MAY 2007

PE- II
GROUP I PAPER-2
AUDITING

Roll No..............................

Total No. of Questions—8]

[Total No. of Printed Pages—7

Time Allowed—3 Hours

Maximum Marks—100

FB

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 Questions Nos. **1** and **2** and **four** from the rest.

Marks

1. As an auditor, comment on the following :

(a) You are a Principal Auditor of Sri Company Limited which has three branches the accounts of which are subject to audit by qualified branch auditors. One of the branch auditors qualified his report for non-provision of doubtful debts which he considered to be material for the company as a whole. Subsequent to their reporting, but before you could sign the audit report on the accounts of the company as a whole, the management informed you that the debt under the subject-matter of qualification in Branch Auditor's report had been fully recovered. 5

(b) A Ltd. is a holding company of B Ltd. B Ltd. is going to start a new project estimated to cost Rs. 20 crores. For this A Ltd. made an investment of Rs. 10 crores in the shares of B Ltd. by borrowing the same from financial institution @ 10% p.a. As on 31st March, 2005 the project was not completed. The Directors of A LTD. want to capitalise the interest upto 31st March, 2005 on borrowings amounting to Rs. 1 crore and add it to the cost of investments. 5

(c) A contractor entered into a contract for building roads for Rs. 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be Rs. 2.40 crores. The accountant transferred Rs. 0.24 crores i.e., 60% of total loss of Rs. 0.40 crores to Profit and Loss account in the current year. 5

(d) Finished goods costing worth Rs. 10 lacs were damaged due to floods in July, 2004. These goods were included in the closing stock as on March 31, 2005 5

Marks

at an estimated realisable value of Rs. 4 lacs. These goods, ultimately, could be sold for Rs. 3 lacs only in the accounting year 2005-06. The difference of Rs. 1 lac was debited to prior period expenditure in the accounting year 2005-06.

2. (a) Give your comments on the following :

(i) M/s A & Co., Chartered Accountants, were appointed first auditors of KLM Ltd. by its Board of Directors. The shareholders of the company removed M/s A & Co. before the expiry of their term, by an ordinary resolution in an Extraordinary General Meeting and appointed another auditors in their place. M/s A & Co. have objected that without prior approval of Central Government their removal is illegal. 4

(ii) The Articles of Association of ABC Ltd. do not authorise the company to buy back its own shares. However, a special resolution has been passed in general meeting of the company authorising the buy-back. The Directors of the company are of the opinion that even without authority in the Articles of Association the buy-back is possible due to special resolution passed in the general meeting authorising the buy-back. 4

(b) W Ltd. approached SB & Co. a leading firm of Chartered Accountants having two partners S & B to conduct the audit for the year ended on 31st March, 2006. Mr. B is holding 500 equity shares @ Rs. 50 each in W Ltd. Can SB & Co. accept audit of W Ltd. ? 4

(c) In a medium size trading organisation the accountant was given additional responsibility of making recoveries from the debtors. On one occasion, when an insurance claim of Rs. 25,000 was received, he credited the same to the account of a debtor and misappropriated the cash which he had recovered from the said debtor. Pinpoint weaknesses in the internal control system which led to this situation. 4

3. (a) Explain audit risk by reference to its components. 8

(b) In case of government companies, Comptroller and Auditor General of India has a right to issue directions to auditor and do supplementary audit. Explain. 8

4. How will you verify/vouch the following ?

(a) Loss of stock by theft. 4

Marks

	(b) Stock lying with subcontractor for fabrication.	4
	(c) Sale of empties.	4
	(d) Expenditure for advertisement in newspaper.	4
5.	(a) Give four examples of accounting estimates.	4
	(b) State any four important elements of input control in processing of data in a computerised accounting system.	4
	(c) What are the disadvantages of the use of an audit programme ?	4
	(d) Mention any four financial indications which may indicate the risk that continuance as a going concern may be questionable.	4
6.	Define a Comprehensive Audit Programme for auditing the receipt of fees from the students of a school run by a Charitable Trust.	16
7.	(a) (i) What is a qualified audit report ?	3
	(ii) Under what circumstances a qualified audit report is issued ?	5
	(b) On what companies the companies (Auditor's Report) Order, 2003 is applicable and what companies are not covered by it ?	8
8.	Write short notes on the following :	
	(a) Fundamental Accounting Assumptions	4
	(b) Provisions versus Specific Reserves	4
	(c) Sufficient Appropriate Audit Evidence	4
	(d) Auditor's Independence.	4

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PR

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Answer Question Nos. **1** and **2** and any **four** questions from the rest.

Marks

1. As an Auditor, comment on the following situations/statements :

(a) SMT Enterprises entered into a contract for sale of its goods worth Rs. 24 lacs with ST Ltd. The goods were inspected, approved and finalised by the inspection team of ST Ltd. ST Ltd. made the whole payment of Rs. 24 lacs. However, it requested SMT Enterprises to dispatch the goods in six equal monthly instalments from October, 2005 to March, 2006. In the month of January, 2006, due to natural calamity, ST Ltd. informed SMT Enterprises to stop dispatches of the remaining three instalments until further notice. At the time of finalising its accounts for the financial year 2005-06, SMT Enterprises booked sales amounting to Rs. 12 lacs and showed remaining Rs. 12 lacs as Advance Against Sales. 5

(b) X Ltd. had a major break down in its plant in the month of February, 2006. In the month of March, 2006 it entered into an agreement with an engineering firm for the purpose of repairing its plant for a consideration of Rs. 180 lacs. The engineering firm started the repairing work in the month of April, 2006 and completed it in the same month. X Ltd. made the provision for said expenditure on repairs in its books of account for the financial year 2005-06 on the plea that the event of break down leading to repair expenditure had taken place in the financial year 2005-06, binding contract for repairs was entered into during the financial year 2005-06 and repair work was also completed before the financial statements were approved by the Board of Directors of the company. 5

Marks

(c) The management tells you that WIP is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening and closing WIP would be more or less the same. 4

(d) JKT Ltd. having Rs. 40 lacs paid up capital, Rs. 9.50 lacs reserves and turnover of last three consecutive financial years, immediately preceding the financial year under audit, being Rs. 4.90 crores, Rs. 4.50 crores and Rs. 6 crores, but does not have any internal audit system. In view of the management, internal audit system is not mandatory. 4

2. (a) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director. 4

(b) PBS & Associates, a firm of Chartered Accountants, has three partners P, B and S. The firm is already having audit of 60 companies, which includes 2 branch audits of a company. The firm is offered 3 company audits, out of which one is a private company, other is a foreign company and the third one is a public company. Decide and advise whether PBS & Associates will exceed the ceiling prescribed under Section 224(1B) by accepting the above audit assignments ? 4

(c) RT Ltd. received Rs. 50 lacs as grant from the State Government towards the part cost of a specific machinery. The company credited the above sum of Rs. 50 lacs as income in its Profit and Loss Account for the year. What are your views on the accounting treatment of the above receipt of Rs. 50 lacs ? 4

(d) Audit of expenditure is one of the major components of Government Audit. In this context, write in brief what do you understand by : 6

(i) Audit against Rules and Orders

(ii) Audit of Sanctions

(iii) Propriety Audit ?

3. (a) What are the basic principles governing an audit as laid down in AAS 1 ? Explain in brief. 10

(b) What is meant by external confirmation ? Mention four situations where external confirmation may be useful for auditors. 6

Marks

4. How will you vouch and/or verify the following ?

(a) Goods sent on Consignment 4

(b) Expenditure on Foreign Travelling 4

(c) Re-issue of Forfeited Shares 4

(d) Premium paid for insurance of a Motor car. 4

5. (a) What special steps are involved in audit of a Cinema Hall ? 10

(b) What do you understand by Internal checks ? 6

6. (a) Explain the scope paragraph of Auditors Report. 8

(b) How the work of an expert should be evaluated before accepting the same as an Audit evidence ? 8

7. (a) While conducting the audit of accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply decreased in comparison to the previous year. State the steps you would take to satisfy yourself. 12

(b) Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term ? 4

8. Write short notes on the following :

(a) Audit Programme 4

(b) Current Investments 4

(c) First-in First-out (FIFO) method 4

(d) Accounting Estimates. 4

MAY 2006

PE- II
GROUP-I PAPER-2
AUDITING

Roll No..............................

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UN

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Answer Question nos. **1** and **2** and any **four** questions from the rest.

Marks

1. As an auditor, comment on the following situations/statements :
   - (a) Travelling expenses of Rs. 2.25 lakhs shown in Profit and Loss Account of X Ltd., including a sum of Rs. 1.10 lakhs spent by a Director on his foreign travel for Company's business accompanied by his mother for her medical treatment. 5
   - (b) X Ltd., to whom Companies (Auditor's Report) Order, 2003 is applicable, has issued 9% Debenture of Rs. 5 crores, redeemable after 5 years and used the proceeds of issue for payment of Sundry Creditors and other Current Liabilities of Rs. 2.80 crores. 5
   - (c) The surplus arising from sale of investment was set-off against a non-recurring loss and was not disclosed separately. 5
   - (d) The register of members of AP Ltd. has not been written up-to-date and as a result, the balances in the register do not agree with the amount of issued Share Capital. 5

2. Give your comments on the following :
   - (a) Mr. X, a Director of M/s KP Private Ltd., is also a Director of another company viz-M/s GP Private Ltd., which has not filed the Annual accounts and Annual return for last three years 2002-03 to 2004-05. Mr. X is of the opinion that he is not disqualified u/s 274(1)(g) of the Companies Act, 1956, and auditor should not mention disqualification remark in his Audit report. 5
   - (b) Mr. Aditya, a practising Chartered Accountant is appointed as a "Tax Consultant" of ABC Ltd. in which his father Mr. Singhvi is the Managing Director. 4

UN P. T. O.

Marks

(c) You have been appointed the Sole auditor of a Company where you were one of the joint auditors for the immediately preceding year and the said joint auditors is not re-appointed. 4

(d) No Annual General Meeting (AGM) was held for the year ended 31st March, 2005, in XYZ Ltd., Ninu is the auditor for the previous year, whether she is continuing to hold office for current year or not. 3

3. (a) Why are Computer Aided Audit Techniques (CAAT) required in EDP audit ? What are the advantages of CAATs ? 10

(b) State the different types of Analytical Review carried out in verification of inventories. 6

4. How will you verify/vouch the following ?

(a) Purchase of quoted investment. 4

(b) Discounted bill receivable dishonoured. 4

(c) Amount due to subsidiary companies. 4

(d) Purchase return. 4

5. (a) What are the special considerations in an audit of a Limited Company ? 8

(b) Explain propriety audit in the context of Government Audit. 8

6. (a) What are the special steps involved in framing a system of Internal check ? 8

(b) How the audit is advantageous to Sole Trader ? 8

7. (a) What are the meaning and purposes of Sampling ? Explain in the light of AAS-15, Audit Sampling. 8

(b) State briefly Audit Procedures and Audit Techniques. 8

8. Write short notes on the following :

(a) Statutory Report of a Public Company under section 165(4) 4

(b) Scrutiny of General Ledger. 4

(c) Initial Engagements. 4

(d) General principles of Verification of Assets. 4

PE- II
GROUP-I PAPER-2
AUDITING

Roll No...............................

NOV 2005

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Time Allowed—3 Hours Maximum Marks—100

LG

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Answer Question Nos. **1** and **2** and any **four** from the rest.

Marks

1. As an auditor, comment on the following :

(a) M/s Bonafide Ltd. has taken a Group Gratuity Policy from an Insurance Company. During accounting year 2004-05 it received a communication from the said Insurance Company informing that premium amount for the accounting year 2003-04 was less charged by Rs. 75 lacs on account of arithmetical error on the part of Insurance Company. M/s Bonafide Ltd. paid the said sum of Rs. 75 lacs during the accounting year 2004-05 by debiting the same to Prior Period Expenses. 5

(b) As on 31.3.2005, there was a claim for damage from one of the customers against the company engaged in selling of accounting software for an alleged failure to provide satisfactory after-sales services in relation to the software purchased from it. Before finalisation of the accounts for the year ended 31.3.2005 (the accounts were finalised on 14th June, 2005), the company won the case and had no liability whatsoever in this regard. The company has made a provision for this contingent liability in its accounts for the year ended 31.3.2005, which, it says, will be reversed in the next year. 5

(c) Mr. A was appointed auditor of AAS Ltd. by Board to fill the casual vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The Board filled this vacancy by appointing you through duly passed Board resolution. 4

Marks

(d) SK Ltd. has fully computerised its accounting operations. The stock records are maintained up to date with timely entries passed for all receipts and issues. The company has hired a professional security agency, which monitors and implements a close vigilance over the operations of the company. As such, the company had dispensed with the practice of taking stock of their inventories at the year end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations. 4

2. (a) Give your comments on the following :

(i) The auditors of ABC Ltd. issued a qualified opinion about the truth and fairness of the accounts of the company for the year ended 31.3.2005. They typed out the matters of qualifications in a bold font so as to invite the attention of the readers to them. The Board objected to it and required them to be typed out in the same normal font as other paras of the report appear. 5

(ii) Auditors of M/s Fortune India (P) Ltd. were changed for the accounting year 2004-05. The closing stock of the company as on 31.3.2004 amounting to Rs. 100 lacs continued as it is and became closing stock as on 31.3.2005. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs. 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor. 5

(b) What are the obvious assertions in the following items appearing in the Financial Statements ?

(i) Profit and Loss Statement 2

Travelling Expenditure Rs. 50,000

(ii) Balance Sheet 2

Debtors Rs. 2,00,000

(c) Briefly explain the following :

(i) Control Risk 2

(ii) Management Representation. 2

Marks

3. (a) Under what circumstances change in accounting policies is permissible ? 8

(b) What are the inherent limitations of audit ? 8

4. How will you verify/vouch the following ?

(a) Sales Commission Expenditure. 4

(b) Stock lying with Third Party. 4

(c) Purchase of Motor car. 4

(d) Sales Return. 4

5. (a) What are the powers of C & AG in relation to the accounts of Government Companies audited by the statutory auditors ? 8

(b) Is there any change in audit approach in the audit of computerised accounts as compared to audit of manual accounts ? 8

6. (a) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations. 12

(b) What special steps will you take into consideration in auditing the receipts from entry fees of an amusement park ? Mention any four points specific to the issue. 4

7. (a) State the matters to be specified in Auditor's Report in terms of provisions of Section 227(3) of the Companies Act, 1956. 8

(b) What are the reporting requirements in Companies (Auditor's Report) Order, 2003 in respect of money raised by public issues ? 8

8. Write short notes on the following :

(a) General Purpose Financial Statements. 4

(b) Permanent Audit File. 4

(c) Going Concern Concept. 4

(d) Vouching. 4

MAY 2005

PE- II
GROUP-I PAPER-2,
AUDITING

Roll No...............................

Total No. of Questions—8]

[Total No. of Printed Pages—6

Time Allowed—3 Hours

Maximum Marks—100

PD

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Answer Question Nos. **1** and **2** and any **four** from the rest.

Marks

1. As an auditor, comment on the following situations/statements :

(a) Z Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2004 : 4

	Amount Rs. in lacs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The Company had an accumulated loss of Rs. 40 lacs on the same date, which it has disclosed under the head "Profit and Loss Account" on the assets side of the Balance Sheet.

(b) A Ltd. has its Registered Office at New Delhi. During the current accounting year, it has shifted its Corporate Head Office to Indore though it has retained the Registered Office at New Delhi. The Managing Director of the Company wants to shift its books of account to Indore from New Delhi, as he feels that there is no legal bar in doing so. 4

Marks

(c) The Board of Directors of a Company have filed a complaint with the Institute of Chartered Accountants of India against their statutory auditors for their failing to attend the Annual General Meeting of the Shareholders in which audited accounts were considered. 5

(d) The auditor of a Company wanted to see the minutes book of Directors meetings. The Chairman of the company refused for the same on the ground that matters of confidential nature were contained therein. 5

2. (a) Give your comments on the following :

(i) The Central Government has appointed Mr. Sushil, a retired Finance Director of a reputed company, a non-practising member of ICAI, as a special auditor of MM Ltd., on the ground that the company was not being managed on sound business principles. Mr. Ajay, MD of MM Ltd. feels, that the appointment of Mr. Sushil is not valid as he does not hold a certificate of practice. 5

(ii) CC Ltd., a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses. 5

(b) What categories of Companies are specifically exempted from the application of Companies (Auditor's Report) order, 2003 ? 8

3. (a) With reference to Government Audit, what do you understand by "Audit of Commercial Accounts "? 8

(b) What do you understand by :

(i) Auditing around the computer 4

(ii) Auditing through the computer. 4

Marks

4. (a) Explain the term "Auditor's Lien". 8

   (b) Discuss the concept of "True and Fair". 8

5. How will you vouch/verify the following :

   (a) Advertisement expenses 4

   (b) Goodwill 4

   (c) Capital work-in-progress 4

   (d) Wages paid to seasonal labourer. 4

6. (a) What special steps will you take into consideration in auc ne accounts of a hotel. 10

   (b) Medical Council of India organised a three-day International Conference of Doctors in Delhi. You are asked to audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. Mention any six points, peculiar to the situation, which you will like to include in your audit programme. 6

7. (a) Explain with reference to the relevant Auditing and Assurance standards :

   (i) Inherent Risk 5

   (ii) Appropriateness of going concern assumption 5

   (b) State the matters to be considered for acquiring knowledge of the business of the client by the auditor. 6

8. Write short notes on the following :

   (a) Surprise check 4

   (b) Independence of Internal Auditor 4

   (c) Cost Audit 4

   (d) Capital Redemption Reserve. 4

NOV 2004

PE- II
GROUP-I PAPER-2.
AUDITING

Roll No...............................

Total No. of Questions—8]

[Total No. of Printed Pages—5

Time Allowed—3 Hours

Maximum Marks—100

AS

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Answer Question Nos. **1** and **2** and any **four** questions from the rest.

Marks

1. As an auditor, comment on the following situations/statements :

(a) You are the Auditor of a Manufacturing Company, whose year ends on 31st March. An event occurred after the year ended, but before you complete the audit. The audit report issued by you is dated 20th July. The Sales Ledger balance at 31st March was Rs. 95,000. By 20th July Rs. 65,000 only had been received against this amount as full and final payment. 4

(b) AAS Ltd. is procuring the packing materials from M/s XY and Co., a partnership firm consisting of Mr. X and Mr. Y. Mr. Y is the Managing Director of AAS Ltd. The total value of purchases made from XY and Co. by AAS Ltd. during the year 2003-04 had been Rs. 38 lakhs. 4

(c) X Ltd. is good in profits, but suffers temporarily in liquidity. It proposes to declare dividend of 10% in annual general meeting, but the Board proposes to defer payment of dividend by two months from the date of annual general meeting by getting a resolution passed in AGM. 4

(d) A Computerised Machinery was purchased by two companies jointly. The price was shared equally. It was also agreed that they would use the machinery equally and show in their Balance Sheets, 50% of the value of the machinery and charge 50% of the depreciation in their respective books of accounts. 4

Marks

2. Give your comments on the following :

(a) The auditor of a limited company has given a clean report on the financial statement on the basis of Xerox copies of the books of accounts, Vouchers and other records which were taken away by the Income-tax Department in search under section 132 of the I.T. Act, 1961. 5

(b) E and S were appointed as Joint Auditors of X and Y Ltd. What will be their professional responsibility in a case where the company has cleverly concealed certain transactions that escaped the notice of both the Auditors. 5

(c) Aakansha is a member of the Institute of Chartered Accountants of England and Wales. Is she qualified to be appointed as auditor of Indian Companies ? 2

(d) Preksha, a member of the ICAI, does not hold a Certificate of practice. Is her appointment as an auditor valid ? 4

(e) 'B' owes Rs. 1001 to 'C' Ltd., of which he is an auditor. Is his appointment valid ? Will it make any difference, if the advance is taken for meeting-out travelling expenses ? 4

3. (a) What are the auditors' responsibilities for detection of Frauds and Errors ? 8

(b) Explain the various types of companies under Companies (Auditor's Report) Order, 2003. (CARO). 8

4. (a) Describe the salient features of Financial Administration of Local Bodies. 8

(b) What are accounting estimates according to Auditing and Assurance Standards–18 (AAS–18) ? Give examples. 8

5. How will you vouch and/or verify the following ?

(a) Personal expenses of directors met by the company. 4

(b) Preliminary expenses. 4

(c) Patents. 4

(d) Advances given to suppliers. 4

6. What are the special steps involved in conducting the audit of an Educational Institution ? 16

AS Marks

7. (a) While conducting the audit of the accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply risen in comparison to the previous year. 12

   State the steps you would take to satisfy yourself.

   (b) State briefly the qualities of Auditors. 4

8. Write short notes on the following :

   (a) Analytical review. 4

   (b) Audit enquiry under Section 227(1A). 4

   (c) Disclosure requirements of bank balances of a limited company. 4

   (d) Audit trail in a computerised accounting environment. 4

MAY 2·

PE- II
GROUP I PAPER-2,
AUDITING

Roll No...............................

Total No. of Questions—8] [Total No. of Printed Pages—6

Time Allowed—3 Hours Maximum Marks—100

AG

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Answer questions No. 1 and 2 and any four questions from the rest.

Marks

1. As an auditor, comment on the following situations/statements :

   (a) The method of depreciation on Plant and Machinery is to be changed from SLM basis to WDV basis from the current year. 4

   (b) The Finance Manager of Belt Ltd. is of the opinion that before declaration of dividends it would not be necessary to set off the carried forward amount of debit balance in the Profit and Loss Account against current revenue profit but the same could be set-off against existing revaluation reserve. Do you agree ? 5

   (c) Ganga-Kaveri Project Ltd. was incorporated on 1.7.2002. During the year ended 31.3.2003 there was no manufacturing or trading activity except raising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore the Chief Accountant of the company contends that for the relevant year there was no need to prepare a statement of profit or loss or any other statement except a Balance Sheet as at 31.3.2003. 5

 Marks

(d) The company has sent semi-finished goods to third parties for further processing which is lying with them at the end of the year. 4

2. Give your comments on the following :

(a) PQR & Co. a firm of Chartered Accountants has three partners, P, Q and R; P is also in whole time employment elsewhere. The firm is already holding audit of 40 companies including audit of one foreign company. The firm is offered the audit of Z Ltd. and its 20 branches. 5

(b) It is not essential to verify the sale proceeds of scrap which did not have a significant value if the company had a good accounting and costing systems. 4

(c) Nene and Sane Associates, Chartered Accountants in practice have been appointed as statutory Auditor of Do Good Ltd. for the accounting year 2003-04. Mr. Nene holds 200 equity shares of DDA Ltd. a subsidiary company of Do Good Ltd. 5

(d) White Star Ltd. was incorporated on 1.8.2003 and Mr. T who is related to the Chairman of the company appointed as auditor by the Board of Directors in their meeting on 4.9.2003. 4

3. (a) In performing an audit of financial statements, the auditor should have or obtain knowledge of the business. Explain in the light of SAP-20. 8

(b) What is an Audit Trail ? Briefly state the special audit techniques using the computer as an audit tool. 8

4. (a) Explain the important requirements which should be kept in mind to establish or evaluate a system of internal control for application process at Service Bureau. 10

(b) Mention any Twelve title of statements on Standard Auditing Practices (SAPs) and the date from which it comes into force. 6

 Marks

5. Draft an illustrative Audit Report u/s 227 of the Companies Act, 1956, with a few qualifications. Annexture u/s 227(4A) is not required. 16

6. How will you vouch and/or verify the following ?

   (a) Contingent Liabilities 4

   (b) Excise Duty 4

   (c) Recovery of Bad-debts written off 4

   (d) Endowment Policies. 4

7. (a) Mention the important items to be examined by the auditor in the receipt of Income of Non-Governmental Organisations (NGO's). 10

   (b) "Installation of Computer Operating system have created both benefits and problems for auditors." Explain the Statement. 6

8. Write short notes on the following :

   (a) Intangible Assets 4

   (b) Audit Risk 4

   (c) Substantive procedures 4

   (d) Floating charge. 4

NOV 2003

Roll No.............................

GROUP I PAPER-2,
AUDITING

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TN

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Answer questions **1** and **2** and any **four** from the rest.

Marks

1. As an Auditor, comment on the following situations/statements :

(a) The first auditors of Health and Wealth Ltd., a Government company, was appointed by the Board of Directors. 3

(b) In case the existing auditors reappointed at the Annual General Meeting refused to accept the appointment, whether the Board of Directors could fill up the vacancy ? 3

(c) The auditor of Trilok Ltd. did not report on the matters specified in sub-section (1A) of Section 227 of the Companies Act, 1956, as he was satisfied that no comment is required. 3

(d) At the AGM of a company, in which a Nationalised Bank held 25% of the subscribed capital, Krishna & Co., Chartered Accountants, were appointed as auditor by passing an ordinary resolution. 3

(e) The members of C. Ltd. preferred a complaint against the auditor stating that he has failed to send the auditors report to them. 3

(f) One of the directors of Hitech Ltd. is attracted by the disqualification under Section 274(1)(g). 3

Marks

2. Comment on the following :

(a) ABC Ltd. has not deposited provident fund contributions of Rs. 20 lakhs to the authorities, but accounted in the books. 3

(b) Asian Overseas Oil Ltd.'s oil wells were damaged in Iraqi war in November, 2002. Claim preferred with the Insurance Companies for total loss. Pending the settlement by the Insurance Companies neither any provision nor any disclosure has been made in 2002-03 accounts. 3

(c) Sundry debtors of a company as on 31-3-03 include Rs. 10 lakhs from M/s Unreliable Traders, who have been declared as insolvent on 4-4-2003. 3

(d) Directors of Speedway Ltd. declared a final dividend of 30% for 2002-03 in their meeting held on 11-8-2003. 3

(e) During the year under audit, A Ltd. credited to the Profit & Loss Account, the entire profit of Rs. 5 lakhs on the sale of land not required for its use. You are informed that the directors would like to propose dividend out of the above profit. 3

(f) Inspite of the internal control weakness commented upon by the audit manager, no further tests need to be carried out, as the purchase and sales figure as a percentage of gross profit was same as in the previous year. The audit manager's comments were in regard to control over purchases and sales. 3

3. (a) Can the Statutory Auditor rely upon the work of an Internal Auditor ? 8

(b) What do you understand by Audit through the Computer ? 8

4. How will you vouch and/or verify the following ?

(a) Remuneration to directors. 4

(b) Consignment sales. 4

(c) Patent rights. 4

(d) Royalties received. 4

5. (a) What are the aims of internal control so far as Financial and Accounting aspects are concerned ? 12

(b) What is the meaning of "options on unissued share capital" of a company ? 4

Marks

6. (a) What are the Basic Principles governing an Audit as laid down in SAP-1 ? 10

(b) What are Audit working papers and why should they be carefully preserved by the Auditor ? 6

7. (a) What is the ideal approach while carrying out audit of Incomplete Records ? 8

(b) An audit of expenditure is one of the major components of Government Audit. In the context of "Government Expenditure Audit" write in brief, what do you understand by : 8

(i) Audit against Rules and Orders

(ii) Audit of Sanctions

(iii) Audit against Provision of Funds

(iv) Propriety Audit

(v) Performance Audit.

8. Write short notes on the following :

(a) Outstanding Assets. 4

(b) Fundamental Accounting Assumptions. 4

(c) Extent of Reliance on Analytical procedures. 4

(d) Purpose of providing depreciation. 4

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P. T. O.

Roll No...............................

Total No. of Questions—8] [Total No. of Printed Pages—4

Time Allowed—3 Hours Maximum Marks—100

AG

Answers to questions are to be given only in English except in the cases 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 Questions **1** and **2** and any **four** from the rest.

Marks

1. As an auditor comment on the following situations/statements :

   (a) The sale and purchases of investments of A Ltd., was controlled through a committee. Shri B sold some of the investments without discussing the same with the other members of the committee as they were out of station and Shri B believed that its price would fall and the company would suffer a loss if it is not sold. A Ltd. earned a profit of Rs. 1 lakh from such sale. 6

   (b) The company due to liquidity crises sold and leased back the same vehicles from leasing companies. In the notes to accounts, the company stated 'Vehicles taken on lease repayable in 46 instalments of Rs. 26,650 each'. 6

   (c) No depreciation provided on a machinery costing Rs. 50 lakhs imported three years back, since it is yet to be put into use. 3

   (d) A portion of Share Premium utilised to declare 40% dividend. 3

2. Give your comments on the following :

   (a) M/s Verma and Sharma, Chartered Accountants were appointed as the first auditors of Good Luck Ltd. by virtue of their name being included as auditors in the Articles of Association. 3

   (b) The auditors were requested by the management to accept the draft minutes of Board, since the minutes book has been misplaced. 3

Marks

(c) The Board of Directors removed to first auditors before the expiry of the term and appointed another auditor in his place. 3

(d) The auditors are being insisted by the management to hand over the letters of confirmation of balances received by the auditor from debtors and creditors. 3

(e) No cost accounting records are maintained though the company is required to maintain the same. 3

(f) A Government company appointed the auditors and fixed the remuneration in its general meeting. 3

3. (a) "The auditors should consider the effect of subsequent events on the financial statement and on auditors report" according to SAP 19—Comment. 12

(b) Briefly explain the inherent limitations of audit. 4

4. List the aspects to be considered in vouching/verification of the following :

(a) Research and Development expenditure. 4

(b) Discounted bills receivable dishonoured. 4

(c) Borrowings from banks. 4

(d) Plant and Machinery. 4

5. (a) What are the methods of obtaining audit evidence ? 8

(b) How would you proceed to check the misappropriation of cash in a trading concern ? 8

6. (a) Explain in detail the duties of Comptroller and Auditor General of India. 8

(b) Define the purpose of a 'Letter of Engagement'. 8

7. (a) Mention any eight special points which you as an auditor would look into while auditing the books of a partnership firm. 8

(b) What are the types of internal control in a computer-based system ? 8

8. Write short notes on the following :

(a) Disclaimer of Opinion. 4

(b) Cut-off arrangement. 4

(c) Sweat Equity Shares. 4

(d) Disclosure of Accounting Policies. 4

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PE- II
GROUP-I PAPER-2,
AUDITING

Roll No................................

Total No. of Questions—8] [Total No. of Printed Pages—4

Time Allowed—3 Hours Maximum Marks—100

ABC

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Answer Questons **1** and **2** and any **four** from the rest.

Marks

1. State with reasons your views on the following :

(a) The auditor fails to obtain sufficient information to form an overall opinion by the matters contained in the financial statements. 4

(b) The Auditor does not agree with affirmation made in the financial statements. 4

(c) Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory auditor of Krishna Ltd. for the accounting year 2002-2003. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd. 5

(d) Mr. Rajendra, a fellow member of the Institute of Chartered Accountants of India, working as Manager of Shrivastav and Co., a Chartered Accountant firm, signed the audit report of Om Ltd. on behalf of Shrivastav & Co. 5

2. As a Company Auditor how would you react to the following situations ?

(a) A publishing company undertook repair and overhauling of its machinery at a cost of Rs. 2.50 lakhs to maintain them in good condition and capitalised the amount as it is more than 25% of the original cost of the machinery. 3

(b) Inventories of a Car manufacturing company includes the value of items, required for the manufacture of a model which was removed from the production line five years back, at cost price. 3

(c) Interest on loan borrowed to purchase a machinery which has been installed 3

(c) Interest on loan borrowed to purchase a machinery which has been installed two years back is still debited to Machinery Account. 3

ABC P. T. O.

Marks

(d) Sale value of scrap items adjusted against Miscellaneous Expenditure. 3

(e) Insurance claim of Rs. 2 Lakhs received stands included under Miscellaneous Income. 3

(f) Rs. 5 Lakhs paid by a pharma company to the legal advisor defending the patent of a product treated as Capital Expenditure. 3

3. Comment on the following :

(a) "For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence as per SAP-22." 6

(b) "Auditor's professional responsibilities are governed by basic principles which should be complied with whenever an audit is carried out." 10

4. Explain the Internal controls in an EDP Environment. 16

5. How will you vouch and/or verify the following ?

(a) Retirement Gratuity to Employees. 4

(b) Sale Proceeds of Junk Materials. 4

(c) Assets Abroad. 4

(d) Patent Rights. 4

6. (a) "The audit firm should implement quality control policies and procedures." Explain. 8

(b) How will you conduct the audit of Incomplete Records ? 8

7. Explain the audit procedure for conducting the audit of a Non-governmental Organisation (NGO) ? 16

8. Write short notes on the following :

(a) Buy Back of Own Securities. 4

(b) Audit Risk 4

(c) Disclosure of Accounting Policies. 4

(c) Disclosure of Accounting Policies. 4

(d) Option on Share Capital. 4

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