). PP Ltd., a garment exporter, asked their internal auditor, a practicing chartered accountant, to conduct physical verification of the year end inventory and report of such verification was handed over to the statutory auditor for their view and use. Can statutory auditor rely on such report? ***(Refer AAS – 7 and Chapter – 3 and AAS – 1);***

3. (a) What are the various assertions an auditor is concerned with while obtaining audit evidence from substantive procedures? ***(Refer Chapter 1)***

   (b) What does AAS – 3 say about utility, ownership, custody and retention of working papers? ***(Refer AAS – 3 and Chapter 2)***

4. (a) How would you assess the reliability of internal control system in computerized information system? ***(Refer AAS – 29)***

   (b) When does an auditor issue unqualified opinion and what does it indicates? ***(Refer Chapter 11 and AAS – 28)***

5. (a) Briefly mention five important items which you would examine while verifying payment of interest out of capital during construction. ***(Refer Chapter 9)***

   (b) What is the importance of having the accounts audited by an independent auditor? ***(Refer Chapter 1)***

6. (a) State any six important points to be examined by you, as an auditor, in verifying the correctness of bank balance of educational institution which deposits all its collection/ receipt in separate collection account of a bank. ***(Refer Chapter 5)***

   (b) Mention, any four, areas where surprise check can significantly improve effectiveness of an audit. ***(Refer Chapter 2)***

7. How would you vouch/ verify the following? (Answer any **two**)

   (a) Advertisement Expenses;

   (b) Sale of Scrap;

   OR

   Borrowings from Bank;

   (c) Work in Progress

   (For all of above Refer Chapter 5 & 6)

8. Write short notes on the following: (Answer any **two**)

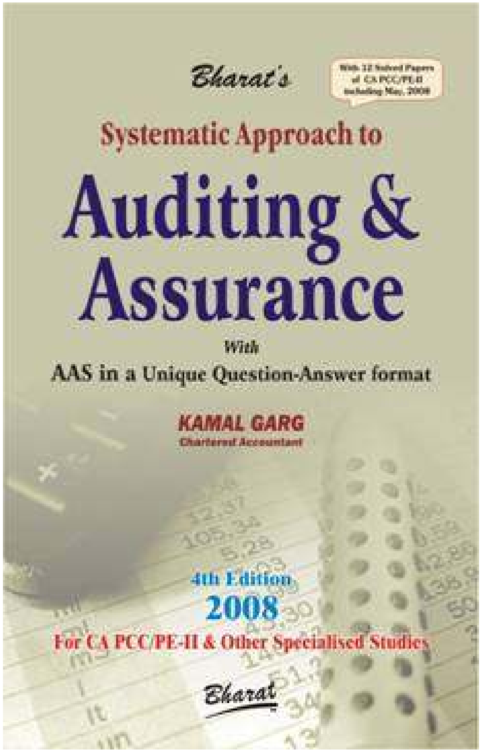
   (a) Reliability of audit evidence ***(Refer Chapter 1)***

   (b) Audit against Rules and Orders ***(Refer Chapter 12)***

   OR

   Advantages of Statistical sampling in Auditing ***(Refer Chapter 2)***

   (c) Contents of Audit Note Book ***(Refer Chapter 2)***



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