
**PAPER 3- ADVANCED AND MANAGEMENT AUDITING
NOVEMBER 1997**

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

Question 1

- (a) To set up the marketing and distribution division, a company carried out trading activities during the construction period. The company capitalized all general administrative expenses as it had not commenced commercial production. **(5 Marks)**
- (b) A computerized machinery was purchased by two companies jointly. The price was shared equally. It was also agreed that they would use the machinery equally and show in their Balance Sheet, 50% of the value of the machinery and charge 50% of the depreciation in their respective books of account. **(5 Marks)**
- (c) X Ltd., prior to receipt of their management consultants suggestions, had been valuing its stock consistently, by adding factory overheads to its prime cost. The consultants had recommended a better procedure which would ensure a fair allocation of overheads. The company intends to adopt the new basis but unwilling to accept the fact that this was a change in the basis as stated by their consultants. **(5 Marks)**
- (d) Y Ltd., purchased an existing bottling unit. The method of charging depreciation on machinery of the acquired unit, was different from that followed by the company in its other units. The company wants to continue to charge depreciation for the acquired unit, in the method followed earlier by them and which was not consistent with their own method. **(5 Marks)**

Question 2

Is there professional misconduct committed in the following cases in the context of the provisions of the Chartered Accountant Act, 1949 and its regulations?

- (a) Mr. Fair, a practicing Chartered Accountant, was appointed to carry out a Balance Sheet Audit of a Non-profit Organization. The Internal Auditors detected certain irregularities at one of the branches of the organization which Mr. Fair had failed to detect. **(4 Marks)**
- (b) Mr. False had been appointed by True Ltd., to represent them before the taxation authorities and to prepare statements required for the purpose, based on data to be provided by the management. The taxation authorities felt that claims made through the statements prepared by Mr. False were incorrect and misleading. **(4 Marks)**
- (c) Mr. Brilliant, a practicing Chartered Accountant, received a major professional assignment. To complete the said assignment he was required to buy four computers. Due to his inability to provide funds for acquiring the same he borrowed money from a firm, where one of the Articled Clerk's and his father were interested. **(4 Marks)**
- (d) Mr. Extraordinary, a practicing Chartered Accountant, had failed to report regarding a material claim against the company of which he was aware and which the management intentionally did not include in their financial statements, as it would affect the price of their shares on the Stock Exchange. **(4 Marks)**

Question 3

State your views on the following :

- (a) "Auditor's assessment of materiality may be different at the time of planning the engagement than at the time of evaluating the results of his audit procedures" **(10 Marks)**
- (b) "The auditor should take into account the aggregate of all uncorrected mis-statements, including those involving estimates" **(6 Marks)**

Question 4

As an Auditor state your views on the following situations:

- i. A Qualified opinion. **(6 Marks)**
- ii. An Adverse opinion **(5 Marks)**
- iii. A disclaimer of opinion **(5 Marks)**

Question 5

Your firm has recently been appointed as a Concurrent Auditor of a Nationalized Bank. Your principal has asked you to prepare an audit programme for the following areas:

(a) Advances ; and

(10 Marks)

(b) Foreign Exchange Transactions.

(6 Marks)

State briefly, the steps you would include in the audit programme.

Question 6

“Operational Auditing is not different from Internal Auditing, it is merely an extension of Internal Auditing into operational areas”

State your views on the above statement.

(16 Marks)

Question 7

“The method of collecting audit evidence and evaluating the same, changes drastically under the EDP auditing”. Discuss the correctness of the said statement.

(16 Marks)

Question 8

Write short notes on any four of the following.

(a) Control Risk.

(b) Analytical Review Procedures

(c) Odd Lot Dealers.

(d) Co-insurance.

(e) Unexpired Risk Reserve.

(4×4=16 Marks)