

---

**PAPER 3: ADVANCED AUDITING  
NOVEMBER-2005**

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) ABC Ltd., commenced construction of a flyover in Mumbai in January, 2004 under BOLT scheme. The same was completed in February, 2005. Due to seasonal heavy rains in July, 2004 in the area, the work on the flyover had to be suspended for 1 month. The company accordingly suspended borrowing costs of Rs.12.50 lakhs for that month from capitalization. **(5 Marks)**
- (b) P Ltd., of whom you are the Statutory Auditor appoints M/s.XYZ as Branch Auditors for one of its branches. M/s.XYZ conducted the audit of the branch without visiting the branch and instead getting the books at the H.O M/s.XYZ has submitted their Branch Audit Report to you. **(5 Marks)**
- (c) LM Ltd., has 2 divisions L and M. The finished products of division L are transferred to division M where further processing is carried out before sale to customers. To achieve transparency and accountability between the divisions, division L raises an invoice on division M at cost plus normal margins. At the year end the unrealized profits on inter-division stocks are eliminated. However, the transfers are recorded at the invoice value as sales and purchases in the respective divisions for the purpose of preparing the Profit and Loss account. Suitable disclosures, for this are given in then "Notes to Accounts". **(5 Marks)**
- (d) T Pvt. Ltd., is an unlisted closely held company with turnover less than Rs.50 crores. While finalizing the accounts, Mr. M the Director (Finance) disputed the applicability of AS 20 to the company. **(3 Marks)**

**Question 2**

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

- (a) Mr.S, a Chartered Accountant published a book and gave his personal details as the author. These details also mentioned his professional experience and his present association as partner with M/s. RST, a firm. **(5 Marks)**
- (b) Mr.C accepted the Statutory audit of M/s.PSU Ltd., whose net worth is negative for the year 2003-04. the audit was to be conducted for the year 2004.05. the audited accounts for the year 2004-05 showed liability for payment of tax audit fees of Rs.15,000 in favour of Mr.E, the previous auditor. **(5 Marks)**
- (c) M/s.PQR, a firm Chartered Accountants with 5 partners has accepted the audit of ABC Pvt. Ltd., for 2004-05 at an audit fee of Rs.2,500. ABC Pvt. Ltd., was incorporated in April, 2002, but had commenced operations in January, 2005. **(5 Marks)**
- (d) Mr.P, a Chartered Accountant in practice entered into a partnership with Mr.L, an advocate for sharing of fees for work sent by one to the other. However, due to some disputes, the partnership was dissolved after 1 month without any fees having been received. **(4 Marks)**

**Question 3**

- (a) Enumerate (in brief) the basic principles governing an audit. **(5 Marks)**
- (b) Briefly explain the objectives of Operational Audit. **(5 Marks)**
- (c) While examining the going concern assumption of an entity, what important indications should be evaluated and examined? **(6 Marks)**

---

**Question 4**

- (a) What are the statements of facts that an auditor has to report U/s. 227 of the Companies Act, 1956 ? **(4 Marks)**
- (b) Illustrate , as a statutory auditor, how would you give a report where all qualifications are not quantifiable. **(4 Marks)**
- (c) Under CARO, 2003 how, as a statutory auditor would you comment on the following:
- Fixed assets comprising 1/3<sup>rd</sup> of the total assets have been disposed off during the year. **(4 Marks)**
  - A Term Loan was obtained from a Bank for Rs.75 lakhs for acquiring R&D equipment, out of which Rs.12 lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities. **(4 Marks)**

**Question 5**

- a. "Like every other audit, a systematic planning for cost audit is also necessary". Indicate the matters to be included in a Cost Audit Program. **(10 Marks)**
- b. Enumerate some of the areas of concern in an audit of indirect taxes. **(6 Marks)**

**Question 6**

- (a) As a tax auditor, which are the accounting ratios required to be mentioned in the report in case of manufacturing g entities? Explain in detail any one of the above ratios and hoe does it help the tax auditor in his analytical review. **(8 Marks)**
- (b) What are the steps to be taken by an auditor for the audit of re-insurance ceded? **(8 Marks)**

**Question 7**

- a. Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and over valued assets. **(8 Marks)**
- b. Enumerate the risks and internal control characteristics in an audit conducted in Computer Information System (CIS) environment. **(8 Marks)**

**Question 8**

Write short notes on (any **four**):

**(4×4=16 Marks)**

- Categories of Non-banking Finance Companies (NBFCs)
- Recognition of Deferred Tax Assets
- Valuation of Investments "held to maturity" by banks
- Contract notes (Under Stock Exchange Trading Regulations)
- Record of Audit Assignments (as required by ICAI regulations).