

CA Final Nov. 2014 Examination

Paper 3 : “Advanced Auditing & Professional Ethics”

Q. No. 1 is Compulsory. Attempt any five from the remaining six questions.

Q. No.	Question	Marks	Related Topic	Suggested Answer - 4 th edition
1.	(a) In the Notes to Accounts of Z Co. Ltd. As on 31.03.2014 Note no. 10 states that certain machinery items are lying at customs warehouses and that the Company has paid Rs. 500 lakhs up to 30.06.2013 as detention charges, out of which a sum of Rs. 220 lakhs is written back during the year 2013-14 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 Rs. 48 lakhs has been made. As such a total amount of Rs. 328 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 Assets. As the auditor how would you respond to this?	5	AS -10	Q. No. 18 of Chapter No. 31
	(b) The Auditor of PQR Pvt. Ltd. having turnover of Rs. 12 crore, was not able to get the confirmation about the existence and value of certain stock. However, a certificate from the management has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure, signed the Audit Report. Is he right in his approach?	5	SA - 580	Q. No. 65 of Chapter No. 7
	(c) Discuss the impact of uncorrected misstatements identified during the audit and the auditor's response to the same.	5	SA 450	Q. No. 36 of Chapter No. 7
	(d) What are the roles and responsibilities of the statutory auditors in relation to compliance with the laws and regulations by the entity?	5	SA 250	Q. No. 18 of Chapter No. 7
2.	(a) While commencing the statutory audit of ABC Company Limited, what should be the considerations of the auditor to assess Risk of Material Misstatement and his response to such risks?	4	SA 315	Q. No. 28 of Chapter No. 7
	(b) How would the method of collecting audit evidence relating to effectiveness of controls and evaluating the same change under a computerised environment?	4	CIS Audit	Q. No. 18 of Chapter No. 5
	(c) Describe the principal methods of selection of samples.	4	Statistical Sampling	Q. No. 3 of Chapter No. 6
	(d) Describe how you would identify the inherent risk at the account balance and class of transaction level in the planning process of the audit of a large multi-locational company.	4	Audit Strategy	Q. No. 2 of Chapter No. 2
3.	(a) Big and Small Ltd. received a show cause notice in December 2013 from the Central Excise Department intending to levy a sum of Rs. 25 lakhs. The Company replied to the above notice in January 2014 contending that it is not liable for the proposed levy. No further action was initiated by the Central Excise department up to the finalization of the audit for the year ended on 31 st March, 2014. As the Auditor of the Company, how would you deal with this matter in your report?	5	CARO	Q. No. 20 of Chapter No. 11

	(b)	The Auditor's Report of ABC Ltd. for the year 2013-13 contained a qualification regarding non-provision of doubtful debts. As the Statutory Auditor of the Company for the year 2013-14, how would you report, if: (i) The Company does not make provision for doubtful debts in 2013 -14? (ii) The Company makes adequate provision for doubtful debts in 2013-14?	5	SA 710	Q. No. 86 of Chapter No. 7								
	(c)	What are the professional obligations of the auditor who has resigned from the audit before completion of his term due to non co-operation of the Management in completing certain audit procedures?	5	Sec. 140(2) of Companies Act 2013	Refer Chapter No. 9								
	(d)	Discuss the Auditor's responsibility to provide access to his audit working papers to Regulators and third parties.	3	SA 230	Q. No. 9 of Chapter No. 7								
4.	(a)	A Private Limited Company reports the following position as on 31 st March, 2014: <table border="1"><tr><td>Paid up Capital</td><td>Rs. 35 Lacs</td></tr><tr><td>Revaluation Reserve</td><td>Rs. 12 Lacs</td></tr><tr><td>Capital Reserve</td><td>Rs. 10 Lacs</td></tr><tr><td>Profit & Loss (Dr.) Balance</td><td>Rs. 12 Lacs</td></tr></table> The Management of the Company contends that CARO, 2003 is not applicable to it. Comment.	Paid up Capital	Rs. 35 Lacs	Revaluation Reserve	Rs. 12 Lacs	Capital Reserve	Rs. 10 Lacs	Profit & Loss (Dr.) Balance	Rs. 12 Lacs	4	CARO	Q. No. 7 of Chapter No. 11
Paid up Capital	Rs. 35 Lacs												
Revaluation Reserve	Rs. 12 Lacs												
Capital Reserve	Rs. 10 Lacs												
Profit & Loss (Dr.) Balance	Rs. 12 Lacs												
	(b)	You are appointed to compile financial statement of Z & Company (a partnership firm) for tax purposes. During the course of work, you learn that the inventory is grossly understated. On pointing out the same, the partners of Z & Co., tell you that it is outside your scope since you are not conducting an audit and the said figures duly certified by the firm should be accepted. Comment.	4	SRS 4410	Q. No. 93 of Chapter No. 7								
	(c)	C Limited has defaulted in repayments of dues to a financial institution during the financial year 2013 -14 and the same remained outstanding as at March 31, 2014. However, the Company settled the total outstanding dues including interest in April, 2014 subsequent to the year end and before completion of the audit. Discuss how you would deal with this mater and draft a suitable Auditor's Report.	4	CARO	Q. No. 25 of Chapter No. 11								
	(d)	In the course of your audit you have come across a related party transaction which <i>prima facie</i> appears to be biased. How would you deal with this?	4	SA 550	Q. No. 58 of Chapter No. 7								
5.	(a)	XYZ Ltd. pays Rs. 90,000 for its 6 employees to a Hotel as boarding and lodging expenses of such employees for a conference. The Company pays the amount in cash to the Hotel. The Hotel gives 6 bills each amounting to Rs. 15,000. The Company contends that each bill is within the limit, so there is no violation of the provisions of the Income Tax Act, 1961. As the tax auditor, how would you deal with the matter in your tax audit report for the Assessment Year 2014-15?	4	Clause No. 21(d) of Form No. 3CD	Refer Form 3CD in Chapter No. 17								

	(b)	ABC & Co., Chartered Accountants are the Auditors of Just Care General Insurance Company Limited. As on March 31, 2014 the Management made a provision for claims outstanding. Enumerate the steps to be taken by the Auditor while verifying the "Claims Provision".	6	Outstanding Claims- Audit of GIC	Q. No. 5 of Chapter No. 24
	(c)	Compare and explain the following:			
	(i)	Reporting to Shareholders vs. Reporting to those Charged with Governance	3	SA 260 & SA 700	Refer Chapter No. 7
	(ii)	Audit Qualification vs. Emphasis of Matter	3	SA 705 & 706	Refer Chapter No. 7
6.	Comment on the following:				
	(a)	A firm of Chartered Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for their information system. One of the partners of the firm of chartered accountants was a non-executive director of the company.	4	Professional Ethics	Q. No. 45 of Chapter No. 28
	(b)	Mr. Z, a Chartered Accountant was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Textile Industry. During the course of his presentation he shared some vital information of his client's business under the impression that it will help the Nation to compete with other countries at the international level.	4	Professional Ethics	Q. No. 42 of Chapter No. 28
	(c)	M/s ABC, a firm of Chartered Accountants received Rs. 2 lakhs in March, 2014 from a client to pay the Advance Tax. However, the firm has used that money for its own purpose and later on adjusted the same with the outstanding fee payable.	4	Professional Ethics	Q. No. 62 & 63 of Chapter No. 28
	(d)	M/s XYZ, a firm of Chartered Accountants has taken a loan for acquiring a home from a company whose Managing Director's son is an Articled Assistant with A, a partner of M/s. XYZ. The Articled Assistant had no direct interest in the Company and the loan was not related to his engagement.	4	Professional Ethics	Q. No. 64 of Chapter No. 28
7.	Write short notes on any four of the following:				
	(a)	Market Wide Circuit Breaker (MWCB)	4	Q. No. 10 of Chapter No. 27	
	(b)	Restriction on shareholding in a Co-operative Society	4	Q. No. 2 of Chapter No. 26	
	(c)	Importance of KYC requirements for a Chartered Accountant's practice	4	General Question	
	(d)	Intangible Asset vs. Intangible Item	4	Refer AS 26	
	(e)	Cost Audit	4	Q. No. 1 of Chapter No. 15	

Note: We are pleased to share with you that our third edition (Taxmann Publications) released in July 2014 covers 100% of questions asked in Nov. 14 Exam and Case studies and Questions for 56 Marks has been covered by our book, which no other book covers as such.