

Test Series: February, 2013

MOCK TEST PAPER -1

FINAL COURSE: GROUP – I

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

1. Comment on the following:
 - (a) During the year under audit T Ltd. credited to the Profit and Loss Account, the entire profit of ₹ 30 lakhs on the sale of Urban land not required for its use. You are informed that the directors would like to propose dividend out of the above profit.
 - (b) While conducting statutory Audit of ABC Ltd., you observe cash balance shown in books as ₹ 50 Lakhs. You also observe that despite high cash balance throughout the year, small amounts of ₹ 50,000 are withdrawn from the bank to meet day-to-day expenses.
 - (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.
 - (d) You have been appointed a statutory auditor of a limited company engaged in the manufacture of chemicals. The management tells you that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved and in any case the value of opening and closing work in process would be more or less the same. (5x4=20 Marks)
2. Give your comments with reference to the Companies Act, 1956 and the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) Mr. S, a Chartered Accountant published a book and gave his personal details as the author. These details also mentioned his professional experience and his present association as partner with M/s RST, a firm. (4 Marks)
 - (b) A chartered accountant holding certificate of practice and having four articled clerks registered under him accepts appointment as a full-time lecturer in a college. Also he becomes a partner with his brother in a business. Examine his conduct in the light of Chartered Accountants Act, 1949 and the regulations thereunder. (4 Marks)
 - (c) A chartered accountant in practice, in spite of repeated requests from the Secretary of the Institute fails to submit form 18. Is he liable for misconduct? (4 Marks)
 - (d) The superannuation-cum-pension fund for the employees of a company was under a separate 'trust'. Both the company and the trust were under the same

management. The auditor, who was auditing the accounts of the company as well as the trust noted some irregularities in the operation of the trust and commented upon these irregularities in the confidential report given to the trustees, but did not mention about these irregularities in his report on the Annual accounts of the Trust.

(4 Marks)

3. Comment on the following:

- (a) Designing an Audit Strategy is the backbone of the "Audit Planning" process. Discuss. (8 Marks)
- (b) The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of accounts receivables since the said balances are under dispute and the matter is pending in the court. (4 Marks)
- (c) You are the auditor of City Communications Ltd. for the year 2011–12. The inventory as at the end of the year i.e. 31.3.12 was ₹ 3.25 crores. Due to unavoidable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order? (4 Marks)

4. Answer the following:

- (a) Explain briefly the Flow Chart technique for evaluation of the Internal Control system. (6 Marks)
- (b) What are the areas in which Due Diligence can take place? (6 Marks)
- (c) A Pvt. Ltd. is incorporated on 1st July, 2011. During the year ended 31st March, 2012, it had issued shares (fully paid up) of ₹ 40 lakhs, had borrowed ₹ 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 50 lakhs which is credited to a separate account) is ₹ 475 lakhs. Will Companies Auditors Report Order, 2003 (CARO) be applicable to A Pvt. Ltd.? (4 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) State your views as an auditor on the following:
 - (i) T Ltd. purchased goods on credit for ₹ 5 crores for export from ABC Ltd. Upon the export order being cancelled, T Ltd. decided to sell the same in the domestic market at a discounted price. Accordingly ABC Ltd was requested to offer a price discount of 25%. ABC Ltd. wants to adjust the sales figure to the extent of discount requested by T Ltd. (4 Marks)

- (ii) Y Ltd. provided ₹ 25 lakhs for inventory obsolescence in 2010-2011. In the subsequent year, it was determined that 50% of such stock was usable. The company wants to adjust the same through prior period adjustment account as the provision was made in the earlier year. (4 Marks)

6. Answer the following:

- (a) Discuss the auditor's liability to third parties in relation to issue of Prospectus . (4 Marks)
- (b) How would you verify "Acceptances, Endorsements and other obligations" appearing in the Balance Sheet of a bank? (6 Marks)
- (c) What are the specific areas to which you will give your attention while examining "Claims Paid" by a General Insurance Company. (6 Marks)

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

- (a) Haphazard Sampling
- (b) Reporting on the compilation engagement.
- (c) Corporate Governance
- (d) Audit Certificate as distinguished from Audit Report
- (e) Accounting ratios in Form 3 CD of Tax Audit. (4 × 4 = 16 Marks)