

Test Series: March, 2012

MOCK TEST PAPER – 2

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 R Ltd., the audit manager of ABC & Co. observed that R 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.
- (b) In the course of audit of T 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.
- (c) While auditing Z 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?
- (d) The management of S Ltd. requests you not to seek confirmation from its debtors. As the auditor of S Ltd., what can be an appropriate response? (5 × 4 = 20 Marks)
2. Comment on the following with reference to the Chartered Accountants Act, 1949, Code of Ethics and Schedules to the Act:
 - (a) P, a Chartered Accountant in practice provides management consultancy and other services to his clients. During 2012, looking to the growing needs of his clients to invest in the stock markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients.
 - (b) B, a Chartered Accountant in practice is a partner in 3 firms. While printing his personal letter heads, B gave the names of all the firms in which he is a partner.
 - (c) XYZ & Associates, a firm with 5 partners developed a website www.xyzassociates.com. The website also contained a link to "All India Chartered Accountants Association", a voluntary association where X, a partner of the firm is currently the Vice-president.
 - (d) M/s LMN, a firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid ₹ 50,000 as earnest deposit as part of the terms of the tender.

(4 × 4 = 16 Marks)

3. (a) Discuss some problems that will be encountered in an CIS in implementation of internal control.
- (b) As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose?
- (c) In the audit planning process of X Ltd., you would like to consider audit risk at the financial statement level. What are the factors can influence your decision?
(8 Marks +4 Marks+4 Marks)
4. (a) Discuss the reporting requirement in Form 3CD of Tax Audit Report under Section 44AB of the Income-tax Act, 1961 for the following:
 - (i) Tax deducted at source.
 - (ii) Expenditure incurred at clubs. (3 × 2 = 6 Marks)
- (b) In a Company, it is suspected that there has been embezzlement in cash receipts. As an investigator, what are the areas that you would verify? (6 Marks)
- (c) What is the purpose served by Introduction of Cost audit? (4 Marks)
5. Under CARO, 2003 how, as a statutory auditor would you comment on the following:
 - (i) Fixed assets comprising 1/3rd of the total assets have been disposed off during the year.
 - (ii) A Term Loan was obtained from a bank for ₹ 75 lakhs for acquiring R&D equipment, out of which ₹ 12 lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities. (8 × 2 = 16 Marks)
6. (a) Mention the duties of Auditor of Co-operative Societies in regard to the following:
 - (i) Over-due interest.
 - (ii) Compliance with provisions of Co-operative Act and Rules thereunder.
 - (iii) Special Report to Registrar of Co-operative Societies. (4 × 3 = 12 Marks)
- (b) State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company. (4 Marks)
7. Write short note on any four of the following:
 - (a) Mark to Market Margin
 - (b) Basic Elements of Audit Report
 - (c) Sampling Risk
 - (d) Walk through Tests
 - (e) Cut-off Procedures. (4 × 4 = 16 Marks)