

Test Series: March, 2013

MOCK TEST PAPER -2

FINAL COURSE: GROUP – I

PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

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

Time Allowed – 3 Hours

Maximum Marks – 100

- 1 Give your comments/answers in the following situations:
 - (a) ABC Ltd is trading in Chemicals and has a large number of account receivables standing in its books at any point of time. The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year end deposited in the company.
 - (b) You have been appointed as the auditor of Kay Kay Ltd. for 2011-12 which was audited by CA Trustworthy in 2010-11. As the Auditor of the company state the steps you would take to ensure that the Closing Balances of 2010-11 have been brought to account in 2011-12 as Opening Balances and the Opening Balances do not contain 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) 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. (4x5=20 Marks)
2. Give your comments with reference to the Companies Act, 1956 and the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) Mr. Karan, a practicing Chartered Accountant, received a sum of ₹ 1 lac on 1.9.2011 from a Client who intends to leave abroad for a period of a year, with a request that his advance tax liabilities to be paid over the three instalments. On 15th September, 2011, 15th December, 2011 and 15th March, 2012. After remitting the 1st instalment of advance tax on 15.9.2011, Karan did not keep the Balance Money in a separate Bank account and he is of the opinion he will remit the money within reasonable time as per payment schedule of Advance tax.

- (b) M/s ABC, a partnership firm carrying on business has complained to the Institute of Chartered Accountants of India (ICAI) that Mr. Shivam, a Chartered Accountant has charged the firm excessive fees for a professional assignment.
- (c) Mr. Rohan, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of ₹ 25 lakhs. He has also informed the Manager that if the loan is sanctioned, the Income Tax return of the Manager and staff will be filed without charging any fees, as quid Pro quo for the loan sanctioned.
- (d) A firm of Chartered Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company. (4 x 4=16 Marks)
3. (a) Enumerate the main areas to be covered by the auditor in the case of environment audit of an industrial unit. (8 Marks)
- (b) Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets.
- State (in brief) the major areas you would examine for the above. (8 Marks)
4. (a) The audit report of Jay Ltd. for the year 2010-11 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 2010-11?
- (ii) The company makes adequate provision for doubtful debts in 2010-11?
- (8 Marks)
- (b) As a Statutory Auditor, how would you report on the following under CARO:
- (i) LMN Pvt. Ltd. Is a dealer in Shares and Securities.
- (ii) Q Pvt. Ltd is a Manufacturer of jewellery. A senior employee of the Company informed you that the Company does not properly disclose the purity of gold used on the jewellery. (8 Marks)
5. (a) The auditor must evaluate major clauses of control used in a Computerised Information system to enhance its reliability – Comment. (8 Marks)
- (b) (1) As auditor of Sun 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?
- (2) In the audit planning process of Moon Ltd., you would like to consider audit risk at the financial statement level. What factors can influence your decision?
- (2 x 4 = 8 Marks)

6. (a) What are the duties of an auditor regarding disqualification of directors under Section 274(1)(g) of the Companies Act, 1956? (6 Marks)
- (b) As Auditor of Act Fast Ltd. what steps will you take to ensure that the dividend has been paid only out of profit? (6 Marks)
- (c) G Co. Ltd. has not included in the Balance Sheet as on 31-03-2011 a sum of ₹1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2011. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2011. The auditor came to know the result of the negotiations on 15-05-2011. Comment (4 Marks)
7. Write short notes on **any four** of the following:
- (a) Walk through Tests
- (b) Vostro and Nostro Accounts.
- (c) *Frauds through supplier ledger*
- (d) Mark to Market margins
- (e) *Peer review.* (4 × 4 = 16 Marks)