

CA PE - II :: Auditing : November 2006

Roll No.....

Total No. of Questions— 8]

Time Allowed : 3 Hours

[Total No. of Printed Pages—2

Maximum Marks : 100

PD

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) SMT Enterprises entered into a contract for sale of its goods worth Rs. 24 lacs with ST Ltd. The goods were inspected, approved and finalised by the inspection team of ST Ltd. ST Ltd. made the whole payment of Rs. 24 lacs. However, it requested SMT Enterprises to dispatch the goods in six equal monthly instalments from October, 2005 to March, 2006. In the month of January, 2006, due to natural calamity, ST Ltd. informed SMT Enterprises to stop dispatches of the remaining three instalments until further notice. At the time of finalising its accounts for the financial year 2005-06, SMT Enterprises booked sales amounting to Rs. 12 lacs and showed remaining Rs. 12 lacs as Advance Against Sales. 5
 - (b) X Ltd. had a major break down in its plant in the month of February, 2006. In the month of March, 2006 it entered into an agreement with an engineering firm for the purpose of repairing its plant for a consideration of Rs. 180 lacs. The engineering firm started the repairing work in the month of April, 2006 and completed it in the same month. X Ltd. made the provision for said expenditure on repairs in its books of account for the financial year 2005-06 on the plea that the event of break down leading to repair expenditure had taken place in the financial year 2005-06, binding contract for repairs was entered into during the financial year 2005-06 and repair work was also completed before the financial statements were approved by the Board of Directors of the company. 5
 - (c) The management tells you that WIP is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening and closing WIP would be more or less the same. 4
 - (d) JKT Ltd. having Rs. 40 lacs paid up capital, Rs. 9.50 lacs reserves and turnover of last three consecutive financial years, immediately preceding the financial year under audit, being Rs. 4.90 crores, Rs. 4.50 crores and Rs. 6 crores, but does not have any internal audit system. In view of the 4

management, internal audit system is not mandatory.

2. (a) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director. 4
- (b) PBS & Associates, a firm of Chartered Accountants, has three partners P, B and S. The firm is already having audit of 60 companies, which includes 2 branch audits of a company. The firm is offered 3 company audits, out of which one is a private company, other is a foreign company and the third one is a public company. Decide and advise whether PBS & Associates will exceed the ceiling prescribed under Section 224(1B) by accepting the above audit assignments? 4
- (c) RT Ltd. Received Rs. 50 lacs as grant from the State Government towards the part cost of a specific machinery. The company credited the above sum of Rs. 50 lacs as income in its Profit and Loss Account for the year. What are your views on the accounting treatment of the above receipt of Rs. 50 lacs? 4
- (d) Audit of expenditure is one of the major components of Government Audit. In this context, write in brief what do you understand by: 6
- (i) Audit against Rules and Orders
 - (ii) Audit of Sanctions
 - (iii) Propriety Audit

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(2)

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3. (a) What are the basic principles governing an audit as laid down in AAS 1 ? Explain in brief.		10
(b) What is meant by external confirmation? Mention four situations where external confirmation may be useful for auditors.		6
4. How will you vouch and/or verify the following ?		
(a) Goods sent on Consignment		4
(b) Expenditure on Foreign Travelling.		4
(c) Re-issue of Forfeited Shares		4
(d) Premium paid for insurance of a Motor car.		4
5. (a) What special steps are involved in audit of a Cinema Hall?		10
(b) What do you understand by Internal checks?		6
6. (a) Explain the scope paragraph of auditors Report.		8
(b) How the work of an expert should be evaluated before accepting the same as an Audit evidence?		8
7. (a) While conducting the audit of accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply decreased in comparison to the previous year. State the steps you would take to satisfy yourself.		12
(b) Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term?		4
8. Write short notes on the following :		
(a) Audit Programme		4
(b) Current Investments		4
(c) First in First out (FIFO) method		4
(d) Accounting Estimates.		4

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