

Test Series: September, 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. Comment on the following:

- (a) A Co. Ltd. has not included in the Balance Sheet as on 31-03-2012 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 30-04-2012. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2012. The auditor came to know the result of the negotiations on 15-05-2012. (5 Marks)
- (b) B Co. Ltd. is engaged in the business of developing mass scale housing projects including development of small commercial complexes. The flats/commercial spaces are booked by the public and are allotted by way of allotments letter to each allottee. Major construction activities pertaining to buildings are undertaken after allotment is over. After completing the construction, possession of flats/commercial spaces is given to allottees by executing legal document. The CEO of the B Co. Ltd. says that AS 7 is not applicable to the company. (5 Marks)
- (c) In the notes to accounts of C Co. Ltd. as on 31-03-2010 Note no. 11 states that 'Certain machinery items are lying at customs warehouses and company has paid ₹900 lakhs up to 30-06-2009 as detention charges, out of which a sum of ₹ 580 lakhs is written back during the year 2009-10 based on settlement with the concerned authorities in respect of a major spares of machinery. For the remaining machinery items negotiations are pending and a provision of ₹ 44 lakhs is made. As such total amount of ₹ 364 lakhs paid/provided on account of detention charges have been capitalized and included in the Fixed Assets/Capital work in progress. The management is of the view that these expenses are directly attributable to the acquisition of the related Fixed Asset. (5 Marks)
- (d) During the course of audit of D Co. Ltd. you as an auditor have observed that Inter Corporate deposit of ₹ 50 lakhs has been overdue. The D Co. Ltd. have disclosed this in the notes to accounts note No. 15 in schedule no. 21 stating that ₹ 50 lakhs is overdue from XYZ Co. Ltd. and the said company is in the process of liquidation. The management is taking steps to appoint the liquidator. (5 Marks)

2. Discuss the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
- A Chartered Accountant in practice has been suspended from practice for a period of 6 months and he had surrendered his Certificate of Practice for the said period. During the said period of suspension, though the member did not undertake any audit assignments, he undertook representation assignments for income tax whereby he would appear before the tax authorities in his capacity as a Chartered Accountant. (4 Marks)
 - Mr. R, a Chartered Accountant in practice has been elected as the treasurer of a Regional Council of the Institute. The Regional Council had organized an international tour through a tour operator during the year for its members. During the audit of the Regional Council, it was found that Mr. R had received a personal benefit of ₹ 50,000 from the tour operator. (4 Marks)
 - Mr. Q a Chartered Accountant in practice as a proprietor died in a road accident. His widow sold the practice of her husband to another Chartered Accountant in practice for ₹ 5 lakhs. The price also included right to use the firm name of Mr. Q. (4 Marks)
 - M/s XYZ, a firm in practice, develops a website "xyz.com". The colour chosen for the website was a very bright green and the web-site was to run on a "push" technology where the names of the partners of the firm and the major clients were to be displayed on the web-site. (4 Marks)
3. (a) XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-11 for audit. The audit assistant observes and brings to your notice that the company's records show following dues:
- Income Tax relating to Assessment Year 2007-08 ₹ 125 lacs – Appeal is pending before Hon'ble ITAT since 30-9-09.
 - Customs duty ₹ 85 lakhs - Demand notice received on 15-9-10 but no action has been taken to pay or appeal.
- As an auditor, how would you bring this fact to the members? (6 Marks)
- State the functions of Energy Auditor. (5 Marks)
 - A infrastructure company has constructed a mall and entered into agreement with tenants towards license fees (monthly rental) and variable license fees, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account / recognize license fee as income for 12 months during current year under audit and variable license fees as income during next year, since invoice is raised in the subsequent year. As an auditor, how would you deal and state in the statement of Accounting policies? (5 Marks)

4. (a) XYZ Ltd. appoints you as the auditor of the company. You observe that previous auditors A & Co., resigned. Also Balance Sheet as at 31-03-2010 shows an audit fee payable of ₹ 25,000. What precautions you will take before commencing the audit work? (4 Marks)
- (b) "Surprise Checks" help the auditors to ascertain whether the internal control system is operating effectively in a Company or not. Discuss. (4 Marks)
- (c) Different types of controls which operate over date moving into, through and out of the computer. Auditor is required to review such control. Comment. (8 Marks)
5. (a) As a tax auditor how would you deal and report the following:
 - (i) An assessee has borrowed ₹ 50 lakhs from various persons. Some of them by way of cash and some of them by way of Account payee cheque /Draft. (3 Marks)
 - (ii) An assessee has paid Rent to his brother ₹ 2,50,000/- and paid interest to his sister ₹ 4,00,000/- (2 Marks)
 - (iii) An assessee has incurred payment to clubs. (2 Marks)
- (b) As a bank branch auditor, what aspects will be considered while reporting on credit appraisal, sanctioning /disbursement and documentation in respect of advances in the LFAR ? (5 Marks)
- (c) ABC Private Ltd. has granted loan of ₹ 20 crores to XYZ Ltd. a sister concern and it remains outstanding at the year end. How would you report the fact? (4 Marks)
6. As Chartered Accountant you are required to give your reports on various financial statements under Companies Act, 1956 which are as under:
 - (i) Report to the shareholders under Section 227;
 - (ii) Report to be set out in prospectus under Section 60(3);
 - (iii) Report to be given to the Central Government as special auditor under Section 233A;
 - (iv) Report to be given on voluntary winding up under Section 488(1).

Explain the significance of each of these reports and your functional approach very briefly. (4 × 4 Marks = 16 Marks)
7. Write short notes on any **four** of the following:
 - (a) Contract notes in case of audit of member of Stock Exchange. (4 Marks)
 - (b) Scope of Peer Review. (4 Marks)
 - (c) Audit procedure in respect of "Outstanding premium and Agents balance" in Insurance company: (4 Marks)
 - (d) Reconciliation of cost and financial accounts. (4 Marks)
 - (e) Propriety elements in CARO 2003. (4 Marks)