

Test Series: August, 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. Comment on the following:
 - (a) You are appointed to compile financial statements of Y & Co. for tax purposes. During the course of work, you learn that the inventory is grossly understated. On pointing the same, the partners of Y & Co. tell you that since you are not conducting an audit, the said figures duly certified by the firm should be accepted. (4 Marks)
 - (b) While conducting statutory Audit of ABC Ltd., you come across IOUs amounting to ₹ 2 crores as against a cash balance shown in books of ₹ 2.10 crores. You also observe that despite similar high balances throughout the year, small amounts of ₹ 50,000 are withdrawn from the bank to meet day-to-day expenses. (4 Marks)
 - (c) Z Ltd. had appointed an outside expert to assess accrued gratuity liability of the company. Based on the said report, the company provides ₹ 80 lakhs as gratuity in the financial statements. (4 Marks)
 - (d) A Company's net worth is eroded and creditors are unpaid due to liquidity constraints. The management represents to the statutory auditor that the promoter's wife is expected to give an unsecured loan to meet the liquidity constraints and that negotiations are underway to secure large export orders. (4 Marks)
2. Comment on the following with reference to the Chartered Accountants' Act, 1949 and schedules thereto:
 - (a) CA X was appointed as the Auditor of ABC Ltd. for 2007-08. Since he declined to accept the appointment, the Board of Directors appointed CA Y as the auditor in the place of CA X, which was also accepted by CA Y. (4 Marks)
 - (b) CA Z who is a leading Income Tax Practitioner and consultant in Jaipur is also trading in derivatives. (4 Marks)
 - (c) CA D, a Chartered Accountant prepared a project report for one of his clients to obtain bank finance (long-term) of ₹ 50 lakhs from a Commercial Bank. Consequent to the sanction of the loan by the bank CA D raised a bill for his services @ 2% of the loan sanctioned. (4 Marks)

- (d) CA ZZ who conducted ABC audit of a Marathi daily 'New Era' certified the circulation figures based on Management Information System Report (M.I.S Report) without examining the books of Account. (4 Marks)
3. (a) Mr. R, the Tax Auditor finds that some payments inadmissible under Section 40 A(3) were made, and advised the client to report the same in form 3CD. The client contends that cash payments were made since the other parties insisted upon the same and did not have Bank Accounts. Comment. (4 Marks)
- (b) While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility? (4 Marks)
- (c) Sri Raghav is above 80 years old and wishes to sell his proprietary business of manufacture of specialty chemicals. C Ltd. wants to buy the business and appoints you to carry out a due diligence audit to decide whether it would be worthwhile to acquire the business.
- What procedures you would adopt before you could render any advice to C Ltd.?
(8 Marks)
4. (a) Mr. Ram, a relative of a Director was appointed as an auditor of the company. Comment. (8 Marks)
- (b) Mr. X, Director of ABC Ltd. made a purchase contract for ₹ 10,00,000 with the company. Comment. (8 Marks)
5. Answer the following:
- (a) You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business. (8 Marks)
- (b) The audit report of P Ltd. for the year 2007-08 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2011-12, how would you report, if:
- (i) The company does not make provision for doubtful debts in 2011-12? (4 Marks)
- (ii) The company makes adequate provision for doubtful debts in 2011-12?
(4 Marks)
6. Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager:

- (a) The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year.

(4 Marks)

- (b) The bank is a consortium member of Cash Credit Facilities of ₹ 50 crores to X Ltd Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing.

(4 Marks)

- (c) *K Ltd., requires you to organize a Management audit program. Briefly state a plan of action.*

(8 Marks)

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

- (a) *Maintenance of branch offices by Chartered Accountants in practice.*

- (b) *Preliminary Report under Peer Review*

- (c) *Audit and Investigation*

- (d) *Principal Enactments Governing Bank Audit.*

- (e) *Haphazard Sampling.*

(4 × 4 = 16 Marks)