

CA – Final Nov. 2008

Auditing

Answer question nos. 1 and 2 any **four** from the rest.

1. As a Statutory auditor, how would you deal with the following?
 - a. While finalizing its accounts, a company does not provide for Income-tax payable under the provisions of the Income – tax Act, 1961. A note is however given that since adequate tax has been deducted at source, no additional tax is payable. **(5 M)**
 - b. A company receives a grant from the State Government as compensation for loss of stocks due to unseasonal floods. The entire grant received is credited to “Capital Reserve”. **(5 M)**
 - c. A company which satisfies the conditions of a Small and Medium sized Company (SMC) as per Companies (Accounting Standards) Rules, 2006 has represented that it does not require to give disclosures required by AS-3 “Cash Flow Statements” and AS-18 “Related Party Disclosures” in its financial statements. **(4 M)**
 - d. A company which has presented its quarterly results for a limited review report, has represented that expenditure incurred on heavy repairs carried in that quarter are being spread over the entire year, since it would otherwise, distort the quarterly results. **(4 M)**
2. Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants (Amendment) Act, 2006 and Schedules thereto:
 - a. Mr. P, Chartered Accountant, proprietor of M/s P & Co. requests the manager of a Bank branch to sanction him a loan for Rs.10 lakhs. He also offers free services to the manager and the staff for filing Income – tax returns for 3 years. **(5 M)**
 - b. M/s. ABC, a partnership firm carrying on business has complained to the Institute of Chartered Accountants of India (ICAI) that Mr. M, a Chartered Accountant has charged the firm excessive fees for a professional assignment. **(5 M)**
 - c. Mr. A, a Chartered Accountant in practice has been appointed editor of a monthly journal which analyses performance of the Stock Market and Mutual Fund Schemes. **(4 M)**
 - d. M/s. PQR, a firm of Chartered Accountants has been appointed Statutory Auditor of a company on terms whereby fees are payable on a progressive basis. Accordingly, the firm has been paid Rs.50,000 as part of his audit fees, though the audit report is yet to be submitted. **(4 M)**
3. **Answer the following:**
 - a. Auditor’s liability to third parties in relation to issue of Prospectus. **(8 M)**
 - b. What are the duties of an auditor regarding disqualification of directors under Section 274(1) (g) of the Companies Act, 1956? **(8 M)**
4. **Answer the following:**
 - a. Discuss the reporting requirements under the Companies (Auditor’s report) Order, 2003 where a company has defaulted in compliance of Section 58AA of the Companies Act, 1956 with regard to public deposits. **(8 M)**
 - b. As per the directions under Section 619(3)(A) of the Companies Act, 1956 applicable to Insurance Companies, which are the points on which the Statutory Auditor has to report on in respect of System of Accounts? **(8 M)**
5. **Answer the following:** **WWW.GNTMASTERMINDS.COM**
 - a. Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards) Rules, 2006: **(12 M)**
 - i. A Pvt Ltd, a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of Rs.12 crores and borrowings of Rs.5 crores.

- ii. B Pvt. Ltd. has a turnover of Rs.45 crores, other income of Rs.7 crores and bank borrowings of Rs.9 crores.
- iii. C Ltd. has appointed Merchant bankers to prepare a Red-herring prospectus for the purpose of filing the same with Securities and Exchange Board of India.
- b. What are the Financial indications to be considered by an auditor for evolution of the Going Concern assumption? **(4 M)**

6. Answer the following:

- a. How are investments to be classified in the financial statements of a Bank? **(8 M)**
- b. Discuss the reporting requirement in Form 3CD of Tax Audit Report under Section 44AB of the Income – tax Act, 1961 for the following: **(8 M)**
 - i. Tax deducted at source.
 - ii. Expenditure incurred at clubs.

7. Answer the following:

- a. What are the areas to be considered in an Environmental Audit? **(8 M)**
- b. You have been asked by a company to compile financial statements for the purpose of obtaining loan from a Bank. Draft a report to be given to the Management for the same. **(8 M)**

8. Write short notes on any four of the following:

(4 x 4=16 M)

- a. Investor Protection and Education Fund.
- b. Contingent liabilities in case of Banks.
- c. Borrowing costs and qualifying assets.
- d. Permanent consolidation adjustments.
- e. Facultative reinsurance under Insurance Act, 1938.
- f. Stages in Risk Based Internal Audit.

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