

MAY 2008 : Paper 3 – Advanced Auditing
Answer question Nos. 1 and 2 and any four from the rest

Question No.1: As a Statutory Auditor, how would you deal with the following:

- (a) While adopting the accounts for the year, the Board of Directors of Sunrise Ltd decided to consider the Interim Dividend declared at 15% as Final Dividend, and did not consider transfer of Profit to Reserves. **(4 Marks)**
- (b) V Ltd sold 1 lakh vacuum pumps during the year 2006-07 with a condition to make good by repair or replacement any manufacturing defects reported within 6 months from the date of sale. Past experience in this regard showed that there was no replacements carried out, but minor/major repairs were necessitated to the extent of 10% or 5% respectively of the units sold. The cost of such minor or major repairs would amount to Rs.1,000 or Rs.6,000 respectively. While finalizing the accounts for the year, the company does not reflect any provision in this regard. **(5 Marks)**
- (c) XYZ Pvt. Ltd manufacturing garments, has valued at the year end its Closing Stock of packed Finished Goods for which Firm export contracts have been received, at realizable value inclusive of profit and export cash incentive. As at the year end, the ownership of the goods has not been transferred to the foreign buyers. **(4 Marks)**
- (d) R Ltd owns 51% voting power in S Ltd. It however holds and discloses all the Shares as “Stock in trade” in its accounts. The Shares are held exclusively with a view to their subsequent disposal in the near future. R Ltd represents that while preparing Consolidated Financial Statements, S Ltd can be excluded from the consolidation. **(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) As a Chartered Accountant in practice, you are asked to Conduct a review of the “Profit Forecast” prepared by a Company in connection with its application for a term loans from a Bank. **(4 Marks)**
- (b) X a Chartered Accountant availed a loan against his Shares held as Investments from a Nationalized Bank. He issued 2 cheques towards repayment of the said loan. Both the cheques were returned back by the Bank with the remarks “Refer to the Drawer”. **(5 Marks)**
- (c) BC & Co, a Firm of Chartered Accountants, accepted an assignment for audit under State Level VAT Act, without any prior communication with the previous Auditor. **(4 Marks)**
- (d) M, a Chartered Accountant in practice, is the Statutory Auditor of S Ltd for the year ended 31.3.2008. In Jan 2008, he was appointed as a Director in H Ltd, which is the Holding Company of S Ltd. **(5 Marks)**

Question No.3: Answer the following:

- (a) “Use of Audit Software would increase the probability of detecting frauds”. Comment. **(6 Marks)**
- (b) Elaborate under Clause 49 of the Listing Agreement, who is an Independent Director. **(6 Marks)**
- (c) What is an Audit Trail? **(4 Marks)**

Question No.4 Answer the following:

- (a) What are the major differences between Financial & Operational Auditing? **(8 Marks)**
- (b) As a Statutory Auditor, how would you deal with the following:
- i. PQR Ltd has not deposited Provident Fund contribution of Rs.10 Lakhs with the authorities till the year end. Comment. **(4 Marks)**
 - ii. LM Ltd had obtained a Term Loan of Rs.300 Lakhs from a Bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Comment. **(4 Marks)**

Question No.5 Answer the following:

- (a) As a Statutory Auditor, how would you verify advances against goods? **(8 Marks)**
- (b) Explain the concept of Audit risk

- a. At the level of Financial Statements (4 Marks)
b. At the level of account balance and class of transactions. (4 Marks)

Question No.6 Answer the following

- (a) RQ Insurance Ltd has made a provision of 25% on Unexpired Risks Reserve in its books. Comment. (5 Marks)
(b) In the context of Audit of members of stock exchanges, explain what is Rolling Settlement? (5 Marks)
(c) What is Haphazard Sampling? (6 Marks)

Question No.7 Answer the following:

- (a) What are the areas in which Due Diligence can take place? (5 Marks)
(b) What are the steps to be taken by a Firm of Chartered Accountants to ensure that its appointment as Statutory Auditor of a Company is valid? (6 Marks)
(c) As the Tax Auditor of a Company, how would you report on payments exceeding Rs.20,000 made in cash to a supplier against an invoice for expenses booked in an earlier year? (5 Marks)

Question No.8: Write short notes on any four of the following –

4 × 4=16 Marks

- (a) Securities Transaction Tax
(b) Price / Earnings Ratio (P/ E)
(c) Key Management Personnel
(d) Normal Capacity for the purpose of Inventory Valuation
(e) Integral Foreign Operations
(f) Emphasis of matter paragraph in Audit Reports.