#### PAPER 3 : ADVANCED AUDITING MAY 2001

#### Answer Question Nos. 1 & 2 and four from the rest.

### Question 1

You have been appointed a statutory auditor of a limited company engaged in the manufacture of chemicals. What would be your views on the following?

- (a) The management tells you that the work in process is not valued since it is difficult to ascertain the same in view of the multiple processes involved and in any case the value of opening and closing work in process would be more or less the same.
  (5 marks)
- (b) The company has a turnover exceeding 5 crores for a period of three consecutive financial years immediately preceding the financial year concerned, but does not have any internal audit system. **(5 marks)**
- (c) The management tells you that there is no need for them to follow accounting standards specified by the Institute of Chartered Accountants of India as there are for the auditor to follow. (5 marks)
- (d) The company has suffered a net loss for the year. The Directors however declared and paid an interim dividend @ 30% on the half-yearly performance. (5 marks)

# Question 2

Answer the following:

- (a) Briefly describe the auditor's responsibility regarding subsequent events.
- (b) Briefly describe the reporting requirements by a statutory auditor of a company for personal expenses of Directors. (6 Marks)

(10 Marks)

(4 Marks)

### Question 3

A Limited Company having turnover of approximately Rs.50 crore uses a tailor made accounting software package. In the said package, all transactions are recorded, processed and the final accounts generated from the system. The management tells you that in view of the voluminous nature of day books, there is no need to print them and that audit can be conducted on the computer itself. The management further assures you that any 'query based reports' as required can be generated and printed. As a statutory auditor of the company, enumerate the procedures you would adopt to conduct the audit. (16 Marks)

# Question 4

Comment on the following:

- (a) The Accounting Standards issued by the Institute of Chartered Accountants of India need to be followed only by limited companies and not by partnership firms or proprietorships. (4 Marks)
- (b) Mr.X, who conducts the tax audit u/s 44AB of the Income-tax act, 1961 of M/S ABC, a partnership firm has received the entire audit fees of Rs.25,000 in April, 2000 in respect of the tax audit for the year ended 31.3.2000. The audit report was however signed in September, 2000. (4 Marks)
- (c) For Excise Duty on finished goods in stock as at the end of the year, there is an option available to provide for the same or to show the same as a Contingent liability. (4 Marks)
- (d) Mr. P carries on the business of dealing in and export of diamonds. For the year ended 31<sup>st</sup> March, 2000, you as the tax auditor, find that the entire exports are to another firm in U.S.A., which is owned by Mr.P's brother. (4 Marks)

### Question 5

(a) As a Branch Auditor of a nationalized bank, how would you verify the following?

- i. Advances to DOT COM Companies.
- ii. Balances in account of a bank situated in a foreign country. (4 Marks)
- (b) Enumerate the steps to be taken by an auditor for the verification of the premium income received by a general insurance company.(8 Marks)

### **Question 6**

You have been appointed the statutory auditor of a private limited company for the first time. Apart from adopting the conventional audit procedures such as posting, casting and vouching, what other auditing techniques would you employ for conducting the statutory audit? (16 Marks)

## Question 7

As a statutory auditor of a Public Limited Company, how would you deal with following situations?

(a) The company has sold some old machinery for Rs. one crore. The details of the cost of such machinery are not available since the entire records relating to fixed assets have been destroyed in an earthquake.

(5 Marks)

- (b) The company had subscribed to shares of associate companies amounting to Rs.5 crores. These associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The company does not want to make any provision for the fall in the value of the investments. (5 Marks)
- (c) As at the beginning of the year, the company has a capital of Rs.2.50 crores, free reserves of Rs.0.50 crores and Revaluation Reserve of Rs.4.50 crore. In the relevant year under audit the company has incurred a loss of Rs.4 crores. The company proposes to adjust the loss with the Revaluation Reserve. (6 Marks)

### Question 8

(4×4=16 Marks)

Write short notes on any four of the following:

- (a) Objectives of Operational Audit
- (b) Audit and Investigation
- (c) Other Misconduct
- (d) True and Fair Cost of Production
- (e) Propriety Audit.