

Nov 2007: 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) Z Ltd., provided, Rs. 5 lakhs for inventory obsolescence in the last year's accounts. In the subsequent year, it was determined that 50% of this stock was actually usable. The Company wants to adjust the same as a "Prior period adjustment." **(5 Marks)**
- (b) A company capitalizes interest on borrowings incurred for holding investments by adding the same to the cost of investment every year. **(4 Marks)**
- (c) For the year ended 31st March, 2007, a company has paid Minimum Alternative tax under section 115 JB of the Income Tax Act, 1961. The Company wants to disclose the same as an 'Asset; since the company is eligible to claim credit for the same. **(5 Marks)**
- (d) X Ltd., is engaged in manufacture of Cement. In the Profit and Loss Account for the year ended 31st March, 2007, it discloses its revenue from sales transactions (turnover) net of excise duty. The excise duty collected and paid on sales transactions and that related to difference between Closing Stock and Opening Stock is, however, disclosed in the "Notes to Accounts". **(4 Marks)**

Question No.2

Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

- (a) Mr. A, a practicing Chartered Accountant agreed to select and recruit personnel, conduct training programmes for and on behalf of a client. **(5 Marks)**
- (b) XY & Co., a firm of Chartered Accountant having 2 partners X & Y, one in charge of Head Office and another in charge of Branch at a distance of 80 kms, puts up a name-board of the firm in both premises and also in their respective residences **(5 Marks)**
- (c) A Practising Chartered Accountant was appointed to represent a company before the tax authorities. He submitted on behalf of his clients certain information and explanations to the authorities, which were found to be false and misleading. **(4 Marks)**
- (d) AB & Co., a firm of Chartered Accountants, included the name of P as a partner while filing an application for empanelment as auditor for Public Sector bank branches. It was subsequently noticed that on the date of application, P was not a partner with AB & Co. **(4 Marks)**

Question 3

- (a) "The method of collecting Audit evidence and evaluating the same changes drastically under EDP Auditing." Comment on the above. **(8 Marks)**
- (b) What are the features of a qualified Audit Report? **(8 Marks)**

Question No.4

- (a) What are the important aspects to be looked into a due diligence review of Cash flows? **(6 Marks)**
- (b) What is the meaning of "Small and Medium sized Company" as per the Companies (Accounting Standards) Rules, 2006? **(8 Marks)**

Question No.5

- (a) As the Statutory Auditor of a manufacturing Company, what are the points you will consider to conclude "Whether the company has an Internal Audit system commensurate with the size of the company and its operations"? **(8 Marks)**
- (b) In a Company, it is suspected that there has been an embezzlement in cash receipts. As an investigator, what are the areas that you would verify? **(8 Marks)**

Question No.6

- (a) List the matters to be included in the 'Auditors' report' in the case of Non Banking Financial Companies (NBFCs) accepting or holding public deposits. **(8 Marks)**
- (b) What are the Steps for the Audit under the State level 'Value Added Tax' (VAT)? **(8 Marks)**

Question No.7

- (a) M/s. PQR & Company, Chartered Accountants have been appointed Statutory Auditors of a listed Company for the year ended 31st March, 2008. Draft an appropriate engagement letter to be sent to the Board of Directors for the same. **(12 Marks)**
- (b) T Pct. Ltd.'s paid up Capital & Reserves are less than Rs. 50 lakhs and it has no outstanding loan exceeding Rs. 25 lakhs from any bank or financial institution. Its sales are Rs. 6 crores before deducting Trade discount Rs. 10 lakhs and Sales returns Rs. 95 lakhs. The services rendered by the company amounted to Rs. 10 lakhs. **(4 Marks)**
- The Company contends that reporting under Companies Auditor's Report Order (CARO) is not applicable. Discuss.

Question No.8

Write short notes on any four of the following:

(4 × 4=16 Marks)

- (a) Peer review
- (b) Supplementary Audit u/s 619(4) of the Companies Act, 1956.
- (c) Purchase method of Accounting for amalgamations.
- (d) Accounting ratios in Form 3 CD of Tax Audit.
- (e) Circuit filters (as specified by SEBI).
- (f) Situations where external confirmations can be used.