
**PAPER 3- ADVANCED AND MANAGEMENT AUDITING
NOVEMBER 2001**

Answer Questions **1 and 2** and **any four** from the rest

Question 1

As an Auditor state your views on the following situations:

- (a) Included under Current Assets of XYZ Ltd., is inventory aggregating to Rs.20 crores. A part of the said inventory manufactured for export had to be sold earlier at a discounted price of shore due to moisture content present at the time of delivery. A part of similar inventory is included in Rs.20 crores. **(5 Marks)**
- (b) A construction company accounted for a contract entered into with a Government Department on completed contract method and that with a Private Sector Company on percentage of completion method. Both the contracts were for development of a township. **(5 Marks)**
- (c) X Ltd., entered in a contract with Y Ltd., to dispatch goods valuing Rs.1 lakh every month for six months upon receipt of entire payment. Y Ltd., accordingly made the payment in 3rd month due to a natural calamity, Y Ltd., requested X Ltd., not to dispatch until further notice. X Ltd., accounted Rs. Two lakhs as sales and transferred the balance to Advance Receipt against sales. **(5Marks)**
- (d) XYZ Ltd., entered into a collaboration agreement with U.S. based company to acquire know-how for both manufacturing process and design, drawing of the factory at a total cost of Rs.10 Crores. 75% of the know-how cost was for design and drawings. XYZ Ltd., capitalized the cost of drawings, etc., with factory building and cost for manufacturing process with the cost of machinery. **(5 Marks)**

Question 2

As a practicing Chartered Accountant do you approve the following? If not, why?

- (a) In a representation to be submitted to a company U/s. 225(3) of the Companies Act, 1956, the partner of the firm of auditors wants to include the contributions made by the firm is strengthening the control procedures of the company during the association with the company. **(4 Marks)**
- (b) A partner of a firm Chartered Accountants during a T.V. interview 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. **(4 Marks)**
- (c) The Chairman of an Audit Committee a Bluechip Company, who is a Chartered Accountant asked the firm in which he was previously a partner who quote their fee on a success fee basis, so as to ensure that a professional work is assigned to such firm. **(4 Marks)**
- (d) A firm of Chartered Accountants were appointed by a company to evaluate the cost 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)**

Question 3

- (a) Briefly discuss the compliance procedures and their use in evaluation of internal controls. **(8Marks)**
- (b) "An auditor while analyzing the errors in a sample need not consider the qualitative aspects of errors detected." Please comment. **(8 Marks)**

Question 4

Answer the following:

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- (a) Briefly describe the Auditor's responsibilities regarding disqualification of Directors. **(8 Marks)**
(b) Briefly describe how an auditor can use the work of an expert. **(8Marks)**

Question 5

- (a) In the context of audit of general insurance business, state the provisions regarding management expenses. **(8Marks)**
(b) On-line real time processing system and batch processing system have their inherent strengths and weaknesses" Please comment. **(8Marks)**

Question 6

- (a) What is a comprehensive audit of public enterprises ? Discuss some of the areas to be examined therein. **(8 Marks)**
(b) In the context of tax audit U/s. 44AB of the Income Tax Act, 1961, discuss the provisions of section 145 of the said Act regarding the method of accounting and accounting standards notified thereunder. **(8 Marks)**

Question 7

- (a) What are the Management Audit Questionnaires? Give a sample questionnaire for audit of inventory. **(10 Marks)**
(b) Y Ltd., has accumulated losses of Rs.12 crores. The Reserves and Surplus of the said company also include "Share Premium Account" of Rs.15 crores. The company intends to adjust the accumulated losses against the "Share Premium Account". Is the company permitted to do so under the provisions of the Companies Act, 1956? **(6 Marks)**

Question 8

(4×4=16 Marks)

Write short notes on the any four of the following :

- (a) Suspension of Capitalization of borrowing costs.
(b) Financial indications to be considered for evaluating the assumption of going concern.
(c) Substantive procedures.
(d) Capital reserves
(e) Monetary items and its treatment on balance sheet date.