

Test Series: February, 2012

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory.

*Attempt any **five** questions from the Rest.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) In the course of the audit of Ram Ltd., the audit manager of XYZ & Co. observed that Ram Ltd. has outsourced certain activities to an outsourcing agency. As the engagement partner guide the audit manager in the assessment of services provided by the outsourcing agency in relation to the audit. (6 Marks)
- (b) In the course of audit of P Ltd., the audit team is not sure of the possible source of misstatements in the financial statements. As the audit manager identify the sources of misstatements. (4 Marks)
- (c) While auditing A Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements? (6 Marks)
- (d) The management of Z Ltd. request you not to seek confirmation from its debtors. As the auditor of Z Ltd., what can be an appropriate response? (4 Marks)
2. Comment on the following with reference to the Chartered Accountants' Act, 1949 and schedules thereto:
 - (a) Mr. Moon is the auditor of M/s Sun Ltd., which has a turnover of ₹ 100 crores. The audit fee for the year is fixed at ₹ 25 lakhs. During the year the company offers Mr. Moon an assignment of Management Consultancy for a remuneration of ₹ 50 lakhs. (4 Marks)
 - (b) A firm of Chartered Accountants RJ & Co. was appointed by a company to evaluate the cost of products manufactured by it for its information system. One of the partners of the firm RJ & Co., was a non-executive Director of the Company. (4 Marks)
 - (c) Mr. A, Chartered Accountant in practice as a Sole Proprietor has an office near Egmore. Due to increase in professional work, he opens another office in Tambaram which is approximately 30 kms away from his existing office. For running the new office, he has employed a retired Income Tax Officer. (4 Marks)
 - (d) A Partner of a firm of Chartered Accountants during a T.V. interview handed over a bio-data of his firm to the Chairperson. Such bio-data detailed the standing with International firm and also his achievements and recognition as an expert in the field of Taxation. The bio-data was read out during the said interview. (4 Marks)

3. (a) 'A' Ltd. having fixed assets at 10 different locations, in total valuing ₹ 5,000 crores, have been physically verifying the assets every third year. Auditor insists for yearly verification of the same – Comment. (8 Marks)
- (b) 'B' Ltd. manufacturing cycles has 150 employees. Auditors observe that it has not registered itself for Provident Fund and ESI purposes, not remitting the dues in time and auditor insists for qualifying the Report. Management contends that in the absence of registration it can't be construed that the company is in default of statutory dues on regular basis – Comment. (8 Marks)
4. (a) The Company ABC Ltd. has passed a Special Resolution at the Annual General Meeting held on 30-09-11 for buy back of shares to the extent of ₹ 12, 50,000.

Summary of Financial Position of ABC Ltd. as on 31-03-11

	₹		₹
Subscribed & Paid up Share Capital	25,00,000	Fixed Assets	40,00,000
Reserves and Surplus	20,00,000	Current Assets	12,00,000
Current Liabilities	<u>15,00,000</u>	Loans & Advances	<u>8,00,000</u>
	<u>60,00,000</u>		<u>60,00,000</u>

Comment whether the action of the Company is valid. (8 Marks)

- (b) PQR Private Ltd. has prepared the financial statements for the year ended 31-03-11 and submitted the same to you for audit. Comment whether sundry debtors and loans and advances have been disclosed as required under Schedule VI of the Companies' Act, 1956.

Balance Sheet of PQR Private Ltd. as on 31-03-11

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Authorised 1,00,000 Equity Shares of ₹ 10/- each	<u>10,00,000</u>	Gross Block	25,00,000
		Less: Depreciation	
Subscribed & Paid up 1,00,000 Equity Shares of ₹ 10/- each	10,00,000	Current Assets	
Reserves & surplus		Cash & Bank	2,00,000
Profit & Loss A/c	1,50,000	Sundry Debtors	7,00,000
Secured Loans		Loans & Advances	2,50,000
Indian Bank (against hypothecation of Fixed Assets)	20,00,000		

Current Liabilities & Provisions	5,00,000		
Creditors for Trade	<u>36,50,000</u>		<u>36,50,000</u>

(8 Marks)

5. (a) (i) The auditor of SS Ltd. accepted the gratuity liability valuation based on the certificate issued by a qualified actuary. However, the auditor noticed that the retirement age adopted is 65 years as against the existing retirement age of 60 years. The company is considering a proposal to increase the retirement age.

(4 Marks)

- (ii) The loss as per Profit and Loss Account of a Ltd. Company is converted in to profits due to crediting of time barred liability relating to the purchase of Plant & Machinery. Directors propose to declare dividend out of such profits – Comment.

(4 Marks)

- (b) You have been approached by an organization to suggest a system where the user wants to access data immediately. What would be your suggestions if they want to process it after validation?

(8 Marks)

6. (a) (i) ARG Bank has granted loans to the extent of ₹1500 crores. 10 parties have not been repaying the principal amount and servicing the interest for more than 36 months. During the year ended 31-3-11, it was found that two of the ten parties have paid interest partly and bank has accounted full amount of interest accrued as income in respect of two parties – Comment.

(4 Marks)

- (ii) ARG Bank has paid money on the drafts issued by other branches. But later on it was found that this amount is shown under suspense account – Comment.

(4 Marks)

- (b) AB & Co., Chartered Accountants, was appointed to compile financial statements of Y & Co., a firm for Tax Audit purposes. During the course of work, the audit firm has noticed that the stock valuation was grossly understated. When it was pointed out, the management told that AB & Co. are not the statutory auditors of the company and need not be concerned about valuation of stock – Comment.

(8 Marks)

7. Write short note on any four of the following:

- (a) Other Misconduct
- (b) Rolling Statement
- (c) Corporate Governance
- (d) Enquiry
- (e) Reconciliation of cost and financial records.

(4 × 4 = 16 Marks)