Taken from the Book 'Professional Approach to Advanced Auditing' published by Bharat Law House Private Limited

C.A. (FINAL) NOVEMBER, 2007 QUESTION PAPER

1 As a Statutory Auditor, how would you deal with the following?

(a) Z Ltd. was provided Rs. 5 lacs for inventory obsolescence in the last year's accounts. In the subsequent, it was determined that 50% of this stock was actually usable. The company wants to adjust the same as a Prior Period adjustment.

(b) A company capitalises interest on borrowings incurred for holding investments by adding to the cost of investments every year.

(c) For the year ended 31st March 2007, a Company has paid a minimum alternative tax under Section 115JB of the Income Tax Act, 1961. The Company wants to disclose the same as an 'Asset' since the Company is eligible to claim credit for the same.

(d) X Ltd. is engaged in manufacturing of Cement. In the Profit and Loss Account for the year ended 31st March, 2007 it discloses its revenue from the sales transactions (turnover) net of excise duty. The excise duty collected and paid on sales transactions and that related to difference between Closing stock and Opening stock is, however, disclosed in the 'Notes to Accounts'.

2 Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

(a) Mr. A, a practising Chartered Accountant agreed to select and recruit personnel, conduct training programmes for and on behalf of a client.

(b) XY & Co., a firm of Chartered Accountant having 2 partners X & Y, one in charge of head office and another in charge of Branch at a distance of 80 kms, puts up a name-board of the firm in both premises and also in their respective residences.

(c) A practising Chartered Accountant was appointed to represent a company before the tax authorities. He submitted on behalf of his clients certain information and explanations to the authorities, which were found to be false and misleading.

(d) AB & Co., a firm of Chartered Accountants, included the name of P as a partner while filing an application for empanelment as auditor for Public Sector bank branches. It was subsequently noticed that on the date of application, P was not a partner with AB & Co.

3 (a) "The method of collecting audit evidence and evaluating the same changes drastically in EDP Auditing." Comment on the above.

(b) What are the features of a qualified Audit Report.

4 (a) What are the important aspects to be looked into a due diligence review of Cash flows.

(b) What is the meaning of "Small and Medium Sized Company" as per Companies (Accounting Standards) Rules, 2006.

5 (a) As the Statutory Auditor of a Manufacturing Company, what are the points you will consider to conclude whether the company has an Internal Audit system

commensurate with the size of the company and its operations

(b) In a Company, it is suspected that there has been embezzlement in cash receipts. As an investigator, what are the areas that you would verify.

6 (a) List the matters to be included in the Auditors' Report' in the case of Non Banking Financial Companies (NBFCS) accepting or holding public deposits

(b) What are the steps for the Audit under State Level Value Added Tax (VAT)

7 (a) M/s PQR & Company, Chartered Accountants have been appointed as Statutory Auditors of a listed company for the year ended 31st March, 2008. Draft an appropriate engagement letter to be sent to the Board of Directors for the same

(b) T Pvt. Ltd.'s, paid up Share Capital & Reserves are less than Rs. 50 Lakhs and it has no outstanding loans exceeding Rs. 25 lakhs from any bank or financial institution. Its sales are Rs. 6 crores before deducting Trade Discount Rs. 10 lakhs and Sales Returns Rs. 95 lakhs. The services rendered by the company amounted to Rs. 10 lakhs.

The company contends that reporting under Companies Auditor's Report Order (CARO) is not applicable. Discuss.

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

(a) Peer review.

(b) Supplementary Audit u/s 619(4) of the Companies Act, 1956.

(c) Purchase method of accounting for amalgamations.

(d) Accounting Ratios in Form 3CD of Tax Audit.

(e) Circuit Filters (as specified by SEBI).

(f) Situations where external confirmations can be used.

Suggested Hints

Question No.	**Hints**
1 (a)	Refer AS-5
1 (b)	Refer AS-16
1 (c)	Refer Guidance Note on Accounting for MAT credit
1 (d)	Refer AS-9 for ASI-14
2 (a)	Refer Chapter – 3 on Code of Ethics for Management Consultancy Services
2 (b)	Refer Chapter – 3 on Code of Ethics for Maintaining Branch Offices
2 (c)	Refer Chapter – 3 on Code of Ethics for Clause 5 & 6 of Part I of Schedule Second and CA responsibility vis-à-vis Fraudulent Act of Clients
2 (d)	Refer Chapter – 3 on Code of Ethics for Certificate of Practice

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3 (a)	Refer Chapter – 8 and AAS-29
3 (b)	Refer AAS-28
4 (a)	Refer Chapter – 10
4 (b)	Refer Companies Accounting Standard Rules, 2006 given in Professional Approach to Accounting Standards published by Bharat Law House
5 (a)	Refer Chapter – 11 and AAS-6
5 (b)	Refer Chapter – 10
6 (a)	Refer Chapter – 14
6 (b)	Apply general understanding of Audit of Indirect Taxes keeping in mind Accounting and Legal Aspects
7 (a)	Draft the letter in light of AAS-26
7 (b)	Refer Chapter – 11
8 (a)	Refer Chapter – 20
8 (b)	Refer Chapter – 1
8 (c)	Refer AS-14
8 (d)	Refer Chapter – 5
8 (e)	Refer Chapter – 19
8 (f)	Refer AAS-30