# Practice Paper
# (with suggested hints)
# on
# Advanced Auditing

# for

# CA Final, June 2009

By: CA Kamal Garg
for queries email at cakamalgarg@gmail.com

**Q. 1.** As a Statutory Auditor, state your views on the following:

(a). ABC Limited has acquired a press machine from one of the recognised vendors from Japan. The payment for machine was made by taking the loan in Japanese Yen. The foreign exchange loss in relation to this asset linked liability has been capitalised by the company. *(Refer AS 11 and Schedule VI)*

(b). One of the RBI Circular requires treating non-convertible preference shares issued to an entity abroad, as External Commercial Borrowings. Accordingly, the chief accountant of XYZ Limited has charged the coupon amount on its non-convertible preference shares in the P & L Account for the financial year 2008-2009. *(Refer Schedule VI)*

(c). PQR Limited has contributed a sum of Rs. 70,000 each to a charitable school and a trust for handicapped people. The company has earned Rs. 15 Lakhs average after tax profits in the preceding three years. *(Refer Section 293(1)(e) of the Companies Act, 1956)*

(d). LMN Limited has purchased shares at a purchase price of Rs. 100 per share and sold these shares after one month at a price of Rs. 150 per share, on which date the share price of Rs. 160 per share was quoted in the market. *(Refer Section 227(1A) of the Companies Act, 1956)*

**Q. 2.** Answer the following with reference to the relevant provisions of Chartered Accountants (Amendment) Act, 2006 and Schedules thereto:

(a). Mr. X is an article assistant of Mr. A, a practising chartered accountant. Mr. X has used the following designation on his name card: “Mr. X, B. Com (H), ACA (Article of Chartered Accountant).” *(Refer Section 24 of the Chartered Accountants Act, 1949 as amended)*

(b). Mr. L, a chartered accountant working in an IT company has shared his employment emoluments with Mr. M, a chartered accountant in practice. *(Refer Clause I Part II of First Schedule to the Chartered Accountants Act, 1949)*

(c). Mr. P, a chartered accountant in practice, owns an agricultural land in Haryana and carries out agricultural activity thereon without permission from ICAI. *(Refer Regulation 190A of the Chartered Accountants Regulations, 1988 as amended)*

(d). Mr. A, a practising chartered accountant, has charged the audit fees from the cooperative society as a percentage of its authorised capital. *(Refer Regulation 192 of the Chartered Accountants Regulations, 1988)*

**Q. 3.** Answer the following:

(a). ABC Private Limited has approached you to advise them on the applicability of CARO, on the basis of following information as on 31-03-2009 (all figures in Rs. Lakhs):

| | | |
|---|---|---|
| (i). | Partly paid up equity share capital | 20.00 |
| (ii). | Fully paid up preference share capital | 15.00 |
| (iii). | Revaluation Reserve | 5.00 |
| (iv). | Securities Premium | 10.00 |
| (v). | General Reserve | 2.00 |
| (vi). | P & L Account (Dr. Balance) | 3.00 |
| (vii). | Discount on Issue of Debentures | 2.00 |

(b). What are essential elements of the Auditors' Report on financial statements. *(Refer AAS 28)*

**Q. 4.** Answer the following:

(a). Reasonable assurance is different from Negative assurance. Comment. *(Refer Framework for Assurance Engagements)*

(b). Accounting Standard (AS) 30 on Financial Instruments has been made applicable by ICAI on the principle of prudence, but the same has not been notified under Companies (Accounting Standard) Rules, 2006. Therefore, the management of ABC Limited, a listed company, has not applied AS 30 for the current financial year. It is also insisting that the statutory auditor need not qualify their audit report. State your views as a statutory auditor. *(Refer AAS 28 and Section 211(3C) of the Companies Act, 1956 read with the Companies (Accounting Standards) Rules, 2006)*

**Q. 5.** (a). Write a short note on Segment Reporting in case of Banks. *(Refer Bank Audit)*

(b). What is meant by Solvency Margin in case of General Insurance Companies. *(Refer General Insurance Company Audit)*

**Q. 6.** Answer the following:

(a). The auditors' opinion is not an assurance as to the future viability of the business of the enterprise. Comment. *(Refer AAS 2 and AAS 28)*

(b). What are the various threats to auditors' independence. *(Refer Guidance Note on Independence of Auditors)*

**Q. 7.** Answer the following:

(a). What special points shall be considered by the internal auditor while carrying out the audit of a stock broker. *(Refer Audit of Members of Stock Exchanges)*

(b). What are the additional matters that shall be reported by the auditor of NBFC to its Board of Directors. *(Refer Audit of NBFCs)*

**Q. 8.** Write short notes on the following:

(a). Whistle blower policy *(Refer Clause 49)*

(b). Asset Financing Company *(Refer Audit of NBFCs)*

(c). Sampling Risk *(Refer AAS 15)*

(d). Material Date for considering shareholding u/s 224A of Companies Act, 1956

*(Refer Section 224A of the Companies Act, 1956)*

(e). Performance Audit *(Refer Audit of PSU)*

(f). Accounting Requirements for Investment by Mutual Funds

*(Refer Audit of Mutual Funds)*

(g). Overdue Interest in case of Cooperative Societies *(Refer Audit of Cooperative Societies)*

(h). Indian SOX *(Refer Chapter on Other Aspects)*