HOT

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory. Answer any five from the rest.

Marks

1. Comment on the following:

(a) A Co. Ltd. has not included in the Balance Sheet as on 31-03-2010 a sum of ₹ 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2010. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2010. The auditor came to know the result of the negotiations on 15-05-2010.

(b) B Co. Ltd. is engaged in the business of developing mass scale housing projects including development of small commercial complexes. The flats/commercial spaces are booked by the public and are allotted by way of allotments letter to each allottee. Major construction activities pertaining to buildings are undertaken after allotment is over. After completing the construction, possession of flats/commercial spaces is given to allottees by executing legal document. The CEO of the B Co. Ltd. says that AS 7 is not applicable to the company.

(c) In the notes to accounts of C Co. Ltd. as on 31-03-2010 Note no. 11 states that ‘Certain machinery items are lying at customs warehouses and company has paid ₹ 900 lakhs up to 30-06-2009 as detention charges, out of which a sum of ₹ 580 lakhs is written back during the year 2009-10 based on settlement with the concerned authorities in respect of a major spares of machinery. For the remaining machinery items negotiations are pending and a provision of ₹ 44 lakhs is made. As such total amount of ₹ 364 lakhs paid/provided on account of detention charges have been capitalized and included in the Fixed Assets/Capital work in progress. The management is of the view that these expenses are directly attributable to the acquisition of the related Fixed Asset.’

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(d) During the course of audit of D Co. Ltd. you as an auditor have observed that Inter Corporate deposit of ₹ 50 lakhs has been overdue. The D Co. Ltd. have disclosed this in the notes to accounts note No. 15 in schedule no. 21 stating that '₹ 50 lakhs is overdue from XYZ Co. Ltd. and the said company is in the process of liquidation. The management is taking steps to appoint the liquidator.'

2. Give your comments with reference to Chartered Accountants Act, 1949 and schedules thereto:

(a) PQR and Associates, Chartered Accountants have their website and on the letterhead of the firm it is mentioned that “Visit our website : PQR.com”. In the website the nature of assignments handled, names of prominent clients and fees charged is also displayed.

(b) Mr. B is a practising Chartered Accountant holding a valid certificate of practice. He accepted the appointment as Director of the Green World Co. Ltd. Mr. C, a partner of Mr. B is statutory auditor of the said company.

(c) YKS & Co., a proprietary firm of Chartered Accountants was appointed as concurrent auditor of a bank. YKS used his influence for getting some cheques purchased and thereafter failed to repay the loan/overdraft.

(d) Mr. Mohan is a practising Chartered Accountant. He issued a certificate of consumption which did not reflect the correct factual position of the consumption of raw material by the concerned entity. It is found that the certificate is given on the basis of data appearing in the minutes of meeting of the Board of Directors.

3. (a) XYZ Ltd. appoints you as the Auditor of the company. You observe that previous auditors A & Co., resigned. Also Balance Sheet as at 31-03-2010 shows an audit fee payable of ₹ 25,000. What precautions you will take before commencing the audit work?
While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same?

Different types of controls which operate over data moving into, through and out of the computer. Auditor is required to review such controls. Comment.

Mr. Ram, a relative of a Director was appointed as an auditor of the company. Comment.

Mr. X, Director of ABC Ltd. made a purchase contract for ₹ 10,00,000 with the company. Comment.

PQR Ltd., a listed company and having an average annual turnover of more than ₹ 5 crores has no Internal Audit System. Give your views.

"Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society." Do you agree?

Mr. R, the Tax Auditor finds that some payments inadmissible under Section 40 A(3) were made, and advised the client to report the same in form 3CD. The client contends that cash payments were made since the other parties insisted upon the same and did not have Bank Accounts. Comment.

Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should specifically look for hidden liabilities and over valued assets, if any. State in brief the major areas you would examine for the above.
6. (a) While doing the audit, X, the Statutory Auditor of ABC Ltd. observes that certain loans and advances were made without proper securities, certain debtors and creditors were adjusted inter se, and personal expenses were charged to revenue. Comment.

(b) XYZ, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management.

(c) “Corporate accountability and civil and criminal penalties for white collar crimes.” Comment on the major provisions of Sarbanes Oxley Act.

7. Write short notes on any of the four:

(a) Circuit filters.

(b) Reversal of Income under Bank Audit.

(c) Guidance note on Audit of Miscellaneous Expenditure (revised).

(d) Verification of Outstanding Premium and Agents’ Balances.

(e) Reconciliation of Cost and Financial Accounts.