

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

Time Allowed- 3 Hours

Maximum Marks -100

1. Comment on the following:

- (a) BEST Limited includes in the Schedule of Inventory, those items of Fixed assets which have not been in active use and held for disposal, as inventory item.
- (b) SHINE 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 SHINE Co. Ltd. says that AS 7 is not applicable to the company.
- (c) In the course of audit of TURN EXPORTS Ltd. you observed that export incentives are not accounted on accrual basis. The company's management contended that these would be accounted on cash basis citing the uncertainty about its receipts as they are not admitted as due by the customs authorities.
- (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. (4 x 5 = 20 Marks)

2. Discuss the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

- (a) Mr. A, a Chartered Accountant in practice has been appointed editor of a monthly journal which analyses performance of the Stock Market and Mutual Fund Schemes.
- (b) M/s B & Co. a firm of Chartered Accountants received ₹ 3 lakhs in January, 2011 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2011, when he is due to return to India.
- (c) M/s C & Co., 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 ₹ 1,00,000 as earnest deposit as part of the terms of the tender.
- (d) Mr. D, a Chartered Accountant was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Leather Industry. During the course of his presentation he shared some of the vital information of his client's

business under the impression that it will help the Nation to compete with other countries at international level. (4 x 4 = 16 Marks)

3. (a) 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?
- (b) 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. Comment.
- (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. Comment.
- (d) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind? (4 x 4 = 16 Marks)
4. (a) What are the exceptions to the general rule of treating advances as Non-performing Assets (NPAs)?
- (b) As the auditor of an Insurance company state the audit procedure you would follow to verify outstanding premium and agents balances.
- (c) Under what circumstances, an auditor is required to submit a special report to the registrar of Co-operative Societies?
- (d) What are the special points that may be covered in the audit of equipment leasing finance company. (4 x 4 = 16 Marks)
5. (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. (4 Marks)
- (b) State the areas of propriety audit under Section 227(1A) of the Companies Act, 1956. (6 Marks)
- (c) Explain the key functions of an Energy Auditor. (6 Marks)
6. (a) *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. (2 x 4 = 8 Marks)
- (b) When can a company be said to have 'Not maintained' proper books of account? What is the role of the statutory auditor for the same? (4 Marks)
- (c) The company has suffered a net loss for the year. The directors however declared and paid an interim dividend @ 30% based on the half-yearly performance. (4 Marks)
7. Write Short notes on any four of the following:
- (a) Flow Chart technique for evaluation of the Internal Control system.

- (b) Audit procedures which can be performed using CAATs.
- (c) Haphazard Sampling
- (d) Auditor's liability to third parties in relation to issue of Prospectus.
- (e) True and Fair Cost of Production. (4 x 4 = 16 Marks)