AUDITING

AUDIT BASICS - I

Descriptive & Practical Questions :

Q1. At the Annual General Meeting of Z & Co. Ltd., X was appointed as the auditor for the current year, in the place of Y, the auditor for the previous year. X requested Y to give the working papers of the previous year — state your views.

[*Ref* : Q2. (b), Dec '08 / Paper-11]

Q2. Bring out the differences between Indian GAPP and USA's GAPP in the following :

(i) Pre-operative expenses ;

(ii) Foreign Currency transactions ;

(iii) Proforma information. [*Ref* : Q3. (b), Dec '08 / Paper-11]

Q3. (a) Developing the Audit Programme ;

(b) Corroborative Evidence. [*Ref* : Q4. (c)(d) Dec '08 / Paper-11]

Q4. Write short notes on :

Analytical Procedures. [*Ref* : Q4. (b) Dec '07 / Paper-11]

Q5. Briefly state the objects or aim of working papers. [*Ref* : Q2. (a) Dec '06 / Paper-11]

Q6. About what are Generally Accepted Accounting Principles (GAAP) concerned with ? Discuss about the need for GAAP in India. [*Ref* : Q6. (a) Dec '05 / Paper-11]

Q7. Explain the concept of audit materiality. Also state the relationship between materiality and audit risk. [*Ref* : Q7. (a) Dec '04 / Paper-11]

Q8. Briefly discuss the provisions regarding audit of Government companies.

[*Ref* : Q8. (b) Dec '04 / Paper-11]

AUDIT BASICS - II

Descriptive & Practical Questions :

Q1. How will you vouch/verify the following and what are the related aspects to be looked into?

(a) Excise Duty [*Ref* : Q5. (a) Dec '04 / Paper-11]

Q2. (a) Sundry expenses such as printing, postage and local transport charges incurred during period of construction of a factory of a newly formed company, are proposed to be capitalized.

(b) Profit on revaluation of land and building was credited to Profit and Loss Account.

[*Ref* : Q5. (b), (d) Dec '08 / Paper-11]

Q3. (a) How will you, as an auditor of a public limited company view the following items?

(i) Profits prior to incorporation of the company ;

(ii) Created Goodwill.

(b) Discuss in brief, about the need for techniques of overall assessment of data while conducting 'Balance Sheet Audit'. [*Ref* : Q7. (a), (b) Dec '08 / Paper-11]

Q4. (b) Elucidate, how as an auditor should satisfy himself that all income arising from the following sources are duly received and accounted for :

(i) Rental of several leased properties ;

(ii) Sales of scrap. [*Ref* : Q8. (b), Dec '08 / Paper-11]

Q5. How will you, as an auditor of a limited company, treat the following items ?

(a) Receipt of a substantial amount by way of damages from suppliers in respect of inferior quality of raw materials received and consumed during the year under audit.

(b) Finished goods were valued at cost of production including administration overheads.

(c) Financial expenses and advances paid to contractors during periods of construction.

(d) Know how relating to manufacturing process paid Rs. 50 lakhs and know how relating to drawings of plant and machinery amounting to Rs. 100 lakhs.

[*Ref* : Q2. June '08 / Paper-11]

Q6. Write short notes on :

Generally Accepted Auditing Standards (GAAS). [*Ref* : Q5. (a) June '08 / Paper-11]

Q7. (a) Book entries are made for purchase of land without the sale deed being executed by the vendor.

(b) Year-end stock ready for exports are proposed to be valued at realisable value.

[*Ref* : Q7. (c), (d) June '08 / Paper-11]

Q8. Your client seeks your opinion on how the following matters should be accounted and/or disclosed. Give your views with reasons for the same :

(a) Sundry Debtors include charges made for returnable packing cases.

(b) Assets bought on hire purchase basis were stated at their full value and the outstanding instalments payable were shown under Sundry Creditors.

(c) The Debit Balance in the Profit & Loss Account is shown as a deduction from 'Dividend Equalisation Reserve' on the Liabilities side of the Balance Sheet.

(d) Expenditure incurred on grading and preparing the soil for plantations are charged to Cultivation Expenses. [*Ref* : Q2. Dec. '07 / Paper-11]

Q9. Short notes on :

(a) Outstanding Assets.

(b) Propriety Audit. [*Ref* : Q4. (c) (e) Dec. '07 / Paper-11]

Q10. (a) How will you vouch/verify the following and what are the related aspects to be looked into ?

(i) Research and Development Costs ;

(ii) Sale proceeds of Junk Materials. [*Ref* : Q5. (c) Dec. '07 / Paper-11]

Q11. How will you vouch/verify the following and what are the important allied aspects to be considered ?

(a) Work-in-Progress ;

(b) Loose Tools ;

(c) Railway Siding ;

(d) Royalty Payment to Foreign Collaborator. [*Ref* : Q4. Dec. '06 / Paper-11]

Q12. How will you deal with the following as an auditor of a company :

(a) Bonus to employees which has hitherto been charged to profit and loss account on mercantile basis is now being accounted for on cash basis.

(b) There is significant fall in the market price of some investments held for a long time by the concern.

(c) Outstanding liabilities for expenses shown a considerable fall as compared to previous year.

(d) Sundry debtors include charges made for returnable packing cases.

[*Ref* : Q7. Dec. '06 / Paper-11]

Q13. How will you vouch/verify the following and what are the important allied aspects to be considered ?

(a) Contingent Liabilities ;

(b) Trade Creditors ;

(c) Dishonour of Discounted Bills Receivable ;

(d) Self constructed Assets. [*Ref* : Q4. June '06 / Paper-11]

Q14.(b) How will you vouch/verify the following and what are the important allied aspect to be considered ?

(i) Royalty payments to a foreign collaborator, to whom royalty is payable as a percentage of sales.

(ii) Disposal of plant. [*Ref* : Q5. (b) Dec. '05 / Paper-11]

Q15. How would you as an Auditor vouch/verify the following :

(a) Research and Development Cost ;

(b) Work-in-progress ;

(c) Share Issue Expenses ;

(d) Trade Marks and Copyright. [*Ref* : Q6. June '05 / Paper-11]

Q16. (a) "An auditor must select his sample carefully because the results of a representative and unbiased sample can be mathematically interpreted." — Explain this statement.

[*Ref* : Q3. (a) June '08 / Paper-11]

Q17. (a) Flow Chart

(b) Intra-firm and Inter Firm Comparisons. [*Ref* : Q5. (b), (c) June '08 / Paper-11]

Q18.(a) "Certain sampling risks are associated with test of control procedures and substantive procedures adopted in carrying out the Audit." — Briefly explain.

[*Ref* : Q6. (a) June '06 / Paper-11]

Q19.(a) Inter firm and Intra firm Companies

(b) Ratio Analysis [*Ref* : Q8. (a), (d) June '06 / Paper-11]

Q20. Mention any four transactions not suitable for test checking. [*Ref* : Q7. (c) June '05 / Paper-11]

Q21. (a) Comment on the following situation :

(i) Compensation for an amont of Rs. 75,000 (which is considered material) received from a customer for breach of contract of sale is included in the current year's turnover of sales.

(ii) Claim against the company for breach of contract which are the subject of a law suit and await the Court judgment has been shown and included in the current liabilities.

[*Ref* : Q5. (b) June '04 / Paper-11]

Q22. (a) Briefly furnish your views in connection with the following :

(i) After completion of checking the draft accounts approved by the Board of Directors of the company and placed before you, you observed that the Sundry Debtors and Loans and Advances have been classified in the Balance Sheet as "Fully Secured" on the basis of their being backed unconditionally by Bank Guarantees.

[*Ref* : Q8. (a)(ii) June '04 / Paper-11]

Q23. How will you vouch/verify the following and what are the related aspects to be looked into?

(a) Excise Duty,

(b) Bank Borrowings,

(c) Bankruptcy Dividends,

(d) Dishonour of discounted bills receivable. [*Ref* : Q5. Dec. '04 / Paper-11]

Q24. (a) Briefly discuss the provisions regarding audit of Government companies.

[*Ref* : Q8. (b) Dec. '04 / Paper-11]

Q25. Write short notes on :

(a) Sampling Risk [*Ref* : Q3. (a) June '04 / Paper-11].

Q326. (c) Mention the limitations of judgement sampling. [*Ref* : Q7. (c) Dec. '04 / Paper-11]

COMPANY AUDIT

Descriptive & Practical Questions :

Q1. (a) In Kiran Alloys Ltd., 20% of the share capital is held by West Bengal State Government and 10% by Unit trust of India. M/s. Raj & Co. were re-appointed as statutory auditors by an ordinary resolution passed in the annual general meeting.

(b) V.S. Ltd., appoints X & Co., a partnership firm as its statutory auditors. The firm has six partners, four of whom are practicing Chartered Accountants in India and two other partners are based at Singapore. The appointment has been made in firm's name.

[*Ref* : Q1. (a)(b) Dec '04 / Paper-11]

Q2. As an auditor of XYZ Ltd., state your views on the following points noticed by you in the course of audit.

(a) The branch auditor has given a qualified report on the accounts of the branch. Discuss with reference to the powers and duties of the company auditor thereof.

(b) Company has given a loan of rupees ten lakhs to a private limited company which is one of its subsidiaries. [*Ref* : Q3. (b)(d) Dec '04 / Paper-11]

Q3. (a) How can the work of an expert be evaluated by an auditor ?

(b) What is the duty of the auditor if he is in disagreement with the views of an expert ?

[*Ref* : Q2. (c) Dec. '08 / Paper-11]

Q4. (a) Apple Ltd. requiring to maintain cost records contend that the statutory auditor need not report on non-maintenance of cost records as the provisions of cost audit are not applicable to the company.

(b) The auditors of a company refuse to make their report on the Annual Accounts of a company before the related financial statements are signed on behalf of Board of Directors.

[*Ref* : Q5. (a), (c) Dec. '08 / Paper-11]

Q5. Discuss whether "Secret reserves can remain no longer secret".

[*Ref* : Q1. (b) June '08 / Paper-11]

Q6. (a) State some of the features of the Companies Act, 1956 which aims to preserve and project the independence of statutory auditor.

(b) List three examples of situations in which the techniques of observation can be employed by external auditor.

(c) State the sources of payment of dividends in the case of a company limited by shares.

(d) Briefly state the basis and types of liability of auditors. [*Ref* : Q4. June '08 / Paper-11]

Q7. (d) Audit Committe. [*Ref* : Q5. (d) June '08 / Paper-11]

Q8. (a) Correspondence with taxation authorities and with third parties.

(b) Bring out the fundamental differences between statutory audit and internal audit in terms of :

(i) Status and scope,

(ii) Approach to work,

(iii) Responsibility. [*Ref* : Q6. (a), (b) June '08 / Paper-11]

Q9. As an auditor of a company your advice is sought on the following issues :

(a) Directors want to declare dividends out of accumulated profit without transferring any amount to reserves.

(b) Trial production expenses of rupees 50 lakhs are proposed to be included as part of production overheads.

(c) No provision for income tax is proposed to be made in respect of the profit of the year as the company expected refund of taxes paid in the earlier year.

[*Ref* : Q7. (a)(b)(e) June '08 / Paper-11]

Q10.(a) Outline the general disadvantages of joint audit.

(b) The cost auditor of a company can be its internal auditor, and is to be appointed by the shareholders of the company. Comment on the validity. [*Ref* : Q8. (b)(c) June '08 / Paper-11]

Q11.(a) What is meant by Joint Audit?

(b) What kind of mutual relationship should prevail among Joint Auditors?

(c) What are the reporting responsibilities of the Joint Auditors?

(d) Ram is the principal auditor of an entity as a whole. Rahim is another auditor of one of the divisions of the same entity.

(i) Do they bcome Joint Auditors?

(ii) What are their reporting responsibilities? [*Ref* : Q3. Dec. '07 / Paper-11]

Q12. State the circumstances under which a qualified Audit Report is issued (*any five circumstances*).

[*Ref* : Q5. (b) Dec. '07 / Paper-11]

Q13. Is the disclosure of accounting policies, mandatory for companies? What should the Auditor do in this regard? [*Ref* : Q6. (a) Dec. '07 / Paper-11]

Q14.(a) How wil you deal with the following in the course of audit of the accounts of a limited company ?

(i) The sales are very high at the year end when compared to the earlier months in the ratio of around 2 : 1.

(ii) Debentures issued at face value but repayable at primium.

(iii) Payment of Rs. 50,000 each to the Directors as allowances to cover travelling and entertainment expenses in the course of their normal duties.

(iv) Under the head 'Reserves and Surplus' of Rupees 5 lakhs includes secret reserve of Rupees 1 lakh.

(b) The Audit Report of V Ltd. is signed by Mr. 'X', a partner of Z & Co., a partnership firm properly appointed as auditors. Mr. 'X' is practicing in Singapore. Is this proper?

[*Ref* : Q7. (a), (b) Dec. '07 / Paper-11]

Q15. Negative Opinion and Disclaimer of Opinion. [*Ref* : Q8. (b)(i) Dec. '07 / Paper-11]

Q16. As an auditor of a company, how will you deal with the following?

(a) The company has not provided for FBT liability of Rs. 20 lacs.

(b) Executive Director's marriage expenses of Rs. 12 lacs has been charged to advertisement expenses of the company.

(c) Plant and machinery has been shown in Balance Sheet at Rs. 10,00,000 (at cost less depreciation) against market value of Rs. 4,00,000.

(d) Advertisement expenses of Rs. 30 lacs for a new product has been fully charged to revenue.

[*Ref* : Q2. June '07 / Paper-11]

Q17.(a) Subsequent to the issue of audit opinion, the auditor of a company came to know about an important matter about the company. Had he known about this earlier, he would have given a different opinion. How you will as an auditor deal under this situation?

(b) The turnover of ABC Ltd. during the year ended 31st March, 2006 was Rs. 4.2 crores. This company had a branch office outside the State of its registered office, whose turnover during the year was Rs. 1,80,000. The audit of this branch was not carried out by the auditor. The Auditor's Report of the said year contained no reference to the branch. As an auditor of this company for the year ended 31st March, 2007, express your comments regarding liability as an auditor for 2006 and 2007.

(c) On account of falling revenues, Y the auditor of LMN Ltd., agreed for a reduction of Audit Fee, with the condition that the company shall not insist upon extensive audit, as was done in the past. The entire body of shareholders agreed to this condition, in General Meeting. Is this proper on the part of Y ? [*Ref* : Q3. June '07 / Paper-11]

Q18. How will you vouch/verify the following and what are the related aspects to be looked into?

(a) Excise Dury.

(b) Trade Marks. [*Ref* : Q5. (1) June '07 / Paper-11]

Q19.(a) What do you mean by independence of an auditor ? State the provisions of the Companies Act, 1956, which aims to safeguard the independence of auditor.

(b) Distinguish between :

(i) Audit and Investigation

(ii) Special Audit and Cost Audit. [*Ref* : Q8. (a), (b) June '07 / Paper-11]

Q20. As an auditor of a company, state your views on the following :

(a) Company has capitalized sundry expenses like postage, stationery, etc. incurred during construction period.

(b) The directors wanted the auditor to submit a confidential report to them about the realizable value of securities for loans granted and that in the report to the shareholders they can state that there is difficulty in realization of such securities.

(c) The company wants to destroy its books of accounts, vouchers, etc. for the period prior to the last six years.

(d) The Records of the company were seized by the income tax department. The directors require the auditors to issue a qualified report to the share holders explaining the position.

[*Ref* : Q3. Dec. '06 / Paper-11]

Q21.(a) Narrate the rights and powers of statutory auditor of a public limited company.

(b) Mention steps which may be followed by you for audit of incomplete records (any six major steps). [*Ref* : Q8. (b), (c) Dec. '06 / Paper-11]

Q22. Enumerate the rights, duties and responsibilities of company's auditor in relation to the Company's branch accounts, branch audit and branch auditors.

[*Ref* : Q2. (b) June '06 / Paper-11]

Q23. As an Auditor of a company, state your views on the following :

(a) A Limited Company selling goods mostly on credit wants to maintain its books of account on cash basis.

(b) A company does not make provision for gratuity payable to its employees, instead, it accounts for gratuity at the time of actual payment.

(c) Production expenses of the Company under audit included trial production expenses of Rs. 2 lakhs.

(d) During the year under audit, one of the joint auditors died. The Board of Directors appointed another auditor in his place. [*Ref* : Q5. June '06 / Paper-11]

Q24. Is the Statutory Auditor entitled to rely on the Internal Auditor of the Company under his audit? Discuss. [*Ref* : Q7. (b) June '06 / Paper-11]

Q25. As an auditor of a limited company state your views on the following facts noticed by you in the course of audit :

(i) Fixed assets acquired in exchange for the shares of the company are recorded at normal values.

(ii) Proposed dividend is not adjusted in the Financial Statements.

(iii) Government Grant Received as compensation for losses sustained in backward areas is credited to revenue reserve.

(iv) No depreciation is charged on an equipment kept idle throughout the year.

[*Ref* : Q2. (a) Dec. '05 / Paper-11]

Q.26 (a) Explain the concept of Joint Audit and state the responsibilities of Joint Auditors.

(b) What are the items under "Reserves and Surplus" appearing on the liabilities side of the Balance Sheet of a company which are not available for declaration of dividends? (any four items) [*Ref* : Q4. (a)(c) Dec. '05 / Paper-11]

Q27. Distinguish between Audit Report and Audit Certificate. [*Ref* : Q8. (b) Dec. '05 / Paper-11]

Q28. Briefly furnish your views in connection with the following :

(a) Y Ltd. has a branch in a rural village, whose turnover for the year of audit is Rs. 3 lacs. The branch was not audited. The company wants the statutory auditor not to refer to this branch, pointing out that in the earlier year's report, there was no reference to the branch.

(b) Bijoy Irons Ltd. has entered into a contract with Bharat Irons Ltd., for supply in December, 2005 of a cooling tower price at Rs. 80 lacs against cash payment. The company has not provided for the same but has merely shown it in Notes to the Balance Sheet as on 31.03.2005.

(c) Board of Directors refuse to allow access to the Director's Minutes Book to the Statutory auditor when he wants to refer to them. [*Ref* : Q2. (b) (i),(ii) June '05 / Paper-11]

Q29. Discuss the relationship between Internal Audit and Statutory Audit. [*Ref* : Q5. (a) June '05 / Paper-11]

Q30. State the extent to which the statutory auditor of a company can rely on work performed by others. [*Ref* : Q8. (a) June '05 / Paper-11]

Q31. State the powers and duties of the Company auditor as regards disclosure qualification made by Branch Auditor in his report. [*Ref* : Q4. (c) June '04 / Paper-11]

Q32.(a) State briefly the scope and limitations of properiety audit.

(b) In company audit, it is customary for an auditor to obtain from his client a certificate in respect of stock. Briefly state —

(i) what are the objects of obtaining such a certificate.

(ii) whether it will absolve the auditor from his liability for inclusion of wrong figure of stock in Final Accounts. [*Ref* : Q6. (a), (b) June '04 / Paper-11]

Q33. Briefly furnish your views in connection with the following :

(i) You have not been paid the fees for audit of a company. You are asked by the Managing Director of the company to send him the papers relating to the tax computations of his own proprietorship business, the taxation work of which is looked after by you. The auditor wants to exercise his lien. [*Ref* : Q8. (a)(i) June '04 / Paper-11]

Q34. As an auditor of XYZ Ltd., state your views on the following points noticed by you in the course of audit.

(a) Interest charges and commitment fees on working capital loan taken during the period of construction stand capitalized in the accounts.

(b) The branch auditor has given a qualified report on the accounts of the branch. Discuss with reference to the powers and duties of the company auditor thereof.

(c) Company has changed the method of accounting from cash basis to accrual basis from the middle of the accounting from cash basis to accrual basis from the middle of the accounting year.

(d) Company has given a loan of rupees ten lakhs to a private limited company which is one of its subsidiaries. [*Ref* : Q3. Dec. '04 / Paper-11]

Q35. Should all public companies constitute an audit committee under the Companies Act 1956? Briefly state the provisions relating to an audit committee. [*Ref* : Q4. (a) Dec. '04 / Paper-11]

REVIEW AND AUDIT OF INTERNAL CONTROL SYSTEM

Descriptive & Practical Questions :

Q1. Why and how is internal audit necessary to the Management? [*Ref* : Q3. (a) Dec. '08 / Paper-11]

Q2. (a) Pre-Audit
(b) Propriety Audit [*Ref* : Q4. (a), (e) Dec. '07 / Paper-11]

Q3. Audit in Depth [*Ref* : Q6. (c) Dec. '06 / Paper-11]

Q4. State the objectives of internal control. [*Ref* : Q7. (b) Dec. '04 / Paper-11]

CARO

Descriptive & Practical Questions :

Q1. State the circumstances in which a private limited company is exempt from the applicability of the Companies (Auditor's Report) Order 2003 (CARO, 2003).
[*Ref* : Q2. (a) Dec. '08 / Paper-11]

Q2. What are the categories of companies which are specially exempted from the application of Companies (Auditors Report) Order, 2003 ? [*Ref* : Q8. (a) Dec. '07 / Paper-11]

Q3. Explain the major aspects of 'Propriety Audit' in the Companies (Auditor's Report) Order, 2003. [*Ref* : Q6. (b) June '06 / Paper-11]

Q4. Briefly list out the points of distinction between the Companies Auditor's Report Order, 2003 (CARO) and section 227 of the Companies Act is the order intended to limit the duties and responsibilities of the auditors. Are all private companies exempt from the applicability of the said order? [*Ref* : Q4. (b) Dec. '05 / Paper-11]

Q5. What would be your response as an auditor where the company does not have a regular procedure for the determination of damaged stores, raw materials and finished goods. However, the company has made an adhoc provision for possible losses on the basis of its past experience. [*Ref* : Q8. (c) June. '04 / Paper-11]t Report.
[*Ref* : Q7. June '04 / Paper-11]

INTERNAL CONTROL, NATURE AND SCOPE, REVIEW AND AUDIT OF I.C. SYSTEM

Descriptive & Practical Questions :

Q1. Outline the important aspects involved in improving the Auditor-Auditee Relationship.
[*Ref* : Q8. (a) Dec. '08 / Paper-11]

Q2. (a) Internal control can be classified into two broad categories. Briefly elucidate the areas of control.

(b) Enumerate six important points that can included in the internal control questionnaire regarding purchase of raw materials. [*Ref* : Q3. (b), (c) June '08 / Paper-11]

Q3. Briefly narrate the steps suggested by you for proper internal control over stores of a large manufacturing concern. [*Ref* : Q2. (b) Dec. '06 / Paper-11]

Q4. Use of flow charts by an auditor in understaning Internal Controls.
[*Ref* : Q3. (a) June '05 / Paper-11]

Q5. How would you audit 'Inventory Control and Management' as an Internal Auditor ?
[*Ref* : Q7. (b) June '05 / Paper-11]

AUDIT REPORT

Descriptive & Practical Questions :

Q1. Qualified Opinion. [*Ref* : Q5. (f) June '08 / Paper-11]

Q2. What are the aspect to be taken into account with regard to the follow up of the Audit Report? Also explain the need and necessity for the same. [*Ref* : Q4. (a) June '07 / Paper-11]

Q3. Summary Internal Audit Report. [*Ref* : Q5. (a) Dec. '05 / Paper-11]

Q4. "The report of an auditor should not be regarded as a guarantee nor as a certificate of insurance covering the quality of the accounting information which has been audited." — Discuss.
[*Ref* : Q4. (a) June '04 / Paper-11]

Q5. State the importance of and the various aspects to be noted in the context of follow-up of Audit Report. [*Ref* : Q7. June '04 / Paper-11]

INTERNATL AUDITING FUNCTION

Descriptive & Practical Questions :

Q1. Internal Check and Internal Auditing. [*Ref* : Q8. (b) Dec. '07 / Paper-11]

Q2. What is meant by "Audit Programme"? What are the aspects to be borne in mind in developing an Audit Programme by the Internal Auditor ? [*Ref* : Q4. (b) June '07 / Paper-11]

Q3. Why and how is Internal Audit necessary to the Management? [*Ref* : Q5. (2) June '07 / Paper-11]

Q4. As the Chief Internal Auditor of a large manufacturing company, what are the factors to be borne in mind in the process of selection of internal audit staff? [*Ref* : Q6. (a) Dec. '04 / Paper-11]

Q5. Should the Internal Audit Report contain deficiencies and irregularities only, or should cover scope for improvement also ? Discuss. [*Ref* : Q3. (b) June '06 / Paper-11]

AUDIT NOTES AND WORKING PAPERS

Descriptive & Practical Questions :

Q1. At the Annual General Meeting of Z & Co. Ltd., X was appointed as the auditor for the current year, in the place of Y, the auditor for the previous year. X requested Y to give the working papers of the previous year — state your views. [*Ref* : Q2. (b) Dec. '08 / Paper-11]

Q2. Explain the concept of auditors lien on :

(i) Working Papers [*Ref* : Q6. (a) (i) June '08 / Paper-11]

Q3. Briefly state the objects or aim of working papers. [*Ref* : Q2. (a) Dec. '06 / Paper-11]

INFORMATION SYSTEM AUDIT

Descriptive & Practical Questions :

Q1. (a) 'Walk through test' in EDP Audit.

(b) Flow charts. [*Ref* : Q4. (e), (f) Dec. '08 / Paper-11]

Q2. (a) Flow Chart
(b) Options in Establishing Computer Audit. [*Ref* : Q5. (b), (e) June '08 / Paper-11]

Q3. Auditing through the Computer. [*Ref* : Q4. (f) Dec. '07 / Paper-11]

Q4. What precautions are required to be taken in establishing a system of internal control for applications processed at an outside Computer Service Bureau?
[*Ref* : Q6. (b) Dec. '07 / Paper-11]

Q7. Briefly discuss the impact of Computerization on Audit Approach. Also state the difficulties, the auditor has to face at the time of Undertaking Audit. [*Ref* : Q7. (a) June '07 / Paper-11]

Q8. Briefly discuss about the approaches to computer auditing in achieving Audit objectives.
[*Ref* : Q3. (a) June '06 / Paper-11]

Q9. What are the conditions or events peculiar to an EDP environment that increase the risk of fraud and error ? [*Ref* : Q3. (a) Dec. '05 / Paper-11]

Q10. EDP application controls. [*Ref* : Q5. (a) Dec. '05 / Paper-11]

Q11. State the peculiarities that are normally associated with EDP Accounting System.
[*Ref* : Q5. (b) June '05 / Paper-11]

Q12. What are the types of internal controls likely to be found in a computer based system?
[*Ref* : Q4. (b) June '04 / Paper-11]

Q13. Mention the limitations of judgement sampling. [*Ref* : Q8. (c) Dec. '04 / Paper-11]

INTRODUCTION TO MANAGEMENT AUDIT

Descriptive & Practical Questions :

Q1. Mention briefly the behavioural problems involved in conducting Management Audit.
[*Ref* : Q4. (b) June '05 / Paper-11]

AUDITING

Comprehensive Objective -Type Questions :

Q1. (a) As an Auditor of X Ltd., a public company, furnish your views on the following, with brief reasons :
(i) The company valued at the year end its stock of goods ready for export at realizable value yielding a margin of 10% on cost.

(ii) The company requiring to maintain cost accounts and records contends that the statutory auditor need not report on the non-maintenance of cost records because the provisions of cost audit even not made applicable to it.

(iii) Capitalisation of machine erection staff's salary during the erection period and nontechnical staff's salary during the construction period.

(iv) The company was registyered with the Registrar of Companies on 1st October, 2003. The Board of Directors appointed Mr. G as the first Auditor on 4th December, 2003. A new Board of Directors which assumed charge on 30th January, 2004 removed him an appoints you as the statutory auditor.

(b) Briefly state the statutory violations or fallacies if any, in respect of the following :

(i) The Audit report of X Ltd., is signed by H, a partner of a partnership firm properly appointed as auditors. H is practicing in Sri Lanka.

(ii) Foreign branch of a company can be audited only by a foreign auditor.

[*Ref* : Q1. (a), (b) June '04 / Paper-11]

Q2. (a) Point out with brief reasons, statutory variations or in-consistencies in the following :

(i) In Kiran Alloys Ltd., 20% of the share capital is held by West Bengal State Government and 10% by Unit trust of India. M/s. Raj & Co. were re-appointed as statutory auditors by an ordinary resolution passed in the annual general meeting.

(ii) V.S. Ltd., appoints X & Co., a partnership firm as its statutory auditors. The firm has six partners, four of whom are practicing Chartered Accountants in India and two other partners are based at Singapore. The appointment has been made in firm's name.

(iii) Mr. Ram and Mr. Rahim were appointed as joint statutory auditors of X Ltd. Ram resigns. The Board of directors fills up the vacancy and appoints Mr. Wilson to fill the vacancy.

(iv) Mr. Ajoy Goopta was the statutory auditor of X Ltd. Before the expiry of his term as auditor, all the members of the company present in the extra-ordinary general meeting of the company, gave their approval for his removal.

(v) Mr. Bhar has accepted appointment as statutory auditor of thirty companies of which ten are private companies and the paid up share capital of twelve companies is rupees thirty lakhs or more.

(vi) Mr. Chandran is sought to be appointed as the auditor or a public limited company. His wife holds 10,000 equity shares in the company. [*Ref* : Q1. (a)-(f) Dec. '04 / Paper-11]

Q3. State with reasons whether each of the following statements is correct or not :

(a) Know-how relating to Manufacturing Process is added to cost to be depreciated annually.

(b) Accounting policies vary from enterprise to enterprise.

(c) Sweat shares are shares given to the Directors of the company at a discount or for consideration other than cash.

(d) In the absence of declaration of dividend, there is no need to provide for depreciation in the accounts of companies.

(e) Auditing in depth means checking all the transactions in minute details.

(f) Audit planning commences soon after the current year's audit is begun.

(g) The overall objectives and scope of an audit change drastically in an EDP environment.

(h) Operational audit is merely an extension on Internal Audit.

[*Ref* : Q2. (a)-(h) Dec. '04 / Paper-11]

Q4. L & Co., a firm of cahrtered accountants, consists of ten partners as under :

4 partners in whole time practice not having individual practice, 2 partners in whole time practice having individual practice, 3 partners who are are in part time employment and one partner who is in-full time employment elsewhere but attending to firm's affairs also. Can this firm act as the statutory auditor of the following companies :

(i) 20 private companies having authorized capital of more than Rupees 20 crores.

(ii) 195 public companies, of which 125 companies have an authorized capital of more than Rs. 30 lakhs, 25 amongst these 125 companies having a paid up capital of Rs. 25 lakhs. The rest of the 70 companies have a paid up capital of more than Rs. 1 crore.

For how many companies above can L & Co., act as statutory auditors?

[*Ref* : Q1. (a) June '05 / Paper-11]

Q5. (a) Indicate with brief reasons, statutory variations or violations in the following :

(i) Shareholders of Hide Ltd. pass a special resolution that the Branch Auditor of the company need not verify the stock and cash balance at the branches.

(ii) A newly formed company wants to maintain its Books of Accounts on mixed system of Accounting, Cash Basis for Receipts and Mercantile Basis for expenses.

(iii) A company wants to declare dividend at 16% by transferring 6% of the current profits to Reserves.

(b) Briefly furnish your views in connection with the following :

(i) Y Ltd. has a branch in a rural village, whose turnover for the year of audit is Rs. 3 lacs. The branch was not audited. The company wants the statutory auditor not to refer to this branch, pointing out that in the earlier year's there was no reference to the branch.

(ii) Bijoy Irons Ltd. has entered into a contract with Bharat Irons Ltd., for supply in December, 2005 of a cooling tower price at Rs. 80 lacs against cash payment. The company has not provided for the same has merely shown it in Notes to the Balance Sheet as on 31.03.2005.

(iii) Board of Directors refuse to allow access to the Director's Minutes Book to the Statutory auditor when he wants to refer to them. [*Ref* : Q2. (a), (b) June '05 / Paper-11]

Q6. Discuss with reasons, whether the following statements are true or false : (Answers without reasons will not be given any credit)

(i) The auditor of a company who attended the general meeting spoke first about the accounts of the company. Later he wanted to express his views about a matter relating to proposed expansion plans; the board of directors have the power to prevent him from expressing such views.

(ii) A company can refuse to provide access to its books of accounts to the company's auditor out side the normal working hours of the company, as it will inconvenience the accounts staff.

(iii) Companies can charge depreciation at rates lower than the rates prescribed in Schedule XIV of Companies Act, 1956.

(iv) Unpaid dividends can be kept by the company without any time limit.

(v) Reclassification of long-term investment as short-term investment is made at cost as on the date of such classification.

(vi) Audit is concerned with ethics of business.

(vii) Cost auditor has right of access to the financial books of the company.

[*Ref* : Q1. (a) Dec. '05 / Paper-11]

Q7. Briefly comment on the following :

(i) Mr. B. Chartered Accountant, is appointed as statutory auditor of G. Ltd., in which three Government companies jointly hold 35% of the subscribed share capital. The appointment of Mr. B has been through an ordinary resolution passed in the duly convened annual general meeting.

(ii) Since the appointment of Mr. V as a statutory auditor in an annual general meeting is held to be void ab-initio, the company hold another general meeting and appoints Mr. C through a special resolution.

(iii) Disclosure of a guarantee furnished as a security or cover :

(a) For an existing liability which is already recorded in books.

[*Ref* : Q1. (b) Dec. '05 / Paper-11]

Q8. Discuss with reasons, whether the following statements are 'true' of 'false' :
(Answer without reasons will not be given any credit)

(i) If the scope of audit work suffers limitations or restrictions, the auditor should give a qualified report.

(ii) Splitting of shares will not affect Earnings per share calculation.

(iii) Premanent differences under Income Tax Act may get reflected in the Company's accounts under deferred Tax assets or deferred Tax liabilities.

(iv) Accounting Standard 17 on "Segment Reporting" is mandatory in respect of business enterprises whose turnover for the accounting period exceeds Rs. 50 crores and/or any other condition.

(v) Retiring Auditor is always reappointed automatically.

(vi) Internal check is part and parcel of Internal control.

(vii) Dividends can be declared out of Balances in shares premium account.

(viii) Contingent Gains are recognized in financial statements. [*Ref* : Q1. (a) June '06 / Paper-11]

(b) (i) The auditor of a company required the sales officer, a senior officer, at company's branch Sales Depot, to furnish certain data essential for completion of statutory audit. Sales Officer, declines on the ground that he was not bound to furnish the same. Is the same correct?

(ii) The directors of a company object to the critical examination of a particular entry by the auditor, on the ground that the impunged entry is merely a "book entry", not having any bearing on the Company's results. Is the objection sustainable?

(iii) L & Co, is a firm of Chartered Acountants, consisting of five partners, of which one partner decides to discontinue private practice. Can this firm be appointed as statutory auditors of a company? [*Ref* : Q1. (a), (b) June '06 / Paper-11]

Q9. (a) Discuss with reasons, whether the following statements are 'TRUE' or 'FALSE' (Answer without reasons will not be given any credit) :

(i) In auditing, the concept of materiality can be judged only in the relative context.

(ii) All expenses/losses incurred during construction period should be capitalized, including abnormal losses.

(iii) The system of propriety audit is applied in respect of private companies.

(iv) A flow chart enables one to understand even a complicated system easily.

(v) Loss of major makets means that 'Going Concern' assumption is lost.

(vi) An auditor can place reliance on the work of an expert.

(vii) While designing audit sample, auditor should consider only on the specific audit objectives and none else.

(viii) For calculating minority interest there is a need to distinguish between capital and revenue profits of the subsidiary.

(b) (i) XLW has a branch office in Malaysia. The company has appointed Mr. X, who is qualified to audit accounts as per Malaysian laws. Mr. Z, the statutory auditor objects to the same, contending that he alone can audit the branch office accounts. Discuss. Can Mr. Z visit the branch?

(ii) The Share capital of X Ltd. are held by the following entities :

	% of Authorised Share Capital	% of Subscribed Share Capital
Central Government	10%	8%
State Government	8%	6%
Y Ltd. (Government Company)	10%	8%
Canara Bank (Nationalised Bank)	3%	2%

A director contends that the appointment of the statutory auditor of the company can be done only by a special resolution and not by ordinary resolution. Discuss the correct position. [*Ref* : Q1. (a), (b) Dec. '06 / Paper-11]

Q10.(a) Discuss with reasons, whether the following statements are 'true' or 'false'. (Answer without reasons will not be given any credit) :

(i) Shareholders, by a mojority vot3e, have authorized the Board of Directors to kep the books of accounts of the company in its Administrative Office, as against the earlier practice of keeping them in the Registered Office. No Government authority has been informed about this. Company contends that this practice is in order.

(ii) As per Indian GAAP, where the company has obtained credit limits from a bank but has not availed them, the details of unused credit lines ned not be disclosed in the financial statements.

(iii) Where the accounts of the company do not present a 'true and fair' view, the auditor of the company can give a qualified opinion.

(iv) Audit Committee has a two-fold relationship and has therefore, to react only with Management and Internal Auditor.

(v) EDP Audit is the process of auditing in a computerized environment which changes the fundamental nature of auditing.

(vi) Where, at an AGM, no auditors are appointed or reappointed, the vacancy will be filled in the next Annual General Meeting.

(b) Z & Co., are proposed to be appointed as auditors of ABC Ltd. whose authorized capital is Rs. 50 lacs and paid up capital is Rs. 25 lacs. Z & Co. consists of two partners M and N. M is in part time employment with a local college for teaching the subject "Auditing". The number of audits held currently are :

	No. of companies	(Rupees in lacs)	
		Authorised Capital	Paid up Capital
M (individual)	10	50	25
M (individual)	10	30	20
N (individual)	10	40	25
Z & Co.	9	60	20

Can the firm Z & Co. be appointed as Auditors of ABC Ltd.?

Will the answer be different if the paid up capital of ABC Ltd. is Rs. 20 lacs.

(c) S Ltd. is the subsidiary of H Ltd. Ram owes S Ltd. Rs. 10000, Laxman has given guarantee for the same. Can Laxman be appointed as statutory auditor of H Ltd.? Give reasons for your answer. [*Ref* : Q1. (a), (b) June '07 / Paper-11]

11. (a) Discuss with reasons, whether the following statements are 'true' or 'false'. (Answer without reasons will not be given any credit) :

(i) A shareholder wishing to nominate another eligible person as Auditor of the Company in the place of existing auditor, can do so by giving ordinary notice to the company and sending copy to the existing auditor.

(ii) For an internal audit function to be effective, the same must be independent of the activities to be audited.

(iii) Non-adjusting events of a material nature, need not be adjusted in accounts and can be disclosed by way of explanatory notes to the accounts.

(iv) A company can appoint its Cost Auditor an its Annual General Meeting.

(v) Working papers of the auditor are to be returned to his client after audit since these are the property of the client.

(vi) Compliance procedures adopted by auditors are in relation to Internal Control System.

(vii) Efficency audit examines whether the transactions have been done in conformity with established rules, principles and some established standards.

(viii) Auditors' primary job is to detect errors and frauds.

(ix) A and B are joint auditors of XYZ Ltd. During the year under audit A died. The Board of Directors appointed C in place of A.

(b) Explain the necessity and method of presentation of summary reprot to the top management by the internal auditor of a company. [*Ref* : Q1. (a), (b) Dec. '07 / Paper-11]

12. (a) Discuss with reasons, whether the following statements are 'true' or 'false'.
(Answer without reasons will not be eligible for any mark) :
   (i) Remuneration paid or payable to the auditor may be stated in total in the profit and loss account of the company.
   (ii) Shareholders of a company have right of acces to books of account of the company for inspection.
   (iii) Companies, on grounds of confidentiality, may decline to provide information required by the auditor.
   (iv) Propriety audit is applicable to all limited companies in all respects.
   (v) Adverse key financial ratios mean that going concern concept is lost.
   (vi) Accounting Standard—I requires all significant accounting policies to be disclosed normally in one place and as a part of the financial statements.
   (vii) The internal auditor is one who has already proved his capabilities as a "Staff Specialist Function".

(b) Discuss whether "Secret reserves can remain no longer secret".

[*Ref* : Q1. (a), (b) June '08 / Paper-11]

13. (a) Discuss with reasons, whether the following statements are 'true' or 'false'.
(More conclusion will not be sufficient) :
   (i) Where Joint Auditors are appointed, a Joint Auditor is responsible only for the work allotted to him.
   (ii) A committee appointed by the Board of Directors should submit to the Board, a Report on the material changes and commitments, if any, affecting the financial position of the Company, occurring after the Balance Sheet date, such Report need not be laid before the Company in General Meeting.
   (iii) As per Indian GAPP, R & D costs can be capitalized unconditionally.
   (iv) Materiality is an important and relevant consideration for an auditor.
   (v) The main objective of financial audit and cost audit is different and distinct.
   (vi) The Auditor is responsible for preparation of financial statements of limited companies.
   (vii) The overall objective and scope of audit do not change in EDP audit.

(b) As the statutory auditor of a limited company, how will you deal with the following?
   (i) A customer owed the company Rs. 2 lacs. In view of his difficult financial position, the company took delivery of a motor car belonging to him, on 27.2.2008. The market value of the car as on that date is not available now, as improvements have been made. Till the date of signing of the financial statements, the car has not been registered in the company's name. The company has been using the car for official purposes from 1st March, 2008.
   (ii) The company has adjusted the surplus arising on revaluation of fixed assets against brought forward business losses. [*Ref* : Q1. (a), (b) Dec. '08 / Paper-11]