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CA PCC - Auditing - June 2009 - Question Paper

Roll No.. ..

Total No. of Questions—8]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

Maximum Marks—100

BPL

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 who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

1. State with reasons (in short) whether the following statements are True or False. 10×2
(Answer any **ten**) : =20
 - (i) The principle of confidentiality precludes auditor to disclose the information about the client to third party at all circumstances without any exception.
 - (ii) Auditing in depth implies that the auditor vouches almost all transactions in a manner that the chances of not checking any transaction are left at minimum.
 - (iii) Taking management representation is a convenient, economical and equally acceptable auditing method even where the direct access by auditor to audit evidence is possible.
 - (iv) An auditor of a company in which not less than 25% of authorized capital is held by public financial institution is to be appointed by a special resolution in general meeting.
 - (v) It is no part of subsequent auditor's duty to verify opening balances of Ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor.
 - (vi) AAS 25 on 'comparatives' is applicable to corresponding previous years figures and not to comparative Financial statement.
 - (vii) AAS 10— "Accounting for fixed assets" is also applicable to wasting assets like quarries, minerals and oil and natural gas.

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P. T. O.

(2)

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- ✓ (viii) When Government grants are received in the form of assets such as Land, plant and equipments etc., free of cost, then, such assets should be entered in the books of accounts at nominal value.
- (ix) Contingent liabilities are provided for in the accounts if they crystallize between the end of the accounting year and the date of signing the audit report.
- ✓ (x) The fixed deposit held with bank by a company is to be shown under the head investments in Balance Sheet as per the requirements of part I of schedule VI to the Companies Act, 1956. 122
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- ✓ (xi) A branch auditor is a joint auditor according to AAS 12 and his relationship with the company auditor is governed by the said standard. 45000
- ✓ (xii) Disclaimer of opinion is issued when an auditor confronts a different stand by management in respect of a material issue which auditor does not approve of. 2. 46000000 x 10
100
100

2. Comment on the following situations :

- (a) Sri Limited charged depreciation on its plant and machinery comprised in fixed assets at rates different from what had been specified in schedule XIV to the Companies Act, 1956. The auditor insisted that the rates of depreciation adopted should be mentioned in the notes to the account, else, he would make qualification in his audit report. The Management of the company contended that there is no impact in profits due to its omission to disclose the fact and hence on considerations of principle of materiality, the auditor is wrong in mentioning this omission in his report by way of qualification. 8
- (b) On 31.12.2008, Amudhan Company Limited has invested Rs. 45 lakhs in cumulative fixed deposits of Algar Bank Ltd. The deposits carry interest @ 10% per annum compoundable quarterly and amount of interest is added to the principal and is due and payable at the maturity date which is 5 years from the date of investments. 6

For the year ended 31st March, 2009, the company did not book any revenue of interest on the ground that interest amount is not available at their disposal till maturity date of investment.

- (c) P, the first auditor of XYZ Ltd. resigned as auditors of the Co. Board of Director appointed Mr. Q as statutory auditors in their place. 6

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(3)

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3. In auditing, the auditor checks the specific assertions of the items appearing in the financial statements and opines about the overall assertions they signify. Explain specific assertions and overall assertions in this context. 10
4. (a) M, Statutory Auditors of ABC Ltd. wants to verify cash on hand as on 31st March, 2009. 4
- The Management informs Mr. M. that it is not possible to cooperate, as cashier has been hospitalised.
- Advise Mr. M., how to deal with the situation.
- (b) As an auditor of a Limited Company, you observe that during the month of March, 2009, sales invoices were not recorded in books of accounts. You also observe that payment of wages was much higher compare to last year. Keeping in mind above, analyse possible ways of manipulation of accounts. 6
5. (a) Mention any six points to be considered for good internal control for collection of tuition fees from students of college. 6
- (b) XYZ Ltd. has purchased plant and machinery costing Rs. 1 crore in the month of October, 2008 out of working capital limits sanctioned by Bank. 4
- What are reporting requirements by Statutory Auditors of the Company in this regard, keeping in mind the provisions of CARO 2003.
6. (a) A Limited Company has filed a suit against debtor from whom Rs. 25 lakhs are receivable. 6
- A judgement is received from court in favour of the company after the date of Balance Sheet. Discuss auditors' duty in this regard.
- (b) While conducting audit of a bank, you find that bank has advanced loan for purchase of machinery on the basis of valuation report prepared by a civil engineer. Will you approve the action taken by bank ? Justify the answer. 4

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P. T. O.

(4)

BPL

Marks

7. How would you vouch/verify the following (Answer any **two**) : 5×2=10
- (a) Production incentive paid to workers.
 - (b) Goods lying with third party.
 - (c) Bad debt

OR

Proposed dividend.

8. Write short notes on the following (answer any **two**) : 5×2=10
- (a) Physical attendance by auditor during inventory taking
 - (b) Letter of Weakness
 - (c) Knowledge of Client's business

OR

Responsibilities of Joint auditors.

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