



BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
PROFESSIONAL COMPETENCE COURSE
GROUP – I

Model Test Paper – BOS/PCC/ Auditing And Assurance – 2/2007

Time : 3 hours

Maximum Marks : 100

PAPER – 2 : AUDITING AND ASSURANCE

Answer all the questions

1. Answer any ten questions.
 - (a) The primary responsibility for the prevention and detection of fraud and error rests with auditor of the company. Comment.
 - (b) In case of difference of opinion among the joint auditors, the joint auditors are bound by the view of majority of joint auditors. State it is true or false.
 - (c) Rs. 5 lakhs paid by a pharma company to the legal advisor defending the patent of a product treated as Capital Expenditure. Is the treatment correct?
 - (d) State whether a casual vacancy created on account of resignation can be filled by the Board of directors.
 - (e) What is the meaning of good evidence? Give an example.
 - (f) The auditor has to ensure that material items are properly and distinctly disclosed in the financial statements. What are material items?
 - (g) The members of C. Ltd. preferred a complaint against the auditor stating that he has failed to send the auditors report to them. Comment.
 - (h) ULT Company is a private company with unlimited liability. It has paid up share capital of Rs. 20 lakhs. Will CARO, 2003 be applicable to it?
 - (i) When an adverse opinion is expressed?

- (j) Cost auditor of CD Ltd. is appointed by the Board of Directors. Can the cost auditor be appointed by Board of Directors?
- (k) The auditor of a company wanted to see the minutes book of Directors meetings. The Chairman of the company refused for the same on the ground that matters of confidential nature were contained therein. Comment.
- (l) As per view of a director of TCG Ltd. 'the primary responsibility of prevention and detection of fraud and errors is of auditor.' Comment. *(10 X 2 Marks)*
2. (a) "For initial audit engagements, the auditor should obtain sufficient appropriate audit evidence as per AAS 22". Comment. *(8 Marks)*
- (b) What is auditor's report? What are the basic elements of auditor's report as per AAS 28 (The Auditor's Report on Financial Statements) *(12 Marks)*
3. (a) In an CIS environment, an entity establishes an organizational structure and procedures to manage the CIS activities. What are the characteristics of an CIS organizational structure? *(5 Marks)*
- (b) While auditing the books of PE Pvt. Ltd., it is found that personal expenditure of Mr. Freeflow, a director of the company, has been met by the company. How will this expenditure be vouched? *(5 Marks)*
4. (a) SBD Ltd. is a company in which 13% of the subscribed capital is held by a public financial institution and 14% of the subscribed capital is held by a Government company. State whether SBD Ltd. is required to pass a special resolution for the appointment of auditor. *(5 Marks)*
- (b) Whether the auditor can exercise lien on the client's document in his possession for non-payment of fees for work done for the client? *(5 Marks)*
5. State the special steps involved in the audit of a club. *(10 Marks)*
6. (a) Which are the different organisations that require audit under law? *(5 Marks)*
- (b) The paid up capital and reserves of the BC Ltd. is Rs. 51 lakh as at the commencement of the financial year 2005-06. Is BC Ltd. required to have an internal audit system? *(5 Marks)*
7. (a) How would you verify the issue of bonus shares?
- OR
- What is audit risk? What are the different components of audit risk? *(6 Marks)*
- (b) What are the significant matters observed during the course of audit, a record of which should be kept in the audit note book? *(4 Marks)*
8. Write short notes on any two of the following:
- (a) Internal Control Questionnaire
- (b) Director's Responsibility Statement
- (c) Intangible Assets *(5 X 2 Marks)*