

PRIME MODEL QUESTION PAPER

PE II

AUDITING

Answer question no. 1 and 2 which is compulsory and **four** from the remaining.

1. Comment and give your views in the following:

(a) While conducting the audit of a company for the year ended 31st March 2007, the auditor called for the General Ledger for the year ended 31st March 2003 for some reference. He could not get that ledger as the books of accounts of that year were already destroyed as per the instructions of the Executive Director of the Company. 3 Marks

(b) Auditors of M/s Famec Tech India Private limited were changed for the accounting year 2006-07. The closing stock of the company as on 31.3.2006 amounting to Rs 100 lakhs continued as it is and became closing stock as on 31. 3.2007. The auditors of the company propose to exclude from their audit programme the audit of closing stock of Rs 100 lakhs on the understanding that it pertains to the preceding year, which was audited by another auditor. 4 Marks

(c) The auditor fails to obtain sufficient information to form an overall opinion on the matters contained in the financial statements. 3 Marks

(d) 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 its customers. 4 Marks

(e) Calls in arrears included an amount of Rs 20,000 due from Directors of the company. The Articles of Association provided for charging interest on calls in arrears. The company did not provide interest on the amount due from Directors. 4 Marks

2. As an auditor comment on the following:

(a) The company had a branch office, which recorded a turnover of Rs 1,99,000 in the earlier year. The auditor's report of the earlier year had no reference regarding the branch although, the branch audit had not been carried out by the statutory auditor. 4 Marks

(b) At the AGM of a company in which a nationalized bank held 30% of the subscribed capital, M/s. Krishna & Co, Chartered Accountants, were appointed as auditor by passing an ordinary resolution. 5 Marks

(c) At the AGM of Amkut Ltd, Mr. X was appointed as the statutory auditor. He however, resigned after 3 months since he wanted to give up practice and join industry. 4 Marks

(d) Ganga-Kaveri Project Ltd, was incorporated on 1.7.2006. During the year ended 31.3.2007 there was no manufacturing or trading activity except rising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore the Chief Accountant of the company contends that for the relevant year there was no need to prepare a statement of profit or loss or any other statement except a Balance Sheet as on 31.3.2007. 5 Marks

3. (a) What is Internal Audit? Describe the basic principles of establishing internal auditing in a business concern? 8 Marks

(b) Explain the various aspects involved in drafting an audit programme? 8 Marks

4. (a) Mention briefly the conditions or events, which increase the risk of fraud or error leading to material mis-statement in Financial Statements? 8 Marks

(b) State your opinion on the “The duties of auditors are limited to the verification of the arithmetical accuracy of the books of accounts”. 8 Marks

5. How will you verify/vouch the following?

(a) Goods sent out on sale or return

(b) Deferred Revenue Expenditure

(c) Wasting Assets

(d) Live-Stock

4 x 4 = 16 Marks

6. What are the special steps involved in conducting the audit of an Educational Institution? (16 Marks)

7. (a) Explain briefly the approaches to EDP auditing? 8 Marks

(b) Explain the internal controls in an EDP Environment? 8 Marks

8. Write short notes on the following:

(a) Stratified Sampling.

(b) Control Risk

(c) Accounting Estimates

(d) Propriety Audit

4 x 4 = 16 Marks