

Roll No.

Total No. of Questions – 7

Time Allowed – 3 Hours

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

Total No. of Printed Pages – 7

Maximum Marks – 100

NOV 2011

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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.

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1. Comment on the following :

- (a) The auditor of SS Ltd. accepted the gratuity liability valuation based on the certificate issued by a qualified actuary. However the auditor noticed that the retirement age adopted is 65 years as against the existing retirement age of 60 years. The company is considering a proposal to increase the retirement age. **5**
- (b) MRE Ltd. provided ₹ 25 lakhs for Inventory obsolescence in 2009-10. In the subsequent years, it was determined that 50% of such stock was usable. The Board of Directors wants to adjust the same through prior period adjustment. **5**
- (c) SRS Ltd. has drawn the financial statement as on 31-3-11 and presented to you **6** alongwith additional information :

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Balance Sheet of SRS Ltd. as on 31-3-11

| Liabilities | Amt. | Assets | Amt. |
|------------------------------------|--------------------|---------------------|--------------------|
| Share capital | 50,00,000 | Fixed Assets | |
| Reserves & Surplus | | Gross block | |
| Profit and Loss A/c | 4,00,000 | Less : Depreciation | 1,00,00,000 |
| Secured Loans | 75,00,000 | Investments | Nil |
| Current Liabilities and provisions | | Current Assets | |
| Creditors for trade | 3,00,000 | Loans & Advances | |
| Advance received | 3,00,000 | Debtors | 25,00,000 |
| | | Advance Paid | 10,00,000 |
| | 1,35,00,000 | | 1,35,00,000 |

Additional Information :

- (a) Entire pre-operative expenses of ₹ 7,00,000/- was charged to Profit and Loss Account whereas for the purpose of Income Tax, only what is allowable is claimed.
- (b) Depreciation as per Books – ₹ 35,00,000/-
Depreciation as per Income tax – ₹ 50,00,000/-
- (c) Losses to be carried forward as per Income Tax Act – ₹ 16,00,000/-
- (d) Donation disallowed while computing tax – ₹ 50,000/-

Considering the additional information, Can you certify that the company has complied with the Accounting Standards and issue an unqualified report ?

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- (d) ABC & Co. and DEF & Co, Chartered Accountant firms were appointed as joint auditors of Good Health Care Ltd. for 2009-10. A special audit was conducted U/s 233A of the companies Act 1956 during March 2011 and observed gross understatement of Revenue. The revenue aspects were looked after by DEF & Co, but there was no documentation for the division of work between the joint auditors. 4
2. Comment on the following :
- (a) A Chartered Accountant in practice has been suspended from practice for a period of 6 months. During the said period, though he did not undertake the audit assignment since he had surrendered certificate of practice, he had appeared before Income Tax authorities in his capacity as a Chartered Accountant. 4
- (b) Mr. J, a Chartered Accountant has identified that ABC Ltd. has taken a loan of ₹ 15 lakhs from Provident Fund Account, during the course of audit. The said loan was not reflected in the books of accounts and statements were prepared ignoring the same. 4
- (c) Mr. K, a Chartered Accountant certified the circulation of a weekly magazine without examining the records and relevant documents. 4

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- (d) Mr. R, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of ₹ 25 lakhs. He has also informed the Manager that if the loan is sanctioned, the Income Tax return of the Manager and staff will be filed without charging any fees, as quid Pro quo for the loan sanctioned. 4
3. (a) XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-11 for audit. The audit assistant observes and brings to your notice that the company's records show following dues : 5
- Income Tax relating to Assessment Year 2007-08 ₹ 125 lacs – Appeal is pending before Hon'ble ITAT since 30-9-09.
 - Customs duty ₹ 85 lakhs – Demand notice received on 15-9-10 but no action has been taken to pay or appeal.
- As an auditor, how would you bring this fact to the members ?
- (b) State the functions of Energy Auditor. 5
- (c) A infrastructure company has constructed a mall and entered into agreement with tenants towards licence fees (monthly rental) and variable licence fees, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account / recognize licence fee as income for 12 months during current year under audit and variable licence fees as income during next year, since invoice is raised in the subsequent year. As an auditor, how would you deal and state in the statement of Accounting policies ? 6

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4. (a) XY Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials.

Draw out an audit plan.

Wastage percentage are

| | |
|-----------|------|
| July 2010 | 1.5% |
| Aug 2010 | 1.7% |
| Sep 2010 | 1.4% |
| Oct 2010 | 4.1% |

- (b) Briefly explain the steps involved in Audit under Indirect Tax. 8

5. (a) As a tax auditor how would you deal and report the following :

(i) An assessee has borrowed ₹ 50 lakhs from various persons. Some of them by way of cash and some of them by way of Account payee cheque / Draft. 3

(ii) An assessee has paid Rent to his brother ₹ 2,50,000/- and paid interest to his sister ₹ 4,00,000/- 2

(iii) An assessee has incurred payment to clubs. 2

- (b) As a bank branch auditor, what aspects will be considered while reporting on credit appraisal, sanctioning / disbursement and documentation in respect of advances in the LFAR ? 5

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- (c) ABC Private Ltd. has granted loan of ₹ 20 crores to XYZ Ltd. a sister concern and it remains outstanding at the year end. How would you report the fact ? 4
6. (a) Corporate responsibility as envisaged under SURBANES AND OXLEY Act-2002. Briefly explain. 3
- (b) State briefly the basic elements of Management Representation Letter. 2
- (c) You are a member of an audit team of B & C Associates, auditors of a Multinational Company YB Co. Ltd. The company is working in CIS environment. The partner in charge of B & C Associates asked you to draw out the audit plan for evaluating the reliability of controls. 5
- (d) Y Co. Ltd. has five entertainment centres to provide recreational facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kilometres. Collections are made in cash. Specify the adequate system towards collection of money. 6
7. Write short notes on any **four** of the following :
- (a) Contract notes in case of audit of member of Stock Exchange. 4
- (b) Scope of Peer Review. 4
- (c) Audit procedure in respect of "Outstanding premium and Agents balance" in Insurance company. 4

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- (d) Comptroller & Auditor General of India were conducting supplementary audit U/s 619 (3) (b) of the Companies Act, 1956 made certain comments on the reported foreign exchange loss in the accounts of a Public sector company. The Board of Directors failed to reply to the comments of C & AG in their report – Comment. **4**
- (e) Propriety elements in CARO 2003. **4**
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