

**PAPER 3- ADVANCED AND MANAGEMENT AUDITING
MAY 2002**

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

Question 1

As an Auditor state your views on the following situations:

- (a) M Ltd., manufactures machinery used in Steel Plants. It quotes prices in various tenders issued by Steel Plant. As per terms of contract, full price of machinery is not released by the steel plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. The company accounts for only 90% of the inventory value as sales income and the balance amount in the year of receipt to the extent of actual receipts only. **(5 Marks)**
- (b) A Company had imported raw materials worth US Dollars 2,50,000 on 15th January, 2002 when the exchange rate was Rs.46 per US Dollar. The Company had recorded the transaction at that rate. The payment for the imports was made only 15th April 2002, when the exchange rate was Rs.49 per US Dollar. However, on 31st March, 2002, the rate of exchange was Rs.50 per US Dollar. The company passed an entry on 31st March, 2002 adjusting the cost of raw materials consumed for the difference between Rs.49 and Rs.46 per US Dollar. **(5 Marks)**
- (c) The Statutory Auditors of a Government Company have issued a qualified Audit Report on the accounts of the company. In this supplementary audit, the Comptroller and Auditor General of India (C & AG) has also made further qualification on the accounts of the company. But the report of the Board of Directors of the Company is silent on the comments on the statutory auditors and those of C and AG. **(5 Marks)**
- (d) A Public Company defaulted in the repayment of deposit together with interest on the due date for more than a year and the Chief Accountant contends that the auditor need not report on the default committed by the company. **(5 Marks)**

Question 2

- (a) Following is the data regarding six segments of Z Ltd.,

Particulars	(Rs. In 000's)					
	A	B	C	D	E	F
Segment Revenue (Rs.)	150	310	40	30	40	30
Segment Results(Rs.)	25	(95)	5	5	(5)	15
Segment Assets (Rs.)	20	40	15	10	10	5

The Finance Director is of the view that it is sufficient that segments A and B above be reported. Advise. **(4 Marks)**

- (b) Y Ltd., wishes to obtain a machine tool costing Rs.20 lakhs by way of lease. The effective life of the machine tool is 12 years but the company requires it only for the first five years. It enters into an agreement with R Ltd., for a lease for a lease rental of Rs.2 lakhs p.a. The Finance Director of Y Ltd., is not sure about the treatment of these lease rentals and hence requests your assistance in proper disclosure in proper disclosure of the same. For calculation purposes the implicit rate of interest may be taken at 15% . Discount factors:0.87, 0.76, 0.66, 0.57 and 0.50 **(4 Marks)**
- (c) Is there any misconduct on the part of a Chartered Accountant in the following circumstances:
- i. Mr.G, Chartered Accountant in practice as a sole proprietor has an office in Mumbai near Church Gate. Due to increase in professional work, he open another office in a suburb of Mumbai which is approximately 80 kilometers away from his existing office. For running the new office he employs three retired Income – Tax Officers.
 - ii. The offer document of a listed company in which Mr.D, a practicing Chartered Accountant is a director mentions the name of Mr.D as a director along with his various professional attainment and spheres of specialization. **(4Marks)**

Question 3

- (a) Sri Raghav is above 80 years old and wishes to sell his proprietary business of manufacture of specialty chemicals. C Ltd., wants to buy the business and appoints you to carry out a due diligence audit to decide whether it would be worthwhile to acquire the business.

What procedures you would adopt before you could render any advice to C Ltd., . **(10Marks)**

- (b) Explain what is meant by “Representation by Management” and indicate to what extent an Auditor can place reliance on such representations. **(6 Marks)**

Question 4

- (a) “Operational auditing is no different from internal auditing” Discuss **(8 Marks)**

- (b) The auditor “Should take into account the aggregate of all uncorrected misstatements including those involving estimates in his assessment of materiality in audit”. **(8 Marks)**

Question 5

- (a) An statutory central auditors of a Nationalized Bank, what special points are to be borne in mind in the audit of compliance with “Statutory Liquidity Ratio” (SLR) requirements? **(8 Marks)**

- (b) For what purposes the Cost Auditor refers to financial records while conducting Cost Audit of an entity? **(8 Marks)**

Question 6

- (a) Mention the duties of Auditor of Co-operative Societies in regard to the following.

- (i) Overdue interest.
- (ii) Compliance with provisions of Co-operative Act and Rules there under.
- (iii) Special Report to Registrar of Co-operative Societies.

(9 Marks)

- (b) A leading jewellery merchant used to value his inventory at cost of LIFO basis. However, for the current year, in view of requirements of AS-2, he changed over to FIFO method of valuation. The difference in value of sock amounted to Rs.55 lakhs which is higher than that under the previous method. In such a situation, what are the reporting responsibilities of a Tax Audit U/s. 44AB of the Income Tax Act, 1961?

(7 Marks)

Question 7

Indicate the control procedures which the auditor should adopt in applying CAAT (Computer Assisted Audit Technique) in an audit under EDP environment. **(16 Marks)**

Question 8

(4×4=16 Marks)

Write short notes on any four of the following:

- (a) Hit or take orders.
- (b) Audit risks
- (c) Divisible profits
- (d) Propriety elements in MAOCARO, 1988
- (e) Audit Certificate as distinguished from Audit Report.