FINAL (NEW COURSE)
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

MAY 2010

Roll No..............................

Total No. of Questions—6] [Total No. of Printed Pages—3

Time Allowed—3 Hours Maximum Marks—100

LOC

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

1. Comment on the following :

(a) T Ltd. an Indian company, subject to Indian Income tax Act, 1961, discloses advance Income-tax paid (Current tax asset) and provision for Income-tax (Current tax liability), separately in Balance Sheet for the year ended 31.3.2010, i.e., it do not offset the amount. 5

(b) A Private Limited reports the following position as on 31st March, 2010 : 5

Paid up capital	30 lacs
Revaluation reserve	10 lacs
Capital reserve	11 lacs
P&L A/c [Dr. Balance]	2 lacs

The Management of the Company contends that CARO 2003 is not applicable to it.

(c) S Ltd. issued Bonds to the tune of Rs. 100 lacs and provided security to the tune of Rs. 80 lacs for the same. It insists that it will disclose the Bonds as "Secured" in the Balance Sheet of the Company. 5

(d) F Limited includes in the Schedule of Inventory, those items of Fixed assets which have not been in active use and held for disposal, as inventory item. 5

Marks

2. Give your comments with reference to the Chartered Accountants Act, and Schedules thereto :

(a) Mr. A, a practising Chartered Accountant, took over as the executive chairman of a Software Company on 1.4.2010. On 10.4.2010 he applied to the Council for permission. 4

(b) Mr. X, a practicing Chartered Accountant, issued a circulation certificate for a periodical on the basis of outward memos, which was later found to be false. 4

(c) Mr. Z, a practicing Chartered Accountant, received a sum of Rs. 1 lac on 1.9.2009 from a client who intends to leave abroad for a period of a year, with a request that his advance tax liabilities to be paid over the three instalments. On 15th September, 2009, 15th December, 2009 and 15.3.2010. After remitting the 1st instalment of advance tax on 15.9.2009, Z did not keep the Balance Money in a separate Bank account and he is of the opinion he will remit the money within reasonable time as per payment schedule of Advance tax. 4

(d) Mr. X, a Chartered Accountant, employed as a paid Assistant with a Chartered Accountant, firm. On 31st December, 2008 he leaves the services of the firm. Despite many reminders from ICAI he fails to reply regarding the date of leaving the services of the firm. 4

3. (a) In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty ? 4

(b) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind ? 4

(c) What are the auditors responsibilities in respect of corresponding figures ? 4

(d) IT systems also pose specific risks to an entity's internal control ? What are those risks ? 4

4. (a) While auditing the Branch of a Bank you are required to examine Inter Branch adjustments. Which points require your special attention ? 6

(b) How do you examine claims against the Bank not acknowledged as debts ? 4

(c) While auditing the claims paid in respect of a General Insurance Company what aspects need to be looked into ? 6

Marks

5. (a) What is the purpose served by Introduction of Cost audit ? 4

(b) As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose ? 4

(c) In the audit planning process of X Ltd., you would like to consider audit risk at the financial statement level. What are the factors can influence your decision ? 3

(d) Explain the liability of the auditor under section 62 of the Companies Act, 1956, for making an untrue statement in the report (as an expert forming a part of the prospectus). 5

6. Write short notes on the following :

(a) Special points that may be covered in the audit of equipment leasing finance company. 4

(b) Mark to Market margins. 4

(c) Major steps required in preparation of Tax audit under VAT. 5

(d) Focus of a Peer review. 3

NOV 2010

FINAL (NEW COURSE)
GROUP-I PAPER-3
ADVANCED AUDITING AN
PROFESSIONAL ETHICS

Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **4**

Time Allowed – **3** Hours

Maximum Marks – **100**

HOT

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. **1** is compulsory. Answer any **five** from the rest.

Marks

1. Comment on the following :

(a) A Co. Ltd. has not included in the Balance Sheet as on 31-03-2010 a sum of ₹ 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2010. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2010. The auditor came to know the result of the negotiations on 15-05-2010. **5**

(b) B Co. Ltd. is engaged in the business of developing mass scale housing projects including development of small commercial complexes. The flats/commercial spaces are booked by the public and are allotted by way of allotments letter to each allottee. Major construction activities pertaining to buildings are undertaken after allotment is over. After completing the construction, possession of flats/commercial spaces is given to allottees by executing legal document. The CEO of the B Co. Ltd. says that AS 7 is not applicable to the company. **5**

(c) In the notes to accounts of C Co. Ltd. as on 31-03-2010 Note no. 11 states that 'Certain machinery items are lying at customs warehouses and company has paid ₹ 900 lakhs up to 30-06-2009 as detention charges, out of which a sum of ₹ 580 lakhs is written back during the year 2009-10 based on settlement with the concerned authorities in respect of a major spares of machinery. For the remaining machinery items negotiations are pending and a provision of ₹ 44 lakhs is made. As such total amount of ₹ 364 lakhs paid/provided on account of detention charges have been capitalized and included in the Fixed Assets/Capital work in progress. The management is of the view that these expenses are directly attributable to the acquisition of the related Fixed Asset.' **5**

Marks

(d) During the course of audit of D Co. Ltd. you as an auditor have observed that Inter Corporate deposit of ₹ 50 lakhs has been overdue. The D Co. Ltd. have disclosed this in the notes to accounts note No. 15 in schedule no. 21 stating that '₹ 50 lakhs is overdue from XYZ Co. Ltd. and the said company is in the process of liquidation. The management is taking steps to appoint the liquidator.' 5

2. Give your comments with reference to Chartered Accountants Act, 1949 and schedules thereto :

(a) PQR and Associates, Chartered Accountants have their website and on the letterhead of the firm it is mentioned that "Visit our website : PQR.com". In the website the nature of assignments handled, names of prominent clients and fees charged is also displayed. 4

(b) Mr. B is a practising Chartered Accountant holding a valid certificate of practice. He accepted the appointment as Director of the Green World Co. Ltd. Mr. C, a partner of Mr. B is statutory auditor of the said company. 4

(c) YKS & Co., a proprietary firm of Chartered Accountants was appointed as concurrent auditor of a bank. YKS used his influence for getting some cheques purchased and thereafter failed to repay the loan/overdraft. 4

(d) Mr. Mohan is a practising Chartered Accountant. He issued a certificate of consumption which did not reflect the correct factual position of the consumption of raw material by the concerned entity. It is found that the certificate is given on the basis of data appearing in the minutes of meeting of the Board of Directors. 4

3. (a) XYZ Ltd. appoints you as the Auditor of the company. You observe that previous auditors A & Co., resigned. Also Balance Sheet as at 31-03-2010 shows an audit fee payable of ₹ 25,000. What precautions you will take before commencing the audit work ? 4

Marks

(b) While doing audit, Ram, the Auditor requires reports from experts for the purpose of Audit evidence. What types of reports/opinions he can obtain and to what extent he can rely upon the same ? 4

(c) Different types of controls which operate over data moving into, through and out of the computer. Auditor is required to review such controls. Comment. 8

4. (a) Mr. Ram, a relative of a Director was appointed as an auditor of the company. Comment. 6

(b) Mr. X, Director of ABC Ltd. made a purchase contract for ₹ 10,00,000 with the company. Comment. 5

(c) PQR Ltd., a listed company and having an average annual turnover of more than ₹ 5 crores has no Internal Audit System. Give your views. 5

5. (a) "Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society." Do you agree ? 6

(b) Mr. R, the Tax Auditor finds that some payments inadmissible under Section 40 A(3) were made, and advised the client to report the same in form 3CD. The client contends that cash payments were made since the other parties insisted upon the same and did not have Bank Accounts. Comment. 5

(c) Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should specifically look for hidden liabilities and over valued assets, if any. State in brief the major areas you would examine for the above. 5

Marks

6. (a) While doing the audit, X, the Statutory Auditor of ABC Ltd. observes that certain loans and advances were made without proper securities, certain debtors and creditors were adjusted interse, and personal expenses were charged to revenue. Comment.

(b) XYZ, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management. 5

(c) "Corporate accountability and civil and criminal penalties for white collar crimes." Comment on the major provisions of Sarbanes Oxley Act. 5

7. Write short notes on any of the **four** :

(a) Circuit filters. 4

(b) Reversal of Income under Bank Audit. 4

(c) Guidance note on Audit of Miscellaneous Expenditure (revised). 4

(d) Verification of Outstanding Premium and Agents' Balances. 4

(e) Reconciliation of Cost and Financial Accounts. 4

MAY 2011

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND PROFESSIONAL ETHICS

Roll No. ....

Total No. of Questions – 7 | Total No. of Printed Pages – 4

Time Allowed – 3 Hours | Maximum Marks – 100

SAP

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Question No. 1 is compulsory.

Answer any **five** from the rest.

Marks

1. (a) In the course of the audit of R Ltd., the audit manager of ABC & Co. observed that R Ltd. has outsourced certain activities to an outsourcing agency. As the engagement partner guide the audit manager in the assessment of services provided by the outsourcing agency in relation to the audit. **4**

(b) In the course of audit of T Ltd., the audit team is not sure of the possible source of misstatements in the financial statements. As the audit manager identify the sources of misstatements. **4**

(c) While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements ? **6**

(d) The management of S Ltd. request you not to seek confirmation from its debtors. As the auditor of S Ltd., what can be an appropriate response ? **6**

Marks

2. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto :

(a) CA Smart, a practicing Chartered Accountant was on Europe tour between 15-9-10 and 25-9-10. On 18-9-10 a message was received from one of his clients requesting for a stock certificate to be produced to the bank on or before 20-9-10. Due to urgency, CA Smart directed his assistant, who is also a Chartered Accountant, to sign and issue the stock certificate after due verification, on his behalf. **4**

(b) Mr. Kishore, a practicing Chartered Accountant was appointed by the Central Government to carry out a special audit u/s 233A of the Companies Act, 1956. He accepted the appointment and proceeded with the work without communicating to the statutory auditor of the company. **4**

(c) Mr. Sodhi, a Chartered Accountant in practice, who is proposed to be removed as the auditor of a company makes unsubstantiated and derogatory remarks against the management of the company in his representation u/s 225 of the Companies Act, 1956. **4**

(d) A letter is sent by a Chartered Accountant in practice to the Ministry of Finance inquiring whether a panel of auditors is being maintained by the Ministry and if so to include his name in the panel (CV enclosed). **4**

3. (a) A & Co. was appointed as auditor of Great Airways Ltd. As the audit partner what factors shall be considered in the development of overall audit plan ? **8**

(b) Y Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As the auditor of Y Ltd., you would like to use the report of the actuary as an audit evidence. How do you evaluate the work of the actuary ? **8**

Marks

4. (a) In the course of audit of T Ltd. you observed that export incentives are not accounted on accrual basis. The company's management contended that these would be accounted on cash basis citing the uncertainty about its receipts as they are not admitted as due by the customs authorities. Comment. 4

(b) Z Ltd. has flexi deposit linked current account with various banks. Cheques are issued from the current account and as per the requirements of funds, the flexi deposits are encashed and transferred to current accounts. As of 31st March, 2011 certain cheques issued to vendors are not presented for payment resulting in the credit balance in the books of the company. The management wants to present the book overdraft under current liabilities and flexi deposits under cash & bank balances. Comment. 8

(c) Z Ltd. has its entire operations including accounting computerized. As the audit partner you are concerned about inherent and control risk for material financial statement assertions. What could be the areas you look forward for deficiencies and risk identification ? 4

5. (a) OK Ltd. had taken a term loan from a nationalized bank in 2006 for ₹ 200 lakhs repayable in five equal instalments of ₹ 40 lakhs from 31st March, 2007 onwards. It had repaid the loans due in 2007 & 2008, but defaulted in 2009, 2010 & 2011. As the auditor of OK Ltd. what is your responsibility ? assuming that company has sought reschedulement of loan. 4

(b) Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of ₹ 25 lakhs in December 2010. The company replied to the above notice in January 2011 contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for the year ended on 31st March, 2011. As the auditor of the company, what is your role in this ? 4

Marks

(c) Director of T Ltd. draws an advance of US $ 200 per day in connection with the foreign trip undertaken on behalf of the company. On his return he files a declaration stating that entire advance was expended without any supporting or evidence. T Ltd. books the entire expenses on the basis of such declaration. As the auditor of T Ltd. how do you deal with this ? 8

6. (a) "An asset, including a leased asset, becomes non-performing when it ceases to generate income for the Bank." Define the criteria for classification of non-performing assets. 8

(b) State the disclosure requirements in respect of contingent liabilities in the notes to the Balance Sheet of a General Insurance Company. 4

(c) State the requirements regarding the maintenance of books of accounts with respect to a multi-state co-operative society. 4

7. Attempt any **four** of the following :

(a) While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility ? 4

(b) Volatility margin. 4

(c) General principles of proprietary audit. 4

(d) General objectives of an operational audit. 4

(e) Frauds committed through supplier's ledger. 4

Roll No. ....

Total No. of Questions – 7

Time Allowed – **3** Hours

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND PROFESSIONAL ETHICS

Total No. of Printed Pages – 7

Maximum Marks – **100**

NOV 2011

LKG

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Question No. **1** is compulsory.

Answer any **five** from the rest.

Marks

1. Comment on the following :

(a) The auditor of SS Ltd. accepted the gratuity liability valuation based on the certificate issued by a qualified actuary. However the auditor noticed that the retirement age adopted is 65 years as against the existing retirement age of 60 years. The company is considering a proposal to increase the retirement age. 5

(b) MRE Ltd. provided ₹ 25 lakhs for Inventory obsolence in 2009-10. In the subsequent years, it was determined that 50% of such stock was usable. The Board of Directors wants to adjust the same through prior period adjustment. 5

(c) SRS Ltd. has drawn the financial statement as on 31-3-11 and presented to you alongwith additional information : 6

Marks

Balance Sheet of SRS Ltd. as on 31-3-11

Liabilities	Amt.	Assets	Amt.
Share capital	50,00,000	Fixed Assets	
Reserves & Surplus		Gross block	
Profit and Loss A/c	4,00,000	Less : Depreciation	1,00,00,000
Secured Loans	75,00,000	Investments	Nil
Current Liabilities and provisions		Current Assets Loans & Advances	
Creditors for trade	3,00,000	Debtors	25,00,000
Advance received	3,00,000	Advance Paid	10,00,000
	1,35,00,000		**1,35,00,000**

Additional Information :

(a) Entire pre-operative expenses of ₹ 7,00,000/- was charged to Profit and Loss Account whereas for the purpose of Income Tax, only what is allowable is claimed.

(b) Depreciation as per Books – ₹ 35,00,000/-

Depreciation as per Income tax – ₹ 50,00,000/-

(c) Losses to be carried forward as per Income Tax Act – ₹ 16,00,000/-

(d) Donation disallowed while computing tax – ₹ 50,000/-

Considering the additional information, Can you certify that the company has complied with the Accounting Standards and issue an unqualified report ?

Marks

(d) ABC & Co. and DEF & Co, Chartered Accountant firms were appointed as joint auditors of Good Health Care Ltd. for 2009-10. A special audit was conducted U/s 233A of the companies Act 1956 during March 2011 and observed gross understatement of Revenue. The revenue aspects were looked after by DEF & Co, but there was no documentation for the division of work between the joint auditors. 4

2. Comment on the following :

(a) A Chartered Accountant in practice has been suspended from practice for a period of 6 months. During the said period, though he did not undertake the audit assignment since he had surrendered certificate of practice, he had appeared before Income Tax authorities in his capacity as a Chartered Accountant. 4

(b) Mr. J, a Chartered Accountant has identified that ABC Ltd. has taken a loan of ₹ 15 lakhs from Provident Fund Account, during the course of audit. The said loan was not reflected in the books of accounts and statements were prepared ignoring the same. 4

(c) Mr. K, a Chartered Accountant certified the circulation of a weekly magazine without examining the records and relevant documents. 4

Marks

(d) Mr. R, a Chartered Accountant in practice approached Manager of a Nationalised Bank for a loan of ₹ 25 lakhs. He has also informed the Manager that if the loan is sanctioned, the Income Tax return of the Manager and staff will be filed without charging any fees, as quid Pro quo for the loan sactioned. 4

3. (a) XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-3-11 for audit. The audit assistant observes and brings to your notice that the company's records show following dues : 5

- Income Tax relating to Assessment Year 2007-08 ₹ 125 lacs – Appeal is pending before Hon'ble ITAT since 30-9-09.
- Customs duty ₹ 85 lakhs – Demand notice received on 15-9-10 but no action has been taken to pay or appeal.

As an auditor, how would you bring this fact to the members ?

(b) State the functions of Energy Auditor. 5

(c) A infrastructure company has constructed a mall and entered into agreement with tenants towards licence fees (monthly rental) and variable licence fees, a percentage on the turnover of the tenant (on an annual basis). Chief Finance Officer wants to account / recognize licence fee as income for 12 months during current year under audit and variable licence fees as income during next year, since invoice is raised in the subsequent year. As an auditor, how would you deal and state in the statement of Accounting policies ? 6

Marks

4. (a) XY Ltd. is a manufacturing company, provided following details of wastages of raw materials in percentage, for various months. You have been asked to enquire into causes of abnormal wastage of raw materials. 8

Draw out an audit plan.

Wastage percentage are

July 2010	1.5%
Aug 2010	1.7%
Sep 2010	1.4%
Oct 2010	4.1%

(b) Briefly explain the steps involved in Audit under Indirect Tax. 8

5. (a) As a tax auditor how would you deal and report the following :

(i) An assessee has borrowed ₹ 50 lakhs from various persons. Some of them by way of cash and some of them by way of Account payee cheque / Draft. 3

(ii) An assessee has paid Rent to his brother ₹ 2,50,000/- and paid interest to his sister ₹ 4,00,000/- 2

(iii) An assessee has incurred payment to clubs. 2

(b) As a bank branch auditor, what aspects will be considered while reporting on credit appraisal, sanctioning / disbursement and documentation in respect of advances in the LFAR ? 5

Marks

(c) ABC Private Ltd. has granted loan of ₹ 20 crores to XYZ Ltd. a sister concern and it remains outstanding at the year end. How would you report the fact ? 4

6. (a) Corporate responsibility as envisaged under SURBANES AND OXLEY Act-2002. Briefly explain. 3

(b) State briefly the basic elements of Management Representation Letter. 2

(c) You are a member of an audit team of B & C Associates, auditors of a Multinational Company YB Co. Ltd. The company is working in CIS environment. The partner in charge of B & C Associates asked you to draw out the audit plan for evaluating the reliability of controls. 5

(d) Y Co. Ltd. has five entertainment centres to provide recreational facilities for public especially for children and youngsters at 5 different locations in the peripheral of 200 kilometres. Collections are made in cash. Specify the adequate system towards collection of money. 6

7. Write short notes on any **four** of the following :

(a) Contract notes in case of audit of member of Stock Exchange. 4

(b) Scope of Peer Review. 4

(c) Audit procedure in respect of "Outstanding premium and Agents balance" in Insurance company. 4

Marks

(d) Comptroller & Auditor General of India were conducting supplementary audit U/s 619 (3) (b) of the Companies Act, 1956 made certain comments on the reported foreign exchange loss in the accounts of a Public sector company. The Board of Directors failed to reply to the comments of C & AG in their report – Comment. 4

(e) Propriety elements in CARO 2003. 4

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND PROFESSIONAL ETHICS

Roll No. ……………………….

MAY 2012

Total No. of Questions – 7

Total No. of Printed Pages – 4

Time Allowed – 3 Hours

Maximum Marks – 100

HBO

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Question No. 1 is compulsory.

Answer any **five** from the rest.

Marks

1. (a) A Ltd is a manufacturer of readymade garments. It sells its products to franchisees located across the country. Readymade garment industry is subject to change in trends of fashion and as such, some of the goods are returned and A Ltd accepts them back as sales returns. On the basis of past trends such returns are estimated to be at 20% of the sales of any year. For the financial year 2011-12, A Ltd had accounted for the actual sales return made upto 31st March 2012 but has not reversed the possible expected return that are likely to happen after 31st March 2012, in respect of the sale made for the FY 11-12. Mr. X the auditor of A Ltd wants this to be considered in the accounts for the year ended on 31st March 2012 but the company is of the opinion that although there is a probability of some goods being returned by the franchisees, there is no significant uncertainty regarding the amount of consideration that will be derived from the sale of goods, since the goods are not in the possession of the company and risk and rewards of ownership still lie with the franchisees and the company cannot record sales returns in its books of account in respect of goods that are likely to be received after the date of balance sheet. Comment. **5**

Marks

(b) R & Co. is the statutory auditor of S Ltd. For the financial year ended on 31st March 2012, S Ltd had disclosed in the notes (Note No. X) "The state pollution control board had ordered the closure of the company's only manufacturing plant on the ground that it is environmentally damaging, which the company had challenged in a law suit. Pending the outcome of the law suit the financial statements are prepared on a going concern basis". Further the financial statements prepared by the management of S Ltd include financial statements of certain branches which are audited by other auditors. What are the reporting responsibilities of R & Co ? 10

(c) In the course of the statutory audit of Z Ltd, its statutory auditors, having determined that the work of internal auditor is likely to be adequate for the purpose of statutory audit, wanted to use the work of internal auditor in respect of physical verification of fixed assets. How an evaluation of this specific work done by the internal auditor can be done ? 5

2. Give your comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

(a) Z, a practicing Chartered Accountant issued a certificate of circulation of a periodical without going into the most elementary details of how the circulation of a periodical was being maintained i.e. by not looking into the financial records, bank statements or bank pass books, by not examining evidence of actual payment of printers bills and by not caring to ascertain how many copies were sold and paid for. 4

(b) X, a practicing Chartered Accountant in an application for permission to study submitted by his Articled Assistant to the council had confirmed that the normal working hours of his office were from 11 A.M. to 6 P.M. and the hours during which the Articled Assistant was required to attend classes were 7.00 A.M. to 9.30 A.M. According to the information from College, the Articled Assistant attended the College from 10 A.M. to 1.55 P.M. on all week days. About the Articled Assistant attending the classes even during office hours, X pleaded ignorance. 4

Marks

(c) K, a practicing Chartered Accountant gave 50% of the audit fees received by him to L, who was not a Chartered Accountant, under the nomenclature of office allowance and such an arrangement continued for a number of years. 4

(d) M, a practicing Chartered Accountant sent a letter to another firm of Chartered Accountants, claiming himself to be a pioneer in liasoning with Central Government Ministries and its allied Departments for getting various Government clearances for which he had claimed to have expertise and had given a list of his existing clients and details of his staff etc. 4

3. (a) As the concurrent auditor of Z Bank Ltd you are requested by its management to draft an internal control policy in respect of loans and advances. What factors do you consider as important while drafting such a policy ? 10

(b) T Ltd's previous year ended on 31st March 2012. During that period it made a claim for refund of customs duty which was admitted as due by the customs authorities during April 2012. T Ltd neither credited the claim in the profit and loss account nor reported the same in clause 13(b) of Form 3CD for the reason that this has been admitted as due by the authorities only in the next financial year. Further T Ltd had changed the method of determination of cost formula for the purpose of stock valuation from FIFO basis to Weighted Average Cost basis, but that was also not reflected in clause 11(b) of Form 3CD which requires reporting on change in accounting method employed. Comment. 6

4. (a) In the course of audit of Q Ltd, its statutory auditor wants to be sure of the adequacy of related party disclosures ? Kindly guide the auditor in identifying the possible source of related party information. 8

(b) Z Ltd is intending to acquire A Ltd. It hires B & Co., a firm of Chartered Accountants to conduct a due diligence. B & Co., wants to reduce the risk of over valuation of assets in its due diligence exercise. Kindly guide B & Co. 8

Marks

5. (a) A, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas A should review in the assessment of independence of the practicing unit ? **4**

(b) State the key differences between financial and operational audit. **4**

(c) "Non-compliance of Section 58 AA inserted by the Companies (Amendment) Act, 2000 would occur where the company fails to intimate the Company Law Board, any default in repayment of deposits made by small depositors or part thereof or any interest there on." **8**

Discuss this statement and state reporting requirements under the Companies (Auditor's Report) Order, 2003 for non-compliance of Section 58 AA of the Companies Act, 1956.

6. (a) In the audit of K Ltd, its auditor wants to use CAATs for performing various audit procedures. Guide him as to what procedures can be performed using CAATs. **6**

(b) State the "Mandatory Review" areas of the audit committee. **4**

(c) In the course of audit of A Ltd you suspect the management has indulged in fraudulent financial reporting ? State the possible source of such fraudulent financial reporting. **6**

7. Write short notes on any **four** of the following :

(a) Mark to Market Margin **4**

(b) Cost Statements **4**

(c) Matter to be reported in respect of inventory in the case of a special audit of a non-corporate borrower of a Bank. **4**

(d) Solvency Margin **4**

(e) Statistical and Non-Statistical Sampling **4**

Roll No. ....

Total No. of Questions – 7 Total No. of Printed Pages – 4

Time Allowed – 3 Hours Maximum Marks – 100

NOV 2012

NET

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Question No. 1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Marks

1. As a statutory auditor of a company, comment on the following :

(a) A fire broke out on 15th May, 2012, in which material worth ₹ 50 lakhs which was lying in stock since 1st March, 2012 was totally destroyed. The financial statements of the company have not been adopted till the date of fire. The management of the company argues that since the loss occurred in the year 2012-13, no provision for the loss needs to be made in the financial statements for 2011-12. **5**

(b) While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws. **5**

Marks

(c) For the year ended 31st March, 2012, the financial statements of A Pvt. Ltd. were adopted on 31st July, 2012. At this meeting, the directors proposed a dividend for the year 2011-12 of 25% on the equity share capital amounting to ₹ 10 lakhs. No entry was passed for the proposed dividend in the books of the company, since in the view of the directors the same was not required as per Revised Schedule VI. **5**

(d) The accounting policy on Revenue Recognition for a company engaged in manufacture and sale of chemical products was stated as "*Revenue is recognized only when it can be reliably measured and it is reasonable to expect ultimate collection*". **5**

2. Give your comments with reference to the Companies Act, 1956 and the Chartered Accountants Act, 1949 and Schedules thereto :

(a) A Chartered Accountant who was in practice since last 20 years died in a road accident. His widow sold the practice to another Chartered Accountant in practice for ₹ 30 lakhs. The price also included the right to use the firm name. **4**

(b) K, Chartered Accountant in practice as a sole proprietor at Chennai has an office in the suburbs of Chennai. Due to increase in the income tax assessment work, he opens another office near the income tax office. For running the new office, he has employed a retired Income Tax Commissioner. **4**

(c) Mr. A has been appointed statutory auditor of a private limited company where his spouses' sisters' husband is having 75% ownership. **4**

(d) Mr. E, proprietor of M/s. E & Co. is the statutory auditor of a Company which owns a store dealing in computer equipments. During the year 2011-12, E purchased a computer from the store costing ₹ 25,000 for his son. He did not make any payment for the same, but asked the company to adjust the same against the audit fees payable of ₹ 50,000. **4**

Marks

3. Comment on the following :

(a) While carrying out the statutory audit of a large entity, what are the substantive procedures to be performed to assess the risk of material misstatement ? 8

(b) M/s. PQR has been appointed the sole statutory auditor of a large company for 2011-12, where till last year M/s. LMN was also one of the joint auditors along with M/s. PQR. Mention the steps that should be taken by M/s. PQR before commencing the audit. 8

4. Answer the following :

(a) What are the considerations which an auditor should consider while evaluating the reliability of the accounting and internal control systems in a CIS environment ? 8

(b) Under the applicable Standards on Auditing, in what circumstances does the report of the statutory auditor require modifications ? What are the types of modifications possible to the said report ? 8

5. Answer the following :

(a) Under CARO, 2003, how, as a statutory auditor would you comment on the following : 8

(i) X Pvt. Ltd. is a subsidiary of a listed entity incorporated outside India. The management of the company believes that since X Pvt. Ltd. is a Private Company and satisfies all conditions under the Companies (Auditor's Report) Order, 2003, reporting under CARO is not applicable.

(ii) A term loan was obtained from a bank for ₹ 50 lakhs for the purpose of purchase of assets for Research & Development (R & D). Out of these funds, a vehicle was purchased for the use of the concerned director who was in charge of the R & D activities.

(b) As an auditor how will you verify the existence of Related Parties ? 8

P.T.O.

Marks

6. Answer the following :

(a) You have been appointed to investigate a suspected embezzlement of cash receipts in a departmental store. What are the steps you would take in this regard ? **6**

(b) As an auditor of a partnership firm under section 44AB of the Income Tax Act, 1961, how would you report on the following : **4**

(i) Capital expenditure incurred for scientific research assets

(ii) Expenditure incurred at clubs

(c) As an auditor of a Non Banking Financial Company registered with the Reserve Bank of India (RBI), what are the prudential norms of RBI, whose compliance is to be verified ? **6**

7. Write short notes on any **four** of the following : **4 × 4 = 16**

(a) Responsibility of holding company for preparation of Consolidated Financial Statements.

(b) Areas of proprietary audit under section 227(1A) of the Companies Act, 1956.

(c) Circuit filters/Circuit breakers.

(d) Environmental Audit.

(e) Supplementary audit under section 619(3) of the Companies Act, 1956.

FINAL

GROUP-I PAPER-3

Roll No. ....ADVANCED AUDITING AND PROFESSIONAL ETHICS

MAY 2013

Total No. of Questions – 7

Total No. of Printed Pages – 7

Time Allowed – 3 Hours

Maximum Marks – 100

FSM

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining six questions.

Marks

1. (a) The Balance Sheet of G Ltd as at 31st March 13 is as under. Comment on the presentation in terms of revised Schedule VI and Accounting Standards issued by NACAS. **5**

Heading	Note No.	31st March 13	31st March 12
Equity & Liabilities			
Share Capital	1	XXX	XXX
Reserves & Surplus	2	0	0
Employee stock option outstanding	3	XXX	XXX
Share application money refundable	4	XXX	XXX
Non-Current Liabilities		XXX	XXX
Deferred tax liability (Arising from Indian Income Tax)	5	XXX	XXX
Current Liabilities			
Trade Payables	6	XXX	XXX
Total		XXXX	XXXX

Marks

Assets			
Non-Current Assets			
Fixed Assets-Tangible	7	XXX	XXX
CWIP (including capital advances)	8	XXX	XXX
Current Assets			
Trade Receivables	9	XXX	XXX
Deferred Tax Asset (Arising from Indian Income Tax)	10	XXX	XXX
P & L Debit balance		XXX	XXX
Total		XXXX	XXXX

(b) Z Ltd changed its employee remuneration policy from 1st of April 2012 to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy the employees can either utilize or encash it. As at 31st March 13 the company obtained an actuarial valuation for leave encashment liability. However it did not provide for 12% PF contribution on it. The auditor of the company wants it to be provided but the management replied that as and when the employees availed leave encashment, the provident fund contribution was made. The company further contends that this is the correct treatment as it is not sure whether the employees will avail leave encashment or utilize it. Comment. **5**

(c) T Ltd. commenced its manufacturing activities from 1st April 2012. In the course of production the company generated certain by-products. As at 31st March 13 the company did not value the by-products considering the value as insignificant. The auditor of the company is of the opinion that the by-products are inventory of the company and it should be valued and brought into books of account. Comment. **5**

Marks

(d) K Ltd. had 5 subsidiaries as at 31st March 2013 and the investments in subsidiaries are considered as long term and valued at cost. Two of the subsidiaries net worth eroded as at 31st March 13 and the prospects of their recovery are very bleak and the other three subsidiaries are doing exceptionally well. The company did not provide for the decline in the value of investments in two subsidiaries because the overall investment portfolio in subsidiaries did not suffer any decline as the other three subsidiaries are doing exceptionally well. Comment. **5**

2. Give your comments with reference to Chartered Accountants Act, 1949 and Schedules thereto.

(a) Mr. A, a practicing Chartered Accountant, failed to return the books of account and other documents of a client despite many reminders from the client. The client had settled his entire fees dues also. **4**

(b) Mr. B, a practicing Chartered Accountant as well as a qualified lawyer, was permitted by the bar council to practice as a lawyer also. He printed his visiting card where he mentioned his designation as Chartered Accountant and Advocate. **4**

(c) Mr. C, a practicing Chartered Accountant, in the course of the audit of a listed company discovered serious violations of the provisions of the Companies Act 1956, informed the Registrar of Companies out of public interest. **4**

(d) Mr. D, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. **4**

Marks

3. (a) In the course of audit of Z Ltd, its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re-test of controls. **4**

(b) In audit plan for T Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements. **4**

(c) The auditor of H Ltd wanted to obtain confirmation from its creditors. But the management made a request to the auditor not to seek confirmation from certain creditors citing disputes. Can the auditor of H Ltd accede to this request ? **4**

(d) R & Co, a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients, for last 5 years despite changes in business and professional environment. Please elucidate the circumstances that may warrant the revision in terms of engagement. **4**

4. (a) In course of audit of Good Samaritan Bank as at 31st March 13 you observed the following :

(i) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government ? **5**

(ii) The bank's advance portfolio comprised of significant loans against Life Insurance Policies. Write suitable audit program to verify these advances. **3**

(b) As at 31st March 2013 while auditing Safe Insurance Ltd you observed that a policy has been issued on 25th March 2013 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected on 5th April 2013. You further noticed that there was a fire accident in the premises of the insured on 31st March 2013 and a claim was lodged for the same. The insurance company also made a provision for claim. Please respond. 4

(c) While writing the audit program for tax audit in respect of A Ltd you wish to include possible instances of capital receipt if not credited to Profit & Loss Account which needs to be reported under clause 13(e) of form 3CD. Please elucidate possible instances. 4

5. (a) J Ltd is interested in acquiring S Ltd. The valuation of S Ltd is dependent on future maintainable sales. As the person entrusted to value S Ltd what factors would you consider in assessing the future maintainable turnover ? 4

(b) The Managing Director of X Ltd is concerned about high employee attrition rate in his company. As the internal auditor of the company he requests you to analyze the causes for the same. What factors would you consider in such analysis ? 4

(c) E & Co, a firm of Chartered Accountants, requires your help in identifying the audit procedures that can be performed using CAATs. Please guide them. 4

(d) As the auditor of a large multi locational company, in the planning process, you are requested to identify the inherent audit risk at the account balance and class of transaction level. 4

Marks

6. (a) H Private Ltd had taken overdrafts from two banks with a limit of ₹ 10 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 9 lacs. The said loans were outstanding as at 31st March 13. The paid up capital and reserves of the company as at that date was ₹ 40 lacs and its turnover during the financial year ended on 31st March 13 was ₹ 3 crores. The management of the company is of the opinion that CARO 03 is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment. **4**

(b) XYZ Ltd has significant operations in a foreign country. Due to civil and political unrest in that country physical verification of inventory and fixed assets could not carried out and you are not in a position to obtain audit evidence through other audit procedures also. The value of fixed assets and inventory forms part of 80% of the asset value of the company. As the auditor of XYZ Ltd what factors do you consider in your reporting responsibility. Also draft a suitable report that will be incorporated in the main audit report (Reporting under CARO 03 need not be considered). **8**

(c) R Ltd as at 31st March 2013 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th February 2013. However the defaulted amount was paid on 5th April 2013. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO 03. Comment and draft a suitable report. **4**

Marks

7. Write short notes on any **four** of the following :

(a) Restrictions on investments of funds of a central co-operative society. **4**

(b) Technical, ethical and professional standards as per statement on peer review **4**

(c) Corresponding figures **4**

(d) Permanent Consolidated Adjustments **4**

(e) Volatility Margin, its computation and its application. **4**

NOV 2013

Roll No. ....

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

Total No. of Questions – **7**

Time Allowed – **3** Hours

Total No. of Printed Pages – **8**

Maximum Marks – **100**

GCE

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **five** from the remaining **six** questions.

Marks

1. (a) X Limited, a newly incorporated company in India commenced its business from April 1, 2012. The Company purchased fixed assets costing ₹ 4,000 lakhs on 01-04-2012 and the same was fully financed by foreign currency loan (U.S. Dollars) payable in three annual equal installments. Exchange rates were 1 Dollar = ₹ 40.00 and ₹ 42.50 as on 01-04-2012 and 31-03-2013 respectively. The company worked out foreign exchange loss as per AS 11 at ₹ 250 Lakhs and expensed the entire amount in the profit and loss account. The Managing Director of the company was worried about this heavy revenue loss and asked the accountant not to follow AS 11 issued by the ICAI for this particular transaction. The Accountant of the company, followed the instruction of the Managing Director and removed exchange loss from the profit and loss account but then he added the entire exchange loss to the value of fixed asset and computed the depreciation thereon. As an Auditor of X Limited how you would deal with this particular transaction ? **5**

(b) G Ltd. is a mobile phone operating company. Barring the marketing function it had outsourced the entire operations like maintenance of mobile infrastructure, customer billing, payroll, accounting functions, etc. Assist the auditor of G Ltd. as to how he can obtain an understanding of how G Ltd. uses the services of the outsourced agency in its operations.

(c) Beta Limited, is a company registered with SEBI, having five subsidiaries. M/s XYZ, Chartered Accountants, have been appointed as Statutory Auditors for the audit of the Consolidated Financial Statements for the year ending March 31, 2013. Out of five subsidiaries, the audit of one subsidiary was conducted by another auditor, M/s Badnam and Company, Chartered Accountants. The "Opinion" para of audit report furnished by M/s XYZ Chartered Accountants is given below :

Opinion

In our opinion and to the best of our information and according to the explanations given to us the consolidated financial statements give a true and fair view, except the financial statement of one subsidiary whose accounts were audited by M/s Badnam and Company, Chartered Accountants and about the same we are not in a position to express our opinion as the audit has not been performed by us :

(i) in the case of the consolidated Balance Sheet, of the state of affairs of the Company as at March 31, 2013.

(ii) in the case of the consolidated Profit and Loss Account, of the profit/loss for the year ended on that date.

Do you find any deficiencies in the opinion para ? If yes, you are required to give your suggestions and redraft the opinion para.

(d) M/s Honest Limited has entered into a transaction on 5th March, 2013, near year-end, whereby it has agreed to pay ₹ 5 lakhs per month to Mr. Y as annual retainer-ship fee for "engineering consultation". No amount was actually paid, but ₹ 60 lakhs is provided in books of account as on March 31, 2013. **5**

Your inquiry elicits a response that need-based consultation was obtained round the year, but there is no documentary or other evidence of receipt of the service. As the auditor of M/s Honest Limited, what would be your approach ?

2. (a) Mr. X who passed his CA examination of ICAI on 18th July, 2013 and started his practice from August 15, 2013. On 16th August 2013, one female candidate approached him for articleship. In addition to monthly stipend, Mr. X also offered her 1% profits of his CA firm. She agreed to take both 1% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. X objecting the payment of 1% profits. Mr. X replies to the ICAI stating that he is paying 1% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. X Liable to professional misconduct ? **4**

(b) Mr. Honest, a Chartered Accountant in practice, wrote two letters to M/s XY Chartered Accountants a firm of CAs; requesting them to allot him some professional work. As he did not have a significant practice or clients he also wrote a letter to M/s ABC, a firm of Chartered Accountants for securing professional work. Mr. Clever, an another CA, informed ICAI regarding Mr. Honest's approach to secure the professional work. Is Mr. Honest wrong in soliciting professional work ? **4**

Marks

(c) C & Co., hired Mr. A, Chartered Accountant, to compile its financial statements for the interim period ending on 31st December 2012. Kindly assist Mr. A in drafting scope of engagement letter with specific focus on C & Co's responsibility. 4

(d) Mr. X was appointed as the auditor of M/s Easygo Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose. 4

3. (a) Excellent Limited, a Company incorporated in India and listed with SEBI, has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rules and regulations. Employees are also entitled to claim a lump-sum payment to cover expenses on food and stay during the travel. The Company also gives option to employees that they can claim a lump-sum amount equal to three months pay last drawn.

Excellent Limited have following accounting policies to record these travel expenses :

(i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the travel rule of the company therefore all travel expenses fall under the category of defined contribution plans.

(ii) Since it is not related to the length of service of the employees, it is difficult to estimate reliably and there is no present obligation to pay employees as per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", hence it is accounted for on claim basis.

You are statutory auditor of Excellent Limited. What would be your guidance to audit team ?

(b) Q Ltd. operates in an ERP environment. Its auditor requires your assistance on the aspects that are needed to be looked into in respect of control over input and output of transactions. Kindly help him. **4**

(c) In the audit of Hotel Great Stay Ltd. its auditor wants to use the analytical procedure as substantive procedure in respect of room rental income as well as payroll costs. Guide him as to how it can be done. **4**

(d) C.A. Prabhu, is a leading income tax practitioner and consultant for derivative products. He resides in Mumbai near to the ABC commodity stock exchange and does trading in commodity derivatives. Every day, he invests nearly 50% of his time to settle the commodity transactions. Is C.A. Prabhu liable for professional misconduct ? **4**

4. (a) H Limited, a company registered with SEBI, has three subsidiaries and one associate. While doing the audit of Consolidated Financial Statements (CFS) of H Limited you have come to know that the associate entity had made a provision for proposed dividend in its financial statements. H Limited computed its share of the results of operations of the associate after taking into account the proposed dividend. Comment. **4**

Marks

(b) While doing the audit of a nationalized bank, your Audit Assistant informed you that there are a lot of irregularities in Telegraphic Transfers and Demand Drafts. What guidance would be give to the Audit Assistant ? 4

(c) ABC Limited, an Indian insurance company carrying on general insurance business, is facing liquidity problems and, therefore, it has decided to maintain deposits under section 7 of the Insurance Act, 1938 at one percent of total gross premium written in India. The company thinks that it is sufficient, as the company has a Paid-up Capital of ₹ 150 Crores. As an Auditor of ABC Limited what would be your suggestion to the company for compliance of Insurance Act and rules and regulations made there under ? 4

(d) The Auditor of S Limited has just commenced the statutory audit. What should be considerations for the effectiveness of a system of internal check ? 4

5. (a) X Ltd is engaged in the business of newspaper and radio broadcasting. It operates through different brand names. During FY 12-13 it incurred substantial amounts on external trade, business communication and branding expenses by participation in various corporate social responsibility initiatives. The company expects to benefits by this expenditure by attracting new customers over a period of time and accordingly it has capitalized the same under brand development expenses and intends to amortize the same over the period in which it expects the benefits to flow. As the statutory auditor of the company do you concur ? Give reasons. 4

Marks

(b) M Limited is going to acquire S Limited. The purchase consideration has been decided at ₹ 4000 Crores. M Limited is worried about hidden liabilities or overvalued assets of S Limited and approached you to examine the same. List out eight important transactions/items which you would like to investigate in the Due Diligence exercise. **4**

(c) Mr. X, a young chartered accountant, wants to start practice and he requires your advice, among other things, on criminal liabilities of an auditor under the Companies Act, 1956. Kindly guide him. **4**

(d) X Ltd closed its manufacturing operations and sold all its manufacturing fixed assets during the financial year ended 31st March, 2013. However it intends continue its operations as a trading company. In respect of other fixed assets, the company carried out a physical verification as at the end of 31st March, 2013 and found a material discrepancy to the tune of ₹ 1 lac, which was written off and is disclosed separately in the profit and loss account. Kindly incorporate the above in your audit report. **4**

6. (a) M Ltd. intends to intensify its advertisement strategy of hoarding advertisements to increase its sale during the impending festival season. You have been appointed as the special auditor to examine the expenditure under this head. What will be usual evidence you will look for in this case to justify the expenditure ? **4**

(b) Mr. Nigal, a Chartered Accountant in practice, delivered a speech in the national conference organized by the Ministry of Textiles. While delivering the speech, he told to the audience that he is a management expert and his firm provides services of taxation and audit at reasonable rates. He also requested the audience to approach his firm of chartered accountants for these services and at the request of audience he also distributed his business cards and telephone number of his firm to those in the audience. Comment. **4**

Marks

(c) Mr. A engaged in business as a sole proprietor presented the following information to you for the FY 12-13. Turnover made during the year ₹ 124 lacs. Goods returned in respect of sales made during FY 10-11 is ₹ 20 lacs not included in the above. Cash discount allowed to his customers ₹ 1 lac for prompt payment. Special rebate allowed to customer in the nature of trade discount ₹ 5 lacs. Kindly advice him whether he has to get his accounts audited u/s 44AB of the Income Tax Act, 1961. **4**

(d) Dishonest Limited, a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slow down in other activities of the company. Therefore, it was expected that there would not be significant work for members of the Audit Committee. Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet once in a year only on March 31, 2013. They reviewed monthly information system of the Company and found no errors. As an auditor of Dishonest Limited would you consider the decision taken by the Audit Committee is in line with the Clause 49 of the (SEBI) Listing Agreement ? **4**

7. Write short notes on any **four** of the following :

(a) Scope of peer review **4**

(b) Cost records in respect of by products **4**

(c) Content of Management Discussion and Analysis **4**

(d) Aspects to be covered in the books of accounts to be maintained by a multi-state co-operative society. **4**

(e) Environment Impact Assessment **4**

Roll No. .... FINAL GROUP-I PAPER-3 ADVANCED AUDITING AND PROFESSIONAL ETHICS MAY 2014

Total No. of Questions – 7 Total No. of Printed Pages – 8

Time Allowed – 3 Hours Maximum Marks – 100

HBC

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium, his/her answers in Hindi, will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Marks

1. (a) ABC Company files a law suit against Unlucky Company for ₹ 5 crores. The Attorney of Unlucky Company feels that the suit is without merit, so Unlucky Company merely discloses the existence of the law suit in the notes accompanying its financial statements. As an auditor of Unlucky Company, how will you deal with the situation ? **5**

(b) T & Co. wants to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by T & Co. to examine the projected financial statements and give report thereon. What things you will consider before accepting the audit engagement and what audit evidence will be obtained for reporting on projected financial statements ? **5**

Marks

(c) In the course of audit of K Ltd., its auditor Mr. 'N' observed that there was a special audit conducted at the instance of the management on a possible suspicion of a fraud and requested for a copy of the report to enable him to report on the fraud aspects. Despite many reminders it was not provided. In absence of the special audit report, Mr. 'N' insisted that he be provided with at least a written representation in respect of fraud on/by the company. For this request also, the management remained silent. Please guide Mr. 'N'. 5

(d) During the course of audit of Star Limited the auditor received some of the confirmation of the balances of creditors outstanding in the balance sheet through external confirmation by negative confirmation request. In the list of Sundry Creditors there are number of creditors of small balances except one, old outstanding of ₹ 15 Lacs, of whom, no confirmation on the credit balance received. Comment with respect to Standard of Auditing. 5

2. Give your comments with reference to Chartered Accountants Act, 1949 and Schedules there to.

(a) Mr. 'E', a practicing Chartered Accountant, was requested by one of his client to prepare a projection for next five years and also a report on the same. Mr. 'E' after having prepared the same stated in his report 'The sources of information, the basis of forecasts and also the major assumptions made in arriving at the forecasts. He also stated that he does not vouch for the accuracy of the forecasts'. . 4

Marks

(b) Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co. 5

(i) He issued the audit queries to client which were raised during the course of audit.

(ii) He issued production certificate to a client under Central Excise Act, 1944.

(iii) He attended the Income Tax proceedings for a client as authorized representative before Income Tax Authorities.

Please comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and liability of Mr. 'A' under the Chartered Accountants Act, 1949.

(c) Mr. 'G', while applying for a certificate of practice, did not fill in the columns which solicite information about his engagement in other occupation or business, while he was indeed engaged in a business. 3

Marks

(d) Mr. 'C', a Chartered Accountant holds a certificate of practice while in employment also, recommends a particular lawyer to his employer in respect of a case. The lawyer, out of the professional fee received from employer paid a particular sum as referral fee to Mr. 'C'. **4**

3. (a) A Ltd. is a Chennai based company. The total turnover of the company is ₹ 10 crores for the year 2012-13. The company has a branch office at an area which was recently affected by flood. The transportation services are not available due to destruction caused by flood. The branch office recorded turnover of ₹ 1,50,000 in the Financial Year 2012-13. No audit of branch has been carried out. The statutory auditor of the company has made no reference of the above branch in his report. Comment. **4**

(b) Mr. 'U', a respectable Chartered Accountant of international repute was requested by one of the major corporates in India to join its Board and also as a Chairman of Audit Committee. He expressed his apprehensions that he is not having the requisite experience. Mr. 'U' seeks your view on the responsibility of Audit Committee vis-a-vis the review of Financial Statements. **4**

Marks

(c) For the year ended on 31st March, 2014, P Ltd. proposed to pay a dividend of 25% on its equity shares and it further proposed to transfer 20% of Net profit for that year after tax to its reserves. Its auditor objected to the same stating that 10% is the maximum permissible limit to transfer to reserves. Comment. **4**

(d) In assessment procedure of M/s Cloud Ltd., Income Tax Officer observed some irregularities. Therefore he started investigation of Books of Accounts audited and signed by Mr. Old, a practicing Chartered Accountant. While going through books he found that M/s Cloud Ltd. used to maintain two sets of Books of Accounts, one is the official set and other is covering all the transactions. Income Tax Department filed a complaint with the Institute of Chartered Accountants of India saying Mr. Old had negligently performed his duties. Comment. **4**

4. (a) H Ltd. granted unsecured loan of ₹ 1 crore @ 15% p.a. to two of its subsidiaries during the Financial Year 2012-13. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as on 31st March 2013, these loans are not required to be reported in CARO 2003. Comment and draft a suitable report. **4**

Marks

(b) In the course of audit of Y Ltd., as the auditor of the company you observe the following : **6**

(i) The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment.

(ii) There are certain transactions which ought to have been entered in the register maintained u/s 301, were omitted to be entered.

How auditor will report in CARO 2003 ?

(c) X Limited is the holding company of Y Limited and Z Limited. Explain the nature of current period consolidation adjustments which will be taken into account for the preparation of Consolidated Financial Statements. **6**

5. (a) Shy & Co. had been allotted the branch audit of a nationalized bank for the year ended 31st March, 2014. In the audit planning, the partner of Shy & Co. observed that the allotted branches are predominantly based in rural areas and major portion of the advances were for agricultural purpose. He needs your assistance in incorporating the criteria prescribed for determination of NPA norms in respect of agricultural advance, in audit plan. **5**

Marks

(b) M/s ABC & Co., a CA firm was appointed as the auditor of 'Always Safe General Insurance Ltd.' Advise them how they will verify outstanding premium and agents' balances. 6

(c) Good Bank Ltd. intends to advance to a customer, based on the stocks and receivables. It appoints you to conduct a periodical review of status of stocks and receivables of that borrower. Please draft a suitable program of verification. 5

6. (a) ABG & Co., a Chartered Accountant firm has been appointed by C & AG for performance audit of a Sugar Industry. What factors should be considered by ABG & Co., while planning a performance audit of Sugar Industry ? 6

(b) Mr. 'P' have been appointed as operational auditor of M/s Books & Magazine Ltd. and observed a totaling error in invoice of ₹ 1,000. He has not taken care of the same saying that this is out of scope of his work. Comment. 3

(c) What will be your approach in investigation under Section 235 and 237 into the affairs of the company registered under Companies Act, 1956 ? 4

(d) What are the areas excluded from the scope of peer reviewer ? 3

Marks

7. Write short notes on any **four** of the following : **4×4 =16**

(a) Classification of frauds by NBFC.

(b) Causes of risk of material misstatement in CIS environment.

(c) Evaluation of inherent risk at the level of Financial Statements.

(d) Objectives of Internal Check System.

(e) Tolerable misstatement