

CA PE - II :: Auditing : November 2005

Roll No.....

Total No. of Questions— 8]

Time Allowed : 3 Hours

[Total No. of Printed Pages—3

Maximum Marks : 100

LG

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

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

Marks

1. As an auditor comment on the following situations/statements:
 - (a) M/s Bonafide Ltd. has taken a Group Gratuity Policy from an Insurance Company. During accounting year 2004-05 it received a communication from the said Insurance company informing that premium amount for the accounting year 2003-04 was less charged by Rs.75 lacs on account of arithmetical error on the part of Insurance Company. M/s Bonafide Ltd. paid the said sum of Rs. 75 lacs during the accounting year 2004-05 by debiting the same to Prior Period Expenses. 5
 - (b) As on 31.3.2005, there was a claim for damage from one of the customers against the company engaged in selling of accounting software fro an alleged failure to provide satisfactory after-sales services in relation to the software purchased from it. Before finalisation of the accounts for the year ended 31.3.2005 (the accounts were finalised on 14th June, 2005), the company won the case and had no liability whatsoever in this regard. The company has made a provision for this contingent liability in its accounts for the year ended 31.3.2005, which, it says, will be reversed in the next year. 4
 - (c) Mr. A was appointed auditor of AAS Ltd. by Board to fill the casual vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The Board filled this vacancy by appointing you through duly passed Board resolution. 4

LG

P.T.O.

(2)

	LG	Marks
(d) SK Ltd. has fully computerised its accounting operations. The stock records are maintained up to date with timely entries passed for all receipts and issues. The company has hired a professional security agency, which <u>monitors</u> and implements a close vigilance over the operations of the company. As such, the company had dispensed with the practice of taking stock of their inventories at the year end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations.		4
2. (a) Give your comments on the following:		
(i) The auditors of ABC Ltd. issued a qualified opinion about the truth and fairness of the accounts of the company for the year ended 31.3.2005. They typed out the matters of qualifications in a bold <u>font</u> so as to invite the attention of the readers to them. The Board objected to it and required them to be typed out in the same normal font as other paras of the report appear.		5
(ii) Auditors of M/s Fortune India (P) Ltd. were changed for the accounting year 2004-05. The closing stock of the company as on 31.3.2004 amounting to Rs. 100 lacs continued as it is and became closing stock as on 31.3.2005. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs. 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor.		5
(b) What categories of Companies are specifically exempted from the <u>application</u> of Companies (auditor's Report) order, 2003?		8
(i) Profit and Loss Statement Travelling Expenditure Rs. 50,000		2
(ii) Balance sheet Debtors Rs. 2,000		2
(c) Briefly explain the following:		
(i) Control Risk		2
(ii) Management Representation.		2

LG

P.T.O.

(3)

	LG	Marks
3. (a) Under what circumstances change in accounting policies is permissible?		8
(b) What are the inherent limitations of audit?		
4. How will you verify/vouch the following.		
(a) Sales Commission Expenditure		4
(b) Stock lying with Third Party		4
(c) Purchase of Motor car.		4
(d) Sales Return		4
5. (a) What are the powers of C & AG in relation to the accounts of Government Companies audited by the statutory auditors?		8
(b) Is there any change in audit approach in the audit of computerised accounts as compared to audit of manual accounts?		8
6. (a) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.		12
(b) What special steps will you take into consideration in <u>auditing</u> the receipts from entry fees of an amusement park? Mention any four points specific to the issue.		4
7. (a) State the matters to be specified in Auditor's Report in terms of provisions of Section 227(3) of the Companies Act, 1956.		8
(b) What are the reporting requirements in Companies (Auditor's Report) Order, 2003 in respect of money raised by public issues?		8
8. Write short notes on the following:		
(a) General Purpose of Financial Statements		4
(b) Permanent Audit File		4
(c) Going Concern Concept		4
(d) Vouching		4

LG

