

C.A. Final (Old Course)

First Study

Subject: Advance Auditing

Instructions :

- (i) *All questions are compulsory.*
- (ii) *Date of Examination : 28.02.2010*
- (iii) *Total Number of Questions : 6*
- (iv) *Total marks : 100*
- (v) *Total duration : 3 Hours*
- (vi) *Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.*
- (vii) *Begin answer of the next question in new page.*
- (viii) *Answer all the questions serially.*

Question 1.As a Statutory Auditor, how would you deal with the following:

(a) An old car of a company having a nominal book value has found a buyer, who is willing to pay Rs. 1 lakh for it. The company proposes not to sell the car, but to neglect its valuation in its accounts at Rs. 1 lakh. Should the auditor permit the company to do so?

(4 Marks)

(b) During the year under audit Z Ltd. credited to the Profit and Loss Account, the entire profit of Rs.20 lakhs on the sale of land not required for its use. You are informed that the directors would like to propose dividend out of the above profit.

(5 Marks)

(c) The management tells you that there is no need for them to follow accounting standards specified by the Institute of Chartered Accountants of India as these are for the auditor to follow.

(4 Marks)

(d) Vineeth Ltd. had announced a voluntary retirement plan for its employees on January 1, 2008. The scheme is scheduled to close on June 30, 2008. The scheme envisaged an initial lump sum payment of maximum of Rs. 2 lakhs and monthly payments over the balance period of service of employees coming under the plan. 200 employees opted for the scheme as on March 31, 2008. The total lump sum payment for these employees would be Rs. 250 lakhs and the aggregate of future payments to them would amount to Rs.1,500 lakhs. However, no payment had been made to the employees under the scheme up to March 31, 2008. Nor the company made any provision in its accounts towards any liability under the scheme.

(5 Marks)

Question 2.Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006 and schedules thereto:

(a) A firm of chartered accountants were appointed by a company to evaluate the costs of the various products manufactured by it for their information system. One of the partners of the firm of chartered accountants was a non-executive director of the company.

(4 Marks)

(b) A partner of a firm of chartered accountants during an interview with a Radio station handed over a bio-data of his firm to the chairperson. Such bio-data detailed the standing of the international firm with which the firm was associated. It also detailed the achievements of the concerned partner and his recognition as an expert in the field of taxation in the country. The chairperson read out the said bio -data during the interview.

(5 Marks)

(c) A practising Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant, as

- Tax Consultant
- Cost Accountant

(4 Marks)

(d) Write short note on “Maintenance of branch offices by a Chartered Accountants in practice”.

(5 Marks)

Question 3. Answer the following:

(a) “Like every other audit, a systematic planning for cost audit is also necessary”. Indicate the matters to be included in a Cost Audit Programme.

(8 Marks)

(b) Comment : Mr. Panchtirth carries on the business of dealing and export of diamonds and precious stones. For the year ended 31st March, 2009, you as the tax auditor, find that the entire exports are to another firm in Canada., which is owned by Mr. Panchtirth's brother.

(4 Marks)

(c) A public charitable trust earns ‘income’ of Rs.10 lakhs from Unit Trust of India, which is not taxable under Section 10(33) of Income-tax Act, 1961. It spends Rs.7 lakhs on its activities. The entire expenditure is vouched and is in accordance with the trust objects and is fully allowable as ‘application’. As Auditor of the Trust, would you require the trust to make any provision for tax in its accounts?

(4 Marks)

Question 4

(a) You have been appointed Management Auditor of a large manufacturing company suffering from working capital crunch. Enlist and discuss the related areas which you would probe into to overcome the company’s problem.

(8 Marks)

(b) Write short explanatory note on - Flow chart technique for evaluation of internal control.

(8 Marks)

Question 5. Answer the following:

(a) “There should be sufficient liaison between a principal auditor and other auditors”. Discuss the above statement and state in this context the reporting considerations, when the auditor uses the work performed by other auditor.

(8 Marks)

(b) Explain briefly how an auditor will identify related parties. Also state the disclosure requirements of related party transaction.

(8 Marks)

Question 6. Write short notes on the following:

- (a) Contract notes
- (b) Valuation of Investments “held to maturity” by banks.
- (c) Cut-off Procedures.
- (d) Test Packs

(4X4 =16 Marks)