

Note: Question 1 is compulsory. Attempt any five from the rest.

Question 1

- (A) Define the terms "Those Charged with Governance" and "Management", under SA – 260. (5 marks)
- (B) The responsibilities of Joint Auditors are joint and several. Discuss. (5 marks)
- (C) An assistant of X & Co, Chartered Accountants, detected an error of ` 5 per interest payment, which recurred a number of times. The General Manager (Finance) of T Ltd advised him not to request for passing any adjustment entry as individually the errors were of very small amounts. The Company had 2000 Deposit Accounts and interest was paid quarterly. State your views in this issue, with reasons. (5 marks)
- (D) What are 'Analytical Procedures'? (5 marks)

Question 2

State with reasons (in short) whether the following statements are correct or incorrect (Answer any eight):

- I) The scope of work of an internal auditor may extend even beyond the financial accounting.
- II) An auditor has nothing to do with prudence or profitability of a company.
- III) Mr. Pawan, a practising Chartered Accountant, is appointed as "Tax-Consultant" of ABC Ltd., in which his father Mr. Singh is the Managing Director.
- IV) Risk of material misstatement may be defined as the risk that the financial statements are materially misstated subsequent to audit.
- V) Substantive procedure may be defined as an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting material misstatements at the assertion level.
- VI) Cluster sampling is less effective than random sampling.
- VII) Errors of duplication affects the Trial Balance.
- VIII) As per the Standard on Auditing (SA) 520 "Analytical Procedure s" "the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data only.
- IX) Director's relative can act as an auditor of the company .
- X) The first auditor of a Government company was appointed by the Board in its meeting after 10 days from the date of registration

(8x2 = 16 Marks)

Question 3

- (A) What do you understand by Test Checks? (4 marks)
- (B) Due to fire in the factory the Plant and Machinery got damaged. The estimated cost of repairs was nominal, i.e. ` 5,000. However, a suggestion was received that if the design of the Plant and Machinery during such repair shut down could be modified, the production would increase substantially. The cost of such repairs together with modification suggested was ` 1 Lakh. The suggestion was accepted and ` 1 Lakh spent for the said purpose. The Company charged the entire expense to P&L A/c. Comment. (4 marks)
- (C) In a medium sized Firm, the Accountant was given additional responsibility of making recoveries from the Debtors. On one occasion, when an Insurance Claim of ` 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 marks)
- (D) Describe the Audit Process in an Automated Environment. (4 marks)

Question 4

- (A) How will you verify Recovery of Bad Debts written off? (4 marks)
- (B) How will you verify Goods send free of charge to dealers by way of quantitative discount? (4 marks)

- (C) How do you verify Cash – in – Transit? (4 marks)
- (D) How will you verify Contingent Liabilities? (4 marks)

Question 5

- (A) Explain what is meant by the expression Examination in Depth and illustrate by reference to the verification of a payment made to a Creditor for goods supplied? (4 marks)
- (B) A newly set up Private Limited Manufacturing Company has incurred the following expenditure during its construction period. It intends to capitalize these expenses. Is the Company justified? State with reasons –
 1. Foreign Tour Expenses of Directors for purchasing Plant and Machinery. (4 marks)
 2. Technical Staff's Salary for erection of Plant and Machinery.
 3. Non – Technical Staff's Salary during the period of installation of Plant and Machinery.
 4. Other Sundry Expenses such as Stationery, Printing, Postage, Telegram and Telephones and Local Conveyance Charges, etc.
- (C) List the benefits for auditors due to Automated Environment. (4 marks)
- (D) What are powers of an Auditors of a Company? (4 marks)

Question 6

- (A) You are the Chief of the Internal Audit Department of a large manufacturing concern. As the head of the department your duty, inter alia, is to advise on and observe the maintenance of proper records of Plants, Machinery, and Tools and Dies as well as to keep a watch upon the chances of Obsolescence of the Plants and Machineries. Draft a suitable programme by which you can discharge your duties properly. (8 marks)
- (B) Can a properly appointed Auditor be removed before the expiry of his term? If yes, explain the procedure for the same. (4 marks)
- (C) The Finance Manager of Belt Ltd is of the opinion that before declaration of dividends it would not be necessary to set off the carried forward amount of debit balance in the Profit & Loss Account against current Revenue Profit but the same could be set off against Revaluation Reserve. Do you agree?
In a Company, Fixed Assets have been revalued and there has been resulting Surplus of ` 2, 00,000, which is transferred to Revaluation Reserve. The Company has a debit balance in Profit and Loss Account ` 1, 20,000 as Accumulated Brought Forward Losses. The Company has adjusted this loss balance against Revaluation Reserve. Give your comments.
Fixed Assets have been revalued and the resultant Surplus adjusted against Brought Forward Losses. Comment.
At the beginning of the year, the Company has a Capital of ` 15 Crores, General Reserve of ` 1 crore and Revaluation Reserve of ` 6 crores. In the year 2013-2014 under audit, the Company has incurred a loss of ` 5.5 Crores. The Company proposes to adjust the loss against the Revaluation Reserves. Comment (4 marks)

Question 7

- (A) What special points will you take into consideration in auditing the accounts of Hotels? (8 marks)
 - (B) Write short notes on Cut – off Transactions or Cut – off Procedure. (4 marks)
 - (C) Write short notes on Summary Written Reports / Flash Reports. (4 marks)
- OR
- What is meant by Letter of Engagement? What are its purpose? (4 marks)
