

Mission May 2010 Phase I

Subject: Audit and Assurance

Instructions :

- (i) *All questions are compulsory.*
- (ii) *Total marks : 100*
- (iii) *Total duration : 3 Hours*
- (iv) *In case of fill in the blanks students are advised to write full sentences with the relevant answer in the blank.*
- (v) *Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.*
- (vi) *Answer all the questions serially.*

Question 1. Fill in the Blanks:

- (i) _____ enable an auditor to trace the transactions from the source document to the summarized totals in accounting reports or vice-versa.
- (ii) Section 293A of the Companies Act, 1956 _____ Government company from contributing amounts to a political party or to any person for a political purpose.
- (iii) _____ are designed to ensure that an acceptable standard of discipline and efficiency is maintained over the day to day operations of Computer Department.
- (iv) Economy audit is concerned with using financial, human and physical resources in appropriate quantity and quality and at _____ .
- (v) _____ is established by the Union Government/ state to enable advances to be made by the President / Governor of the state for the purpose of meeting unforeseen expenditure pending its authorization by the Parliament /state legislature.
- (vi) The issue of sweat equity shares must be authorised by a _____ in the general meeting.
- (vii) The period to which the accounts of the Company relate may be extended to _____ where special permission has been granted in that behalf by the Registrar.
- (viii) The auditor under section 227 (3), is required to express his opinion whether, in his opinion, the P& L and Balance Sheet complies with the _____ referred to in sub-section (3C) of section 211.
- (ix) The word “fund” in relation to any “Reserve” should be used only where such Reserve is specifically represented by _____ investments.
- (x) If books of accounts are not kept on _____ and according to the _____ system of accounting then it will be deemed that proper books of accounts are not kept.
- (xi) The words _____ are essential to state any qualification in the financial statements in clear and unambiguous manner.
- (xii) Where an auditor gives an opinion on the various matters without any reservations, it is an _____ opinion.
- (xiii) Where an auditor gives a qualified opinion then he should express clearly the _____ of the qualification in the report. And also the _____ for the qualification.
- (xiv) Auditor should _____ the report earlier than the date on which the financial statements are signed or approved by management.
- (xv) A _____ test is a test which seeks to provide audit evidence that the internal control procedures are being applied as prescribed.
- (xvi) The main object of _____ to present rosy picture of state of financial affairs than it is otherwise.
- (xvii) Removal of auditor can be done only by _____ and only the members of the company have the power to remove the auditor.
- (xviii) In case of joint auditors, casual vacancy of one joint auditor _____ affect other joint auditors and they can continue to act as auditors during the period of the casual vacancy exists.

- (xix) In case the annual general meeting is not held within the period prescribed under section 166, the auditor _____ in office till the annual general meeting is actually held and concluded.
- (xx) As per SA 200 the scope of an audit depends upon the terms stated and decides in the Engagement letter, so a Statute can _____ it.

(10 Marks)

Question 2. State with reasons (in short) whether the following statements are True or False.

- (i) A person who has been officer or employee of the company earlier to his appointment as auditor not disqualified for appointment as an auditor u/s. 226.
- (ii) It is auditor's responsibility to maintain adequate accounting system incorporating various internal controls.
- (iii) Since client pays for the audit, the audit working papers belong to the client.
- (iv) Capital Reserve and Reserve Capital can be used inter-changeably.
- (v) Each of the joint auditors is joint and severally responsible for the work not divided and carried out by all of them.

(5 Marks)

Question 3. Cineworld Pvt Ltd. is in the business of multiplex and restaurant. Restaurant is adjoining to the multiplex. There has been a theft from ticket collection box. State how as an auditor you would conduct the audit of Cineworld Pvt Ltd.

(10 marks)

Question 4. Read the following paragraph and answer the question given below :

A limitation on the scope of the auditor's work may sometimes be imposed by the entity, for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary. However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists; the auditor should ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor should not accept such an audit engagement when the limitation infringes on the auditor's statutory duties. A scope limitation may be imposed by circumstances, for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories. It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion. When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.

The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion.

Questions:

- (i) What are the circumstantial instances under which an auditor's scope becomes limited?
- (ii) What is the remedy (ies) available to the auditor under (i)?
- (iii) What if an auditor disagrees with the management in certain matters and what would be his duty?

(6 Marks)

Question 5. Draft an audit report giving qualification for not complying with the requirements of AS 6.

(7 Marks)

Question 6. Short notes on any three of the following :

- (i) Option on share capital
- (ii) Cut-off procedures relating to inventories
- (iii) "Subsequent events" as per Standard on Auditing (SA 560).
- (iv) Propriety Audit

(5X3=15 Marks)

Question 7. Comment on the following:

(a) One customer from whom Rs.1.5 lakhs are recoverable for credit sales gives a imported bullet motor-bike in full settlement of dues. The directors estimate that the market value for the motor - bike transferred is Rs.1.75 lakhs. As on the date of the balance sheet the motor - bike has not been registered in the name of auditee.

(b) While doing audit of a concern, you observe that there are some cheques received by the concern in the last one week of the financial year which has not been deposited with the bank even on the last day of the financial year. No entry is passed for these cheques received by the auditee on the last day of the year.

(5X2 = 10 Marks)

Question 8. Answer the following:

(a) AB Ltd. is a company in which 20% of the paid up share capital is held by a State Government and 31% of the paid up share capital is held by a Government Company. Who will appoint the auditor of AB Ltd? Also state other categories of companies to which provision of section 619B is applicable.

(b) No depreciation has been charged, in respect of a spare Bus purchased during the year and kept ready by the company for use as a stand-by on the ground that it was not used during the year. State the duty of an auditor with regard to the above.

(c) Raman, a practicing C.A. is attending the taxation related matters of Ayushman Ltd., and he has to regularly visit the company from 12.00 P.M. to 2.30 P.M. on all working days. He is paid Rs. 4,500 p.m. for the same. Ayushman Ltd., is eager to appoint Raman as its auditor at the next general meeting. Advise whether Raman can accept the appointment.

(5X3=15 Marks)

Question 9. ABC Ltd. has raised money by issue of shares to meet the cost of construction of Plant & Machinery of Rs 50 Lacs. Plant & Machinery cannot be made profitable for a long time. ABC Ltd. wants to pay interest on paid up share capital during construction period. State the provision in the Companies Act, 1956 under which it can pay interest on paid up share capital during construction period?

(7 Marks)

Question 10. How would you vouch / verify the following items :

- (i) Trademarks and Copyright
- (ii) Sale of Scrap
- (iii) Payment of Retirement Gratuity to employees.

(5X3=15 Marks)