# PAPER 3 : ADVANCED AUDITING MAY 2006

Answer Questions Nos. 1 and 2 and any Four from the rest.

## Question 1

As a Statutory Auditor, how would you deal with the following:

(a) A Pvt. Ltd. started stock broking activities in 2005. For this purpose it acquired membership of a Stock Exchange for Rs. 110 Lakhs. While finalizing the accounts, the Company disclosed the above amount under the Fixed Assets Schedule as "Stock Exchange Membership Rights". The Company also did not write off any amount since the rights would enable the Company to perpetually carry on its business.

(5 Marks)

- (b) ABC Ltd. having a paid up capital of Rs. 1 crore earned a total Net Profit of Rs. 1 Crore for the years 2001-02 to 2003-04. The Company did not declare any dividend nor transferred any amount to Reserves for these years. The entire profit was retained in the Profit & Loss account. In 2004-05, the Company made a profit of Rs. 20 Lakhs the Company also proposed in 2004-05 to declare dividend @ 25% out of the accumulated profits. (4 Marks)
- (c) XYZ Ltd. Had received a grant of Rs. 50 Lakhs in 1997 from a State Government towards installation of pollution control machinery on fulfillment of certain conditions. The Company, however, failed to comply with the said conditions and consequently was required to refund the amount in 2005. The Company debited the said amount to its Machinery in 2005 on payment of the same. It also reworked the depreciation for the said Machinery from the date of its purchase and passed necessary adjusting entries in the year 2005to incorporate the retrospective impact of the same.

  (5 Marks)
- (d) C Ltd. holds shares of D Ltd. which also entitles it to 51% voting power. These shares are held as Stock in Trade, sine C Ltd.'s intention is to dispose them in the near future. Due to this, C Ltd. is of the view that the financial statements of D Ltd. need not be consolidated. (4 Marks)

#### Question 2

Comment on the following with reference to the Chartered Accountant Act, 1949, Code of Ethics and Schedules to the Act:

(a) P, a Chartered accountant in Practice provides Management Consultancy and other service to his clients. During 2005, looking to the growing needs if his clients to invest in the Stock Markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients.

(5 Marks)

- (b) B, a Chartered accountant in Practice is a partner in 3 Firms. While printing his personal letter heads, B gave the names of all the firms in which he is a partner. (4 Marks)
- (c) XYZ & Associates, a Firm with 5 partners developed a website www. Xyzassociates.com. The website also contained a link to "All India Chartered Accountants Association", a voluntary association where X, a partner of the firm is currently the Vice President. (4 Marks)
- (d) M/s. LMN, a Firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid Rs. 50,000 as earnest deposit as part of the terms of the tender. (5 Marks)

## Question 3

Answer the following:

(a) Designing an Audit Strategy is the backbone of Audit Planning process. Discuss. (10 Marks)

(b) As a Statutory Auditor of a bank, how would you verify the "Sacrifice" on Non Performing Assets for which Corporate Debt Restructuring has been undertaken? **(6 Marks)** 

## Question 4

Answer the following:

- (a) A Company gets its accounting data processed by a third party to achieve cost reduction. As a Statutory Auditor of such a Company, what are the additional precautions/checks that you would consider for conduct of the audit?

  (8 Marks)
- (b) What are the special points in the audit of Non Banking Equipment Leasing Finance Company? (8 Marks)

#### Question 5

Answer the following:

- (a) As an Internal Auditor of a Cement Manufacturing Company, draft an Audit Program for verification of transportation charges for dispatches from the factory.

  8 Marks)
- (b) As a Tax Auditor, how would you report on the following:
  - Labour charges paid on which tax is deducted at source at an inappropriate rate. (4 Marks)
  - Capital expenditure incurred for Scientific Research Assets. (4 Marks)

## Question 6

Answer the following:

(a) Discuss the various aspects to be considered by the Statutory Auditor before qualifying his report.

(8 Marks)

- (b) As a Statutory auditor how will you report on the following under CARO:
  - O Pvt. Ltd. is a dealer in Shares and Securities.

(4 Marks)

• ABC Pvt. Ltd. is a manufacturer of jewellery. A Senior employee of the Company informed you that the company does not properly disclose the purity of gold used on the jewellery. (4 Marks)

## Question 7

Answer the following:

- (a) Elaborate how the Statutory Auditor can verify the existence of related parties for the purpose of reporting under Accounting Standard 18. (8 Marks)
- (b) A company engaged in the manufacturing of chemicals is consistently recording higher sales turnover, but declining Net Profits since the last 5 years. As an investigator appointed to find out the reasons for the same, what are the points you would verify?

  (8 Marks)

# **Question 8**

Write short notes on: (any four)

(4x4=16 Marks)

- (a) Remuneration to Statutory Auditors under the Companies Act, 1956.
- (b) Disclosure under "Basis of Issue Price" in Prospectus.
- (c) Deferred Taxation
- (d) Sampling Risk
- (e) Test Packs.