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**PAPER 3: ADVANCED AUDITING  
NOVEMBER-2000**

Answer Question Nos.1 and 2 and any **four** from the rest.

**Question 1**

- (a) How is the income recognized in the case of “Non-performing” assets of Bank? **(4 Marks)**
- (b) State with reasons whether an auditor conducting tax audit “Certifies” or “Reports” on information contained in the statement of particulars attached to the tax audit report U/s. 44AB of the Income Tax Act, 1961. **(4 Marks)**
- (c) H.W.P. Private Ltd., is having only two members H and W. During the audit of accounts for the year ended 31<sup>st</sup> March, 2000, you as auditor find that: **(6 Marks)**
- (i) H, who is in-charge of purchases has introduced fictitious purchase bills of Rs.50 lakhs
  - (ii) W, who is in-charge of sales has sold goods worth Rs.1 crore without bringing the same in the books of account.
- (d) You raise the matter with H and W in their capacity as directors. They contest that as this is a position known to them and within their own fold, you should not report the same under the Companies Act, 1956.
- (e) Under the Manufacturing and Other Companies (Auditor’s Report) Order 1988, an auditor is required to report on the regularity of payment of Provident Fund and Employees State Insurance dues. **(6 Marks)**

**Question 2**

- (a) Describe the procedure for verification of the following balances appearing in the account books of a Bank;
- i. Drafts paid without advice **(4 Marks)**
  - ii. Branch adjustment account. **(4 Marks)**
- (b) Is the auditor of a company supposed to refer any paragraph in Director’s report in his own report to the shareholders of the company? State your views in this regard. **(8 Marks)**

**Question 3**

- (a) What is an Audit Trail? Briefly describe the special audit techniques using the computer as an audit tool. **(8 Marks)**
- (b) What are the steps to be taken while auditing re-insurance transactions in an Insurance Company? **(8 Marks)**

**Question 4**

- (a) How is an auditor concerned under the guidelines issued by Securities and Exchange Board of India relating to the following matters, while certifying financial information included in offer documents? **(8 Marks)**
- (i) Transactions with companies in promoter group
  - (ii) Bifurcated Turnover
  - (iii) Return on net worth
  - (iv) Price earning ration.
- (b) On 30<sup>th</sup> September, 2000 a company’s issued and paid up capital was Rs.25 crores comprising of fully paid equity shares of Rs.10 each. This included Rs.50,00,000 capital issued for each; Rs.4,50,00,000 capital issued for purchase of a business; Rs.20 crores on issue of bonus shares from time to time by capitalizing various reserves including Rs.5 crores by capitalizing capital redemption reserve.

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The company had fixed assets costing Rs.2 crores on which depreciation provision was Rs.1.95 crores, which was equal to the full cost of depreciable assets. The balance Rs.5 lakh represented the cost of land. It has discontinued its operations for last may years.’

The company had made investments in various companies to the tune of Rs.30 crores. Unfortunately all these investee companies have tuned out to be BIFR cases. Nothing is expected to be realized on such investments. The company has dues from customers totaling to Rs.4.95 crores of which Rs.4.90 crores are due from businesses which have become defunct. The balance Rs.5 lakhs are due for over 3 years. The accumulated losses are Rs.10 crores. The amounts due to suppliers are Rs.3 crores and they are overdue. The balancing figure in the Balance Sheet refers to loan from Financial Institution.

Workers who had put in long years of service have lodged claims for termination benefits of Rs.10 crores, which have been decreed in their favour. No accounting entry has been passed for the same since the decree on 1.1.97. In the light of statement on standard Auditing Practices (SAP) 16, relating to Going Concern, you are asked to write appropriate paragraph of audit report.

Give reason for supporting your report.

**(8 Marks)**

### Question 5

(a) You are the auditor of a company, which raised finance from the capital market on the basis of a prospectus issued a few years back. The main object for raising the finance was specified to be setting up a project on information technology.

The company advanced monies so raised to various parties “related” to directors. These parties had no standing whatsoever with information technology. In the Balance Sheet, these advances appeared as a current asset under the head “loans unsecured – considered good”. There was no mention in the notes to accounts about nature and purpose of such advances. You have given routine audit report without any qualifications.

One find morning the directors and these “related” parties disappear. The company has just vanished.

Can you be hauled up for professional misconduct? Do you have any liability under any law? **(8 Marks)**

(b) An auditor of a Co-operative Society governed by Co-operative Societies Act, 1912 is required to attach schedules giving certain information. Please list the information required to be given in the schedules.

**(8 Marks)**

### Question 6

(a) A public charitable Trust earns “income” of Rs.10 lakhs from Unit Trust of India, which is not taxable U/s. 10(33) of Income Tax Act, 1961.

**(4 Marks)**

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?

(b) What are the principles involved regarding “Propriety Audit” in the case of Public Sector undertaking?

**(8 Marks)**

(c) Ajay is a practicing Chartered Accountant, Vijay is a practicing Advocate representing matters in courts of law. Ajay and Vijay agree to help each other in matters involving their professional expertise. Accordingly Ajay recommends Vijay in all tax litigations in court of law. Vijay consults Ajay on all matters relating to finance and related matters, which come to him for arguing in various courts of law.

Ajay seeks your advise on how he and Vijay should (i) Remunerate each other (ii) “Share” the remuneration.

**(4 Marks)**

### Question 7

Discuss whether the following actions by a Chartered Accountant would amount to misconduct or not

i. A Chartered Accountant practicing in India enters into partnership with

**(4 Marks)**

a. A Certified Public Accountant in New York.

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b. A Chartered Accountant from the Institute of Chartered Accountants in England and Wales in London.

and in cash case, the members concerned take the profits earned in their own country.

Will it make any difference, if an Indian Chartered Accountant is practicing outside India and becomes a partner with the aforesaid accountants?

ii. A Chartered Accountant in service agrees to entrust the work of investment broker to Mr.X on the specific understanding that 20% of commission Mr.X earns would be paid to him. **(4 Marks)**

iii. A practicing Chartered Accountant uses a visiting card in which he designates himself, besides as Chartered Accountant , as **(4 Marks)**

a. Tax consultant.

b. Cost consultant.

iv. A Chartered Accountant in practice takes up the appointment as Managing Director of a Public Limited Company. **(4 Marks)**

**Question 8**

**(4×4= 16 Marks)**

(i) Decision Tree

(ii) Consolidated Financial Statements

(iii) Audit Committee

(iv) Auditor's liability in case of unlawful acts or defaults by clients

(v) Utility Routine.