



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF  
PAKISTAN (ICPAP)**

Stage	<b>Professional (Old)</b>	Course Code	<b>XI</b>
Examination	<b>Winter-2011</b>	Course Name	<b>Advanced Auditing</b>
Time Allowed	<b>03 Hours</b>	Maximum Marks	<b>100</b>
<b>NOTES:</b>			
1. All questions are to be attempted.			
2. Answers are expected to be precise, to the point and well written.			
3. Neatness and style will be taken into account in marking the papers.			

**Question No 1:-**

A summarized balance sheet of a Public Company, Pioneer Corporation Limited for the year ended June 30, 2011 is as follows:

<b>Equities</b>	<b>Amount (Rs)</b>	<b>Assets</b>	<b>Amount (Rs)</b>
Share capital (10,000 shares of Rs 100/- each)	100,000	Fixed assets (at revalued amount)	650,000
Surplus revaluation reserve of fixed assets	250,000	Capital work-in-progress	150,000
Unappropriated profit	400,000	Goodwill	75,000
Reserve for exchange fluctuation	150,000	Patent and trade mark	25,000
Long term participation term certificates	300,000	Investments	500,000
Debenture loan	200,000	Stock in trade	250,000
Reserve for issue of bonus shares	20,000	Debtor	175,000
Payable to workers welfare fund	100,000	Advances and deposits	25,000
Provision for deferred		Cash and bank balance	170,000

taxation	100,000		
Provision for taxation	150,000		
Payable to workers' profit participation fund	250,000		
	<b><u>Total</u></b>	<b><u>2,020,000</u></b>	<b><u>Total</u></b> <b><u>2,020,000</u></b>

**Notes:**

1. Contingent liabilities
 

Forward contracts outstanding	Rs 25,000/-
Letter of credits outstanding	Rs 50,000/-
Litigation	Rs 50,000/-
2. Capital commitments on modernization of plants to be presented for approval in next meeting Rs 100,000/-
3. Following adjustment were not made in the above draft accounts provided:
  - a. Depreciation on fixed assets short provided Rs 50,000/-
  - b. Short provision of deferred taxation:
 

Current	Rs 25,000/-
Previous years balance	Rs 100,000/-
  - c. Provision for staff gratuity Rs 10,000/-
  - d. Stock obsolescence Rs 15,000/-
  - e. Diminution of investment Rs 20,000/-
  - f. Cash shortages Rs 5,000/-
  - g. Realizable value of fixed assets Rs 500,000/-

**Required:**

1. The company's finance director has sought an advice from you whether the company can issue bonus share of Rs 20,000/-. (7 marks)
2. Draft auditor's certificate to be issued in case you agree that the company can offer bonus shares. (7 marks)
3. What would your opinion be had Pioneer Corporation Limited been a private company. (6 marks)

### **Question No 2:-**

A) In the light of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) list down the disclosure requirements in the financial statements of a listed company in respect of the followings: (10 marks)

1. Accounting policies.
2. Long term loans.
3. Deferred liabilities.
4. Contingencies and commitments.
5. Revaluation of fixed assets.
6. Exchange variances affecting the fixed assets.
7. Long term deposits, prepayments and deferred cost.
8. Statement of changes in financial position.

B) Your firm acts as auditors to Excellent Limited. You have been presented with financial statements for the year ended September 30, 2011 which include additions to plant, machinery, fixtures and fittings stated after deducting government grants.

#### **Required:**

State the audit work that you would carry out in connection with: (10 marks)

1. Fixed asset additions during the year.
2. Disposal during the year.
3. Fixed assets held at September 30, 2011.
4. Depreciation charge for the years.

### **Question No 3:-**

As an auditor appointed under section 253 of the companies' ordinance 1984 what would be your response in the following situations? (2 x 10 marks)

1. While appointing you as auditor against a casual vacancy, the board of directors' states that you will not be entitled to audit certain major payments stated to be commission on sales.
2. The finance director of the company refuses to show you the production records of the company for the year under audit, stating that as a financial auditor; you can only refer to financial books and records.

3. You have been appointed as auditor of National Corporation Limited, at its annual general meeting held on August 19, 2011. The company closes its accounts on March 31 every year. When your assistant for a surprise check on September 30, 2011, he is not allowed to do so by the finance director who tell him that audit can be conducted only after the accounts for the year are ready.
4. The sales manager of United Corporation Limited, of which you are auditor, does not reply to a query raised by you regarding a sales contract. He argues that he is no way concerned with preparation of accounts and, therefore, you should seek replies to all your questions from the accounts manager.
5. Grand Electronics limited, of which you are the auditor, has two overseas branches, The accounts of these braches duly audited in accordance with local laws, are received at the head office in Pakistan. You wish to visit the branch office since you find that the accounts are not properly presented; the management says that we will not allow you to do so.
6. You wish to make a qualification in your report regarding material discrepancies noticed between the books stocks and the physical stocks. The management advises you to make these observations orally at the annual general meeting instead of qualifying the report, on the ground that the shareholders would better appreciate the situation if it is explained to them orally at the meeting.
7. You father-in-law is one of the directors of Orient Limited, of which you are the auditor and holds 30% of its shares. You wish to disclose this fact in your audit report. The chief accountant of the company argues that there is no need to do so since you are not directly interested in the company.
8. The board of directors of the company states that they will authenticate the accounts only when the auditors have signed the same, as this will give and assurance that the accounts have been prepared properly by the accounts department.
9. As a joint auditor of a large construction company, you are not in agreement with your co-auditor regarding the accounting policy followed by the company in regards to recognition of profit on long-term construction contract. You find that consensus among the auditors on the subject is not possible. Therefore, you wish to give a separate audit report. The management, however, insists that the joint auditors must submit a mutually agreed-upon report.

10. As a joint auditor of a company, you are charged with negligence in auditing its accounts. The matter relates to a division of the company which was audited by your co-auditor. Your co-auditor argues that since that the audit report was signed jointly, you are equally responsible.

#### **Question No 4:-**

To keep the integrity of accounting profession around the globe, fundamental principles are laid down by The International Federation of Accountants (IFAC) in the form of "Guidelines of Ethics for Professional Accountants". These guidelines are divided in to two parts:

1. Part A - Applicable to all professional accountants.
2. Part B - Applicable to professional accountants in Public Practice.

What are the guidelines mentioned in the above two parts? Discuss in detail. (20 marks)

#### **Question No 5:-**

With which of the following statements do you agree: (20 marks)

1. While auditing computerized accounts, the auditor does not need to change his audit approach in any way. After all, the basic audit procedures of vouching and verification are equally applicable in all situations.
2. Computers can be used only in large organizations and most Pakistani enterprises being relatively small in size cannot afford them.
3. To audit information processed through a computer, an auditor needs to process expert knowledge of computer hardware and operations.
4. It is possible as well as desirable to use computers for maintaining integrated information systems.
5. A computer programme is a logical set of instructions given to computer.
6. Computers cannot make decisions aesthetics as well as in situations where ethical considerations are involved.
7. Evaluation of internal controls assumes special importance in a computerized environment.
8. Generalized audit software packages can be used only in auditing on line computer systems.
9. For preparing test packs, an auditor needs to gather a representative sample of entries.

10. The test packs help the auditor in testing the programmes of the entity by using simulated data.
11. Generalized audit software packages help the auditor in testing the entire processing of data through specially designed audit programmes.
12. Check digits are used to ensure that the input has been correctly fed into the computer.
13. If accounting data is processed on stand-alone microcomputers, audit techniques undergo minor changes as compared to a situation where accounts are maintained manually.
14. A test pack helps the auditor in checking the correctness of the input data.
15. While auditing computerized accounts, an auditor normally uses analytical review procedures to a greater extent than in a manual environment.
16. Many of the statistical sampling methods become highly cost effective if the auditor uses computer to apply them.
17. Where the accounts of the entity under audit are processed by an independent data processing center, the auditor can safely assume that they are reliable for these purposes.
18. In a computerized accounting environment, there is no use to keep the documentary evidences of business transactions.
19. Importance of manual accounting system can be ignored even an organization is working in a computerized environment.
20. Computerized accounting system is more sophisticated and swift than manual accounting system.

<<THE END>>