

**Question No.1 is compulsory**  
**Answer any five from the remaining six questions.**  
**URL**

**Question 1**

**4 X 5 = 20 Marks**

1. As an auditor, how would you deal with the following?

- (a) Mr. Honest, Director of Truth Private Ltd., is also a director of another company – False Private Ltd., which has not filed annual returns and accounts for the last three years, 2006-07; 2007-09 with the Registrar of Companies. Truth Private Ltd., passed the following resolution reappointing Mr. Honest as Director of the Company at the Annual General Meeting held on 31-08-10.
- (b) 'A' Ltd. has not made any provision in its accounts as regards losses sustained by its subsidiary 'B' Ltd. However, it has credited to the Profit & Loss Account the dividend declared by its subsidiary 'C' Ltd., on its investments made in the subsidiary.
- (c) XYZ Ltd. purchased an equipment at a price of \$1,00,000 on 2-4-09. Upon terms of credit that price should be settled within six months from the date of purchase. The company capitalized the asset in terms of Indian Rupees at a rate of exchange prevailing as on date of purchase.  
When the liability is settled as per terms on 10-9-2009, it incurs an additional amount of Rs.3,50,000/- due to exchange rate fluctuation on the date of settlement. The said sum is charged off to Profit & Loss Account.
- (d) LMN Ltd. has obtained term loan from Nationalized Bank amounting to Rs.10 crores for purchase of Research and Development Equipments. Out of this, Company has utilized Rs.10 lakhs towards purchase of office furniture and car to be used by the Chief Executive Officer of the company.

**Question 2**

**4 X 4 = 16 Marks**

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

- (a) Mr. Moon is the auditor of M/s Sun Ltd., which has a turnover of Rs.100 crores. The audit fee for the year is fixed at Rs.25 lakhs. During the year the company offers Mr. Moon an assignment of Management Consultancy for a remuneration of Rs.50 lakhs.
- (b) A firm of chartered Accountants RJ & Co. was appointed by a company to evaluate the cost of products manufactured by it for its information system. One of the partners of the firm RJ & Co., was a non-executive Director of the Company.
- (c) Mr. A, Chartered Accountant in practice as a Sole Proprietor has an office near Egmore. Due to increase in professional work, he opens another office in Tambaram which is approximately 30 kms away from his existing office. For running the new office, he has employed a retired Income Tax Officer.
- (d) A partner of a Firm of Chartered Accountants during a T.V. interview handed over a biodata of his firm to the Chairperson. Such biodata detailed the standing with International firm and also his achievements and recognition as an expert in the field of Taxation. The biodata was read out during the said interview.

**Question 3 (a)**

**8 Marks**

(a) The auditors need not review accounting policies unless there is a change in the basis of accounting – Comment.

**Question 3 (b)**

**2 x 4 = 8 Marks**

(b) (i) 'A' Ltd. having fixed assets at 10 different locations, in total valuing Rs.5,000 crores, have been physically verifying the assets every third year. Auditor insists for yearly verification of the same – Comment.

(ii) 'B' Ltd. manufacturing cycles has 150 employees. Auditors observe that it has not registered itself for Provident Fund and ESI purposes, not remitting the dues in time and auditor insists for qualifying the Report. Management contends that in the absence of registration it can't be construed that the company is in default of statutory dues on regular basis – Comment.

Question 4 (a)

8 Marks

(a) The Company ABC Ltd. has passed a Special Resolution at the Annual General Meeting held on 30-09-09 for buy back of shares to the extent of Rs.12,50,000.

Summary if Financial Position of ABC Ltd. as on 31-03-09

Subscribed & Paidup		Fixed Assets	40,00,000
Share Capital	25,00,000		
Reserves and Surplus	20,00,000	Current Assets	12,00,000
Current Liabilities	15,00,000	Loans & Advances	8,00,000
	60,00,000		60,00,000

Comment whether the action of the Company is valid.

Question 4 (b)

8 Marks

(b) PQR Private Ltd. has prepared the financial statements for the year ended 31-3-10 and submitted the same to you for audit. Comment whether sundry debtors and loans and advances have been disclosed as required under Schedule VI of the Companies' Act, 1956.

Balance Sheet of PQR Private Ltd. as on 31-03-10.

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorised 1,00,000 Equity Shares of Rs.10/- each	10,00,000	Gross Block	
	10,00,000	Less depreciation	25,00,000
Subscribed & Paid up 1,00,000 Equity Shares of Rs.10/ each	10,00,000	Current Assets	
		Loans & Advances	
		Cash & Bank	2,00,000
Reserves & Surplus		Sundry Debtors	7,00,000
Profit & Loss A/c	1,50,000	Loans & Advances	2,50,000
Secured Loans			
Indian Bank			
(against hypothecation of Fixed assets)	20,00,000		
Current Liabilities & Provisions			
Creditors for Trade	5,00,000		
	36,50,000		36,50,000

Question 5 (a)

4 Marks

(a) For determining the liability for Gratuity, Actuary's Report is produced to the auditor. On examination auditor notices a serious wrong assumption in the report. Auditor challenges the Actuary's report – Comment.

(ii) The loss as per Profit and Loss Account of a Ltd. Company is converted in to profits due to crediting of time barred liability relating to the purchase of Plant & Machinery. Directors propose to declare dividend out of such profits – Comment.

**Question 5 (b)**

**8 Marks**

(b) You have been approached by an organization to suggest a system where the user wants to access data immediately. What would be your suggestions if they want to process it after validation?

**Question 6 (a)**

**2 x 4 = 8 Marks**

(a) ARG Bank has granted loans to the extent of Rs.1500 crores. 10 parties have not been repaying the principal amount and servicing the interest for more than 36 months. During the year ended 31-03-10, it was found that two of the ten parties have paid interest partly and bank has accounted full amount of interest accrued as income in respect of two parties – Comment.

**Question 6 (b)**

**8 Marks**

(b) AB & Co., Chartered Accountants, was appointed to compile financial statements of Y & Co., a firm for Tax Audit purposes. During the course of work, the suit firm has noticed that the stock valuation was grossly understated. When it was pointed out, the management told that AB & Co. are not the statutory auditors of the company and need not be concerned about valuation of stock – Comment.

**Question 7**

**4 x 4 = 16 Marks**

7. Write short note on any four of the following:

- (a) Other Misconduct
- (b) Rolling Statement
- (c) Corporate Governance
- (d) Enquiry
- (e) Reconciliation of cost and financial records.