

CA PE - II :: Auditing : May 2007

Roll No.....

Total No. of Questions— 8]

Time Allowed : 3 Hours

[Total No. of Printed Pages—2

Maximum Marks : 100

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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 Nos. 1 and 2 and **four** from the rest.

- | | Marks |
|--|-------|
| 1. As an Auditor, comment on the following: | |
| (a) You are a Principal Auditor of Sri Company Limited which has three branches the accounts of which are subject to audit by qualified branch auditors. One of the branch auditors qualified his report for non-provision of doubtful debts which he considered to be material for the company as a whole. Subsequent to their reporting, but before you could sign the audit report on the accounts of the company as a whole, the management informed you that the debt under the subject&ndah;matter of qualification in Branch Auditor's report had been fully recovered. | 5 |
| (b) A Ltd. is a holding company of B Ltd. B Ltd. is going to start a new project estimated to cost Rs. 20 crores. For this A Ltd. made an investment of Rs. 10 crores in the shares of B Ltd. by borrowing the same from financial institution @ 10% p.a. As on 31st March, 2005 the project was not completed. The directors of A Ltd. want to capitalise the interest upto 31st March, 2005 on borrowings amounting to Rs. 1 crore and add it to the cost of investments. | 5 |
| (c) A contractor entered into a contract for building roads for Rs. 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be Rs. 2.40 crores. The accountant transferred Rs. 0.24 crores i.e., 60% of total loss of Rs. 0.40 crores to Profit and Loss account in the current year. | 5 |
| (d) Finished goods costing worth Rs. 10 lacs were damaged due to floods in July 2004. These goods were included in the closing stock as on March 31, 2005 at an estimated realisable value of Rs. 4 lacs. These goods, ultimately, could be sold for Rs. 3 lacs only in the accounting year 2005-06. The difference of Rs. 1 lac was debited to prior expenditure in the accounting year 2005-06. | 5 |
| 2. (a) Give your comments on the following: | 4+4 |
| (i) M/s A & Co., Chartered Accountants, were appointed first auditors of | |

KLM Ltd. by its Board of Directors. The shareholders of the company removed M/s A & Co. before the expiry of their term, by an ordinary resolution in an Extraordinary General Meeting and appointed another auditors in their place. M/s A & Co. have objected that without prior approval of Central Government their removal is illegal.

- (ii) The Articles of Association of ABC Ltd. do not authorise the company to buy back its own shares. However, a special resolution has been passed in general meeting of the company authorising the buy-back. The Directors of the company are of the opinion that even without authority in the Articles of Association the buy-back is possible due to special resolution passed in the general meeting authorising the buy-back.
- (b) W Ltd. approached SB & Co. a leading firm of Chartered Accountants having two partners S & B to conduct the audit for the year ended on 31st March 2006. Mr. B is holding 500 equity shares @ Rs. 50 each in W Ltd. Can SB & Co. accept audit of W Ltd.? 4
- (c) In a medium size trading organisation the accountant was given additional responsibility of making recoveries from the debtors. On one occasion, when an insurance claim of Rs. 25,000 was received, he credited the same to the account of a debtor and misappropriated the cash which he had recovered from the said debtor. Pinpoint weaknesses in the internal control system which led to this situation. 4

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P.T.O.

(2)

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3. (a) Explain audit risk by reference to its components.		8
(b) In case of government companies, Comptroller and Auditor General of India has a right to issue directions to auditor and do supplementary audit. Explain.		8
4. How will you vouch/verify the following ?		4x4
(a) Loss of stock by theft.		
(b) Stock lying with subcontractor for fabrication.		
(c) Sale of empties		
(d) Expenditure for advertisement in newspaper..		
5. (a) Give four examples of accounting estimates.		4
(b) State any four important elements of input control in processing of data in a computerised accounting system.		4
(c) What are the disadvantages of the use of an audit programme?		4
(d) Mention any four financial indications which may indicate the risk that continuance as a going concern may be questionable.		4
6. Define a Comprehensive Audit Programme for auditing the receipt of fees from the students of a school run by a Charitable Trust.		16
7. (a) (i) What is a qualified audit report?		3+5
(ii) Under what circumstances a qualified audit report is issued?		
(b) On what companies the companies (Auditor's Report) Order, 2003 is applicable and what companies are not covered by it?		8
8. Write short notes on the following :		4x4
(a) Fundamental Accounting Assumptions.		
(b) Provisions versus Specific Reserves.		
(c) Sufficient Appropriate Audit Evidence		
(d) Auditor's Independence.		

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