C.A. (FINAL) MAY, 2008 QUESTION PAPER

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

   (a) While adopting the accounts for the year, the Board of Directors of Sunrise Ltd. Decided to consider the Interim Dividend declared @ 15% as final dividend and did not consider transfer of profit to reserves.

   (b) V Ltd. Sold 1 lakh vacuum pumps during the year 2006-07 with a condition to make good by repair/replacement any manufacturing defects reported within 6 months from the date of sale. Past experience in this regard showed that there were no replacements carried out, but minor/ major repairs were necessitated to the extent of 10%/ 5% respectively of the units sold. The cost of such minor/major would amount to Rs. 1,000/Rs. 6,000 respectively. While finalizing the accounts for the year, the company does not reflect provision in this regard.

   (c) XYZ Pvt. Ltd., manufacturing garments, has valued at the year end its closing stock of packed finished goods for which firm export contracts have been received, at realizable value inclusive of profit and export cash incentive. As at the year end, the ownership of the goods has been transferred to the foreign buyers.

   (d) R Ltd. Owns 51% voting power in S Ltd. It however holds and discloses all the shares as “Stock-in-trade” in its accounts. The shares are held exclusively with a view to their subsequent disposal in the near future. R Ltd. represents that while preparing Consolidated Financial Statements, S Ltd. can be excluded from the consolidation.

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) As a Chartered Accountant in practice, you are asked to conduct a review of the “Profit Forecast” prepared by a company in connection with its application for a Term Loans from a bank.

   (b) X, a Chartered Accountant availed a loan against his shares held as investments from a nationalized bank. He issued 2 cheques towards repayment of the said loan. Both the cheques were returned back by the bank with the remarks “*Refer to Drawer*”.

   (c) BC & Co, a firm of Chartered Accountants, accepted an assignment for audit under state level VAT Act, without any prior communication with the previous auditor.

   (d) M, a Chartered Accountant in practice, is the Statutory Auditor of S Ltd. for the year ended 31st March, 2008. In January 2008, he was appointed as a director in H Ltd. which is the holding Company of S Ltd.

3. Answer the following:

   (a) “Use a Audit Software would increase the probability of detecting frauds”. Comment.

   (b) Elaborate under Clause 49 of the Listing Agreement, who is an Independent Director.

(c) What is an audit Trail?

4. Answer the following:

    (a) What are the major differences between Financial and Operational Auditing?

    (b) As a Statutory Auditor, how would you deal the following:

        (i). PQR Ltd. has not deposited Provident Fund contribution of Rs. 10 lakhs with the authorities till the year end.

        (ii). LM Ltd. had obtained a Term Loan of Rs. 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits.

5. Answer the following:

    (a) As a Statutory Auditor, how would you verify advances against goods.

    (b) Explain the concept of Audit risk:

        (i). At the level of Financial statements

        (ii). At the level of account balance and class of transactions.

6. Answer the following:

    (a) RQ Insurance Ltd. has made a provision a provision of 25% on unexpired risks reserve in its books. Comment.

    (b) In the context of Audit of members of Stock Exchanges, explain what is rolling settlement?

    (c) What is Haphazard Sampling?

7. Answer the following:

    (a) What are the areas in which due diligence takes place?

    (b) What are the steps to be taken by a firm of Chartered Accountants to ensure that its appointment as Statutory Auditor of a Company is valid?

    (c) As the tax auditor of the Company, how would you report on payments exceeding Rs. 20,000 made in cash to a supplier against an invoice for expenses booked in an earlier year?

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

    (a) Securities Transaction Tax

    (b) Price/Earnings (P/E) ratio

    (c) Key Management Personnel

    (d) Normal Capacity for the purpose of Inventory Valuation

    (e) Integral Foreign Operations

    (f) Emphasis of matter paragraph in Audit Reports

Suggested Hints

Question No.	Hints
1 (a)	Refer Chapter 2 for Dividends
1 (b)	Refer AS 29
1 (c)	Refer AS 2
1 (d)	Refer AS 21
2 (a)	Refer Chapter 3 for Clause 3 Part I of Second Schedule
2 (b)	Refer Chapter 3 for Clause 1 art III of Second Schedule *(If a cheque is dishonoured even when presented before expiry of 6 months, the payee or holder in due course is required to give notice to drawer of cheque within 30 days from receiving information from bank.. The drawer should make payment within 15 days of receipt of notice. If he does not pay within 15 days, the payee has to lodge a complaint with Metropolitan Magistrate or Judicial Magistrate of First Class, against drawer within one month from the last day on which drawer should have paid the amount. The penalty can be upto two years imprisonment or fine upto twice the amount of cheque or both)*
2 (c)	Refer Chapter 3 for Clause 8 Part I of First Schedule
2 (d)	Refer Chapter 3 for Clause 11 Part I of First Schedule, Guidance Note on Independence of Auditors and Section 226(3)
3 (a) & (c)	Refer AAS 29 and Chapter 8
3 (b)	Refer Chapter 20
4 (a)	Refer Chapter 7
4 (b)	Refer Chapter 11 Specimen Questions
5 (b)	Refer AAS 6
6 (a)	Refer Chapter 13
6 (b)	Refer Chapter 19
6 (c)	Refer AAS 15
7 (a)	Refer Chapter 10
7 (b)	Refer Chapter 1 (discussion under Para 9)
7 (c)	Refer Chapter 5
8 (a)	*Securities Transaction Tax or turnover tax, as is generally known, is a tax that is leviable on taxable securities transaction. Taxable Securities*

	Transactions are transactions involving: • *Purchase or sale of (provided it is entered into at recognized stock exchanges):* *- equity share in a Company or* *- a derivative or* *- a unit of an equity oriented fund* • *Sale of a unit of an equity oriented fund to the Mutual Fund itself.*
8 (b)	*A price earning ratio, or "P/E" for short, is a commonly used way to simplistically value a company (determine what a company's stock should be worth). It is simply a company's stock price divided by a company's earnings per share. The price to earnings ratio, also known as "P/E", is calculated by dividing the company's stock price by the company's earnings per share, or "EPS". The P/E ratio gives an indication of how many times one is paying for a company's stock verse a company's earnings. P/E ratios can be used to compare against other companies, or against a company's own historical P/E ratio.*
8 (c)	Refer AS 18 and AAS 23
8 (d)	Refer AS 2
8 (e)	Refer AS 11
8 (f)	Refer AAS 28

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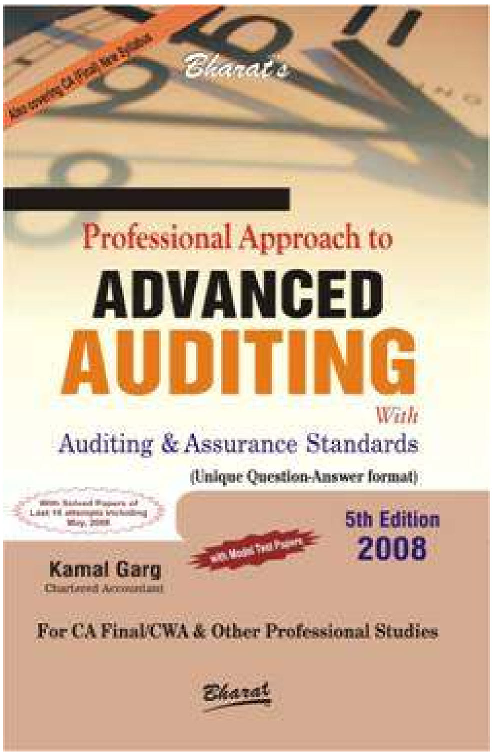

- The book covers the entire syllabus of CA Final, Group I, Paper-3

- An attempt has been made to explain the subject in an **easy-to-grasp style** with an exam-oriented focus, giving only what is essential for the purpose

- **Code of Ethics Ready Reckoner**
- **Reporting Requirements Ready Reckoner**
- **Due Diligence Ready Reckoner**
- **CARO Ready Reckoner**

- Each chapter, at the end, contains **Specimen Questions** that will enable the student to self-assess his understanding of the subject

- A hallmark of this book is the gist of **Auditing and Assurance Standards (Question & Answer Format)** and the Guidance Notes issued by the Institute till date

- It contains Solved **Question Papers** of CA Final of **last 10 attempts including May, 2008.** It also contains **<u>Model Test Papers</u>** to help the students assess their preparation in an exam-oriented environment

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