

C.A. IPCC

First Study

Subject: Advance Auditing

Instructions :

- (i) *All questions are compulsory.*
- (ii) *Date of Examination : 16.03.2010*
- (iii) *Total Number of Questions : 8*
- (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.*

Question 1. State with reasons (in short) whether the following statements are True or False.

- (i) It is no part of subsequent auditor's duty to verify opening balances of Ledger accounts of current years, on the basis of Balance Sheet audited by Previous Auditor.
- (ii) SA 710 on 'comparatives' is applicable to corresponding previous year's figures and not to comparative Financial statement.
- (iii) AS 10 "Accounting for fixed assets" is also applicable to wasting assets like quarries, minerals and oil and natural gas
- (iv) When Government grants are received in the form of assets such as land, plant and equipments etc., free of cost, then, such assets should be entered in the books of accounts at nominal value.
- (v) Contingent liabilities are provided for in the accounts if they crystallize between the end of the accounting year and the date of signing the audit report.
- (vi) The fixed deposit held with bank by a company is to be shown under the head investments in Balance Sheet as per the requirements of part I of schedule VI to the Companies Act, 1956.
- (vii) A branch auditor is a joint auditor according to SA 299 and his relationship with the company auditor is governed by the said Standard.
- (viii) Disclaimer of opinion is issued when an auditor confronts a different stand by management in respect of a material issue which auditor does not approve of.
- (ix) Vouching is mere comparison of the entries in the books of account with evidence supporting the entries.
- (x) If company's cash is used personally by the cashier and is made up on demand by the managements, it can be said that the financial statements are misstated.

(10×2=20 Marks)

Question 2. Comment on the following situations:

(a) Akash Ltd. has its registered office at New Delhi. During the current accounting year, it has shifted its corporate Head Office to Haryana though it has retained the Registered Office at New Delhi. The Managing Director of the company wants to shift its books of account to Haryana from New Delhi, as he feels there is no legal bar in doing so.

(8 Marks)

(b) The Chief Accountant of AAS Company Limited says that the company, being in loss, would not provide depreciation for the Fixed Assets during this year, it would provide for the arrears of depreciation when it has profits in the future years; there is nothing wrong in this treatment, as according to the Companies Act, 1956, the company is bound to provide for depreciation only when it intends to declare dividend; in the present case, the company does not declare dividend.

(6 Marks)

(c) M/s A & Co., Chartered Accountants, were appointed first auditors of KLM Ltd. By its Board of Directors. The shareholders of the company removed M/s A & Co. before the expiry of their term, by an ordinary resolution in an Extraordinary General Meeting and appointed another auditors in their place. M/s A & Co. have objected that without prior approval of Central Government their removal is illegal.

(6 Marks)

Question 3.

Mention any ten special points to be examined by you in the audit of Income and Expenditure of a Charitable institution running a hospital.

(10 Marks)

Question 4.

(a) Board of Directors of Natraj Ltd. wants to transfer an amount of Rs.31.50 lacs lying in unpaid dividend account to their Profit and Loss account on the plea that it is 3 years old and no shareholder is expected to turn up and claim the same.

(4 Marks)

(b) As an auditor of a Limited Company, you observe that during the month of March, 2009, sales invoices were not recorded in books of accounts. You also observe that payment of wages was much higher compared to last year. Keeping in mind the above, analyse possible ways of manipulation of accounts.

(6 Marks)

Question 5.

(a) Give your comments on the following:

In a medium size trading organisation the accountant was given additional responsibility of making recoveries from the debtors. On one occasion, when an insurance claim of Rs. 25,000 was received, he credited the same to the account of a debtor and misappropriated the cash which he had recovered from the said debtor. Pinpoint weaknesses in the internal control system which led to this situation.

(4 Marks)

(b) State any four important elements of input control in processing of data in a computerised accounting system.

(6 Marks)

Question 6.

(a) A Limited Company has filed a suit against debtor from whom Rs.25 lakhs are receivable. A judgment is received from court in favour of the company after the date of Balance Sheet. Discuss auditors' duty in this regard.

(6 Marks)

(b) "Installation of computer operating systems has created problems (more than benefits) for auditors". Discuss the statement.

(4 Marks)

Question 7. How would you vouch/verify the following (answer any two):

(a) Production incentive paid to workers.

(b) Goods lying with third party.

(c) Bad debt

(5x2=10 Marks)

Question 8. Write short notes on the following (answer any two) :

(a) Physical attendance by auditor during inventory taking

(b) Disclosure requirements of bank balances of a limited company

(c) Knowledge of Client's business

(5x2=10 Marks)