



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

**Model Test Paper – BOS/PCC/ Auditing And Assurance – 1/2007**

*Time : 3 hours*

*Maximum Marks : 100*

**PAPER – 2 : AUDITING AND ASSURANCE**

*Answer all the questions*

1. Answer any ten questions.
  - (a) SG Ltd. is a subsidiary of a Government company. Can it be called a Government Company?
  - (b) SBC Ltd. is a Company in which 26% of the subscribed share capital is held by the Central Government. Whether it is required to appoint / reappoint the auditor by special resolution?
  - (c) 'Pratham' is the first auditor of company Nimman Pvt. Ltd. He is removed from office before the expiry of his term. Is obtaining prior approval of Central Government is necessary?
  - (d) 'Dham Sanstha' is a company licenced to operate under section 25 of the Companies Act, 1956. Will CARO, 2003 be applicable to it?
  - (e) The internal auditor as well as the statutory auditor are both appointed by the members in general meeting. Comment.
  - (f) 'Child Treat' is an NGO, registered under the Companies Act, 1956. It maintains its books of accounts on cash basis. Would it amount to non compliance of the provision of the Companies Act?
  - (g) Karmen did the audit of XX Pvt. Ltd. Directors of XX Pvt. Ltd. claim that audit working papers are the property of the company. Is the claim proper?

- (h) 'D' a CA in practice disclosed information acquired in the course of his professional engagement to his friend 'P' without the consent of his client. Comment.
- (i) What is Control Risk?
- (j) ACC & Co. is a partnership firm. At the time of admission of D, goodwill of the firm is raised to Rs. 100000, by passing following entry;

Goodwil a/c	Dr.	100000
A's Capital a/c		33334
B's Capital a/c		33333
C's Capital a/c		33333

Is the entry passed by ACC & Co. in conformity with AS 10?

- (k) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward losses. Comment.
- (l) An auditor purchased goods worth Rs.1,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers. Comment. (10 X 2 = 20 Marks)
2. (a) An entity's continuance as a going concern is usually assumed in the preparation of financial statements. However there are some indicators questioning the appropriateness of the going concern assumption. What are those indicators? (10 Marks)
- (b) What is the purpose of the AAS 20 (Knowledge of Business). State the sources of obtaining knowledge of the industry and the entity. (10 Marks)
3. (a) AB Pvt. Ltd. maintains its books of accounts in EDP environment. According to Mr. M, the Chief Accountant of AB Pvt. Ltd., 'auditing in an EDP environment is simpler since the trial balance always tallies.' Analyse critically his statement. (5 Marks)
- (b) What is the meaning of the term 'Examination in Depth'? Explain with an example. (5 Marks)
4. (a) While doing audit of a concern, you observe that there are some cheques received by the concern on the last date of the financial year, but they have not been deposited with the bank on that day. No entry is passed for these cheques received by the auditee on the last day of the year. Comment. (6 Marks)
- (b) How will you vouch the "Goods sent out on sale or return basis"? (4 Marks)
5. State the special steps involve in the audit of a hospital. (10 Marks)
6. (a) CG Ltd. is a company in which 25% of the paid up share capital is held by a State Government and 26% of the paid up share capital is held by a Government Company. Who will appoint the auditor of CG Ltd.? Also state other categories of companies to which provision of section 619B is applicable. (6 Marks)

- (b) Books of accounts of ST Pvt. Ltd. were audited by CA. Sidharth. After completing audit he issued an unqualified audit report. What does an unqualified audit report indicate? (4 Marks)
7. (a) CNT Ltd. has raised money by issue of shares to meet the cost of construction of building and plant. Building and plant cannot be made profitable for a long time. CNT Ltd. wants to pay interest on paid up share capital during construction period. Is there any provision in the Companies Act, 1956 under which it can pay interest on paid up share capital during construction period?

OR

SW Ltd. wants to issue sweat equity shares. Explain the meaning of sweat equity shares and conditions to be fulfilled for issuing these type of equity shares.

(6 Marks)

- (b) How auditing is related to financial management? (4 Marks)
8. Write short notes on any two of the following:
- (a) Work performed by others
  - (b) Limitation of scope
  - (c) Qualities of auditors
- (5 x 2 = 10 Marks)