

APPENDIX 1

SOLVED QUESTION PAPERS OF PAST ATTEMPTS

A. NEW COURSE

NOVEMBER 2009

1. Comment on the following:

- (a) 'A' Limited has paid minimum alternate tax under section 115JB of the Income-tax Act, 1961 for the year ended 31st March, 2009. The company wants to disclose the same as an 'Asset' since the company is eligible to claim credit for the same.
- (b) XYZ Limited received a grant of ₹25 lakhs under the Governments' Subsidy Scheme, for acquiring an imported machinery for setting up new plant. The entire grant received is credited to Profit and Loss Account.
- (c) Moon Limited replaced its statutory auditor for the financial year 2008-09. During the course of audit, the new auditor found a credit item of ₹5 lakhs. On enquiry, the company explained him that it is a very old credit balance. The creditor had neither approached for the payment nor he is traceable. Under the circumstances, no confirmation of the credit balance is available.
- (d) The statutory audit of Fortune Limited for the year ended on 31-3-2009 was completed and auditor also submitted his report with the audited Financial Statements to the management of the company. Thereafter, the management of the company approached the auditor to revise certain items in the Financial Statements.

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

- (a) Mrs. Fair is a Director of XYZ Private Limited, having 15% shareholding in the company. During 2003, the Company appointed C.A. Mr. Lovely, Mrs. Fair's spouse, as its statutory auditor. On Mr. Lovely's advice, the company issued fresh equity shares in 2003-04, in the ratio of one share for every two shares held by the shareholders of the company. Mr. Lovely used to deliver audit report for subsequent years without any comments or disclosures, thereupon.
- (b) Mr. A, a Chartered Accountant was the auditor of 'A Limited'. During the Financial year 2007-08, the investments appeared in the Balance Sheet of the company of ₹10 lakhs and was the same amount as in the last year. Later on, it was found that the company's investments were only ₹25,000, but the value of investments was inflated for the purpose of obtaining higher amount of Bank loan.
- (c) An advertisement was published in a Newspaper containing the Photograph of Mr. X,—A member of the institute wherein he was congratulated on the occasion of the opening ceremony of his office.
- (d) Mr. X, a Chartered Accountant and the proprietor of X & Co., wrote several letters to the Assistant Registrar of Co-operative Societies stating that though his firm was on the panel of auditors, no audit work was allotted to the firm and further requested him to look into the matter.

3. Answer the following:

(a) Briefly explain:

- (i) Audit procedures on subsequent events
- (ii) Collection of evidences by Peer reviewer.

(b) ABC Printing Press, a proprietary concern, made a turnover of above ₹43 lacs for the year ended 31-3-2009. The Management explained its auditor Mr. Z, that it undertakes different job work orders from customers. The raw materials required for every job are dissimilar. It purchases the raw materials as per specification/ requirements of each customer, and there is hardly any balance of raw materials remains in the stock, except pending work-in-progress at the year end. Because of variety and complexity of materials, it is rather impossible to maintain a stock-register.

Give your comments.

(c) A Co-operative Society having receipts above ₹40 lakhs gets its accounts audited by a person eligible to do audit under Co-operative Societies Act, 1912, who is not a Chartered Accountant? State with reasons whether such audit report can be furnished as tax audit report under section 44AB of the Income-tax Act, 1961?

4. Answer the following:

- (a) How will you evaluate the Internal Control system in the area of Credit Card operations of a Bank?
- (b) Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward in case of a General Insurance Company.
- (c) Explain briefly duties and responsibilities of an auditor in case of material misstatement resulting from Management Fraud.

5. Answer the following:

- (a) State briefly eight provisions of the Sarbanes-Oxley Act of 2002, which shall, if strictly applied to Indian Corporates, get fruitful results.
- (b) Discuss briefly Accounting standards to be followed by assesseees under the Income-tax Law.
- (c) Under what circumstances, an auditor is required to submit a special report to the registrar of Co-operative Societies?

6. Answer the following:

- (a) The role of an auditor in collecting audit evidences under EDP system is more complex than under the manual system—Discuss.
- (b) What do you understand about Reserved Capital as provided under section 99 of the Companies Act, 1956? How is it different from Capital Reserve?
- (c) Explain briefly the Flow Chart technique for evaluation of the Internal Control system.

Suggested Hints

Question No.	Hints
1(a)	(Refer AS 22 and Guidance Note on Accounting for MAT Credit in Paper 1: Financial Reporting)
1(b)	(Refer AS 12)
1(c)	(Refer SA 510)
1(d)	(Refer Guidance Note on Revision of Auditor's Report)

Question No.	Hints
2(a)	(Refer Clause 4, Part I, Schedule II)
2(b)	(Refer Clause 7, Part I, Schedule II)
2(c)	(Refer Clause 6 & 7, Part I, Schedule I)
2(d)	(Refer Clause 6, Part I, Schedule I)
3(a)(i)	(Refer SA 560)
3(a)(ii)	(Refer Chapter 20)
3(b)	(Refer Schedule VI (now Schedule III), AS 2, Section 20, SA 620 & SA 580)
3(c)	(Refer Chapter on Audit of Cooperative Societies and Tax Audit)
4(a)	(Refer Chapter on Audit of Banks)
4(b)	(Refer Chapter on Audit of General Insurance Companies)
4(c)	(Refer Chapter on Due Diligence/ Investigations)
5(a)	(Refer Chapter on Other Aspects/ Special Aspects)
5(b)	(Refer AS I and II under Income Tax Act, 1961)
5(c)	(Refer Chapter on Audit of Cooperative Societies)
6(a)	(Refer Chapter on EDP Audit)
6(b)	(Refer Study Material of CA IPCC for Corporate Law)
6(c)	(Refer CA IPCC Study Material on Auditing and Assurance)

* * *

MAY, 2010

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, 2016: 5

Paid up capital	80 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, 2016 is not applicable to it.(adapted)

(c) S Ltd. issued Bonds to the tune of ₹100 lacs and provided security to the tune of ₹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 Ltd. 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

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 ₹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 installments. On 15th September, 2009, 15th December, 2009 and 15-3-2010. After remitting the 1st installment 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
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

Suggested Hints

Question No.	Hints
1(a)	Refer AS 22
1(b)	CARO, 2016 applicable, refer chapter on CARO
1(c)	Refer Schedule VI (now Schedule III)
1(d)	Refer AS 2 and AS 10 alongwith ASI 2
2(a)	Refer Clause 11 of Part I, First Schedule
2(b)	Refer Clause 7 of Part I, Second Schedule
2(c)	Refer Clause 10 of Part I, Second Schedule
2(d)	Refer Clause 2 of Part III, First Schedule
3(a)	Refer SA 580
3(b)	Refer SA 530
3(c)	Refer SA 710
3(d)	Refer Chapter on EDP Audit
4(a)	Refer Chapter on Bank Audit
4(b)	Refer Chapter on Bank Audit
4(c)	Refer Chapter on Audit of GIC

Question No.	Hints
5(a)	Refer Chapter on Cost Audit
5(b)	Refer SA 400, 315 and 330
5(c)	Refer SA 400
5(d)	Refer Chapter on Liabilities of Auditor
6(a)	Refer Chapter on Audit of NBFCs
6(b)	Refer Chapter on Audit of Members of Stock Exchange
6(c)	Refer Chapter on Audit of Indirect Taxes
6(d)	Refer Chapter on Special Aspects

* * *

NOVEMBER, 2010

Marks

1. Comment on the following:
 - (a) A Co. Ltd. has not included in the Balance sheet as on 31-3-2010 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 30-4-2010. The auditor wants to sign the said Balance Sheet and give the audit report on 31-5-2010. The auditor came to know the result of the negotiations on 15-5-2010. 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 31-3-2010 Note no. 11 states that 'Certain machinery items are lying at customs warehouses and company has paid ₹ 900 lakhs up to 30-6-2009 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
 - (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 31-3-2010 shows an audit fee payable of ₹ 25,000. What precautions you will take before commencing the audit work? 4

- (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 40A(3) were made, and advised the client to report the same in Form 3CD. The client contends that case 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
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 *inter se*, and personal expenses were charged to revenue. Comment. 6
- (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 not on Audit of Miscellaneous Expenditure (Revised) 4
- (d) Verification of Outstanding Premium and Agents' Balances. 4
- (e) Reconciliation of Cost and Financial Accounts. 4

Suggested Hints

Question No.	Hints
1(a)	(Refer AS 4, AS 5 and AS 29)
1(b)	(Refer AS 7 and Guidance Note on Recognition of Revenue by Real Estate Developers)
1(c)	(Refer AS 10)
1(d)	(Refer Schedule VI (now Schedule III), CARO, 2016)
2(a)	(Refer ICAI Guidelines for Website given in the Chapter on Code of Ethics)

Question No.	Hints
2(b)	(Refer Clause 11 of Part I of First Schedule and Clause 4 of Part I of Second Schedule)
2(c)	(Refer Clause 2 of Part IV of First Schedule)
2(d)	(Refer Clause 7 and Clause 8 of Part I of Second Schedule)
3(a)	(Refer SA 510, Section 225, Clause 8 and Clause 9 of Part I of First Schedule and Central Council General Guidelines on Undisputed Audit Fees)
3(b)	(Refer SA 620)
3(c)	(Refer Chapter on EDP Audit)
4(a)	(Refer Clause 4 of Part of Second Schedule, SA 200 and Guidance Note on Independence of Auditors)
4(b)	(Refer Section 188, 184 and 189 of the Companies Act, 2013 and AS 18.
4(c)	(Refer Section 138 of the Companies Act, 2013)
5(a)	(Refer Chapter on Audit of Cooperative Societies)
5(b)	(Refer SA 200, Section 40A(3) and Form 3CD given in Chapter on Tax Audit)
5(c)	(Refer Chapter on Investigations)
6(a)	(Refer Section 227(1A) of the Companies Act, 1956) (now Section 143(1) of the Companies Act, 2013)
6(b)	(Refer Chapter on Management and Operational Audit)
6(c)	(Refer Chapter on Other Aspects)
7(a)	(Refer Chapter on Audit of Members of Stock Exchange)
7(b)	(Refer Chapter on Bank Audit)
7(c)	(Refer PCC/IPCC Study Material for Chapter on Vouching & Verification)
7(d)	(Refer Chapter on Audit of GIC)
7(e)	(Refer Chapter on Cost Audit)

* * *

MAY, 2011

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 misstatement 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
2. Give you comments with reference to the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) CA Smart, a practicing Chartered Accountant was on Europe tour between 15-9-2010 and 25-9-2010. On 18-9-2010 a message was received from one of his clients requesting for a stock certificate to be produced to the bank on or before 20-9-2010. 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 under section 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 under section 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
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. If 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
- (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 of 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

Suggested Hints

Question	Hint
1 (a)	See SA 402
1 (b)	See SA 315 and SA 450
1 (c)	See SA 540, SA 320 and SA 330
1 (d)	See SA 505
2 (a)	<i>Professional Misconduct.</i> See Clause 1 and Clause 12 of Part I of First Schedule to the Chartered Accountants Act, 1949 (as amended)
2 (b)	<i>No Professional Misconduct.</i> See Clause 8 of Part I of First Schedule to the Chartered Accountants Act, 1949 (as amended)
2 (c)	<i>Professional Misconduct.</i> See Clause 6 of Part I of First Schedule to the Chartered Accountants Act, 1949 (as amended)

Question	Hint
2 (d)	<i>Professional Misconduct.</i> See Clause 6 of Part I of First Schedule to the Chartered Accountants Act, 1949 (as amended)
3 (a)	See SA 300
3 (b)	See SA 620 read with SA 500
4 (a)	<i>Management's submissions can be admitted by the statutory auditors (See AS 29).</i> "Contingent gains and benefits from contracts to the extent not executed are not accounted for in financial statements since this may result in the recognition of revenue which may never be realised". This is in accordance with the generally accepted principle of conservatism in accounting. However, the aforementioned paragraph allows an exception to this principle in view of the true and fair presentation of accounts as it further states: "However, when the realisation of a gain is virtually certain, then such a gain is not a contingency and accrual of the gain is appropriate." Whether, a gain is 'virtually certain' has to be decided by the management on the basis of the criteria that the revenue is measurable and that there is a reasonable expectation of its ultimate collection. The management will have to consider the facts and circumstances of each case in order to arrive at this decision.
4 (b)	<i>Flexi Deposit shall be presented under Bank Balances as per the requirements of Part I of Schedule VI to the Companies Act as follows:</i> Particulars should be given separately for: "Balances lying with Scheduled Banks on current accounts, call accounts and <i>deposit accounts</i> " (similar requirement not present in Schedule III of the Companies Act, 2013) <i>Book Overdrafts should be presented separately from sundry creditors under the heading Current Liabilities of Part I of Schedule VI to the Companies Act, 1956 (now Schedule III of the Companies Act, 2013):</i> [A book overdraft is not an overdraft at a bank but an excess of outstanding checks on a company's books over its reported bank cash balance. A book overdraft becomes a bank overdraft when outstanding checks are presented for payment]
4 (c)	See SA 315 and Chapter on EDP Audit
5 (a)	See Clause 3(viii) and (ix) of CARO, 2016 (because financial institution and term loans both are respectively involved).
5 (b)	See Clause 3(vii) of CARO, 2016
5 (c)	See requirements of Section 227(1A) for personal expenses/ book entries <i>plus</i> Schedule VI reporting (now Section 143(1) and Schedule III of the Companies Act, 2013)
6 (a)	See Chapter on Bank Audit
6 (b)	See Chapter on Audit of General Insurance Company
6 (c)	See Chapter on Audit of Society
7 (a)	See Form 3CD in Chapter on Tax Audit
7 (b)	See Chapter on Audit of Members of Stock Exchanges
7 (c)	See Chapter on Audit of PSUs
7 (d)	See Chapter on Management and Operational Audit
7 (e)	See Chapter on Investigations and SA 240 with Clause 3 (x) of CARO, 2016

NOVEMBER, 2011
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 obsolescence 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

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?

- (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 under section 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
- (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 sanctioned. 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:

- 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? 5

- (b) State the functions of Energy Auditor. 5
- (c) A infrastructure company has constructed a mall and entered into agreement with tenants toward 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

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.

Draw out an audit plan.

Wastage percentage are

July 2010	1.5%	
Aug 2010	1.7%	
Sep 2010	1.4%	
Oct 2010	4.1%	8

(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
- (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
- (d) Comptroller & Auditor General of India were conducting supplementary audit under section 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 2016 (*adapted*). 4

Suggested Hints

Question	Hint
1 (a)	Refer SA 620 and SA 500
1 (b)	Refer AS 5 and SA 540
1 (c)	(i) Refer AS 26 (ii) Refer AS 22
1 (d)	Refer SA 299 and SA 220
2 (a)	Refer Section 6 of the Chartered Accountants Act, 1949 (as amended in 2006) in Chapter on Code of Ethics
2 (b)	Refer Chapter on Code of Ethics. Professional Misconduct under clause 2 for certifying financial statements without examination, for gross negligence under Clause 7 and under clause 8 for not obtaining evidence, of Part I of Second Schedule to the Chartered Accountants Act, 1949 (as amended in 2006)
2 (c)	Refer Chapter on Code of Ethics. Professional Misconduct under for gross negligence under Clause 7 and under clause 8 for not obtaining evidence, of Part I of Second Schedule to the Chartered Accountants Act, 1949 (as amended in 2006)

Question	Hint
2(d)	Refer Chapter on Code of Ethics. Professional Misconduct for Solicitation under clause 6 of Part I of First Schedule to the Chartered Accountants Act, 1949 (as amended in 2006)
3 (a)	Reporting under Clause 3 (vii) of CARO, 2016
3 (b)	See Chapter on “Other Aspects”
3 (c)	Refer AS 9
4 (a)	Refer Q. 4 (b) in the question paper of November 2003
4 (b)	Refer Chapter on “Audit of Indirect Taxes”
5 (a)	(i) Refer Form 3CD in the Chapter on “Tax Audit” (ii) Refer Form 3CD in the Chapter on “Tax Audit” (iii) Refer Form 3CD in the Chapter on “Tax Audit”
5 (b)	Refer Chapter on “Bank Audit”
5 (c)	Refer Clause 3 (iii) of CARO, 2016
6 (a)	Refer Chapter on “Other Aspects”
6 (b)	Refer SA 580
6 (c)	Refer Chapter on “EDP Audit”/“Audit in CIS Environment”
6 (d)	Refer Chapter on Management and Operational Audit for guidance
7 (a)	Refer Chapter on “Audit of Members of Stock Exchanges” “Other Aspects”
7 (b)	Refer Chapter on “Other Aspects”
7 (c)	Refer Chapter on “Audit of General Insurance Companies”
7 (d)	U/s 217 of the Companies Act, 1956, the Board of Directors are not under any obligation to explain C&AG Comments (now Section 134 of the Companies Act, 2013)
7 (e)	See Chapter on “CARO”

MAY, 2012

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 excepted return that are likely to happen after 31st March, 2012, in respect of the sales made for the FY 2011-12. 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
- (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 Accounts 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
 - (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 arrangements 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
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 58AA¹ 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 thereon".
Discuss this statement and state reporting requirements under the Companies (Auditor/s Report) Order, 2003 for non-compliance of section 58AA of the Companies Act, 1956. 8
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

¹ Now Section 73 to 76 of the Companies Act, 2013.

Suggested Hints

Question	Hints
1(a)	Refer AS 9
1(b)	Refer AS 1, AS 29, SA 620, SA 600, SA 250
1(c)	Refer SA 610, SA 500
2(a)	Refer Clause 7 of Part I of Second Schedule in Chapter on Code of Ethics
2(b)	Refer Clause 1 of Part II of Second Schedule in Chapter on Code of Ethics
2(c)	Refer Clause 2 of Part I of First Schedule in Chapter on Code of Ethics
2(d)	Refer Clause 6 and Clause 7 of Part I of First Schedule in Chapter on Code of Ethics
3(a)	Refer Chapter on Bank Audit
3(b)	Refer Chapter on Tax Audit and Form 3CD given therein
4(a)	Refer SA 550
4(b)	Refer Chapter on Due Diligence
5(a)	Refer Chapter on Other Aspects for Peer Review
5(b)	Refer Chapter on Management and Operational Audit
5(c)	Refer Clause 3(v) of CARO, 2016
6(a)	Refer Chapter on EDP Audit
6(b)	Refer Chapter on Corporate Governance
6(c)	Refer SA 240
7(a)	Refer Chapter on Audit of Members of Stock Exchanges
7(b)	Refer Chapter on Cost Audit
7(c)	Refer Chapter on Bank Audit
7(d)	Refer Chapter on Audit of General Insurance Companies
7(e)	Refer Chapter on SA 530

NOVEMBER, 2012

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 laying 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
 - (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
3. Comments 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, 2016, how, as a statutory auditor would you comment on the following:
- (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. (*adapted*) 8
- (b) As an auditor how will you verify the existence of Related Parties? 8
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:
- (i) Capital expenditure incurred for scientific research assets
- (ii) Expenditure incurred at clubs 4
- (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: $4 \times 4 = 16$
- (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)¹ of the Companies Act, 1956.

Suggested Hints

Question	Suggested Hints
1(a)	Refer AS 4 and SA 570
1(b)	Refer SA 250
1(c)	Refer AS 4 (AS now overrides Revised Schedule VI. So even if Revised Schedule VI don't require it, still the proposed dividend need to be provided for in books because of requirements of AS 4)
1(d)	Refer AS 9 in Subject of Financial Reporting
2(a)	Refer Code of Ethics for Sale of Goodwill
2(b)	Refer Section 27 of CA Act, 1949 (as amended)

¹ Now Section 143(5) and (6) of the Companies Act, 2013.

Question	Suggested Hints
2(c)	Refer Code of Ethics for presence of substantial interest of the Member in the entity (Most of the relations as covered under the Companies Act may not fall within the purview of AS 18. For instance, while the brother or sister of individual falls within the meaning of relative under AS 18, the spouse of an brother or sister of such individual does not fall within the purview of AS 18)
2(d)	Refer Section 226. Disqualification attracted even if debt is owed in normal course of business. Audit fees cannot be adjusted in this manner as this will result in impairment of independence by virtue of self interest and self review threat.
3(a)	Refer SA 315, 330, 520 and 450 (discussion about analytical procedures and test of details of transactions required)
3(b)	General Question. Discuss Clause 8 & 9 of Part I First Schedule plus relevant provisions of Co. Act like Section 226, 224(1B) etc. (now Section 141 of the Companies Act, 2013)
4(a)	Refer Chapter on EDP Audit
4(b)	Refer SA 705
5(a)(i)	Refer Chapter on CARO
5(a)(ii)	Refer Clause 3 (viii) and (ix) of CARO, 2016
5(b)	Refer SA 550
6(a)	Refer Chapter on Due Diligence and Investigation
6(b)	Refer Form 3CD in Chapter on Tax Audit
6(c)	Refer Study Material of Financial Reporting
7(a)	Refer Guidance Note on Audit of Consolidated Financial Statements
7(b)	Refer Section 227(1A) of the Co. Act (now Section 143(1) of the Companies Act, 2013)
7(c)	Refer Chapter on Audit of Members of Stock Exchange
7(d)	Refer Chapter on Other Aspects
7(e)	Refer Chapter on Audit of PSU

MAY 2013

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
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
- (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
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
6. (a) H Private Ltd had taken overdrafts from two banks with a limit of ₹ 48 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 16. 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 16 was ₹ 8 crores. The management of the company is of the opinion that CARO 2016 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. (*adapted*) 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 2016 Need not be considered). (*adapted*) 8
- (c) R Ltd as at 31st March, 2016 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th February, 2016. 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 2016. Comment and draft a suitable report. (*adapted*) 4
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

Suggested Hints

Question	Suggested Hints
1(a)	Refer SCHEDULE VI (REVISED) (now Schedule III of the Companies Act, 2013)
1(b)	Refer on AS 15 (Revised) and SA 620
1(c)	Refer on AS 2
1(d)	Refer AS 21 read with AS 13
2(a)	Refer Chapter on “Code of Ethics”: Guilty of “Other Misconduct” under CA Act, 1949
2(b)	Refer Chapter on “Code of Ethics”: Guilty of “Professional Misconduct” under Clause 7, Part I of First Schedule
2(c)	Refer SA 250 on “Considerations of Laws and Regulations in an audit of financial statements” read with Clause 1, Part I of Second Schedule in Chapter 3 on “Code of Ethics”: Not Guilty
2(d)	Refer Clause 7 (gross negligence), Part I of Second Schedule in Chapter on “Code of Ethics”: Not Guilty
3(a)	Refer SA 320 and SA 500
3(b)	Refer SA 450
3(c)	Refer SA 505
3(d)	Refer SA 210
4(a)	(i). Refer Chapter on “Audit of Banks”
4(a)	(ii). Refer Chapter on “Audit of Banks”
4(b)	Refer Chapter on “Audit of GIC” for “Audit of Premium Income” and “Audit of Claims”
4(c)	Refer Chapter on “Tax Audit” for Form 3CD
5(a)	Refer Chapter on Due Diligence/Investigations
5(b)	Refer Chapter on Management and Operational Audit for the general guidance
5(c)	Refer SA 315 and Chapter on “EDP Audit”
5(d)	Refer SA 240 and SA 315
6(a)	Refer Chapter on CARO
6(b)	Refer SA 250, Section 227 (now Section 143), AS 10, Revised Schedule VI (now Schedule III) etc. (But CARO need not be discussed as question itself states so)
6(c)	Refer Chapter on CARO for Clause 3 (viii) of CARO, 2016
7(a)	Refer Chapter on Audit of Cooperative Societies

Question	Suggested Hints
7(b)	Refer Chapter on Other Aspects
7(c)	Refer SA 710
7(d)	Refer Guidance Note on Audit of Consolidated Financial Statements
7(e)	Refer Chapter on Audit of Members of Stock Exchanges

NOVEMBER 2013

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. 5
- (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 give 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. 5
- (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.
- 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 5

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
- (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? 4
- (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
- (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 thereunder? 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
- (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 31 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

- (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 advise 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) Liming 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

Suggested Hints

Question No.	Hints
1(a)	Refer Para 46A of AS 11 of Companies (Accounting Standards) Rules, 2006 [and not AS 11 issued by ICAI]. <i>Vide</i> Notification dated 29.12.2011, a New Paragraph No. 46A was added by MCA to provide that exchange differences arising on reporting of long-term foreign currency monetary items (assets as well as liabilities) arising in respect of accounting periods commencing "ON or AFTER 1 April 2011" would be amortised over the tenure of the underlying long term monetary item. The financial statements should disclose this policy election and provide the details of the unamortised foreign exchange differences. Thus, the company should give the treatment in accordance with CASR AS 11 instead of ICAI AS 11.
1(b)	Discuss SA 402 read with SAE 3402
1(c)	Refer Guidance Note on Audit of Consolidated Financial Statements, SA 705 for the new requirements of Audit Report Formats (Deficiencies involved, e.g. every paragraph to be given appropriate headings such as Basis of Opinion and Type of Opinion, Quantification of financial impact of qualification to the extent practicable).
1(d)	Discuss AS 29 (as amount of provision for ₹60 lakhs is not correct), SA 580 (take written representation), SA 500 (other evidence such as TDS under section 194J or 194C as the case may be etc.) read with SA 505 (external confirmation from the engineer), Communicate the matter with TCWG (SA 260), and SA 705 (issue qualified report with quantification of financial impact of qualification to the extent practicable).
2(a)	Professional misconduct under Clause 2 of Part I of First Schedule for sharing profits with non-members.

Question No.	Hints
2(b)	No professional misconduct under Clause 6 of Part I of First Schedule because the work is sought by a CA in practice from other CA who are in practice.
2(c)	Question based upon SRS 4410 and SA 210.
2(d)	Discuss the meaning of “Benchmark” as defined in SA 320. Various factors include (i) Audit Risk, Knowledge of Business as mentioned in SA 315 & SA 330, (ii) Analytical Procedures (SA 520), (iii) Fraud and Error (SA 240), (iv) Sampling Risk (SA 530), (v) Persuasive nature of Audit Evidence (SA 500) and (vi) Revised Schedule VI requirements.
3(a)	Question based upon AS 15 (Revised) and AS 29. Accounting policy is not correct. Auditor accordingly should consider issuing qualified report on the basis of advice to the audit team to take Written Representation (SA 580), Assess the Audit Risk (SA 315 & 330), Take assistance of expert if required (SA 620), and Communicate the matter with TCWG (SA 260).
3(b)	Discuss IT Controls and Approaches to EDP Audit.
3(c)	Discuss SA 520 and write points like reconciliation of total reported revenue with the multiplication of room rent with number of room occupancy days, and the like.
3(d)	Professional Misconduct under Clause 11 of Part I of First Schedule as he is engaged in other occupation with ICAI permission.
4(a)	See AS 23 and accounting treatment suggested thereunder for equity method. As per ASI 16 of AS 23, while applying the equity method, proposed dividend provided by the associate in its separate financial statements is not considered by the investor.
4(b)	Refer Chapter on Bank Audit.
4(c)	Refer Chapter on Audit of GIC for Solvency Margin under section 64VA read with section 7.
4(d)	Discuss Steps of Audit alongwith SA 315 (Knowledge of Business, Audit Risk), SA 320 (Materiality), SA 500 (Persuasive nature of audit evidence).
5(a)	Capitalisation not valid because as per para 50 & 51 of AS 26 internally generated brands, mastheads, publishing titles, customer lists and items similar in substance should not be recognised as intangible assets.
5(b)	Refer Chapter on Due Diligence.
5(c)	Direct Question from Chapter 4 of the Text Book.
5(d)	Discuss Clause 3(i) of CARO, SA 570 (Going Concern) and Section 143(3)(f) of the Companies Act, 2013)
6(a)	Very general question. The evidence may include for example, Written Representation, Copies of Resolution passed by the company permitting such expenditure, permission from Municipal Corporation for placing hoardings at various places, copies of contract with advertisement agency, if any, Examining quotation from various advertisement agencies, On Site visit to see hoardings, Comparing the scale of advertisement by other market players in the same sector, etc.

Question No.	Hints
6(b)	Professional Misconduct under Clause 6 of Part I of First Schedule
6(c)	Tax audit not applicable under section 44AB. Very much a IPCC level question from PGBP. For a refreshing reference see Chart in Text Book in Chapter 5 for components of sales, turnover and gross receipts. [Trade discount, turnover discount, Return Inwards will be excluded from sales; Cash discount, commission, bad debts written off, etc. are not part of sales. These should be separately debited to the Profit and Loss Account]
6(d)	Refer Clause 49.
7(a)	Refer Chapter: Other Aspects.
7(b)	Refer Chapter: Cost Audit.
7(c)	Refer Chapter: Other Aspects for "Clause 49".
7(d)	Refer Chapter: Audit of Cooperative Societies.
7(e)	Refer Chapter: Other Aspects.

MAY 2014

- | | 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 |
| (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 thereto. | |
| (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 |
| (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 solicit information about his engagement in other occupation or business, while he was indeed engaged in a business. | 3 |

- (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
- (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 2015-16. 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 2016, these loans are not required to be reported in CARO 2016. Comment and draft a suitable report. (*adapted*) 4
- (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 loan transactions which ought to have been entered in the register maintained u/s 189, were omitted to be entered. How auditor will report in CARO 2016? (*adapted*)
- (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

- (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
7. Write short notes on any four of the following: 4 x 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

Suggested Hints

Question No.	Hints
1 (a)	Refer AS 29, SA 620, SA 580 and SA 230
1 (b)	Refer SAE 3400 and Clause 3, Part 1, Second Schedule to the Chartered Accountants Act, 1949
1 (c)	Refer SA 240 (including consideration for withdrawal from engagement), SA 580, CARO [Clause 3(x)], and Section 143(3)(f) of the Companies Act, 2013
1 (d)	Refer SA 505, SA 450 and SA 230
2 (a)	Refer SAE 3400 and Clause 3, Part 1, Second Schedule to the Chartered Accountants Act, 1949
2 (b)	Refer Clause 1, Clause 12, Part 1, First Schedule to the Chartered Accountants Act, 1949
2 (c)	Refer Clause 3, Part II, Second Schedule to the Chartered Accountants Act, 1949
2 (d)	Refer Clause 1, Clause 3, Part 1, First Schedule to the Chartered Accountants Act, 1949 as well as Regulation 53A, 53B and 53C of Chartered Accountants Regulations, 1988
3 (a)	Refer Section 227 for auditor's duty to consider Branch Audit Report alongwith Branch Audit and its exemption requirements u/s 228 (now Section 143(3) & (8) of the Companies Act, 2013)
3 (b)	Refer Section 292A of the Companies Act, 1956 (now Section 177 of the Companies Act, 2013)

Question No.	Hints
3 (c)	Refer Section 123(1)
3 (d)	Refer Clause 1, Clause 7, Part 1, Second Schedule to the Chartered Accountants Act, 1949 alongwith <i>Kingston Cotton Mills Company</i> case.
4 (a) & (b)	Refer Clause 3(iii) for drafting suitable CARO Reporting and AS 18
4 (c)	Refer Guidance Note on Audit of Consolidated Financial Statements
5 (a)	Refer Chapter on Bank Audit for NPA norms for Agricultural Advances (Direct Question)
5 (b)	Refer Chapter on GIC Audit for verification of Outstanding Premium and Agents' Balances (Direct Question)
5 (c)	General Question. The points that may be included could be verification of physical existence, examination of any existing charge on these stock and receivables, assessment of market value vis-à-vis amount of advances involved, stocks and receivables aging analysis, any litigation/ dispute going on in respect of these stocks and receivables, etc.
6 (a)	Refer CAG Questionnaire in the Chapter of PSU Audit
6 (b)	Its not out of the scope because operational audit is being carried out to ensure that all the management functions like planning, organizing, staffing, directing and controlling are working effectively and efficiently. Such kind of error is very much in scope because such an existence of error indicates that control system (controlling function) is not sound.
6 (c)	Refer Section 209 to 226 in Paper 4: Corporate and Allied Laws [Chapter: Inspection and Investigation]
6 (d)	Refer Chapter: Other Aspects [Areas not included are other than attestation services, such as: (i) Management Consultancy Engagements; (ii) Representation before various Authorities; (iii) Engagements to prepare tax returns or advising clients in taxation matters; (iv) Engagements solely to assist the client in preparing, or compiling information other than financial statements; (v) Testifying as an expert witness; (vi) Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client
7 (a)	Refer Chapter on NBFC Audit [Direct Question]
7 (b)	Refer Chapter on CIS Audit and SA 315 [Direct Question]
7 (c)	Refer SA 315 and SA 330 [Direct Question]
7 (d)	Refer SA 315, SA 330 and SA 450 [Direct Question]
7 (e)	Refer SA 450 read with SA 530

NOVEMBER 2014

Marks

- | | |
|---|---|
| 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 ₹ 500 lakhs up to 30.06.2013 as detention charges, out of which a sum of ₹ 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 ₹ 48 lakhs has been made. As such a total amount of ₹ 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 |
| (b) The Auditor of PQR Pvt. Ltd. having turnover of ₹ 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 |
| (c) Discuss the impact of uncorrected misstatements identified during the audit and the auditor's response to the same. | 5 |
| (d) What are the roles and responsibilities of the statutory auditors in relation to compliance with the laws and regulations by the entity? | 5 |
| 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 |
| (b) How would the method of collecting audit evidence relating to effectiveness of controls and evaluating the same change under a computerised environment? | 4 |
| (c) Describe the principal methods of selection of samples. | 4 |
| (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 |
| 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 ₹ 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 31st March, 2014. As the Auditor of the Company, how would you deal with this matter in your report? | 3 |
| (b) The Auditor's Report of ABC Ltd. for the year 2012-13 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: | 5 |
| (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? | |
| (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 |
| (d) Discuss the Auditor's responsibility to provide access to his audit working papers to Regulators and third parties. | 3 |

4. (a) A Private Limited Company reports the following position as on 31st March, 2016:

Paid up Capital	₹85 Lacs
Revaluation Reserve	₹ 12 Lacs
Capital Reserve	₹ 10 Lacs
Profit & Loss (Dr.) Balance	₹ 12 Lacs

The Management of the Company contends that CARO, 2016 is not applicable to it. Comment. (*adapted*)

- (b) You are appointed to compile financial statements 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
- (c) C Limited has defaulted in repayments of dues to a financial institution during the financial year 2015 -16 and the same remained outstanding as at March 31, 2016. However, the Company settled the total outstanding dues including interest in April, 2016 subsequent to the year end and before completion of the audit. Discuss how you would deal with this matter and draft a suitable Auditor's Report. (*adapted*) 4
- (d) In the course of your audit you have come across a related party transaction which *prima facie* appears to be biased. How would you deal with this? 4
5. (a) XYZ Ltd. pays ₹ 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 ₹ 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
- (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
- (c) Compare and explain the following:
- (i) Reporting to Shareholders vs. Reporting to those Charged with Governance 3
- (ii) Audit Qualification vs. Emphasis of Matter 3
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
- (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
- (c) M/s ABC, a firm of Chartered Accountants received ₹ 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

- (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
7. Write short notes on any **four** of the following: 16
- Market Wide Circuit Breaker (MWCB)
 - Restriction on shareholding in a Co-operative Society
 - Importance of KYC requirements for a Chartered Accountant's practice
 - Intangible Asset vs. Intangible Item
 - Cost Audit

**Suggested Hints for CA Final Advanced Auditing and
Professional Ethics November 2014 Examination**

Question	Suggested Hints
1 (a)	Refer AS 10, Schedule VI (now Schedule III), SA 705. [Detention charges cannot be capitalized and thus qualified report should be issued by the auditor]
1 (b)	Refer SA 580 and CARO [Auditors are not relieved of their legal and reporting responsibilities (such as CARO) simply by obtaining MRL]
1 (c)	Refer SA 450 [Direct question]
1 (d)	Refer SA 250 [Direct question]
2 (a)	Refer SA 315 and SA 330 [Direct question]
2 (b)	Refer SA 500 and SA 315 [Direct question]
2 (c)	Refer SA 530 [Direct question]
2 (d)	Refer SA 200(R), SA 315, SA 580, SA 330
3 (a)	Refer AS 29, SA 320, SA 706, SA 620, CARO [Emphasis of matter paragraph may be issued considering the materiality of the item and expert's opinion, if any. Further, under CARO a mere representation to the department is not considered as a dispute and auditors need to report about company's regularity in depositing undisputed statutory dues, etc.]
3 (b)	Refer SA 710 and SA 510 [Direct question with plain facts]
3 (c)	Question silent about the nature of entity. Thus, <i>Assumption 1:</i> The entity is a company under the Companies Act, 2013: Legal Obligations (not asked by the question): Auditors need to file (before ROC as well as Company) Form ADT 3 by virtue of Section 140(2) read with allied Rule 8 Professional Obligations: (i) Documentation of reasons for resignation; (ii) Communication of Matters to Those Charged with Governance; (iii) Consider the impact of resignation on his existing legal and contractual obligations in context of terms and conditions agreed upon in the letter of engagement signed earlier; and (iv) Reply to the communication made to him under Clause 8 Part I of First Schedule of the Chartered Accountants Act, 1949, by the new incoming auditor

Question	Suggested Hints
	<p><i>Assumption 2:</i> The entity is other than a company client:</p> <p>Legal Obligations (not asked by the question): Depends upon the law under which audit is being carried out</p> <p>Professional Obligations: same as above</p>
3 (d)	Refer SA 230 and <i>Chantrey Martin and Co.</i> case
4 (a)	P & L (Dr) Balance can be adjusted against total reserves under CARO, 2016
4 (b)	Refer SRS 4410 [Direct question with plain facts. Partners' contention is not admissible]
4 (c)	Refer Clause 3(viii) of CARO, 2016
4 (d)	Refer SA 550 [Direct question]
5 (a)	Refer Clause 21(d) in Revised Form 3CD [Direct question based upon understanding of Section 40A(3) of the Income Tax Act, 1961 and Rule 6DD of the Income Tax Rules, 1962]
5 (b)	Refer Chapter on Audit of General Insurance Companies [Direct question]
5 (c)	(i) Section 143 vs. SA 260 (ii) SA 705 vs. SA 706
6 (a)	No professional misconduct as financial statements are not involved and the question of assessing substantial interest does not arise for this reason [Clause 4 Part I Second Schedule]. Also refer Section 144 of the Companies Act, 2013 and Regulation 190A of Chartered Accountants Regulations, 1949
6 (b)	Professional misconduct under Clause 1 Part I Second Schedule
6 (c)	Professional misconduct under Clause 10 Part I Second Schedule
6 (d)	No professional misconduct since money is borrowed in ordinary course of activities and is not related to engagement of the article assistant in the CA Firm [Regulation 47]
7 (a)	Refer Chapter on Audit of Members of Stock Exchange [Direct question]
7 (b)	Refer Chapter on Audit of Cooperative Societies [Direct question]
7 (c)	Refer Chapter on Code of Ethics [Direct question]
7 (d)	Refer AS 26. Every intangible asset is an intangible item but every intangible item may not qualify recognition as an intangible asset. For instance, self generated goodwill is an intangible item but it cannot be recognised as intangible asset in the books of account/financial statements
7 (e)	Refer Section 148 of the Companies Act, 2013 [Direct question]

MAY 2015

- | | Marks |
|--|--------------|
| 1. (a) As an auditor of RST Ltd. Mr. P applied the concept of materiality for the financial statements as a whole. On the basis of obtaining additional information of significant contractual arrangements that draw attention to a particular aspect of a company's business, he wants to re-evaluate the materiality concept. Please guide him. | 5 |
| (b) The financial statements of TC & Co. have been prepared by management of an entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with provisions of the contract. Based on the contract, management does not have a choice of financial reporting frameworks. As an auditor what considerations would be undertaken while planning and performing audit? | 5 |
| (c) When a sub-service organization performs services for a service organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used. As a user auditor what information would you obtain about controls at a sub-service organization? | 5 |
| (d) In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow, when financial statements are audited for the first time. If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances', what approach you will adopt in drafting your audit report? | 5 |
| 2. (a) As an auditor of garment manufacturing company for the last five years you have observed that new venture of online shopping has been added by the company during current year. As an auditor what factors would be considered by you in formulating the audit strategy of the company? | 6 |
| (b) A Ltd. holds the ownership of 10% of voting power and control over the composition of Board of Directors of B Ltd. While planning the statutory audit of A Ltd., what factors would be considered by you for audit of financial statements? | 6 |
| (c) Write short note on – Corporate Responsibility under Sarbanes and Oxley Act. | 4 |
| 3. (a) MG & Co. Ltd. seeks your advice while preparing financial statements the general instructions to be followed while preparing balance sheet under Companies Act, 2013 in respect of current assets and current liabilities. | 4 |
| (b) C.A. Ashwin was appointed as auditor of Bristol Ltd. for the year 2013-14. Since he declined to accept the appointment, the Board of Directors appointed CA John as the Auditor in place of C.A. Ashwin and the appointment was accepted by C.A. John. Discuss. | 4 |
| (c) During the bank audit AB & Co. a new Chartered Accountant firm, observed the sale/purchase of NPAs. Please help them by narrating the aspects, relating to sale/purchase of NPAs, to be considered. | 4 |
| (d) Draft an audit report under following circumstances: | |
| (i) Under the Payment of Bonus Act, 1965, a 'report' on the computation of bonus payable. | |
| (ii) Auditor's Report in accordance with Regulation 54 of the SEBI (Mutual Fund) Regulation, 1993. | 4 |
| 4. (a) R and M is an audit firm having partners CA R, CA M and CA G. Mr. S is the relative of CA R holding shares of STP Ltd. having a face value of ₹1,51,000 Whether CA R and CA M are qualified to be appointed as auditors of STP Co.? | 4 |

- (b) As an auditor, during your interim visit at Marathon Ltd. you observed that internal controls were not in use throughout the period covered under audit. What are the controls objectives you would like to consider to achieve your purpose? 6
- (c) Parent Ltd. acquired 51% shares of Child Ltd. during the year ending 31.03.2014. During the financial year 2014-15 the 20% shares of Child Ltd. were sold by Parent Ltd. Parent Ltd. while preparing the financial statements for the year ending 31.03.2014 and 31.03.2015 did not consider the financial statements of Child Ltd. for consolidation. As a statutory auditor how would you deal with it? 6
5. Comment with respect to Chartered Accountant Act, 1949:
- (a) Mr. SP, a Chartered Accountant obtains registration as category IV merchant banker under the SEBI's Rules and Regulations and act as Advisor to a capital issue of MB Co. Ltd. He designates himself under the caption "Merchant banker" in client offer documents and 'Advisor to issue' in his own letterheads, visiting cards and professional documents. 4
- (b) A Chartered Accountant having CoP entered into partnership with persons, who are not the members of the institute, for the purpose of carrying on business. The share of the chartered accountant in the profit and losses was 25%. He was to take part in the business and was entitled to represent the firm before Govt. authorities etc. he was operating the bank account of the firm was receiving moneys from the customers and was also looking after the affairs of the partnership. 4
- (c) CA SG a practicing CA agreed to select and recruit personal, conduct training program for and on behalf of the client. 4
- (d) Mr. P a practicing chartered accountant acting as liquidator of AB & Co. charged his professional fees on percentage of the realization of assets. 4
6. (a) The auditor report of company states that proper books of accounts as required by law have been maintained by the company. What is the role of statutory auditor of the company, when a company be said to have not maintained proper books of account? 4
- (b) Comment with respect to computation of total sales, turnover or gross receipts in business exceeding the prescribed limit under section 44AB of Income Tax Act, 1961 and VAT law.
- (i) Discount allowed in the sales invoice
- (ii) Cash discount
- (iii) Price of goods returned related to earlier year
- (iv) Sale proceeds of fixed assets 4
- (c) Explain the stepwise approach adopted by the Peer reviewer. 4
- (d) AB Pvt. Ltd. company having outstanding loans or borrowings from banks exceeding one hundred crore rupees wants to appoint internal auditor. Please guide him who can be appointed as internal auditor and what would be reviewed by him. 4
7. Write short notes/comments on any **four** of the following:
- (a) Core Investment Companies. 4
- (b) Investible funds as defined by IRDA. 4
- (c) Areas in which due diligence can take place. 4
- (d) Operational auditing arose from the need of managers responsible for areas beyond their direct supervision. 4
- (e) "Review of the internal audit function has become statutory responsibility for the statutory auditor." 4

Suggested Hints

Question No.	Hints
1 (a)	<p>Refer 320 and SA 450 Direct theory Question (but two questions beautifully asked in one question itself) based on print outs of the Notes given in the Class, i.e. a blend of the following factors is required as per SA 320 and SA 450 in :</p> <ol style="list-style-type: none"> 1. Professional judgment; 2. Applying Benchmarking as a starting point in determining materiality for the financial statements as a whole; 3. The nature of the entity; 4. The entity's ownership structure; 5. Risk of material misstatements; 6. Relationship of Audit Materiality with Audit Risk; 7. Applicable regulatory and financial reporting framework; <p>Also see various circumstances for evaluating misstatements under SA 450</p>
1 (b)	Refer SA 800
1 (c)	Refer SA 402 read with SAE 3402
1 (d)	Refer SA 510
2 (a)	Refer Audit Strategy Definition <i>plus</i> SA 315, 330, 320 and 450
2 (b)	Refer AS 18 and techniques discussed under Due Diligence Chapter
2 (c)	Refer Chapter on Other Aspects for SOX
3 (a)	Refer Schedule III
3 (b)	Refer Section 139 for discussion on Casual Vacancy
3 (c)	Refer Chapter on Bank Audit <i>plus</i> SARFAESI in Corporate and Allied Laws
3 (d) (i)	Refer SA 805
3 (d) (ii)	Refer Chapter on Mutual Fund
4 (a)	Appointment of firm as auditor not possible because one of the partner's relative hold shares in the company for a face value in excess of ₹1 Lakh [Section 141]. [Assumed that STP Limited and STP Co. are one and the same company and the question has used only used a different description for this company]
4 (b)	Refer Section 134(5)(e) and SA 315
4 (c)	Refer Guidance Note on Audit of Consolidated Financial Statements
5 (a)	No Professional Misconduct under Regulation 190A read with Clause 11, Part I, First Schedule but Professional Misconduct under Clause 7, Part I, First Schedule
5 (b)	Professional Misconduct under Clause 4, Part I, First Schedule

Question No.	Hints
5 (c)	No professional misconduct under Regulation 190A read with Clause 11, Part I, First Schedule
5 (d)	No professional misconduct under Clause 10, Part I, First Schedule
6 (a)	Refer Section 143 read with Section 128 <i>plus</i> SA 500
6 (b)	Refer Chapter on Tax Audit for the table given for computation of sales turnover
6 (c)	Refer Chapter on Other Aspects for Peer Review Steps
6 (d)	Refer Section 138, Section 143(3) for reporting on Internal Controls and SA 600
7 (a)	Refer Chapter on Audit of NBFC
7 (b)	Refer Chapter on GIC Audit
7 (c)	Refer Chapter on Due Diligence
7 (d)	Refer Chapter on Management and Operational Audit
7 (e)	Refer Section 143(3) for reporting on Internal Controls and SA 600

NOVEMBER 2015

- | | Marks |
|--|--------------|
| 1. (a) Mr. A, a practising Chartered Accountant, has been appointed as an auditor of True Pvt. Ltd. What factors would influence the amount of working papers required to be maintained for the purpose of his audit? | 5 |
| (b) M/s T K Projects Limited, a manufacturing company in the Steel industry was allegedly involved in some irregularity relating to allotment of coal blocks for which a complaint was lodged against the company by the government. The financial institutions stopped additional working capital finance which caused a financial crisis resulting in stoppage of production. The company incurred a massive loss during the year 2014-15. There were delays in salary and other payments. Certain key managerial personnel including GM Finance and certain other employees left the company. The company has no sound action plan to mitigate these situations. Guide the statutory auditor on how he should deal with this situation. | 5 |
| (c) "If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence of inventory by attending the physical inventory counting unless impracticable." Discuss. | 5 |
| (d) P Limited is a listed company and its business activities are divided into three regions. The company appointed PY & Co., KL & Co., and MK & Co., Chartered Accountants to conduct a Joint Audit and report on the financial statements for the Financial Year 2014-15. Explain the relationship among the joint auditors for the audit of the financial statements for the year 2014-15. | 5 |
| 2. (a) 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 the internal auditor in respect of physical verification of fixed assets. How should an evaluation be carried out of this specific work done by the internal auditor? | 4 |
| (b) Describe the relevance of SA 600 while auditing consolidation of Financial Statements. | 4 |
| (c) The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Accordingly, what are the relevant criteria which determine whether the data is reliable for the purposes of designing substantive analytical procedures ? | 4 |
| (d) JY & Co. is appointed as auditor of Breeze Ltd. JY & Co. seeks your guidance for reviewing the records and documentation of the company regarding 'related party transactions in the normal course of business'. Describe the steps to be followed. | 4 |
| 3. (a) You are appointed as the auditor of a NBFC which is an Investment company registered with RBI. What shall be the special points to be covered for the audit of NBFC in case of Investment companies? | 4 |
| (b) What can be the possible instances of capital receipt which, if not credited to the Profit and Loss Account, needs to be reported in Form 3CD? | 4 |
| (c) Explain the audit of Depositories under the SEBI (Depositories and Participants) Regulations, 1996 and the records and documents which are required to be maintained by the Depositories. | 4 |

- (d) XYZ Limited, a company engaged in the business of manufacturing and distribution of copper rods and copper wire is interested in acquiring a listed company having a market share of 38% of Insulated Copper Wires. You were appointed to conduct a "Due Diligence" of the target company and you have completed review of a few key areas. List out the contents of the Due Diligence Report which you will submit to XYZ Limited. 4
4. (a) New Life Hospital is a multi-speciality hospital which has been facing a lot of pilferage and troubles regarding their inventory maintenance and control. On investigation into the matter it was found that the person in charge of inventory inflow and outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which basic system of control has been violated ? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management. 4
- (b) What steps needs to be taken to investigate frauds of Cash Receipts? 4
- (c) Management Audit and Operational Audit are complementary and supplementary to one another. Discuss. 4
- (d) Mr. Adnan, a Chartered Accountant in practice, is a partner of 4 firms, While printing his personal letter heads, Mr. Adnan gave the names of all the firms in which he is a partner. Comment. 4
5. (a) M/s ASKS, a firm of Chartered Accountants, having three partners accepts an audit assignment of a private limited company for a fee of ₹ 4,000 only. Comment. 4
- (b) Mr. 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, which is within the city and at a distance of 30 kms. from his office in the suburb. For running the new office, he has employed a retired Income Tax Commissioner who is not a Chartered Accountant. Comment. 4
- (c) During the course of his audit, the auditor noticed material weaknesses in the internal control system and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in mind while drafting the letter of weaknesses in internal control system. 4
- (d) M/s IT Limited has prepared the financial statements for the year 2014-15 and mentioned in the significant accounting policies that depreciation on tangible fixed assets is provided on the straight line method over the useful lives of the assets as estimated by the management. The company has ignored the useful lives of assets mentioned in Schedule II of the Companies Act, 2013. As statutory auditor of the company how would you deal with this? 4
6. (a) Mr. S, a practising Chartered Accountant agreed to provide "Portfolio Management Services" to his client M/s. D Limited. Comment with reference to the Chartered Accountants Act, 1949. 4
- (b) AX Insurance Limited has made a provision of 75% of net premium in case of marine hull insurance and 50% in case of marine cargo and miscellaneous business of net premium for unexpired risks reserve in its books. Comment. 4
- (c) You are appointed as an auditor of Global Ltd. Explain the risk factors relating to misstatements arising from misappropriation of assets. 4
- (d) While compiling the accounts of Hope Ltd., you observed that a few accounting standards have not been followed and there have been omission of some information which was required to be followed in the current situation. How would you deal with this? 4

7. Write short notes on any **four** of the following:
- (a) Gross exposure margin and Volatility margin 4
- (b) Permanent Consolidated Adjustments 4
- (c) Aspects to be covered in the books of accounts to be maintained by a multi-state co-operative society. 4
- (d) Matters addressed in Clause 49 regarding Corporate Governance. 4
- (e) Obligation of the statutory auditor to report frauds to the Central Government during the audit carried out under the Companies Act, 2013. 4

Suggested Hints

Question	Suggested Hints
1.(a)	Refer SA 230 (specially the three elements within the definition) and SQC 1
1.(b)	Refer SA 570
1.(c)	Refer SA 500 and SA 501
1.(d)	Refer SA 299
2.(a)	Refer SA 600, SA 200 (R)
2.(b)	Refer Guidance Note on Audit of Consolidated Financial Statements
2.(c)	Refer SA 520 (specially the factors which can influence the application of analytical procedures) and SA 450
2.(d)	Refer SA 550
3.(a)	Refer Chapter on Audit of NBFCs
3.(b)	Refer Form 3CD given in the Chapter of Tax Audit
3.(c)	Refer Chapter on Audit of Depositories
3.(d)	Refer Chapter on Due Diligence and Investigations
4.(a)	Refer SA 315 (specially for the definition containing basic elements of internal control system)
4.(b)	Refer Chapter on Due Diligence [general question]
4.(c)	Refer Chapter on Management and Operational Audit
4.(d)	Refer Chapter on Code of Ethics for the clarification issued by ICAI on the subject matter under Clause 6 and Clause 7 of Part I of First Schedule of the Chartered Accountants Act, 1949
5.(a)	Refer Chapter on Code of Ethics for the Council General Guidelines, 2008 issued by ICAI on the subject matter
5.(b)	Refer Chapter on Code of Ethics for the provisions contained in Section 27 of the Chartered Accountants Act, 1949

Question	Suggested Hints
5.(c)	Refer SA 265
5.(d)	Refer Schedule II of the Companies Act, 2013
6.(a)	Refer Chapter on Code of Ethics for Regulation 190A of the Chartered Regulations, 1988
6.(b)	Refer Chapter on GIC Audit
6.(c)	Refer SA 315
6.(d)	Refer SRS 4410
7.(a)	Refer Chapter on Audit of Members of Stock Exchange
7.(b)	Refer Guidance Note on Audit of Consolidated Financial Statements
7.(c)	Refer Chapter on Audit of Cooperative Societies
7.(d)	Refer Chapter on Other Aspect for Clause 49
7.(e)	Refer Section 143(12) of the Companies Act, 2013

MAY 2016

Marks

1. (a) Mr. Z who is appointed as auditor of Elite Co. Ltd. wants to use confirmation request as audit evidence during the course of audit.
What are the factors to be considered by Mr. Z when designing a confirmation request? Also state the effects of using positive external confirmation request by Mr. Z. 5
- (b) R & M Co. wants to be alert on the possibility of non-compliance with Laws and Regulations during the course of audit of SRS Ltd. R & M Co. seeks your guidance for identifying the indications of non-compliance with Laws and Regulations. 5
- (c) The management of CSITA Ltd. has prepared its summary financial statements for the year 2015-16 to be provided to its investors. Consequently the company wants to appoint you for conducting audit of summary financial statements. What are the procedures that you will perform and consider necessary as the basis for forming an opinion on the summary financial statements? 5
- (d) The financial statements of Ace Ltd. have been prepared by the management in accordance with special purpose frame work to meet the financial reporting provisions of a regulator. As an auditor, what considerations would be undertaken while planning and performing an audit in case of such special purpose frame work? 5
2. (a) ENP Ltd. engaged an actuary to ascertain its employee cost, gratuity and leave encashment liabilities. As an auditor of ENP Ltd., you would like to use the report of the actuary as an audit evidence. How would you evaluate the work of the actuary? 4
- (b) KSY & Co. Chartered Accountants is an audit firm having two partners CA K and CA Y. KSY & Co. is already holding appointment as auditors of 36 public companies.
KS Y & Co. seeks your advice in the following situations:
- (i) KSY & Co. has been offered the appointment as Auditors of 7 more Private Limited Companies. Of the seven, one is a company with a paid up share capital of ₹ 150 crores, five are "Small companies" as per the Act and one is a "Dormant Company".
- (ii) Would your answer be different, if out of those 7 Private Companies. 3 Companies have paid up capital of ₹ 90 crores each? 4
- (c) What are the General Steps in the conduct of Risk based audit? 4
- (d) State the key requirements of auditing standards of Public Company Accounting over sight board. 4
3. (a) KG Ltd wants to provide prospective Financial Information to its investors with information about future expectations of the company. You are engaged by KG Ltd. to examine the Projected Financial Information and give report thereon. What will you consider in assessing the presentation and disclosure of the prospective Financial Information and the underlying assumptions? 4
- (b) M/s IO Ltd. is registered with Registrar of Companies on 1st of May 2014. The Company's 27% of paid up share capital is held by Central Government; 28% by State Government and the remaining 45% by public. The Board of Directors appointed RMG. Chartered Accountants as statutory auditors for the financial year 2014-15 by passing a resolution at the Board Meeting held on 25th May, 2014. Comment whether appointment is valid or not 4

(c) M/s ME Ltd. is a manufacturing company of M/s Bars and Rods. The turnover of the company for financial year 2014-15 was ₹ 870 crores. The audit committee has appointed M/s MK Associates, Chartered Accountants as an internal auditor of the company for the financial year 2015-16. As an auditor of ME Ltd., draw out the internal audit plan specifying the coverage of area. 4

(d) The Board of Directors of ACP Ltd. has recommended the dividend of 15% on paid up share capital of ₹ 450 crores for the year ended 31st March, 2015, at their meeting held on 1st of May, 2015 when the accounts for the financial year 2014-15 were approved. The Board of Directors when they met on 7th July, 2015 for the review of first quarter account they realized that results were negative for the first quarter. Therefore, the Board has decided to rescind their decision to recommend dividend.

The notice for AGM to be held on 14.8.2015 was sent on 15th July, 2015 without any recommendation for dividend.

At the AGM, the members asked the management how they can rescind the declaration of dividend once recommended. Comment. 4

4. (a) Mr. Arjun, a newly qualified Chartered Accountant started his practice wants to specialize in Audits of corporates and requires your advice on criminal liabilities of an auditor under the Companies Act, 2013. Kindly guide him. 4

(b) During the course of audit of M/s CT Ltd. for the financial year 2014-15, it has noticed that ₹ 2.00 lakhs of employee contribution and ₹ 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that ₹ 4.00 lakhs only has been deposited with ESIC department during the year ended 31st March, 2015. The Finance Manager informed the auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor. 4

(c) Kalmani & Co. Chartered Accountants have been appointed by C & AG for performance audit of a sugar industry. What factors should be considered by Kalmani & Co., while planning a performance audit of a sugar industry? 4

(d) B Pvt. Ltd. started stock broking activities in 2015 and for which it acquired membership of a stock exchange for ₹ 150 lakhs. While finalizing the accounts, the company disclosed the above amount under fixed assets schedule as "Stock Exchange Membership Rights". The company also did not write off any amount since the rights would enable the company to perpetually carry on its business.

As a statutory auditor how would you deal with the above situation? 4

5. Comment on the following with reference to CA Act, 1949.

(a) Mr. Ankit, who passed his CA examination of ICAI on 18th July, 2015 had started his practice from 15th August, 2015. On 16th August, 2015 one candidate approached him for articleship. Mr. Ankit decided to give her 1% profits of his CA firm in addition to monthly stipend. She agreed to take both 1% of profits and prescribed stipend. The ICAI had sent a letter to Mr. Ankit objecting the payment of 1% profits. Mr. Ankit replied stating that sharing 1% profits is over and above the stipend to help the articled clerk to overcome her financial crisis. Is Mr. Ankit liable for Professional misconduct? 4

(b) Mr. X is a practicing Chartered Accountant. Mr. Y is a practicing Advocate representing matters in the court of law. X and Y decided to help each other in the matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law and Y consults X in all matters relating to finance and other related matters, which comes to him in arguing various cases. Consequently they started sharing profits of their professional work. Is Mr. X liable for professional misconduct? 4

(c) CA Raghu is practicing in the field of Income-tax over a period of 12 years. He has gained experience in this domain over others. Sam, a student of Chartered Accountancy Course is very much impressed with the knowledge of CA Raghu. He approached CA Raghu to take guidance on some topics of Income-tax related to his course. CA Raghu, on request decided to spare time and started providing private tutorship to Sam and some of his friends along with. However, he forgot to take specific permission from the ICAI, for such private tutorship. Is CA Raghu, professionally liable for misconduct? 4

(d) CA P and CA Q are running a firm of Chartered Accountants in the name of M/s PQ & Co. On 21.06.2015 they included the name of CA R a practicing CA, without his knowledge, as a partner while submitting an application for empanelment as auditors for public sector banks branches to the institute.

Whether CA P and CA Q are professionally liable for misconduct? 4

6. (a) K Ltd. changed its employee remuneration policy from 1st of April 2015 to provide for 12% contribution to provident fund on leave encashment also. The leave encashment policy provides that employees can either utilize or encash it. As at 31st March, 2016, 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 would be made. It is further contended that this treatment is correct as it is not sure whether employees will avail leave encashment or utilize it. Comment. 4

(b) While auditing Suryakiran Insurance Ltd. as on 31st March, 2015. you observed that there is one policy which has been issued on 25th March, 2015 towards 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. It is the usual practice maintained by the company in respect of big customers that they would issue the policy before receiving the premium. The premium money was collected on 5th of April 2015. It is further noticed that there was a fire accident in the premises of insured on 31 March, 2015 and a claim was lodged. The insurance company also provided for the same.

How would you respond? 4

(c) ABC Pvt. Ltd. and XYZ Pvt. Ltd. are the Companies in which public are not substantially interested.

During the previous year 2015-16, ABC Pvt Ltd. received some property being shares of XYZ Pvt. Ltd. The details of which are provided below:

No. of Shares	1000
Face Value	₹ 10 per share
Aggregate Fair Market Value	₹ 1,00,000
Consideration Value	Nil

As the tax auditor how would you deal with the situation? 4

(d) You are appointed as tax auditor of Mr. X, a practicing advocate in Agra. During the previous year he collected Service Tax of ₹ 7 lakhs but utilized for personal use. The Commissioner of Central Excise issued a show cause notice to him why the tax collected by him is not deposited to the Government account. He appeared before the Commissioner and stated his inability to pay the sum due to financial crisis. The proceedings are still pending. Mr. X requests you not to disclose his Service Tax registration details while filling particulars to be furnished in Form No. 3CD.

As a tax auditor how would you deal with this? 4

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

- | | |
|--|---|
| (a) Deferred Taxation | 4 |
| (b) Exceptions to the General Rule of treating advances as Non performing Assets. | 4 |
| (c) Advantages that accrue because of cost audit, | 4 |
| (d) Matters to be included in Auditor's Report in case of NBFC not accepting deposits. | 4 |
| (e) Areas to be reviewed in the assessment of independence of the practicing unit, while conducting peer review. | 4 |

Suggested Hints

Question	Hints
1(a)	Refer SA 505
1(b)	Refer SA 250
1(c)	Refer SA 810
1(d)	Refer SA 800 read with SA 805
2(a)	Refer SA 500 read with SA 620
2(b)	Refer Section 141(3)(g) of the Companies Act, 2013 read with Council General Guidelines, 2008
2(c)	Refer SA 315 read with SA 330
2(d)	Refer Chapter on Other Aspects for discussion on PCAOB under SOX
3(a)	Refer SAE 3400
3(b)	Refer Section 139(5) and (6) read with Section 2(45) of the Companies Act, 2013
3(c)	General Question based upon basic understanding of Audit Programme, etc.
3(d)	Refer Chapter on Dividends
4(a)	Refer Chapter on Liabilities of Auditors
4(b)	Refer reporting under CARO, 2015 (CARO, 2016 w.e.f. 1.4.2015) for default in depositing statutory dues
4(c)	Refer Chapter on Audit of PSUs for performance audit discussion
4(d)	Refer AS 26
5(a)	Refer Clause 2 of Part I of First Schedule of the Chartered Accountants Act, 1949
5(b)	Refer Clause 2 and 3 of Part I of First Schedule of the Chartered Accountants Act, 1949 with Regulations 53A and 53B of the Chartered Accountants Regulations, 1988
5(c)	Refer Clause 11 of Part I of First Schedule of the Chartered Accountants Act, 1949 read with Regulation 190A of the Chartered Accountants Regulations, 1988
5(d)	Refer Clause 2 of Part III of First Schedule of the Chartered Accountants Act, 1949

Question	Hints
6(a)	Refer AS 15 (Revised)
6(b)	Refer Chapter on Audit of GIC
6(c)	Refer Form 3CD under the Chapter Tax Audit
6(d)	-do-
7(a)	Refer AS 22
7(b)	Refer Chapter on Bank Audit
7(c)	Refer Chapter on Cost Audit
7(d)	Refer Chapter on Audit of NBFCs
7(e)	Refer Chapter on Other Aspects for the topic Peer Review

NOVEMBER 2016

	Marks
1. (a) Mr. Ram, an auditor, identified some events that cast significant doubt on the entity's ability to continue as a going concern. What are the additional procedures he should perform as per the related Standard on Auditing?	5
(b) Mr. Mohan, an auditor of KTEN Limited wants to use the work of an expert. With reference to the Standard on Auditing state the factors which suggest the need for detailed and written agreement between the auditor and the auditor's expert.	5
(c) With reference to the Standards on Auditing state the examples of accounting estimates that may have a high estimation uncertainty.	5
(d) Is it appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent and detect it? Discuss.	5
2. (a) Discuss the relationship between overall audit strategy and audit plan.	4
(b) State the considerations on which effectiveness of an efficient system of internal check depends.	4
(c) Superior Limited wants to shift its accounting process from manual to electronic medium. Discuss the primary effect of such changes.	4
(d) While adopting the accounts for the year, the Board of Directors of Prima Ltd., decided to consider the Interim Dividend declared @ 12% as final dividend and did not consider transfer of profit to Reserves. As a statutory auditor, how would you deal with this?	4
3. (a) An auditor observed a fraud committed by an employee of the company. State the manner and timing of reporting of the fraud by the auditor.	4
(b) CA Adroit was indebted to Infructuous (P) Limited for a sum of ₹ 6,00,000 as on April 1, 2015. However, CA Adroit having come to know that he might be appointed as auditor of the company, he squared up the amount on July 10, 2015. Later on, he was appointed as auditor of the company for the year ended March 31, 2016 at the Annual General Meeting held on July 16, 2015. Subsequently, one of the shareholders complains that the appointment of CA Adroit as an auditor is invalid because he incurred disqualification under section 141 of the Companies Act, 2013. Comment.	4
(c) The auditor of Mould Limited made an adverse statement in his certificate as the Audit Committee of the Company did not meet four times a year. Discuss few circumstances which require an adverse or qualified statement in the auditor's certificate in respect of compliance of the requirements of Corporate Governance.	4
(d) CARO 2016 has made several significant changes and has introduced many new reporting requirements <i>vis-à-vis</i> CARO 2015. In view of the above, describe the relevant clause relating to Nidhi Companies – compliance with net owned funds to deposit requirements and the relevant provisions. What audit procedures are to be adopted for verification and reporting on the same?	4
4. (a) B Ltd is the Subsidiary company of A Ltd. ABC & Associates has been appointed as auditor of A Ltd. for the Financial year 2014-2015 and XYZ & Associates has been appointed as auditor of B Ltd for the year 2014-2015. Explain the role of ABC & Associates and ZYZ & Associates as auditors of the parent company and subsidiary respectively.	4

- (b) In order to check and prevent the diversion of funds in case of non-corporate borrowers, the lending bank sometimes obtains special report from the auditor on quarterly basis.
Describe the details to be given in special report in respect of—
- (i) Operating data
 - (ii) Inventory
 - (iii) Information in respect of other items 4
- (c) what are the obligations of auditor to submit Exception Report to RBI in case of non-banking financial companies? 4
- (d) Under which circumstances can the Central Government appoint the special auditor of a Multi State Cooperative Society? 4
5. (a) Explain the difference between the Proportional Treaties and Non Proportional Treaties? 4
- (b) While conducting audit of a member of stock exchange, what records/documents are to be checked by the auditor with respect to transactions of dematerialized securities? 4
- (c) What are the relevant sections of the Companies Act, 2013 and steps involved in audit of Government Companies? 4
- (d) The Central Governments is of the view that there are certain interested members and companies who are financially interested in the success or failure of the company or who have been able to control or to materially influence the policy of the company.
Hence the Central Government wants to investigate the ownership of the company.
Describe the scope and extent of investigation by an Investigator/ Chartered Accountant on behalf of Central Government under Companies Act, 2013. 4
6. (a) A Chartered Accountant is liable for disciplinary action under section 21 of CA Act, 1949, if he is found guilty of any professional or other misconduct.
Explain the meaning of other misconduct with the help of two illustrative examples. 4
- (b) A member of the institute shall not accept in a year more than the specified number of tax audits under section 44AB of the Income Tax Act.
Mr. Gaurav is a partner in M/s XYZ & Co., a firm of Chartered Accountants with 6 partners.
During the assessment year 2015-16, Mr. Gaurav alone had signed 290 tax audit reports consisting of both corporate and non-corporate assessees.
Comment. 4
- (c) Mr. Z accepted the statutory audit of a sick unit—NCT Limited for the year ending 31-3-2015. During course of audit it was noticed by the statutory auditor that company's net worth was negative for year ended 31-3-2014 and there was also a liability of tax audit fees of ₹ 3,5000 in favour of the previous auditor. Comment. 4
- (d) What are the fundamental principles as per code of ethics of ICAI? What are the threats involved while complying with the fundamental principles? 4
7. Write short notes on any four of the following: 4 × 4 = 16
- (a) Restrictions on investments of funds of a Central Co-operative Society.
 - (b) Requirements of a Risk Management process/system in a bank.
 - (c) "Trade credit insurance policy" and basic requirements of a trade credit insurance product.
 - (d) Write a short note on Records to be maintained for Related party Transactions in terms of Cost Audit.
 - (e) Objectives of compilation engagement.

Suggested Hints

Question	Hints
1.a.	Refer SA 570
1.b.	Refer SA 620
1.c.	Refer SA 540
1.d.	Refer SA 240, 315, 330 and 580
2.a.	Refer Chapter 13 on The Company Audit
2.b.	Adapt the principles contained in SA 610 read with SA 315
2.c.	Refer Chapter on EDP Audit
2.d.	Refer Section 123 of the Companies Act, 2013 [Chapter 1]. Mandatory transfer to reserves not required under the Companies Act, 2013
3.a.	Refer Section 143(12) of the Companies Act, 2013 read with Clause 3(x) of CARO, 2016 and SA 240
3.b.	Refer Section 141(3) of the Companies Act, 2013. Not disqualified from being appointed
3.c.	Refer Clause 49 of the Listing Agreement
3.d.	Refer Clause 3(xii) of CARO, 2016
4.a.	Refer Section 143 of the Companies Act, 2013 regarding audit report on Consolidated Financial Statements, Guidance Note on Audit of Consolidated Financial Statements and SA 706 for Other Matter Paragraph
4.b.	General Question based upon understanding of Due Diligence Chapter [Chapter name "Investigation" in the Book]
4.c.	Refer Chapter on Audit of NBFC
4.d.	Refer Chapter on Audit of Cooperative Societies
5.a.	Refer Chapter on Audit of General Insurance Companies
5.b.	Refer Chapter on Audit of Members of Stock Exchange
5.c.	Refer Section 139 and 143 of the Companies Act, 2013

Question	Hints
5.d.	Refer Chapter on “Inspection , Inquiry and Investigation” in Corporate and Allied Laws Paper [Section 216 of the Companies Act, 2013]
6.a.	Refer Part IV and Part III of First and Second Schedule respectively of the Chartered Accountants Act, 1949
6.b.	Refer ICAI Clarification whereby it is allowed that one tax auditor partner can sign all the tax audit reports on behalf of other partners of the same firm [para 14(<i>iii</i>) of Chapter 14 in the Book]
6.c.	Audit can be accepted as Council General Guidelines, 2008 are not applicable on audit of a sick unit [para 14 of Chapter 14 in the Book]
6.d.	Adapt principles of SA 200 Revised and Guidance Note on Independence of Auditors
7.a.	Refer Chapter on Audit of Cooperative Societies
7.b.	Refer Chapter on Audit of Banks
7.c.	Refer Chapter on Audit of General Insurance Companies
7.d.	Refer Chapter on Cost Audit and adapt in accordance with Section 188 of the Companies Act, 2013
7.e.	Refer SRS 4410

MAY 2017

Marks

1. (a) M/s. ABC & Co. is an audit firm having partners Mr. A, Mr. B and Mr. C, whose tenure as statutory auditor in R Ltd. a listed entity, has expired as per the Companies Act, 2013. M/s. XY is another audit firm which is appointed as the statutory auditor of R Ltd. for the subsequent year. Mr. A joins M/s. XY as partner, 3 months after it was appointed as the statutory auditor of R Ltd. Comment. 5
- (b) C Ltd. is holding 55% shares of D Ltd. M/s AB & Associates are statutory auditors of C Ltd. whereas for D Ltd. there is another firm appointed as statutory auditors. What are the reporting responsibilities of M/s. AB & Associates for audit of consolidated financial statements? 5
- (c) Moon Ltd. acquired 65% shares of Sun Ltd. on 28th October 2016. On 25th April 2017 they sold 25% shares of Sun Ltd. While preparing consolidated financial statements for the year ended 31st March, 2017, accountant of Moon Ltd. did not consider financial statements of Sun Ltd. for consolidation. Comment. 5
- (d) While commencing the statutory audit of ABC Company Ltd., the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level. Explain. 5
2. (a) ABC Co. Ltd. a company having trans-national operations, conducts its entire operations in a Computerised Information Systems (CIS) environment. As the audit partner of M/s. XYZ & Co., draw out the audit plan for evaluating the reliability of controls. 6
- (b) Secure Bank Ltd. is working as a depository along with their normal banking activities. The Securities and Exchange Board of India (SEBI) wants to appoint Mr. 'W' as an inspector to inspect books of accounts and records of the depository. Explain the purpose for which SEBI can appoint a person to inspect these books of accounts and records. 5
- (c) The auditor should select sample items in such a way that the sample can be expected to be representative of the population. Comment. 5
3. (a) Describe the principal method of design of the samples and its evaluation. 4
- (b) Mr. Ram, a Chartered Accountant has appeared before the Income Tax Authorities as the authorized representative of his client and delivers to the Income Tax Authorities a false declaration. What are the liabilities of Mr. Ram under Income Tax Act, 1961? 4
- (c) How does an auditor report on the description, design and operating effectiveness of controls at a service organization? 4
- (d) What are the specific matters to be included in auditor's report in an audit of Non-Banking Financial Company (NBFC) not accepting public deposits? 4
4. (a) Explain briefly the duties and responsibilities of an auditor in case of material misstatement resulting from management fraud. 6
- (b) What is included in an Auditors' Responsibility paragraph? 5
- (c) What are the main phases in the conduct of Risk Based Audit. 5
5. (a) You have been appointed as an energy auditor of Sunlight Energy Ltd. What are the key functions you would carry out? 4
- (b) What is tolerable misstatement and tolerable rate of deviation? 4

- (c) M/s. SB & Co. has been appointed as tax auditor under section 44AB of Income Tax Act, 1961 by Woodcraft Interior Consultants, a professional partnership firm, having turnover 1.25 Crores. M/s. RS & Co. are the statutory auditors of the firm but they are unable to give their report on the financial statements of the firm. M/s. SB & Co., have, however, completed their tax audit and want to issue their reports. Comment. 4
- (d) ABC Ltd. owns a piece of Land and Building situated at IP Road, Mumbai which was purchased before 30 years. The title deeds for the same are deposited with State Bank of India for obtaining credit facilities by the company.
As the statutory auditor of the company for the year ended 31st March, 2017, what are the audit procedures to be followed and What is the reporting under CARO 2016? 4
6. (a) Mr. M, a Chartered Accountant in practice, has printed visiting cards which besides other details also carries a Quick Response (QR) code. The visiting card as well the QR code contains his name, office and residential address, contact details, e-mail id and name of the firm's website. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. 4
- (b) L, a chartered accountant prepares and certifies projected financial statements of his client Abacus Ltd. Abacus Ltd. forwarded the same to their banks to secure some loans and bank, on that basis sanctioned a loan. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. 4
- (c) X, a chartered accountant in practice, in spite of several reminders from the Secretary of the Institute of Chartered Accountants of India fails to submit Form 18. Is he liable for misconduct? 4
- (d) P, a Chartered Accountant holding Certificate of Practice, is a leading Income Tax Practitioner in Gurugram. He is also trading in derivatives. Comment with reference to the Chartered Accountant Act, 1949 and schedules thereto. 4
7. Write short notes on any four of the following: 4 × 4 = 16
- (a) Auditor's right to Lien as per Companies Act, 2013.
- (b) Proper books of accounts as per Companies Act, 2013.
- (c) Differentiate between audit report and audit certificate.
- (d) 'Inquiry' as one of the methods of collecting audit evidence.
- (e) Verification of payment of remuneration to an insurance agent.

Suggested Hints

Question No.	Suggested Hints
1.(a).	Such appointment of M/s XY will become invalid and will result in casual vacancy. See Section 139(2), Rule 5 and Rule 6 issued thereunder about rotation of auditors
1.(b).	See Guidance Note on Audit of Consolidated Financial Statements
1.(c).	Consolidation is required [alternative answer is also possible]. See AS 21 and ICAI Clarifications
1.(d).	Refer SA 315 and SA 330
2.(a).	Refer Chapter on EDP Audit
2.(b).	Refer Chapter on Audit of Stock Brokers/ Depositories/ Mutual Funds

Question No.	Suggested Hints
2.(c).	Refer SA 530
3.(a).	-do-
3.(b).	Refer Chapter on Liabilities of Auditors
3.(c).	Refer SA 402 read with SAE 3402
3.(d).	Refer Chapter on Audit of NBFCs
4.(a).	Refer SA 240, SA 450, CARO, 2016, Section 143(3)(i) and Section 143(12)
4.(b).	<p>General understanding based question. Refer SA 700, i.e.</p> <ol style="list-style-type: none"> 1. The objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement; 2. Their's opinion is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exist; 3. Their's opinion is not an assurance as to the future viability of the enterprise; 4. The auditor exercises professional judgment and maintains professional skepticism throughout the audit; 5. Their responsibilities also include to obtain an understanding of internal control relevant to the audit; evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, to examine that the financial statements are prepared in accordance with a fair presentation framework, etc.
4.(c).	Refer SA 315 and SA 330 [Phases I: Identification of Audit Risk; Phase II: Assessment of Audit Risk through understanding the environment; Phase III: Responses to identified and assessed audit risk; and Phase IV: Reporting of audit risk]
5.(a).	Refer Chapter on Other Aspects
5.(b).	Refer SA 530
5.(c).	Refer Section 288 of the Income Tax Act, 1961 for disqualification of tax auditors
5.(d).	Refer Para 3(i) of CARO, 2016
6.(a).	No professional misconduct [ICAI Clarification under Clause 6 and 7, Part I, First Schedule]
6.(b).	Professional misconduct as instead of expressing moderate assurance, absolute assurance has been expressed [Clause 3, Part I, Second Schedule read with SAE 3400]
6.(c).	Professional misconduct [Clause 2, Part I, First Schedule]
6.(d).	Professional misconduct [Clause 11, Part I, First Schedule]

Question No.	Suggested Hints
7.(a).	Right of lien cannot be exercised in light of ICAI Clarification [there is no provision under the Companies Act, 2013, regarding such right. To such extent, there seems to be drafting error in the question]
7.(b).	Refer Section 128 of the Companies Act, 2013
7.(c).	Refer Chapter on Audit Reports
7.(d).	Refer SA 500 and Section 143(1) of the Companies Act, 2013
7.(e).	Refer Chapter on Audit of General Insurance Companies

* * *

NOVEMBER 2017

Marks

1. (a) As an auditor of a company registered under section 8 of the Companies Act, 2013 you find that as per the notification of the Ministry of Corporate Affairs regarding applicability of Indian Accounting Standards (Ind-AS), the company has to prepare its financial statements for the year ended 31st March, 2017 under Ind-AS. The management of the company is however of the strong view that being a section 8 company having charitable objects, Ind-AS cannot apply to the company. The financial statements are therefore prepared by the management under the earlier GAAP and a note for the same is given in the financial statements. How would you report on these financial statements? 5
- (b) You have been appointed statutory auditor of a company for the financial year ended 31st March, 2017 in place of the retiring auditor. During the course of audit, you observe that a fraud had been committed by a general manager who retired in March 2017. While going into further details, it was found that the fraud was going on since last 2-3 years and the total amount misappropriated was likely to exceed ₹ 100 lakhs. As statutory auditor, what would be your reporting responsibilities to the government? 5
- (c) D Ltd., a Delhi based company having turnover of ₹ 25 crores, has a branch at USA having a turnover of ₹ 10 lakhs (as converted from US dollars). The area where the branch office is located in USA was severely affected by storms and the office alongwith all accounting records was completely destroyed. Due to the unavailability of records, the financial statements of D Ltd. for the financial year 2016-17 did not include the figures pertaining to the said branch. As the statutory auditor of D Ltd., how will you report on the same? 5
- (d) G Ltd. has paid up capital of ₹ 20 crores divided into equity shares of ₹ 10 each on 31st March, 2016. During the year 2016-17, the company issued bonus shares in the ratio of 1:1. The net profit of the company for the financial years 2015-16 and 2016-17 was ₹ 10 crores and ₹ 15 crores respectively. The Earnings per share (EPS) as disclosed by the company for the 2 years was ₹ 5 and ₹ 3.75 respectively. As the statutory auditor of G Ltd., comment on the above. 5
2. (a) CA X is a chartered accountant in practice. He has an articled trainee H. X has informed H that since his practice and receipt of fees is seasonal, the stipend would not be paid in the months of April to December, but would be paid from January to March and the shortfall for the earlier 9 months will be made good in these 3 months alongwith interest @ 5% p.a. Comment with reference to the Chartered Accountants Act, 1949. 4
- (b) CA D, a chartered accountant in practice availed of a lone against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan, as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". Comment with reference to the Chartered Accountants Act, 1949. 4
- (c) A CA firm M/s GST & Associates, has sent a letter to the Goods and Service Tax Council stating that the firm has 2 partners who specialise in the law of Goods and Service Tax and asked the said Council to include their name in the panel, whenever formed, for providing advisory and audit services for Goods and Service Tax. Comment with reference to the Chartered Accountants Act, 1949. 4
- (d) A Co-operative society having receipts over ₹ 2 crores has appointed Mr. D as the statutory auditor – Mr. D is eligible to do the same under the Sate Co-operative Societies Act. Mr. D is not a chartered accountant. Mr. D is also appointed to conduct the tax audit of the society under section 44AB of the Income Tax Act, 1961. Comment. 4

3. (a) Explain the circumstances which require a modification to the Auditor's Opinion. 6
- (b) Under what heads can the frauds committed by Non-Banking Financial Companies (NBFCs) be classified? 5
- (c) The auditor of XY & Co. Ltd. has intimated the management that certain misstatements identified during the course of audit need to be corrected. As an auditor discuss the impact of such misstatements in case the management does not carry out the said corrections. 5
4. (a) Mr. Q is the proprietor of a very profitable business dealing in speciality chemicals. Due to his old Age, Mr. Q wants to sell his business and has approached XYZ Pvt. Ltd., a competitor, for the same. As an advisor to XYZ Pvt. Ltd., you are appointed to do a 'Due Diligence' of the business. Enumerate the points which you would look into as part of the Due diligence exercise. 6
- (b) A Ltd. has paid Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act, 1961 for the year ended 31st March, 2017. The company wants to disclose the same as an 'asset' in the balance sheet since the company contends that it is eligible to claim credit for the same in future years. As the auditor of the company, comment on the above. 4
- (c) Discuss the points and indications to be noted while examining and evaluating the 'Going Concern' assumption for an entity. 4
5. (a) As an auditor of DEF Ltd, you notice certain differences in the figures between the books of account and the 'Offer document' for the proposed issue of securities. The company explains that the same is due to certain adjustments as per the SEBI (Disclosure and Investor Protection) Guidelines. What are such disclosures and adjustments to be incorporated in the financial statements included in the 'Offer document'? 6
- (b) As an auditor appointed under section 44AB of the Income Tax Act, 1961, how would you verify and report on the following:
- (i) The assessee has borrowed ₹ 50 lakhs from various persons partly in cash and partly by account payee cheque.
- (ii) The assessee has paid rent of ₹ 5 lakhs for premises to his brother. 6
- (c) JKH Pvt Ltd. who is into the business of imparting coaching to CA students did not appoint any internal auditor for the year ended 31 March, 2017. As on 31st March, 2016, the company had paid up capital of ₹ 50 lakhs and reserves of ₹ 10 crores. Its turnover for the 3 years preceding the year ended 31st March, 2017 was ₹ 75 crores, ₹ 145 crores and ₹ 260 crores respectively. As an auditor of the company for the year ended 31st March, 2017, how would you deal with the above? 4
6. (a) Enumerate the specific risks that Information Technology (IT) systems can pose to an entity's internal control. 5
- (b) What are the types of Operational Audits? 6
- (c) What is 'Other Comprehensive Income' as per Ind-AS ? What are its components? 5
7. Write short notes on any **four** of the following:
- (a) Requirement for Audit Committee as per Companies Act, 2013 4
- (b) Areas not to be examined in Peer Review 5
- (c) Format of audit report for a Stock broker 4
- (d) Financial vs. Operational Audit 4
- (e) Contents of audit report given by Comptroller & Auditor-General of India 4

Suggested Hints

Question	Suggested Hints
1.a.	Refer Companies (Ind Accounting Standards) Rules, 2015 in yours FR Subject Study Material
1.b.	Refer Section 143(12) of the Companies Act, 2013
1.c.	Refer Section 143(3) & (8) of the Companies Act, 2013, SA 600 and SA 706
1.d.	Refer AS 20 in yours FR Subject Study Material
2.a.	Professional Misconduct - stipend need to be paid on monthly basis as per Chartered Accountants Regulations, 1988
2.b.	Other Misconduct - refer Clause 2 of Part I of Second Schedule and Clause 1 of Part II of Second Schedule
2.c.	Professional Misconduct - refer Clause 6 of Part I of First Schedule
2.d.	Cannot be appointed as tax auditor - see Section 288 of the Income Tax Act, 1961
3.a.	Refer SA 706 and SA 706
3.b.	Refer Chapter on Audit of NBFCs - direct question
3.c.	Refer SA 450, SA 315, SA 705 and Section 143(3)(i) of the Companies Act, 2013
4.a.	Refer Chapter on Investigations and Due Diligence - direct question
4.b.	Refer Guidance Note on Accounting for MAT Credit in yours FR Subject Study Material
4.c.	Refer SA 570 - direct question
5.a.	Refer Guidance Note on Reporting for Offer Documents/ SAE 3420 - the difference can arise on account of proforma financial adjustments
5.b.	Refer Form 3CD
5.c.	Refer Section 138 and Section 143(3)(i) of the Companies Act, 2013
6.a.	Refer SA 315 and Chapter on EDP Audit
6.b.	Refer Chapter on Management and Operational Audit - types may include: <ol style="list-style-type: none"> 1. Audit of effectiveness and efficiency of the organisation; 2. Audit of responsibilities and risks faced by an organisation including audit of control over organisation; 3. Audit to provide senior management of the organization with a detailed understanding of the result These are respectively known as Functional Audit, Organisation Audit and Special Audit
6.c.	Refer Ind AS 1 in yours FR Subject Study Material

Question	Suggested Hints
7.a.	Refer Chapter on Audit Committee - direct question
7.b.	Refer Chapter on Peer Review - direct question
7.c.	Refer Chapter on Audit of Stock Broker - direct question
7.d.	Refer Chapter on Management and Operational Audit read with Section 143 of the Companies Act, 2013
7.e.	Refer Section 143(5) (6) & (7) and Questionnaire issued by CAG given in the Chapter on Audit of PSUs. The contents include, for instance: <ol style="list-style-type: none">1. Reporting about system of accounts;2. Reports submitted by Statutory Auditors to the CAG pursuant to Section 143(5), (6) & (7);3. Significant results of those units which were not undertaken to be audited by CAG

* * *

MAY, 2018

Marks

1. (a) Toddle Limited had definite plan of its business being closed within a short period from the close of the accounting year ended on 31st March, 2017. The Financial Statements for the year ended 31/03/2017 had been prepared on the same basis as it had been in earlier periods with an additional note that the business of the Company shall cease in near future and the assets shall be disposed off in accordance with a plan of disposal as decided by the Management. The Statutory Auditors of the Company indicated this aspect in Key Audit Matters only by a reference as to a possible cessation of business and making of adjustments, if any, thereto to be made at the time of cessation only. Comment on the reporting by the Statutory Auditor as above. 5
- (b) The Property, Plant and Equipment of ABC Ltd. included ₹ 25.75 crores of earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected ten years back. As an Auditor, what may be your reporting concern as regards matters specified above? 5
- (c) Y & Co., Chartered Accountants have come across in the course of audit of a company that certain machinery had been imported for production of new product. Although the Auditors have applied the concept of materiality for the Financial Statements as a whole, they now want to re-evaluate the materiality concept for this transaction involving foreign exchange. Give your views in this regard. 5
- (d) B is the Principal Auditor of ABC Co. Ltd. with 8 branches audited by 8 Branch Auditors. B wanted to ensure that the works of Branch Auditors were adequate for the purpose of his audit. Hence he insisted on Branch Auditors to get familiar with a check list he prepared for branches and, besides, required them to share the working papers compiled by them for his review and return. Is Principal Auditor within his right in asking for such sharing of working papers? 5
2. (a) As an Auditor give your comments for the following disclosures made by a Company which adopted Ind AS for compilation of Financial Statements:
 - (i) In the Balance Sheet, the sub-head inventories contained an item "goods in transit" in which a consolidated amount aggregating the cost of raw materials in transit and loose tools billed on company but delivery not made to company had been specified.
 - (ii) Provision for doubtful debts of trade debtors was grouped in "Provisions" under current liabilities.
 - (iii) In Statement of Profit and Loss, prior period income was shown under "Other Income".
 - (iv) Sale proceeds of scrap incidental to manufacture were included in "Other Income".
 - (v) Payment towards a one time voluntary retirement scheme introduced during the year was included in "Employee Benefit Expense". 5
- (b) ABC Ltd., is consistently following Accounting Standards as required under section 133 of the Companies Act, 2013. During your tax audit under section 44AB of the Income Tax Act 1961, the Board of Directors informed you that profits of the Company is properly arrived at and the Accounting Standards applicable to it have been followed consistently and as such, there need not be any adjustments to be made as per Income Computation and Disclosure Standards notified under section 145 of Income Tax Act, 1961. Based on the requirements of Law in this regard, examine the validity of the stand of Management in this regard. 5

- (c) CA. Needle had been appointed as an Auditor of M/s Fabric Ltd. In the course of audit, it had been observed that that inventory including work-in-process had been valued by Management by using experts hired by them. Analyse relevant factors to decide as to whether or not to accept the findings from the work of Management expert in valuation of inventories. 5
- (d) M & Co., a sole proprietary Chartered Accountant firm in practice with an office in a busy belt of a city, had great difficulty in regularly attending to the consultancy needs of his clients who are mostly located in an industrial cluster in a nearby outskirt which is situated at a distance of 26 kms from the office of the firm. To mitigate the difficulty and to have ease of business, II facilitation centre was opened in the industrial cluster. The proprietor managed both the office and the facilitation centre, by himself. No intimation was made to the Institute of, Chartered Accountants of India. Examine whether there is any professional misconduct in this respect. 5
3. (a) H Co. Ltd., is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd. The H Co. Ltd., adopts straight line method of depreciation for its assets whereas S Co. Ltd., follows written down value or diminishing value method. Though R Co. Ltd., follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. While consolidating the financials of the R Co.' Ltd., and S Co. Ltd., with those of H Co. Ltd., determine the possible issues that you have to ensure for compliance in the light of above facts. 5
- (b) Beneathminerals Limited is a Public Sector Company engaged in extraction of minerals from land. It has to pump out water in the first layer of the soil if the minerals are to be excavated. The Company pumps out water and diverts the water through a water course constructed by it to nearby villages and the water is allowed to be used by villagers for drinking purposes. The cost of construction of water course amounted to ₹ 5.25 crores and the Company had disclosed this amount as CSR expenses in the Statement of Profit and Loss. Comment. 5
- (c) A film artist who was going abroad for long shooting, deposited a sum of ₹ 20 lakhs with his tax consultant Mr. G, a practising Chartered Accountant for payment of Goods and Service Tax monthly when they were due. Mr. G duly remitted all but one instalments. He utilized the amount of instalment which he did not pay, to remit his own advance income tax. However, while tiling return of GST of the film artist, he duly remitted on her behalf the tax payable with interest due for late payment of GST out of money lying with him. He also bore for himself the interest due to short fall in remittance of tax of his client. Comment on the above in the light of Code of Conduct. 5
- (d) KDK Bank Ltd., received an application from a pharmaceutical company for take over of their outstanding term loans secured on its assets, availed from and outstanding with a nationalized bank. KDK Bank Ltd., requires you to make a due diligence audit in the areas of assets of pharmaceutical company especially with reference to valuation aspect of assets. State what may be your areas of analysis in order to ensure that the assets are not stated at over valued amounts. 5
4. (a) Mr. B, a Chartered Accountant in practice was invited to deliver a seminar on GST which was attended by professionals as well as by representatives of various Industries. One section of audience raised a particular issue unique to the industry to which it pertains, Mr. B enthusiastically explained the issue and elaborated how he actually solved this for his client facing the same issue with worked out examples from the computer storage device using the actual data of one of his clients with full identification of client details being displayed to the group for the sake giving clarity on a topic in a real life situation. Comment his acts in the light of Code of Conduct. 4
- (b) As an Auditor of TRP Ltd., you are suspicious that there might be non-compliance with laws and regulations to which the Company is subject to. Indicate the possible areas or aspects where you may have to look out for forming an opinion as to whether your suspicion has some bases to further inquire. 4

- (c) You are the Auditor of Good Luck General Insurance Company. You want to ensure that there exists good system that effectively serves the requirements of true and fair accounting of claim-related expenses and liabilities. Suggest how this can be ensured. 4
- (d) While evaluating the risks and controls at entity level, the Auditor should take cognizance of the prevalent direct and indirect entity level controls operating in the entity. Explain what they pertain to, with few examples. 4
- (e) The elements of skill, experience and independence of reviewers are ensured before initiating them in Peer Review process. In the above light, state few eligibility criteria fixed for a person to be empanelled and also for being appointed as a Peer Reviewer. 4
5. (a) Mr. Dice, a practising Chartered Accountant was ordered to surrender his Certificate of Practice and he was suspended for one year on certain professional misconduct against him. During the period of suspension, Mr. Dice, designating himself as GST Consultant, did the work of filing GST returns and made appearance as a consultant before various related authorities. He contended that there is nothing wrong in it as he, like any other GST consultant, could take such work and his engagement as such in no way violate the order of suspension inflicted on him. Is he right in his contention? 4
- (b) The Auditor of M/s Quick Limited succumbed to the pressure of the Management in Certifying the Financials with an over stated figure of turnover by not adhering to the cut-off principles of the time scale for the transactions of the year. On taking cognizance of this act of the Auditor, the Tribunal under the Companies Act, 2013 initiated the proceedings against him. Briefly list the powers of the Tribunal in this respect including those relating to making orders against the Auditor found to be guilty. 4
- (c) M/s All-in-One Limited is a large-sized listed Indian Company with focus on design and delivery of custom made Information Technology applications for various business entities in India and abroad, The Management wants to know whether they are required to constitute Risk Management Committee as per LODR, 2015 and if so, required, what should be its composition? Advise. 4
- (d) In the course of audit of Skip Bank Ltd., you found that the Bank had sold certain of its non-performing assets. Draft the points of audit check that are very relevant to this area of checking. 4
- (e) Neverpermit Limited refuses to allow you to get direct confirmation of the outstanding balances of trade receivables. You want to ensure on grounds of materiality that atleast outstanding above a threshold limit needs to be confirmed and reconciliation is to be carried out before finalising the audit. If the Company does not relent, how will you respond? 4
6. (a) Explain how a Forensic Audit differs from an Assurance Engagement. 4
- (b) Tee & Co., a firm of Chartered Accountants had been appointed by C & AG to conduct statutory audit of M/s Rare Airlines Limited, a Public Sector Company. They would like to check certain mandatory propriety points as required under section 143(1) of the Companies Act, 2013. List the areas of check to meet these requirements. 4
- (c) Moon Ltd. of which you are the Statutory Auditor, have an internal audit being conducted by an outside agency. State the factors that weigh considerations in opting to make use of direct assistance of the internal auditors for the purpose of statutory audit. 4
- (d) Distinguish
- (i) Self-Interest threat froth self-review threat in an Assurance Engagement
- OR**
- (ii) Reasonable Assurance Engagement from Limited Assurance Engagement. 4
- (e) The Operational Audit is carried out effectively when the Operational Auditor responds with positive traits in a scenario which is blended with behavioural issues. Explain few positive traits that help to conclude an Operational Audit, a success. 4

Suggested Hints

Question	Suggested Hints
1.(a).	Refer AS 1, SA 570 and SA 701
1.(b).	Refer AS 10, Schedule II and CARO, 2016
1.(c).	Refer Schedule III and SA 320
1.(d).	Refer Section 143(3) of the Companies Act, 2013, SA 600 and SA 230
2.(a).	(i). Refer Ind AS 2 and Division II of Schedule III of the Companies Act, 2013; (ii). Refer Ind AS 109 and Division II of Schedule III of the Companies Act, 2013; (iii). Refer Ind AS 8 and Division II of Schedule III of the Companies Act, 2013; (iv). Refer Ind AS 11 and Division II of Schedule III of the Companies Act, 2013; (v). Refer Ind AS 19 and Division II of Schedule III of the Companies Act, 2013
2.(b).	Refer Clause 13 of Form 3CD
2.(c).	Refer SA 620
2.(d).	Refer Chapter on Code of Ethics [see Section 27]
3.(a).	Refer AS 10 (Ind AS 16) and Schedule II of the Companies Act, 2013
3.(b).	Refer Section 135 and Schedule VII of the Companies Act, 2013 [not a CSR expense as it is an incidental activity to its main business - alternate view also possible]
3.(c).	Refer Clause 10, Part I, Second Schedule of the Chartered Accountants Act, 1949
3.(d).	Refer Chapter on Due Diligence, Investigation and Forensic Audit
4.(a).	Refer Clause 6 and Clause 7, Part I, First Schedule of the Chartered Accountants Act, 1949 (the Act) and Clause 1, Part I, Second Schedule of the Act
4.(b).	Refer SA 250
4.(c).	Refer Chapter on Audit of General Insurance Companies
4.(d).	Refer SA 220
4.(e).	Refer Chapter on Peer Review
5.(a).	Refer Chapter on Code of Ethics [see Section 6]
5.(b).	Refer Section 140(5) of the Companies Act, 2013
5.(c).	Refer Chapter on Corporate Governance and Audit Committee
5.(d).	Refer Chapter on Audit of Banks
5.(e).	Refer SA 505
6.(a).	Refer Chapter on Due Diligence, Investigation and Forensic Audit
6.(b).	Refer Section 143(1) of the Companies Act, 2013
6.(c).	Refer SA 610
6.(d).	(i). Refer Guidance Note on Independence of Auditors; or (ii). Refer SA 700 and SRE 2400
6.(e).	Refer Chapter on Management and Operational Audit

* * *

B. OLD COURSE**NOVEMBER, 2003**

1. As a statutory auditor, how would you deal with the following?
 - (a) A husband and wife are controlling 34% of voting power in XY Company Limited. They are having a separate partnership firm, which supplies mainly the raw material to the Company. The management says that the above transaction need not be disclosed.
 - (b) While commencing the statutory audit of B Company Limited, the auditor undertook the risk assessment and found that the detection risk relating to certain class of transactions cannot be reduced to acceptance level.
 - (c) While auditing accounts of a public limited company for the year ended 31st March, 2003, an auditor found out an error in the valuation of inventory, which affects the financial statement materially. Comment as per auditing and assurance standards.
 - (d) At the statutory audit of TQR Limited, the physical verification of fixed assets was conducted. However the auditor was not able to confirm the existence of valuables and important machinery. In this connection, the auditor obtained a certificate from the management to prove its existence and value and accepted the same blindly without any further procedures.
2. Can a practicing CA be held guilty of professional misconduct under the following circumstances? Give your views with reasons in brief:
 - (a) Z, a CA wrote several letters to Government department, pointing out seniority of his firm, sending his life sketch and stating that he had a glorious record of service to the country as well as to the organisation of accountancy profession with a view to get the audit work.
 - (b) W, a CA has sent letters under certificate of posting to the previous auditor informing him his appointment as an auditor before the commencement of audit by him.
 - (c) P, a CA had accepted appointment as an auditor of QRS Co. Ltd. without ascertaining from the Company whether the requirements of Sections 224 and 225 of the Companies Act had been complied with, However, he realised this defect only after acceptance.
 - (d) The cashier of a company committed a fraud and absconded with the proceeds thereof. This happened during the course of the accounting year. The Chief Accountant of the company also did not know about the fraud. In the course of the audit, at the end of the year, the auditor failed to discover the fraud. After the audit was completed, however the fraud was discovered by the Chief Accountant. Investigations made at that time indicate that the auditor did not exercise proper skill and care and performed his work in a desultory and haphazard manner. With this background, the directors of the company intend to file disciplinary proceedings against the auditor. Discuss the position of the auditor with regard to disciplinary proceedings.
3. Answer the following:
 - (a) How does an auditor apply statistical sampling in auditing?
 - (b) An old car of a company having a nominal book value has found a buyer, who is willing to pay ₹1 lakh for it. The company proposes not to sell the car, but to neglect its valuation in its accounts at ₹1 lakh. Should the auditor permit the company to do so?

4. Answer the following:
- Discuss the control procedures which the auditor should adopt in applying CAAT in an audit under EDP environment.
 - You are the internal auditor of AB Manufacturing Co. Ltd. The MD has asked you to enquire into the causes of abnormal wastage of raw materials during the month of September, 2003. The wastage percentages are 1.2%, 1.1%, 1.3% and 3.6% for June, July, August and September, 2003 respectively. How will you proceed to carry out the assignment?
5. Answer the following:
- What are the important steps involved whilst conducting investigation on behalf of an incoming partner?
 - Define Propriety Audit? What are the principles involved regarding Propriety Audit in public sector undertakings?
6. Answer the following:
- As statutory auditors of a nationalised bank, what special points are to be borne in mind in the audit of compliance with “Statutory Liquidity Ratio” (SLR) requirements?
 - Enumerate the steps to be taken by an auditor for the verification of re-insurance outward by a general insurance company.
7. Answer the following:
- What is your understanding about the term “Audit of Indirect Taxes”? Explain the steps involved in the indirect tax audit.
 - Distinguish with suitable examples – between a case where an auditor is obliged to state in his report to the members of a company that the accounts do not show a true and fair view, and a case where he states that he is unable to form an opinion as to whether or not the accounts give a true and fair view.
8. Write short notes on any **four** of the following:
- Auditor’s responsibilities regarding comparatives.
 - Reporting on the compilation engagement.
 - Enquiry.
 - Probable format of environmental statement.
 - Contract notes.

Suggested Hints

Question No.	Hints
1(a)	Refer AS 18 on Related Party Disclosures
1(b)	Refer SA 400 on Risk Assessment and Internal Control
1(c)	Refer SA 240 on The Auditor’s Responsibility to Consider Fraud and Error in an Audit of Financial Statements and SA 320 on Audit Materiality
1(d)	Refer SA 580 on Representation by Management
2(a)	Refer Clause (6) of Part I First Schedule

Question No.	Hints
2(b)	Refer Clause (8) of Part I First Schedule. As per Council's opinion mere posting of a letter "under certificate of posting" is not sufficient to establish communication with the retiring auditor unless there is some evidence to show that the letter has in fact reached the person communicated with. Accordingly, communication by a letter sent "Registered Acknowledgement Due" or by hand against a written acknowledgement would in the normal course provide positive evidence.
2(c)	Refer Clause (9) of Part I First Schedule
2(d)	Refer SA 240 on The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements and Clause (7) of Part I First Schedule
3(a)	Refer SA 530 on Audit Sampling
3(b)	Refer AS 10 on Accounting for Fixed Assets
4(a)	Refer Chapter on EDP Audit
4(b)	(i) get a list of raw materials used by the company; (ii) obtain the standard consumption figures and ascertain the basis for working out normal wastage figures; (iii) assess whether the personnel employed are properly trained and working efficiently; (iv) examine the quality control techniques and preventive maintenance programme of machinery; (v) examine the laboratory reports and inspection reports as to the quality of raw materials procured; (vi) check the machine utilisation statements; (vii) examine the possibility of theft, fire or other losses in storage; (viii) examine if any new production line has been taken up for which the standard input output norms have yet to be laid down.
5(a)	Refer Chapter on Investigations
5(b)	Refer Chapter on Audit of Public Sector Undertakings
6(a)	Refer Chapter on Audit of Banks.
6(b)	Refer Chapter on Audit of General Insurance Companies
7(a)	Refer Chapter on Special Aspects (Audit of Indirect Taxes)
7(b)	Refer SA 700 on The Auditor's Report on Financial Statements
8(a)	Refer SA 710 on Comparatives
8(b)	Refer SRS 4410 on Engagements to Compile Financial Information
8(c)	Refer SA 500 on Audit Evidence and section 227(1A) of the Companies Act, 1956 (now Section 143(1) of the Companies Act, 2013)
8(d)	Refer Chapter on Special Aspects (Other Aspects)
8(e)	Refer Chapter on Special Aspects (Audit of Members of Stock Exchanges)

* * *

MAY, 2004

1. As a Statutory Auditor how would you deal with the following cases ?
 - (a) During the course of audit of ABC Ltd., it is noticed that out of ₹12 lakhs of provident fund contribution accounted in the books, only ₹2 lakhs has been remitted to the authorities during the year. On enquiry the Chief Accountant informed that due to financial problems they have not remitted but will remit the same as and when the position improves.
 - (b) National Tourism Ltd., a wholly owned Government Company approaches you to give a revised report on the revised accounts, as the original accounts has undergone changes consequent to the audit of Comptroller and Auditor General of India.
 - (c) M/s LNK's group gratuity scheme's valuation by actuary shows wide variation compared to the previous year's figures.
 - (d) In the books of accounts of M/s OPQ Ltd. huge differences are noticed between the control accounts and subsidiary records. The Chief Accountant informs that this is common due to huge volume of business done by the company during the year.

2. Comment on the following with reference to Chartered Accountants Act, 1949 and schedules thereto :
 - (a) Mr. Parekh, a Chartered Accountant was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Leather Industry. During the course of his presentation he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at International level.
 - (b) Mr. Shah, a Chartered Accountant certified the financial statements of a company in which his wife is a Director holding substantial interest.
 - (c) Mr. Joe, a Chartered Accountant during the course of audit of M/s XYZ Ltd. came to know that the company, has taken a loan of ₹10 lakhs from Employees Provident Fund. The said loan was not reflected in the books of account. However, the auditor ignored this information in his report.
 - (d) Mr. Jain, a Chartered Accountant certified the circulation of "Good Luck" a weekly magazine without examination of financial records and other required documents.
 - (e) A charitable institution entrusted ₹10 lakhs with its auditors M/s Ram and Co., a Chartered Accountant firm, to invest in a profitable portfolio. The auditors pending investment of the money, deposited it in their Savings bank account and no investment was made in the next three months.

3. Answer the following:
 - (a) As Chartered Accountant you are required to give your reports on various financial statements under Companies Act, 1956 which are as under :
 - (i) Report to the shareholders under Section 227;
 - (ii) Report, to be set out in prospectus under Section 60(3);
 - (iii) Report to be given to the Central Govt. as special auditor under Section 233A;
 - (iv) Report to be given on voluntary winding up under Section 488(1)

Explain the significance of each of these reports and your functional approach very briefly.
 - (b) State the salient features of Investors Education and Protection Fund.

4. Answer the following:
- State the important characteristics of an effective computer audit program system.
 - What are the key functions of an Energy auditor?
5. Answer the following:
- How will you evaluate the internal control system in the area of credit card operations in a bank?
 - What are the specific areas to which you will give your attention while examining "Claims Paid" by a General Insurance Company?
6. Answer the following:
- Mr. Clean who proposes to buy the proprietary business of Mr. Perfect, engages you as investigating accountant. Specify the areas which you will cover in your investigation.
 - Explain in brief the behavioural aspects encountered in the management audit and state the ways to solve them.
7. Answer the following:
- State the special features of Co-operative Societies Audit.
 - Explain the Constitution and functions of Audit Committee under Section 292A of the Companies Act, 1956.
8. Write short explanatory notes on any **four** of the following :
- Rolling settlement.
 - Human Resource Accounting.
 - Flow chart technique for evaluation of internal control.
 - Treatment of foreign currency monetary items on balance sheet date.
 - Areas of propriety audit under Section 227(1A) of the Companies Act, 1956.

Suggested Hints

Question No.	Hints
1(a)	Refer Clause 3(vii) of CARO, 2016
1(b)	As per Guidance Note on Auditor's Report on Revised Accounts of Companies Before Circulation to Shareholders, the following should be observed: (a). all the copies of the original accounts and reports thereon should be returned to the auditor; (b) adequate disclosures should be made that the accounts which were earlier approved by the BODs and reported by the auditors have been revised and re-approved by the BODs as a specific note on the amended accounts; (c) where notes to accounts do not contain any note on revision or such note is considered inadequate or not comprehensive, the statutory auditor should indicate that the accounts have been revised based on the C&AG report; (d) the revised audit report should clearly draw attention to the auditor's earlier audit report.
1(c)	Refer SA 620 on Using the Work of an Expert

Question No.	Hints
1(d)	Refer SA 240 on The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
2(a)	Refer Clause (1) of Part I Second Schedule
2(b)	Refer Clause (4) of Part I Second Schedule
2(c)	Refer Clause (5) of Part I Second Schedule
2(d)	Refer Clause (8) of Part I Second Schedule
2(e)	Refer Clause (10) of Part I Second Schedule
3(a)	(i) Refer Section 227 of the Companies Act, 1956 (now Section 143 of the Companies Act, 2013) (ii) Refer Section 60(3) of the Companies Act, 1956 (now Section 26 of the Companies Act, 2013) (iii) Refer Section 233A of the Companies Act, 1956 (now no corresponding section in the Companies Act, 2013)(iv) Refer Section 488(1) of the Companies Act, 1956 in the Study Material of Paper 4 (now Section 305 (yet to be notified) of the Companies Act, 2013)
3(b)	Refer Section 205(c) of the Companies Act, 1956 (now Section 123 of the Companies Act, 2013)
4(a)	Refer Chapter on EDP Audit
4(b)	Refer Chapter on Special Aspects (Other Aspects)
5(a)	Refer Chapter on Audit of Banks
5(b)	Refer Chapter on Audit of General Insurance Companies
6(a)	Refer Chapter on Investigations
6(b)	Refer Chapter on Management and Operational Audit
7(a)	Refer Chapter on Special Aspects (Audit of Co-operative Societies)
7(b)	Refer Chapter on Special Aspects (Other Aspects)
8(a)	Refer Chapter on Audit of Members of Stock Exchange
8(b)	Refer Study Material of Paper 1
8(c)	A flow chart can show: (a) at what point a document is raised internally or received from external sources; (b) the number of copies in which a document is raised or received; (c) the intermediate stages set sequentially through which the document and the activity pass; (d) distribution of the documents to various sections, department or operations; (e) checking authorisation and matching at relevant stages; (f) filing of the documents; (g) final disposal status.
8(d)	Refer AS 11 on Accounting for the Effects of Changes in Foreign Exchange Rates
8(e)	Refer Section 227(1A) of the Companies Act, 1956 (now Section 143(1) of the Companies Act, 2013)

* * *

NOVEMBER, 2004

1. What are your views on the following?

- (a) A Ltd. was under audit for the year ended 31-3-2004. An appeal filed by A Ltd. against the demand of Excise Duty of ₹ 26 crores was pending before the Supreme Court for which neither provision was made nor was disclosed in the notes to the financial statements. On 12th July, 2004, the auditor came to know through paper reports that the point involved in the appeal of A Ltd. was adjudicated by the Supreme Court in the case of some other assessee, which is in favour of the department of Excise Duty. The auditor insisted that provisions be made of ₹ 26 crores in the financial statements. The Management was of the view that since its own case is still pending, no provision is called for. It was also of the view that the event does not have any effect on the financial position of the company on the date of the Balance Sheet. Is the view of the Management tenable?
- (b) Kevin Industries Ltd. has a paid up capital of ₹ 20 crores divided into equity shares of ₹ 10 each as on 31-3-2003. During the financial year 2003-04 it has issued bonus shares in the ratio 1:1. The net profit after tax for the years 31-3-2003 and 31-3-2004 is ₹ 10 crores and ₹ 15 crores respectively. The Earnings Per Share (EPS) disclosed in the financial statements for the above two years is ₹ 5.00 and ₹ 3.75 respectively. Is the disclosure correct?
- (c) An auditor of Sagar Ltd. was not able to get the confirmation about the existence and value of certain machineries. However, the management gave him a certificate to prove the existence and value of the machinery as appearing in the books of account. The auditor accepted the same without any further procedure and signed the audit report. Is he right in his approach?
- (d) A firm of a father and a son is receiving ₹ 2 lakhs towards job work done for XYZ Ltd. during the year ended on 31-3-2004. The total job work charges paid by XYZ Ltd. during the year are over ₹ 50 lakhs. The father is a Managing Director of XYZ Ltd. having substantial holding. The Managing Director told the auditor that since he is not involved in the activities of the firm and since the amount paid to it is insignificant; there is no need to disclose the transaction. He further contended that such a payment made in the last year was not disclosed. Is Managing Director right in his approach?

2. Do you approve of the following? If not, why?

- (a) A firm of Chartered Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company.
- (b) Mr. Qureshi, Chartered Accountant, in practice died in a road accident. His widow proposes to sell the practice of her husband to Mr. Pardeshi, Chartered Accountant, for ₹ 5 lakhs. The price also includes right to use the firm name-Qureshi and Associates. Can widow of Qureshi sell the practice and can Mr. Pardeshi continue to practice in that name as a proprietor?
- (c) Trimurthy Pan Masala (P) Ltd. was incurring heavy losses in the last several years since it could not withstand the competition in the market. The State in which the company had its registered office and also its major sales had moved a bill in the State Assembly to ban manufacture and sale of all kinds of Pan Masalas in the State. While finalizing the accounts for the year ended 31-3-2004, the CFO of the company created a Deferred Tax Asset for the tax benefits that would arise in future years from the earlier years' losses that had remained unabsorbed in Income Tax.
- (d) Big Ltd. has borrowed ₹ 30 lakhs from State Bank of India during the financial year 2003-04. The borrowings are used to invest in shares of Small Ltd., a subsidiary company of Big Ltd., which is implementing a new project estimated to cost ₹ 50 lakhs. As on 31st March, 2004, since the said project was not complete, the directors of Big Ltd. resolved to capitalize the interest accruing on borrowings amounting to ₹ 4 lakhs and add it to the cost of investments.

3. Answer the following:
- What are 'Initial Audit Engagements'?
 - In an initial audit engagement the auditor will have to satisfy about the sufficiency and appropriateness of 'Opening Balances' to ensure that they are free from misstatements, which may materially affect the current financial statements. Lay down the audit procedure, you will follow in cases (i) when the financial statements are audited for the preceding period by another auditor; and (ii) when financial statements are audited for the first time.
 - If, after performing the procedure, you are not satisfied about the correctness of 'Opening Balances'; what approach you will adopt in drafting your audit report in two situations mentioned in (b) above?
4. Answer the following:
- Enumerate the 'Basic Elements of Audit Report' as enshrined in AAS 28 (now SA 700).
 - Bring out the significance of the following two illustrative paragraphs found in the statutory auditor's report in recent days.
 - Opening Paragraph:

"We have audited the attached Balance Sheet of as at 31st March, 2xxx and also the Profit and Loss Account for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements".
 - Scope Paragraph:

"We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis for our opinion."
5. Answer the following:
- State the specific problems, which may arise in the implementation of internal control in an EDP system.
 - What are the characteristics of 'On-line Computer System'?
 - Explain : Tagging and Tracing
6. Answer the following:
- You have been appointed Management Auditor of a large manufacturing company suffering from working capital crunch. Enlist and discuss the related areas which you would probe into to overcome the company's problem.
 - Miranda Spinning Mills Ltd. is a sick company and has accumulated losses of ₹ 10 crores. The company has ₹ 12 crores in its share Premium Account. The Management desires to adjust the accumulated losses against the share premium balance. Advise the company giving your reasons.
7. Answer the following:
- Section 274 of the Companies Act, 1956 is applicable to appointment of Directors. Briefly explain your duty as a statutory auditor in this connection.
 - A company has paid interim dividend at 10% based on its half-yearly performance while at the end of the year suffered a net loss. How you will deal with the matter in your audit report as a statutory auditor?

- (c) State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company.
8. Write short notes on any **four** of the following:
- Certificate for Special Purpose vs. Audit Report
 - Audit vs. Investigation
 - Sauda Book
 - Other Misconduct
 - Advantages of Cost Audit to Government
 - Principal Enactments Governing Bank Audit
 - Corporate Governance
 - Responsibility of Joint Auditors

Suggested Hints

Question No.	Hints
1(a)	Refer AS 4, AS 29 and SA 560
1(b)	Refer AS 20 on Earnings Per Share
1(c)	Refer SA 580 on Management Representation
1(d)	Refer AS 18 on Related Party Disclosures
2(a)	Clause 4 of Part I of the Second Schedule to Chartered Accountants Act, 1949 states that expressing an opinion on financial statements of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct. Also, the Council of the Institute of Chartered Accountants of India has stated that in cases where a member of the Institute is a director of a company, or the firm in which the said member is a partner, should not express any opinion on its financial statements. As per facts of the case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. It is a part of management consultancy service of the firm and moreover its partner was on the Board. Hence, the firm can perform this assignment and it will not constitute misconduct. However, the firm while accepting the position as auditor in future would have to consider whether it would be possible to act in independent manner and express opinion on financial statements.
2(b)	Refer Chapter on Code of Ethics for sale of goodwill
2(c)	Refer AS 22 on Taxes on Income
2(d)	Refer AS 13 on Accounting for Investments
3(a), (b) & (c)	Refer SA 510 on Initial Engagements – Opening Balances
4(a) & (b)	Refer SA 700 on The Auditor's Report on Financial Statements
5(a) & (b)	Refer Chapter on EDP Audit

Question No.	Hints
5(c)	It is a technique better than Integrated Test Data Facility. It involves tagging the client's input data in such a way that relevant information is displayed at key points. It uses the actual data, and so the question of elimination of 'special entries' test data designed under Integrated Test Data Facility does not arise. The hard copy, so produced is available only to the auditor and may describe such inputs as hours worked in a pay period in excess of 50; or sales orders processed in excess of ₹1,00,000. This enables the auditor to examine transactions at the intermediate steps in processing. The advantage of the tagging and tracing approach lies in the use of actual data and elimination of the need for reversing journal entries. The disadvantage is that the erroneous data will not necessary be tagged. An effective combination approach may be to use the ITF approach (integrated test facility) for a few hypothetical transactions and the tagging and tracing approach to follow line data through a complex system.
6(a)	Discuss the areas such as Working Capital Estimation, Cash Flow Statement / Cash Budget, Inventory/Stock Management, Credit Management, Funds Flow Analysis, Investment Management, WIP Analysis.
6(b)	Refer Section 78 of the Companies Act, 1956 (The company cannot adjust accumulated losses against share premium account balance) (now Section 52 of the Companies Act, 2013)
7(a)	Refer Guidance Note on Section 227(3)(e) & (f) of the Companies Act, 1956 (this Guidance Note is yet to be amended by the ICAI. See the detailed discussion on this in the Chapter on Guidance Notes given in this Book)
7(b)	Refer Chapter on Interim Dividend given in Volume 1
7(c)	Refer Chapter on Audit of General Insurance Companies
8(a)	Refer Chapter on Tax Audit
8(b)	Refer Chapter on Investigation
8(c)	All members of a stock exchange are required to maintain a 'Sauda Book', which contains details of all deals transacted by them on a day to day basis. This is a basic record, which each member is required to maintain regularly on day-to-day basis. It contains the details regarding the name of the code of the client on whose behalf the deals have been done, rate and quantity of bought or sold. These details are maintained datewise. This register contains all the transactions, which may be: member's own business on the Exchange, member's business on the Exchange on behalf of clients, member's business with the clients on principal-to-principal basis, member's business with the members of other Stock Exchanges, member's business on behalf of his clients with the members of other Stock Exchanges, and spot transactions, etc.
8(d)	Refer Chapter on Code of Ethics
8(e)	Refer Chapter on Cost Audit

Question No.	Hints
8(f)	<p>There is an elaborate framework governing the functioning of banks in India. The whole of banking sector can be categorised into several sectors such as commercial banks, cooperative banks, foreign banks, etc. The principal enactments which govern the functioning of various types of bank are as under:</p> <p>(a) Banking Regulation Act, 1949;</p> <p>(b) Banking Companies (Acquisition of Transfer of Undertakings) Act, 1970;</p> <p>(c) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980;</p> <p>(d) State Bank of India Act, 1955;</p> <p>(e) State Bank of India (Subsidiary Banks) Act, 1959</p> <p>(f) Regional Rural Banks Act, 1976;</p> <p>(g) Companies Act, 1956/ 2013; and</p> <p>(h) Cooperating Societies Act, 1912 or the relevant State Cooperative Societies Acts.</p> <p>Besides, the above enactments, the provisions of Reserve Bank of India Act, 1934, also affect the functioning of banks. The Act gives wide powers to Reserve Bank of India to give directions to Banks; such directions also have considerable effect on the functioning of banks.</p>
8(g)	Refer Chapter on Special Aspects (Other Aspects)
8(h)	Refer SA 299 on Responsibility of Joint Auditors

* * *

MAY, 2005

1. As a Statutory Auditor, how would you deal with the following?
 - (a) The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year end deposited in the company.
 - (b) P Pvt. Ltd. was amalgamated with PQR Ltd. with effect from 1st April, 2004. As per the scheme of amalgamation approved by the High Court, the amalgamation was to be accounted by the “Pooling of Interests Method”. The scheme further provided that the balance in Revaluation Reserve of P Pvt. Ltd. as on 31st March, 2004 was to be treated as a General Reserve on amalgamation. During the financial year 2004-05, PQR Ltd. issued bonus shares out of General Reserves (which included the amount of revaluation reserve of P Pvt. Ltd.).
 - (c) B Pvt. Ltd., implements a Voluntary Retirement Scheme (VRS) for its employees. It follows a policy of amortising the expenditure over 10 years. As at 1st April, 2004, the unamortised VRS expenditure was ₹ 15 lakhs. During the year 2004-05, it incurred further ₹ 12 lakhs as VRS. For the year ended 31st March, 2005, the company proposes to revise the period of amortisation to 5 years. It also proposes to follow the revised period for the opening balance.
 - (d) The accountant of C Ltd. has requested you, not to send balance confirmations to a particular group of debtors since the said balances are under dispute and the matter is pending in the Court.
2. Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) L, a chartered accountant did not maintain books of account for his professional earnings on the ground that his income is less than the limits prescribed u/s 44AA of the Income Tax Act, 1961.
 - (b) M/s. ABC, a firm of Chartered Accountants has taken a loan for acquiring computers, from a company whose Managing Directors’ son is an Articled Trainee with A, a partner of M/s ABC.
 - (c) M/s XYZ, a firm of Chartered Accountants created a website “www.xyzindia.com”. The website besides containing details of the firm and bio-data of the partners also contains the photographs of all the partners of the firm.
 - (d) Z, a Chartered Accountant, certifies a financial forecast of his client which was forwarded to the client’s bank based on which the bank sanctioned a loan to the client.
3. Answer the following:
 - (a) Enumerate, in brief, the important aspects to be evaluated by the external auditor in determining the efficiency and extent of reliance to be placed on the work and function of an Internal Auditor.
 - (b) While compiling the financial statements of a concern, you observed that the input information supplied by the concern is incomplete, incorrect and few of the Accounting Standards have not been followed. Describe, in brief, the procedure you will follow in the above.
 - (c) You have been appointed the sole statutory auditor of a company where you were one of the joint auditors in the immediately preceding year. The concerned joint auditor has not been reappointed. What are the various steps you would take to ascertain the compliance of the requirements of the Companies Act, 1956 before accepting the audit?
4. Answer the following:
 - (a) A Pvt. Ltd. is incorporated on 1st July, 2015. During the year ended 31st March, 2016, it had issued shares (fully paid up) of ₹ 40 lakhs, had borrowed ₹ 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 50 lakhs which is credited to a separate account) is ₹975 lakhs. Will Companies Auditors Report Order, 2016 (CARO) be applicable to A Pvt. Ltd.? *(adapted)*

- (b) As the statutory auditor of B Ltd. to whom CARO, 2016 is applicable, how would you report in the following situations? (*adapted*)
- (i) The company has stood guarantee to its sister concern, whose financial condition was not healthy for a sum of ₹ 20 lakhs borrowed from a bank.
 - (ii) Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.
 - (iii) Accumulated losses of the company are 50.9% of its net worth and it is incurring continuous cash losses since last 2 years.
5. Answer the following:
- (a) In determining whether to use Computer Assisted Auditing Techniques (CAATs), what are the factors that a statutory auditor has to consider?
 - (b) “In an audit of an insurance company, the Receipts and Payments Account is also subjected to audit”. Comment on this statement in brief.
 - (c) What are the exceptions to the general rule of treating advances as Non-performing Assets (NPAs)?
6. Answer the following:
- (a) As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.
 - (b) When can a company be said to have ‘Not maintained’ proper books of account? What is the role of the statutory auditor for the same?
7. Comment on the following:
- (a) A company has a branch office which recorded a turnover of ₹ 1,90,000 in the financial year 2004-05. No audit of the branch has been carried out. The statutory auditor of the company has made no reference of the above branch in his report. The total turnover of the company is ₹10 crores for the year 2004-05.
 - (b) Obtaining audit evidence in performing compliance and substantive procedures.
8. Write short notes on any **four**:
- (a) Walk Through Tests
 - (b) Vostro and Nostro Accounts
 - (c) Special Report by auditor to Registrar of Cooperative Societies
 - (d) Factors relevant in evaluation of Inherent Risk
 - (e) Preliminary Report under Peer Review
 - (f) Margins (Under Stock Exchange Trading Regulations)

Suggested Hints

Question No.	Hints
1(a)	Refer SA 240 for Auditor's responsibilities
1(b)	Refer AS 14 on Accounting for Amalgamations
1(c)	Refer AS 1 on Disclosure of Accounting Policies and AS-5 on "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies"
1(d)	Refer SA 505 on External Confirmations
2(a)	Refer Council General Guidelines, 2008
2(b)	Refer Regulation 47
2(c)	The guidelines of the ICAI to allow a firm to put up the details of the firm, bio-data of partners and display of a passport size photograph.
2(d)	Refer Guidance Note on Accountants Report on Profit Forecasts and/or Financial Forecasts
3(a)	Refer SA 610 on Relying Upon the Work of an Internal Auditor
3(b)	Refer SRS 4410 on Engagements to Compile Financial Information
3(c)	Refer Section 225 of the Companies Act, 1956 (now Section 140 of the Companies Act, 2013)
4(a) & (b)	Refer Chapter on CARO, 2016. Reporting under CARO, 2016 not required to be reported for 4(b)(i) and (iii), because the similar reporting requirement as was contained in CARO, 2003 is not present in CARO, 2016;
5(a)	Refer Chapter on EDP Audit
5(b)	Refer Chapter on Audit of General Insurance Companies
5(c)	Refer Chapter on Audit of Banks
6(a)	<p>The Internal Audit Programme in connection with Plant and Machinery and Tools and dies may be on the following lines:</p> <p>(i) <i>Internal Control Aspects</i>: The following may be incorporated in the audit programme to check the internal control aspects:</p> <p>(a) Maintaining separate register for hired assets, leased asset and jointly owned assets.</p> <p>(b) Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.</p> <p>(c) All movements of assets are accurately recorded.</p> <p>(d) Authorisation be obtained for – (i) a declaring a fixed asset scrapped, (ii) selling a fixed asset.</p> <p>(e) Check whether additions to fixed asset register are verified and checked by authorised person.</p>

Question No.	Hints
	<p>(f) Proper recording of all additions and disposal.</p> <p>(g) Examining procedure for the purchase of new fixed assets, including written authority, work order, voucher and other relevant evidence.</p> <p>(h) Regular review of adequate security arrangements.</p> <p>(i) Periodic inspection of assets is done or not.</p> <p>(j) Regular review of insurance cover requirements over fixed assets.</p> <p>(ii) <i>Assets Register</i>: To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.</p> <p>(iii) <i>Cost Report and Journal Register</i>: To review the cost relating to each plant and machinery and to verify items which have been capitalised.</p> <p>(iv) <i>Code Register</i>: To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.</p> <p>(v) <i>Physical Verification</i>: To see physical verification has been conducted at frequent intervals.</p> <p>(vi) <i>Movement Register</i>: To verify (a) whether a Movement Register for movable equipments and (b) log books in case of vehicles, etc. are being maintained properly.</p> <p>(vii) <i>Assets Disposal Register</i>: To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorisation, sales memos or other appropriate documents.</p> <p>(viii) <i>Spare Parts Register</i>: To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.</p> <p>(ix) <i>Review of Maintenance</i>: To scrutinise the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.</p> <p>(x) <i>Review of Obsolescence</i>: To scrutinise whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.</p> <p>(xi) <i>Review of R&D</i>: To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.</p>
6(b)	Refer Section 209 of the Companies Act, 1956 (now Section 128 of the Companies Act, 2013)
7(a)	Refer Section 228 of the Companies Act, 1956 (now Section 143(3) & (8) of the Companies Act, 2013)
7(b)	Refer SA 500 on Audit Evidence
8(a)	Refer Chapter on EDP Audit
8(b)	Refer Chapter on Audit of Banks
8(c)	Refer Chapter on Special Aspects (Audit of Co-operative Societies)

Question No.	Hints
8(d)	Refer SA 400 on Risk Assessment and Internal Controls
8(e)	<p>In the process of peer review, at the end of the on-site review, the reviewer would send a preliminary report to the practice unit before making any report the Board on the areas in case systems and procedures of the practice unit reviewed have been found to be deficient or where non-compliance with reference to any other matter has been noticed by the reviewer during the course of review. The reviewer has to take care that the report does not contain name of any individual practice unit. However no preliminary report is required if no deficiency or noncompliance is observed. In preparing the report, he should assess the conclusion drawn from the review that indicates deficiency. The report is addressed to the practice unit. The report should also contain a paragraph that discusses the scope of the review. Limitations on the scope of review, if any, with fact thereof should also be communicated in the report. The report should be prepared on the letterhead of the reviewer with date, signature, and membership number and code number allotted to the reviewer.</p>
8(f)	Refer Chapter on Special Aspects (Audit of Members of Stock Exchanges)

* * *

NOVEMBER, 2005

1. As a Statutory Auditor, how would you deal with the following?
 - (a) ABC Ltd. commenced construction of a flyover in Mumbai in January, 2004 under BOLT scheme. The same was completed in February, 2005. Due to seasonal heavy rains in July, 2004 in the area, the work on the flyover had to be suspended for 1 month. The company accordingly suspended borrowing costs of ₹ 12.50 lakhs for that month from capitalisation.
 - (b) P Ltd. of whom you are the Statutory Auditor appoints M/s XYZ as Branch Auditors for one of its branches. M/s XYZ conducted the audit of the branch without visiting the branch and instead getting the books at the H.O. M/s XYZ has submitted their Branch Audit Report to you.
 - (c) LM Ltd. has 2 divisions L and M. The finished products of division L are transferred to division M where further processing is carried out before sale to customers. To achieve transparency and accountability between the divisions, division L raises an invoice on division M at cost plus normal margins. At the year end the unrealised profits on inter-division stocks are eliminated. However, the transfers are recorded at the invoice value as sales and purchases in the respective divisions for the purpose of preparing the Profit and Loss Account. Suitable disclosures, for this are given in then 'Notes to Accounts'.
 - (d) T Pvt. Ltd. is an unlisted closely held Company with turnover less than ₹ 50 crores. While finalising the accounts, Mr. M the Director (finance) disputed the applicability of AS 20 to the Company.
2. Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) Mr. S, a Chartered Accountant published a book and gave his personal details as the author. These details also mentioned his professional experience and his present association as partner with M/s RST, a firm.
 - (b) Mr. C accepted the Statutory audit of M/s PSU Ltd., whose net worth is negative for the year 2003-04. The audit was to be conducted for the year 2004-05. The audited accounts for the year 2004-05 showed liability for payment of tax audit fees of ₹ 15,000 in favour of Mr. E, the previous auditor.
 - (c) M/s PQR, a firm of Chartered Accountants with 5 partners has accepted the audit of ABC Pvt. Ltd. for 2004-05 at, an audit fee of ₹ 2,500. ABC Pvt. Ltd. was incorporated in April, 2002, but had commenced operations in January, 2005.
 - (d) Mr. P, a Chartered Accountant in practice entered into a partnership with Mr. L, an advocate for sharing of fees for work sent by one to the other. However, due to some disputes, the partnership was dissolved after 1 month without any fees having been received.
3. Answer the following :
 - (a) Enumerate (in brief) the basic principles governing an audit.
 - (b) Briefly explain the objectives of Operational Audit.
 - (c) While examining the going concern assumption of an entity, what important indications should be evaluated and examined?
4. Answer the following:
 - (a) What are the statements of facts that an auditor has to report U/s 227 of the Companies Act, 1956?

- (b) Illustrate, as a statutory auditor, how would you give a report where all qualifications are not quantifiable.
- (c) Under CARO, 2016 how, as a statutory auditor would you comment on the following :
- Fixed assets comprising 1/3rd of the total assets have been disposed off during the year.
 - A Term Loan was obtained from a bank for ₹ 75 lakhs for acquiring R&D equipment, out of which ₹ 12 lakhs was used to buy a car for use of the concerned director, who was overlooking the R&D activities.
5. Answer the following :
- "Like every other audit, a systematic planning for cost audit is also necessary." Indicate the matters to be included in a Cost Audit Program.
 - Enumerate some of the areas of concern in an audit of indirect taxes.
6. Answer the following :
- As a tax auditor, which are the accounting ratios required to be mentioned in the report in case of manufacturing entities? Explain in detail any one of the above ratios and how does it help the tax auditor in his analytical review.
 - What are the steps to be taken by an auditor for the audit of re-insurance ceded?
7. Answer the following :
- Your client is contemplating taking over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets. State (in brief) the major areas you would examine for the above.
 - Enumerate the risks and internal control characteristics in an audit conducted in Computer Information Systems (CIS) environment.
8. Write short notes on (any **four**) :
- Categories of Non-banking Finance Companies (NBFCs)
 - Recognition of Deferred Tax Assets
 - Valuation of Investments "held to maturity" by banks
 - Contract Notes (Under Stock Exchange Trading Regulations)
 - Record of Audit Assignments (as required by ICAI regulations)

Suggested Hints

Question No.	Hints
1(a)	Refer AS 16 on Borrowing Costs
1(b)	Refer Section 227(3) and Section 228 of the Companies Act, 1956 (now provisions are contained in Section 143(3) & (8) of the Companies Act, 2013)
1(c)	The ICAI has announced in this regard on 2-4-2005. The announcement is reproduced below: Attention of the members is invited to the definition of the term 'revenue' in Accounting Standard (AS) 9, Revenue Recognition, issued by the Institute of Chartered Accountants of India, which is reproduced below: "Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the

Question No.	Hints
	<p>rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends. Revenue is measured by the charges made to customers or clients for goods supplied and services rendered to them and by the charges and rewards arising from the use of resources by them. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration." (emphasis supplied)</p> <p>The use of the word 'enterprise' in the definition of the term 'revenue' clearly implies that the transfers within the enterprise cannot be considered as fulfilling the definition of the term 'revenue'. Thus, the recognition of inter-divisional transfers as sales is an inappropriate accounting treatment and is inconsistent with Accounting Standard (AS) 9, Revenue Recognition. This aspect is further strengthened by considering the recognition criteria laid down in AS 9. Paragraphs 10 and 11 of AS 9, reproduced below, provide as to when revenue from the sale of goods should be recognised:</p> <p>"10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.</p> <p>11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:</p> <p>(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and</p> <p>(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods."</p> <p>Since in case of inter-divisional transfers, risks and rewards remain within the enterprise and also there is no consideration from the point of view of the enterprise as a whole, the recognition criteria for revenue recognition are also not fulfilled in respect of inter-divisional transfers.</p>
1(d)	Refer AS 20 and also discuss the applicability w.r.t. classification of enterprises into Level I, Level II and Level III enterprises.
2(a)	Refer Clause 6 of Part One of First Schedule
2(b)	Refer Council General Guidelines, 2008
2(c)	Refer Council General Guidelines, 2008
2(d)	Refer Clause 2 and Clause 3 of part One of First Schedule
3(a)	Refer SA 200 on Basic Principles Governing An Audit
3(b)	Refer Chapter on Management and Operational Audit
3(c)	Refer SA 570 on Going Concern
4(a)	Refer Section 227(3) of the Companies Act, 1956 (now Section 143 of the Companies Act, 2013)

Question No.	Hints
4(b)	Refer SA 700 on The Auditor's Report on Financial Statements
4(c)(i) & (ii)	Refer Chapter on CARO, 2016 for Para 3(i) and 3(ix) of CARO, 2016
5(a)	Refer Chapter on Cost Audit
5(b)	Refer Chapter on Special Aspects (Audit of Indirect Taxes)
6(a)	Refer Chapter on Tax Audit (Form 3CD)
6(b)	Refer Chapter on Audit of General Insurance Companies
7(a)	<p>Refer Chapter on Investigation (<i>Hint for Hidden Liabilities – Although an extensive review of the business financial records is a must, it may not uncover all of the business liabilities. If one is going to assume the liabilities of the business, specify on the written sales agreement exactly which liabilities would be assumed along with the amount of each, so that one is not held liable for others of which he may not be aware. Examples of hidden liabilities are:</i></p> <ul style="list-style-type: none"> • <i>Unpaid taxes, direct as well as indirect;</i> • <i>Undisclosed law suits: Are there any current or pending lawsuits;</i> • <i>Unpaid bills: Review accounts payable and determine the age of unpaid accounts;</i> • <i>Pension liabilities: The seller should be asked for the current status of the pension fund;</i> • <i>Vacation liabilities: If the employees are eligible for accrued but unpaid vacation pay, and the seller has been negligent in contributing to this part, one may inherit a significant financial liability. The seller should be asked for disclosure of this account, as well;</i> • <i>Environmental liabilities: If a business owns land, check to make sure there haven't been any restrictions or, unpaid fines or penalties attached to the property. It is a common practice to require the seller to make detailed representations and warranties concerning environmental matters.</i>
7(b)	Refer SA 401 on Audit in a Computer Information System Environment
8(a)	Refer Chapter on Special Aspects (Audit of NBFCs)
8(b)	Refer AS 22 on Taxes on Income
8(c)	Refer Chapter on Audit of Banks
8(d)	Refer Chapter on Special Aspects (Audit of Members of Stock Exchange)
8(e)	Refer Council General Guidelines, 2008

* * *

MAY, 2006

1. As a Statutory Auditor, how would you deal with the following:
 - (a) A Pvt. Ltd. started stock broking activities in 2005. For this purpose it acquired membership of a Stock Exchange for ₹ 110 lacs. While finalizing the accounts, the company disclosed the above amount under the Fixed Assets schedule as “Stock Exchange Membership Rights”. The company also did not write off any amount since the rights would enable the company to perpetually carry on its business.
 - (b) ABC Ltd. having a paid up share capital of ₹ 1 crore earned a total net profit of ₹ 1 crore for the years 2001-02 to 2003-04. The company did not declare any dividend nor translated any amount to Reserves for these years. The entire profit was retained in the Profit & Loss Account. In 2004-05, the company made a profit of ₹ 20 lacs. The company also proposed in 2004-05 to declare dividend @25% out of accumulated profits.
 - (c) XYZ Ltd. had received a grant of ₹ 50 lacs in 1997 from a State Government towards installation of pollution control machinery on fulfillment of certain conditions. The Company, however, failed to comply with the said conditions and subsequently was required to refund the said amount in 2005. The Company debited the said amount to its Machinery in 2005 on payment of the same. It also reworked the depreciation for the said Machinery from the date of its purchase and passed necessary adjusting entries in the year 2005 to incorporate the respective impact of the same.
 - (d) C Ltd. holds shares of D Ltd. which also entitles it to 51% voting power. These shares are held as “Stock in Trade” since C Ltd.’s intention is to dispose them in the near future. Due to this, C Ltd. is of the view that the financial statements of D Ltd. need not be considered.
2. Comment on the following with reference to the Chartered Accountants Act, 1949 Code of Ethics and Schedules to the Act:
 - (a) P, a Chartered Accountant in practice provides Management Consultancy and other services to his clients. During 2005, looking to the growing needs of his clients to invest in the Stock Markets, he also advised them on Portfolio Management Services whereby he managed portfolios of some of his clients.
 - (b) B, a Chartered Accountant in practice is a partner in 3 firms. While printing his personal letter heads, B gave the names of all the firms in which he is a partner.
 - (c) XYZ & Associates, a firm with 5 partners developed a website www.xyzassociates.com. The website also contained a link to “All India Chartered Accountants Association”, a voluntary association where X, a partner of the firm is currently the Vice-president.
 - (d) M/s. LMN, a firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid ₹ 50,000 as earnest deposit as part of the terms of the tender.
3. Answer the following:
 - (a) Designing an Audit Strategy is the backbone of the “Audit Planning” process. Discuss.
 - (b) As a Statutory Auditor of a bank, how would you verify the “Sacrifice” on Non Performing Assets for which Corporate Debt Restructuring has been undertaken?
4. Answer the following:
 - (a) A Company gets its accounting data processed by a third party to achieve cost reduction. As a Statutory Auditor of such a company, what are the additional precautions/ checks that you would consider for conduct of the audit?
 - (b) What are the special points in the audit of a Non-Banking Equipment Leasing Finance Company?

5. Answer the following:
- As an internal auditor of a Cement Manufacturing Company, draft an audit program for verification of transportation charges for despatches from the factory.
 - As a tax auditor, how would you report on the following:
 - Labour charges paid on which tax is deducted at source at an inappropriate rate.
 - Capital expenditure incurred for Scientific Research Assets.
6. Answer the following:
- Discuss the various aspects to be considered by the Statutory Auditor before qualifying his report.
 - As a Statutory Auditor, how would you report on the following under CARO:
 - O Pvt. Ltd. is a dealer in Shares and Securities.
 - ABC Pvt. Ltd. is a Manufacturer of jewellery. A senior employee of the Company informed you that the company does not properly disclose the purity of gold used on the jewellery.
7. Answer the following:
- Elaborate how the Statutory Auditor can verify the existence of related parties for the purpose of reporting under Accounting Standard 18.
 - A Company engaged in Manufacturing of Chemicals is consistently recording higher sales turnover, but declining net profits since the last 5 years. As an investigator appointed to find out the reasons for the same, what are the points you would verify?
8. Write short notes on (any **four**):
- Remuneration to Statutory Auditors under the Companies Act, 1956.
 - Disclosure under "Basis of Issue Price" in prospectus.
 - Deferred Taxation.
 - Sampling Risk.
 - Test Packs.

Suggested Hints

Question No.	Hints
1 (a)	Refer AS-26 on Intangible Assets
1 (b)	Refer Chapter on Final Dividend and Interim Dividend given in Volume I
1 (c)	Refer AS-12 on Accounting for Government Grants
1 (d)	Refer AS-21 on Consolidated Financial Statements
2 (a)	Refer Para 4 on Other Services of Chapter – 3 on Code of Ethics
2 (b)	Refer Clause 7 Schedule First Part One of Chapter – 3 on Code of Ethics
2 (c)	Refer Clause 6 Schedule First Part One of Chapter – 3 on Code of Ethics
2 (d)	Refer Clause 6 Schedule First Part One of Chapter – 3 on Code of Ethics
3 (a)	Refer Chapter on Company Audit

Question No.	Hints
3 (b)	Refer Chapter on Bank Audit
4 (a)	Refer SA 402 on Audit Considerations Relating to Entities Using Service Organisation
4 (b)	Refer Chapter on Audit of Non Banking Financial Companies
5 (a)	The answer should cover amongst other the following points, such as, the terms and conditions, if any, entered with the transporters, verification of bills and statements submitted by the transporters, verification of receipts issued by them, the reasonableness of rates charged by them, proper authorization procedures, adequate cut off procedures, particular attention should be paid to the unloading charges not charged to the concerned customer but to the Cement Manufacturing Company.
5 (b)	Refer Chapter on Tax Audit (Form 3CD)
6 (a)	Refer SA 700 on Auditor's Report on Financial Statements
6 (b)	Refer Chapter on Companies (Auditor's Report) Order, 2015 <ul style="list-style-type: none"> • Not required to be reported under CARO, 2016 because the similar reporting requirement as was contained in CARO, 2003 is not present in CARO, 2016; and • Part II - Clause 3(x) read with SA 240
7 (a)	Refer SA 550 on Related Parties
7 (b)	The answer should cover the following points, such as, sales mix, high cost borrowings, sales including other than pure sales items such as excise duty, poor compensation to cost of raw materials and labour, competition, higher depreciation, etc.
8 (a)	Refer Section 224(8) of the Companies Act, 1956 (now Section 142 of the Companies Act, 2013)
8 (b)	Refer Chapter – 22 for Guidance Note on Audit Reports/Certificates on Financial Information in Offer Documents
8 (c)	Refer AS-22 on Accounting for Taxes on Income
8 (d)	Refer SA 530 on Audit Sampling
8 (e)	Refer Chapter on EDP Audit

* * *

NOVEMBER, 2006

1. As a Statutory Auditor, how would you deal with the following?
 - (a) Mr. Rajesh is appointed as the auditor of NOIDA Travels Ltd. with audit fees of ₹ 35,000. He purchased air ticket from Delhi to Kolkata and back for ₹ 18,000 from the client for his personal work and the amount remains unpaid at the end of the year as it is a general practice of the client to give credit to all. Mr. Rajesh claims that he does not incur any disqualification as contained in Section 226(3)(d) of the Companies Act.
 - (b) Apex Ltd., a well reputed manufacturing public limited company has made a contribution of ₹ 2.5 lacs during the financial year ended 31.3.06 to a political party for running, a school, situated in the village, where most of the workers of the company reside. It is admitted that the benefit of the school is mostly for the children of the workers of the company. The company has not made any profits in the last four years.
 - (c) Dark Ltd. has received a grant of ₹ 20 lacs under the Government's Subsidy Scheme for acquiring imported machinery for setting up, an oil exploration plant and the entire grant received is credited to Profit and Loss account.
 - (d) You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that it is not possible to continue the performance of audit.
2. Comment on the following -with reference to the Chartered Accountants Act, 1949 and schedules thereto:
 - (a) Mr. Rahul, a locally based Chartered Accountant, accepted an audit assignment at a fee lower than that charged by the previous auditor, who was stationed in another town and had to spend a lot of money on travel for which he did not charge separately.
 - (b) The superannuation-cum-pension fund for the employees of a company was under a separate 'trust'. Both the company and the trust were under the same management. The auditor, who was auditing the accounts of the company as well as the trust noted some irregularities in the operation of the trust and commented upon these irregularities in the confidential report given to the trustees, but did not mention about these irregularities in his report on the Annual accounts of the Trust.
 - (c) M/s XYZ a firm of Chartered Accountants received ₹ 2 lakhs in January, 2006 on behalf of one of their clients, who has gone abroad and deposited the amount in their Bank account, so that they can return the money to the client in July, 2006, when he is due to return to India.
 - (d) Mr. J.J. a practicing Chartered Accountant engages himself as part time finance manager of Quick Return Securities Ltd. He is of the view that as both functions are independent, he need not take permission from the Institute.
3. (a) Draft audit report u/s 227(3)(f) of the Companies Act, 1956 on the following three situations in respect of XYZ Ltd. as on 31.3.2006:
 - (i) Where all directors have given written representations that they have not defaulted u/s 274(1)(g) of the Companies Act, 1956.
 - (ii) Where one of the directors, Mr. Flexible has failed to produce written representation that he has not defaulted u/s 274(1)(g) of the Companies Act, 1956.
 - (iii) Where on the basis of written representations received from the directors it is noticed that one of the directors, Mr. Rigid has defaulted in terms of Section 274(1)(g) of the Companies Act, 1956.
- (b) State the important characteristics of an effective system of Computer Audit Programme.

4. (a) Enumerate the main areas to be covered by the auditor in the case of environment audit of an industrial unit.
- (b) State the salient features of the directions to the auditors of Government companies issued by the Comptroller and Auditor General of India u/s 619(3) of the Companies Act, 1956 in relation to:
- (i) Assets and Investments, and
- (ii) Inventory and Contracting.
5. (a) Explain the propriety elements in the Companies (Auditors) Report Order, 2003.
- (b) "The auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with the governance of an entity."
Briefly state the matters to be included in such Communication.
6. Explain the scope of concurrent audit of a bank with reference to Reserve Bank of India guidelines.
7. (a) (i) What are general matters to be considered by an auditor while taking up a new engagement?
(ii) What are the major sources of obtaining information about the client's business?
- (b) State the reporting responsibility of an auditor in the context of non-compliance of Law and Regulation in an audit of Financial Statement.
8. Write short notes on any **four** of the following:
- (a) Effect of uncertainties on revenue recognition
- (b) Powers and duties of an auditors of a multi-state Cooperative Society
- (c) Solvency margin in case of an insurer carrying on general insurance business
- (d) Reporting on a compilation engagements
- (e) Types of market under NEAT (National Exchange Automated Trading)
- (f) Broad objectives of operational audit.

Suggested Hints

Question No.	Hints
1(a)	Refer Section 226(3) of the Companies Act, 1956 (now Section 141 of the Companies Act, 2013)
1(b)	Refer Section 293A of the Companies Act, 1956 (now Section 182 of the Companies Act, 2013)
1(c)	Refer AS – 12
1(d)	Refer SA 240
2(a)	Refer Chapter on Code of Ethics for Clause 12 Part I Schedule I
2(b)	Refer Chapter on Code of Ethics for Clause 5, 6 & 7 Part I Schedule II
2(c)	Refer Chapter on Code of Ethics for Clause 10 Part I Schedule II
2(d)	Refer Chapter on Code of Ethics for Clause 11 Part I Schedule I
3(a)	Refer Guidance Note on Section 227(3)(e) & (f) of the Companies Act, 1956 (this Guidance Note is yet to be amended by the ICAI. For a detailed discussion refer Chapter on Guidance Notes given in this Book)

Question No.	Hints
3(b)	Refer Chapter on EDP Audit and SA 401
4(a)	Refer Chapter on Other Aspects/ Special Aspects
4(b)	Refer Chapter on Audit of Public Sector Undertakings
5(a)	Refer Chapter on Audit of Public Sector Undertakings
5(b)	Refer SA 260
6	Refer Chapter on Audit of Banks
7(a)(i)	Refer SA 510, SRS 4410
7(a)(ii)	Refer SA 310
7(b)	Refer SA 250
8(a)	Refer AS – 9
8(b)	Refer Chapter on Audit of Cooperative Societies
8(c)	Refer Chapter on Audit of General Insurance Companies
8(d)	Refer SRS 4410
8(e)	<p><i>The NEAT system supports an order driven market, wherein orders match on the basis of time and price priority. All quantity fields are in units and prices are quoted in Indian Rupees. The regular lot size and tick size for various securities traded is notified by the Exchange from time to time.</i></p> <p>Market Types: <i>The Capital Market system has four types of market.</i></p> <p>Normal Market</p> <p><i>Normal market consists of various book types wherein orders are segregated as Regular Lot Orders, Special Term Orders, Negotiated Trade Orders and Stop Loss Orders depending on their order attributes.</i></p> <p>Odd Lot Market</p> <p><i>The odd lot market facility is used for the Limited Physical Market.</i></p> <p>RETDEBT Market</p> <p><i>The RETDEBT market facility on the NEAT system of capital market segment is used for transactions in Retail Debt Market session. Trading in Retail Detail Market takes place in the same manner as in equities (capital market) segment. NSE has introduced a trading facility through which retail investors can buy and sell government securities from different locations in the country through registered NSE brokers and their sub brokers in the same manner as they have been buying and selling equities. This market is known as “Retail Debt Market”</i></p> <p>Auction Market</p> <p><i>In the Auction market, auctions are initiated by the Exchange on behalf of trading members for settlement related reasons.</i></p>
8(f)	Refer Chapter on Management and Operational Audit

* * *

MAY, 2007

1. As an auditor, how would you deal with the following?
 - (a) L Private Ltd., which has outstanding loan of ₹ 60 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies Auditors Report Order (CARO) is not applicable.
 - (b) In the audit of ABC Private Limited auditor came across cases of payments to Directors, whereby, expenses of a personal nature were reimbursed.
 - (c) The management of a limited company states that proposed dividend does not represent a liability and hence no provision need to be made—Comment.
 - (d) ABC Limited to whom CARO is applicable made a public issue of 7% debentures of ₹ 3 crores, redeemable after 5 years and used the proceeds of issue for payment of sundry creditors and other Current liabilities to the tune of 3 crores.
2. Comment on the following with reference to the Chartered Accountants Act, 1949 and Schedules thereto:
 - (a) A chartered accountant in practice created his own website in attractive format and colours and circulated the information contained in the website through E-mail.
 - (b) A chartered accountant in practice takes up the appointment as managing director of a public limited company.
 - (c) S, a practising chartered accountant gives power of attorney to an employee chartered accountant to sign reports and financial statements, on his behalf.
 - (d) A is the auditor of Z Ltd., which has a turnover of ₹ 200 crore. The audit fee for the year is fixed at ₹ 50 lakhs. During the year, the company offers an assignment of Management consultancy within the meaning of Section 2 (2) (iv) of the CA Act, 1949 for a remuneration of ₹ 1 crore. A seeks your advice on accepting the assignment.
3. Answer the following:
 - (a) State the items contained in the SEBI's check list for auditors in respect of contract notes issued by a Stock Broker.
 - (b) What are the advantages that accrue to the stockholders of a company because of a Cost audit?
4. Answer the following:
 - (a) State the procedure to determine the value of listed and unlisted equity securities and derivative instruments of an insurance company.
 - (b) How would you verify "Acceptances; Endorsements and other obligations" appearing in the Balance Sheet of a bank?
5. Answer the following:
 - (a) Outline the contents of a due diligence report.
 - (b) Enumerate some of the key functions of the Energy Auditor.
6. As a chartered accountants firm draft an engagement letter to the Board of Directors for the compilation of financial statements of XYZ Ltd. as at 31.3.2007.

7. Answer the following:

- (a) A company wants to amend its accounts after the completion of the audit and adoption of the Accounts by the Board, but before circulation to the shareholders. It requires its statutory auditor to report on the amended accounts. State the steps the statutory audit should adopt in such a situation.
- (b) K Ltd. requires you to organize a Management audit program. Briefly state a plan of action.

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

- (a) Analytical procedures in planning an audit
- (b) Public Accounts Committee
- (c) Method of accounting in Form No. 3CD of Tax Audit
- (d) Contents of Audit report of Mutual Fund
- (e) Eight situations of external confirmations
- (f) Factors to consider in determining the use of Computer Assisted Audit Techniques (CAATs).

Suggested Hints

Question No.	Hints
1 (a)	Refer Chapter on CARO
1 (b)	Refer Chapter on Audit Reports for section 227 (1A) (now Section 143(1) of the Companies Act, 2013)
1 (c)	Schedule VI of the Companies Act, 1956 (now Schedule III of the Companies Act, 2013)) requires it to be shown as liability
1 (d)	Refer Chapter on CARO
2 (a)	Refer Chapter on Code of Ethics – Guidelines for posting particulars on website
2 (b)	Refer Chapter on Code of Ethics – Director of a Company
2 (c)	Refer Chapter on Code of Ethics as well as section 229 of Companies Act, 1956 (now Section 145 of the Companies Act, 2013)
2 (d)	Refer Chapter on Code of Ethics
3 (a)	Refer Chapter on Audit of Members of Stock Exchanges
3 (b)	Refer Chapter on Cost Audit
4 (a)	Refer Chapter on Audit of General Insurance Companies
4 (b)	Refer Chapter on Bank Audit
5 (a)	Refer Chapter on Investigation
5 (b)	Refer Chapter on Other Aspects/ Special Aspects
6	Refer SA 210
7 (a)	Refer Chapter on Guidance Notes (GN on Revision of Audit Report)

Question No.	Hints
7 (b)	Refer Chapter on Management and Operational Audit
8 (a)	Refer SA 520
8 (b)	Refer Chapter on Audit of PSUs
8 (c)	Refer Chapter on Tax Audit
8 (d)	Refer Chapter on Audit of Mutual Funds
8 (e)	Refer SA 505
8 (f)	Refer SA 401 and Chapter on EDP Audit

* * *

NOVEMBER, 2007

1. As a Statutory Auditor, how would you deal with the following?
 - (a) Z Ltd. was provided ₹ 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 ₹ 100 Lakhs and it has no outstanding loans exceeding ₹ 25 lakhs from any bank or financial institution. Its sales are ₹ 10.25 crores before deducting Trade Discount ₹ 10 lakhs and Sales Returns ₹ 95 lakhs. The services rendered by the company amounted to ₹ 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:

- Peer review.
- Supplementary Audit u/s 619(4) of the Companies Act, 1956.
- Purchase method of accounting for amalgamations.
- Accounting Ratios in Form 3CD of Tax Audit.
- Circuit Filters (as specified by SEBI).
- 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 in your Paper 1: Financial Reporting
1 (d)	Refer AS-9 for ASI-14
2 (a)	Refer Chapter on Code of Ethics for Management Consultancy Services
2 (b)	Refer Chapter on Code of Ethics for Maintaining Branch Offices
2 (c)	Refer Chapter 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 on Code of Ethics for Certificate of Practice
3 (a)	Refer Chapter on EDP Audit and SA 315
3 (b)	Refer SA 700
4 (a)	Refer Chapter on Due Diligence/ Investigations
4 (b)	Refer Companies Accounting Standard Rules, 2006 in your Paper 1: Financial Reporting
5 (a)	Refer SA 400 and 315
5 (b)	Refer Chapter on Due Diligence/ Investigations
6 (a)	Refer Chapter on Audit of NBFCs

Question No.	Hints
6 (b)	Refer Chapter on Audit of Indirect Taxes
7 (a)	Draft the letter in light of SA 210
7 (b)	Refer Chapter on CARO
8 (a)	Refer Chapter on Other Aspects/ Special Aspects
8 (b)	Refer Chapter on Audit of PSUs (now Section 143(5) & (6) of the Companies Act, 2013)
8 (c)	Refer AS-14
8 (d)	Refer Chapter on Tax Audit
8 (e)	Refer Chapter on Audit of Members of Stock Exchanges
8 (f)	Refer SA 505

* * *

MAY, 2008

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 ₹ 1,000/₹ 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 ₹ 10 lakhs with the authorities till the year end.
 - (ii) LM Ltd. had obtained a Term Loan of ₹ 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:
- As a Statutory Auditor, how would you verify advances against goods.
 - Explain the concept of Audit risk:
 - At the level of Financial statements
 - At the level of account balance and class of transactions.
6. Answer the following:
- RQ Insurance Ltd. has made a provision a provision of 25% on unexpired risks reserve in its books. Comment.
 - In the context of Audit of members of Stock Exchanges, explain what is rolling settlement?
 - What is Haphazard Sampling?
7. Answer the following:
- What are the areas in which due diligence takes place?
 - 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?
 - As the tax auditor of the Company, how would you report on payments exceeding ₹ 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:
- Securities Transaction Tax
 - Price/Earnings (P/E) ratio
 - Key Management Personnel
 - Normal Capacity for the purpose of Inventory Valuation
 - Integral Foreign Operations
 - Emphasis of matter paragraph in Audit Reports

Suggested Hints

Question No.	Hints
1 (a)	Refer Chapter on Dividends
1 (b)	Refer AS 29
1 (c)	Refer AS 2
1 (d)	Refer AS 21
2 (a)	Refer Chapter on Code of Ethics for Clause 3 Part I of Second Schedule
2 (b)	Refer Chapter on Code of Ethics for Clause 1 art III of Second Schedule (<i>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</i>)

Question No.	Hints
2 (c)	Refer Chapter on Code of Ethics for Clause 8 Part I of First Schedule
2 (d)	Refer Chapter on Code of Ethics for Clause 11 Part I of First Schedule, Guidance Note on Independence of Auditors and Section 141 of the Companies Act, 2013
3 (a) & (c)	Refer SA 401 and Chapter 8
3 (b)	Refer Chapter on Other Aspects/ Special Aspects
4 (a)	Refer Chapter on Management and Operational Audit
4 (b)	Refer Chapter on CARO and see Specimen Questions
5 (b)	Refer SA 400
6 (a)	Refer Chapter on Audit of General Insurance Companies
6 (b)	Refer Chapter on Audit of Members of Stock Exchanges
6 (c)	Refer SA 530
7 (a)	Refer Chapter on Due Diligence/ Investigations ¹⁰
7 (b)	Refer Chapter on Appointment and Removal of Auditors in Volume 1
7 (c)	Refer Chapter on Tax Audit (Form 3CD)
8 (a)	<p><i>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:</i></p> <ul style="list-style-type: none"> • <i>Purchase or sale of (provided it is entered into at recognized stock exchanges):</i> <ul style="list-style-type: none"> - <i>equity share in a Company or</i> - <i>a derivative or</i> - <i>a unit of an equity oriented fund</i> • <i>Sale of a unit of an equity oriented fund to the Mutual Fund itself.</i>
8 (b)	<p><i>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.</i></p>
8 (c)	Refer AS 18 and SA 550
8 (d)	Refer AS 2
8 (e)	Refer AS 11
8 (f)	Refer SA 700

* * *

NOVEMBER, 2008

1. As a Statutory auditor, how would you deal with the following?
 - (a) While finalising its accounts, a company does not provide for Income-tax payable under the provision 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.
 - (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".
 - (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.
 - (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.
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 ₹ 10 lakhs, He also offers free services to the manager and the staff for filing Income-tax returns for 3 years.
 - (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.
 - (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.
 - (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 ₹ 50,000 as part of his audit fees, though the audit report is yet to be submitted.
3. Answer the following:
 - (a) Auditor's liability to third parties in relation to issue of Prospectus.
 - (b) What are the duties of an auditor regarding disqualification of directors under section 274(1)(g) of the Companies Act, 1956?
4. Answer the following:
 - (a) Discuss the reporting requirements under the Companies (Auditor's Report) Order, 2016 where a company has defaulted in compliance of Chapter V of the Companies Act, 2013 with regard to public deposits (*adapted*).
 - (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?
5. Answer the following:
 - (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:
 - (i) A Pvt Ltd, a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of ₹ 12 crores and borrowings of ₹ 5 crores,

- (ii) B Pvt Ltd. has a turnover of ₹ 45 crores, other income of ₹ 7 crores and bank borrowings of ₹ 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?
6. Answer the following:
- (a) How are investments to be classified in the financial statements of a Bank?
- (b) Discuss the reporting requirement in Form 3CD of Tax Audit Report under section 44AB of the Income-tax Act, 1961 for the following:
- (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?
- (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. Write short notes on any **four** of the following:
- (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.

Suggested Hints

Question No.	Hints
1 (a)	Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period (para 9). Taxes on income are considered to be an expense incurred by the enterprise in earning income and are accrued in the same period as the revenue and expenses to which they relate. Such matching may result into time differences. The tax effects of timing differences are included in the tax expense in the statement of profit and loss and as deferred tax assets (subject to the consideration of prudence as set out in paragraphs 15-18) or as deferred tax liabilities, in the balance sheet (para 10). [See AS 22]
1 (b)	In certain circumstances, a government grant is awarded for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditure. Such grants may be confined to an individual enterprise and may not be available to a whole class of enterprises. These circumstances may warrant taking the grant to income in the period in which the enterprise qualifies to receive it, as an extraordinary item if appropriate (Accounting Standard AS-5, Prior Period and Extraordinary Items and Changes in Accounting Policies). [See AS 12]

Question No.	Hints
1 (c)	AS 3 is not mandatory for Small and Medium Sized Companies, as defined in the Notification dated 7-12-2006. Such companies are however encouraged to comply with the Standard. However, that's not the case with AS 18.
1 (d)	Costs that are incurred unevenly during an enterprise's financial year should be anticipated or deferred for interim reporting purposes if, and only if, it is also appropriate to anticipate or defer that type of cost at the end of the financial year (para 38). [See AS 25]
2 (a)	See Clause 2 Part IV of First Schedule to the CA Act (as amended). [Chapter: Code of Ethics]
2 (b)	Minimum fees prescribed by ICAI. More than that its based upon Client and Auditor's agreement. [Chapter: Code of Ethics]
2 (c)	See Section 6. Editorship of other than professional journals requires specific permission. [Chapter: Code of Ethics]
2 (d)	According to the Research Committee of the Institute "a question often arises as to whether indebtedness arises in cases where in accordance with the terms of his engagement by a client (e.g. resolution passed by the general meeting) the auditor recovers his fees on a progressive basis as and when a part of work is done without waiting for the completion of the whole job. In these circumstances, where in accordance with such terms, the auditor recovers his fees on a progressive basis, he cannot be said to be indebted to the company at any stage." [Chapter: The Company Auditor]
3 (a)	<p><i>Liabilities towards third parties</i> – if the following essentials are present then he would be liable towards third parties:</p> <ul style="list-style-type: none"> • the untrue statement; • the auditor knew it to be false or he was recklessly and consciously ignorant of the truthfulness; • the statement was made with an intention that the aggrieved person should act on it; and • the aggrieved has actually acted on it and suffered loss. [Chapter: Liabilities of Auditor]
3 (b)	<p>Duties of Auditor:</p> <p>(i) whether any of the directors of the company has attracted disqualification should be considered at the balance sheet date;</p> <p>(ii) while reporting on the financial statements of a particular year, the auditor will have to ascertain whether a person appointed as director in the auditee company was not a director of another public company which has defaulted in terms of section 274(1)(g) during the last five years;</p> <p>(iii) Obtain a written representation from the company as to:</p> <ul style="list-style-type: none"> • Names of directors of the company during the period covered by the auditor's report (showing separately the names of nominee directors) along with particulars of appointment/reappointment, resignation, retirement, etc., of each of the above directors;

Question No.	Hints
	<ul style="list-style-type: none"> • Whether each relevant director has submitted Form DD-A; • Whether the information contained in the register of directors maintained under section 303(1) is updated to show the position as on the balance sheet date; • Whether the company has committed any default under section 274(1)(g). In case the company has committed a default of the aforesaid nature, whether the company has furnished Form DD-B. <p>(iv) the auditor should require the director to submit a written representation that no default has taken place under section 274(1)(g) as at the balance sheet date;</p> <p>(v) if a company as a matter of practice obtains a legal compliance report, the auditor may examine such report;</p> <p>(vi) if provisions of section 274(1)(g) have been satisfied by the public company, the auditor must report that all the directors are disqualified from being appointed as director under section 274(1)(g) [Chapter: Guidance Note for Reporting u/s 227(3) (e) & (f)] (Section 274(1)(g) of the Companies Act, 1956 is now Section 164(2) of the Companies Act, 2013)</p>
4 (a)	<p>(a) (i) whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Act and the rules framed there under, where applicable, have been complied with.</p> <p>(ii) If not, the nature of contraventions should be stated;</p> <p>(iii) If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal whether the same has been complied with or not [See Clause 3(v) of CARO, 2016 under Chapter: CARO]</p>
4 (b)	<p>System of Accounts</p> <ol style="list-style-type: none"> 1. Examine the following systems and give your views as regards their deficiencies along with suggestions for remedial measures: <ol style="list-style-type: none"> (a) Recording of receipts and expenditure. (b) Drawing periodical trial balance. (c) Compilation of accounts. (d) Reconciliation of inter-office accounts. (e) Reconciliation of registers/records relating to property, assets, investments, premiums, claims, loans, etc., with financial books. (f) Maintenance of up-to-date records in respect of assets, which are pledged, encumbered or blocked in any way. 2. Are the bank accounts of the company reconciled with the bank statements regularly? If not, describe the failures. 3. Are control accounts and subsidiary accounts up-to-date and reconciled regularly? If not, describe the failures. 4. Examine the accounting policies of the company. Are these in conformity with the Accounting Standards (National and in the absence of National Standards, the corresponding International Standard)? Give particulars of material departures from these standards, if any, along with their effect on the financial statements; quantify the impact wherever possible. [Appendix 1: Chapter: Audit of General Insurance Companies]

Question No.	Hints
5 (a)	<p>“Small and Medium Sized Company” (SMC) means, a company—</p> <ul style="list-style-type: none"> • whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; • which is not a bank, financial institution or an insurance company; • whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year; • which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and • which is not a holding or subsidiary company of a company which is not a small and medium-sized company. <p>Hence,</p> <ol style="list-style-type: none"> 1. If the foreign company is required to prepare its financial statements as per Company AS Rules, then the Indian company needs to follow because it is Non-SMC enterprise; 2. SMC; 3. Non-SMC
5 (b)	<p>Financial Indications:</p> <ul style="list-style-type: none"> • Negative net worth or negative working capital; • Excessive reliance on short term borrowings to finance long term assets; • Adverse key financial ratios; • Substantial operating losses or negative cash flows from operations; • Inability to pay creditors on due dates; • Difficulty in complying with the terms of loan agreements; • Change from credit to cash-on-delivery transactions with suppliers; • Entering into a scheme of arrangement with creditors for reduction of liability. [See SA 570]
6 (a)	<ol style="list-style-type: none"> (a) Investments are classified into 'held-to-maturity', 'available-for-sale' and 'held-for-trading' investments, in accordance with the guidelines issued by RBI. (b) 'Held-to-maturity' category comprises securities acquired by the bank with the intention to hold them up to maturity. 'Held-for-trading' category comprises securities acquired by the bank with the intention of trading, <i>i.e.</i> to benefit from short term price/interest rate movements. 'Available-for-sale' securities are those which do not qualify for being classified in either of the above categories, <i>i.e.</i>, those which are acquired neither for trading purposes nor for being held till maturity. (c) Investments classified as held-to-maturity category are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the period remaining to maturity. Any diminution in the value of investments in under held-to-maturity category is provided for if such diminution is other than temporary in nature. Such diminution is determined and provided for each investment individually.

Question No.	Hints
	<p>(d) The individual scrips in the available-for-sale-category are marked to market. The net depreciation under each of the six classifications (viz., Central and State Government and other approved securities, shares, etc.) under which investments are presented in the balance sheet is fully provided for, whereas the net appreciation under any of the aforesaid classifications above is ignored.</p> <p>(e) The individual scrips in the held-for-trading category are marked to market and the net appreciation/depreciation of scrips depreciation under each of the six classifications under which investments are presented in the balance sheet is recognised in the P & L a/c.</p> <p>(f) The depreciation in value of securities where interest/principal is in arrears is not set off against the appreciation in respect of other performing securities.</p> <p>(g) Profit or loss on sale of investments in any category is taken to the P & L a/c. In case of profit on sale of investments in held-to-maturity category, an equivalent amount is appropriated to the 'Capital Reserve A/c'. [Chapter: Audit of Banks]</p>
6 (b)	See Form 3CD [Chapter: Tax Audit]
7 (a)	<p>The following aspects are to be considered in respect of various industrial units while conducting an environmental audit:</p> <ul style="list-style-type: none"> (i) Layout and design; (ii) Management of resources; (iii) Pollution control systems; (iv) Emergent safety system; (v) Medical and healthcare facilities; (vi) Industrial hygiene; (vii) Occupational health; (viii) Information assimilation and reporting system; (ix) EIA methodology (x) Compliance to the Regulatory mechanism; (xi) Concern for the society. [Chapter: Special Aspects]
7 (b)	Drafting has to be made on the guidelines given by SA 210
8 (a)	<p>Investor Education and Protection Fund (Section 205C) (now section 125 (yet to be notified) of the Companies Act, 2013):</p> <p>The Central Government shall establish a fund to be called the Investor Education and Protection Fund (hereafter in this section referred to as the "Fund"). There shall be credited to the Fund the following amounts, namely:</p> <ul style="list-style-type: none"> (a) amounts in the unpaid dividend accounts of companies; (b) the application moneys received by companies for allotment of any securities and due for refund; (c) matured deposits with companies; (d) matured debentures with companies; (e) the interest accrued on the amounts referred to in clauses (a) to (d);

Question No.	Hints
	<p>(f) grants and donations given to the Fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and</p> <p>(g) the interest or other income received out of the investments made from the Fund:</p> <p>The Fund shall be utilised for promotion of investor awareness and protection of the interests of investors in accordance with such rules as may be prescribed.</p>
8 (b)	<p>In case of contingent liabilities the Auditor should generally follow the audit procedure given below:</p> <ul style="list-style-type: none"> (i) Examine the system of authorisation and internal controls relevant to contracts giving rise to Contingent Liabilities; (ii) Ascertain the maintenance of adequate records; (iii) Perform substantive test to establish completeness of recorded obligation; (iv) Obtain representation from the management that all the Contingent liabilities have been identified, quantified and do not include items likely to result in a loss. <p>The procedure to verify the various elements of contingent liabilities is as follows:</p> <p><i>Claims against the bank not acknowledged as debt</i></p> <ul style="list-style-type: none"> (i) Examine external evidences like correspondences with Lawyers, claimants etc.; (ii) Review the minutes of board meetings; (iii) Obtain representation from the management about the status of such claims; (iv) Review the subsequent events. <p><i>Liability on Partly paid Shares</i></p> <ul style="list-style-type: none"> (i) Examination of Certificates of investment is the best procedure to ascertain such liabilities; <p><i>Liability on outstanding Forward Exchange Contracts</i></p> <ul style="list-style-type: none"> (i) The auditors may verify these liabilities with the registers maintained and copies of broker's notes. <p><i>Guarantees given on behalf of Constituents</i></p> <ul style="list-style-type: none"> (i) The auditor should ascertain adequacy of internal control over issuance of guarantees, e.g., whether guarantees are issued under proper sanction, whether margins are taken from customers etc.; (ii) The auditor should ensure that unused guarantee forms are in proper custody; (iii) Substantive test of guarantees given may be performed through the guarantee register. <p><i>Acceptances, Endorsements and other Obligations</i></p> <p>These include letters of credit issued and bills discounted or purchased by the bank. The audit procedure should involve evaluation of internal control system and verification of the relevant registers and copies of letter of credit issued. [Chapter: Audit of Banks]</p>
8 (c)	<p>As per Para 3, the following terms are used in this Statement with the meanings specified:</p> <p><i>Borrowing costs:</i> Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds.</p>

Question No.	Hints
	<p>However as Para 4 of this Statement, borrowing costs may include:</p> <ul style="list-style-type: none"> (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings; (b) amortisation of discounts or premiums relating to borrowings; (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings; (d) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. <p><i>Qualifying asset:</i> A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. [See AS 16]</p>
8 (d)	<p>Permanent consolidation adjustments are those adjustments that are made only on the first occasion of the preparation and presentation of consolidated financial statements. Permanent consolidation adjustments are:</p> <ul style="list-style-type: none"> (a) determination of excess or deficit of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made (determination of goodwill or capital reserve); (b) determination of the amount of equity attributable to minorities at the date on which investment in subsidiary is made; and (c) determination of goodwill or capital reserve arising on application of equity method to account for investments in associates in consolidated financial statements. [See Guidance Note on Audit of Consolidated Financial Statements]
8 (e)	<p>A reinsurance transaction may be defined as an agreement between a 'ceding company' and a 'reinsurer' whereby the former agrees to 'cede' and the latter agrees to accept a certain specified share of risk or liability as per the terms set out in the agreement. It may be noted that the insured does not acquire any right under a reinsurance contract. In the event of loss, the insured's claim for full amount is against the original insurer only. The original insurer, in turn, lodges a claim with the reinsurer.</p> <p><i>Facultative Reinsurance:</i> Reinsurance whereby separate contracts are entered into for each particular risk. This type of reinsurance is used either when risks are not covered under treaties or the issuer does not want to cover the risk under the treaty etc. [Chapter: Audit of General Insurance Companies]</p>
8 (f)	See SA 400 [Chapter: Auditing and Assurance Standards]

* * *

MAY, 2009

1. As an auditor, how would you deal with the following:
 - (a) In the audit of an Organisation whose objects are charitable or religious, holds that the Accounting Standards are not applicable to it, since only a very small proportion of its activities consist of business in nature.
 - (b) During the audit for the year ended on 31st March, 2009 of XYZ Ltd. you come across certain personal expenses of employees have been debited to Profit and Loss account.
 - (c) While conducting the audit of ABC Ltd. for the year ended on 31st March, 2009, you find that the company has disposed off substantial part of the fixed assets, but the management of the company represents to you that they will continue in business.
 - (d) A Ltd. has not made provisions for proposed dividends in its accounts but proposes to charge the dividends to Profit & Loss account as and when paid.
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. B, a practicing Chartered Accountant, expressed his opinion on the financials of M/s ABC Ltd. for the year ended on 31st March, 2009. It was later found that the closing stock was valued arbitrarily by Management which was accepted by him without verification and large amount of revenue expenditure was capitalised.
 - (b) Mr. A was appointed by H Ltd. to audit the PF trust maintained by the company. While conducting the audit he noticed that large amount of loans have been given out of the trust to the employer company in contravention of the rules of the PF trust. He had disclosed the irregularities to the trustees and to the company but not to the individual subscribers of the PF. When queried on his omission to disclose, he explained that he owed no duty to the individual members.
 - (c) Mr. B was appointed as auditor of XYZ Ltd. in place of Mr. A. Mr. B had sent a letter of communication to Mr. A under certificate of posting and proceeds to conduct the audit. Mr. A makes a complaint to the Institute on the basis of non-receipt of communication.
 - (d) A Chartered Accountant firm pays share in the profits to a widow of its deceased partner.
3.
 - (a) State the points in an investigation of frauds through suppliers ledger.
 - (b) State the circumstances that may warrant the introduction of Cost Audit.
 - (c) State your views on reference to an expert in the Auditor's report.
4.
 - (a) State the internal controls in the area of Loans and Advances of Banks.
 - (b) What shall comprise the auditor's report of Mutual Funds.
5.
 - (a) State briefly the communication/ reporting requirements as per AAS 21 (now SA 250) on non-compliance in an audit of financial statement:
 - (i) To the management
 - (ii) To the users of the auditor's report on the financial statements.
 - (iii) To the regulatory and enforcement authorities
 - (b) State the reporting requirement regarding books of account (prescribed, maintained and examined), in Form No. 3CD of Tax Audit under Section 44AB of the Income Tax Act, 1961.
6.
 - (a) State the audit procedures for verification of outstanding premium and agents' balances of General Insurance Companies.

- (b) When should an auditor make a disclaimer opinion in his Audit report?
- (c) What are the general principles that propriety audit need to conform?
7. (a) “When the computer information systems are significant, the auditor should obtain an understanding of the CIS environment and whether it may influence the assessment of inherent and control risk.” What factors an auditor has to consider in such risk assessment?
- (b) In an operational audit performance evaluation, what factors can cause unsatisfactory production performance?
8. Write short notes on any **four** of the following:
- (a) Usefulness of careful and adequate audit planning.
- (b) Verification of Margin Deposit Book in the audit of Members of Stock Exchanges.
- (c) Professional Negligence.
- (d) Purposes for which analytical procedures are used by auditors.
- (e) Unqualified opinion in the context of the Auditor’s report.
- (f) Assessing the reliability of Audit evidence.

Suggested Hints

Question No.	Hints
1(a)	(Refer Para 3.5, Chapter on Tax Audit)
1(b)	(Refer Section 227(1A),) (now Section 143(1) of the Companies Act, 2013)
1(c)	(Refer SA 580, SA 570 and Clause 3(i) of CARO)
1(d)	(Refer AS 4 and Schedule VI) (now Schedule III)
2(a)	(Refer Part I, Clause 7, Second Schedule)
2(b)	(Refer Part I, Clause 5 & 6, Second Schedule, The audit report is made to trustees and it is for the trustees to forward that report to individual members)
2(c)	(Refer Part I, Clause 8, First Schedule)
2(d)	(Refer Part I, Clause 2, First Schedule)
3(a)	(Refer Chapter on Due Diligence/ Investigations)
3(b)	(Refer Chapter on Cost Audit)
3(c)	(Refer SA 620)
4 (a)	(Refer Chapter on Audit of Banks)
4(b)	(Refer Chapter on Audit of Mutual Funds)
5(a)	(Refer SA 250)
5(b)	(Refer Form 3CD in the Chapter on Tax Audit)
6(a)	(Refer Chapter on Audit of General Insurance Companies)
6(b)	(Refer SA 700)

Question No.	Hints
6(c)	(Refer Chapter on Audit of PSUs)
7(a)	(Refer Chapter on EDP Audit)
7(b)	(Refer Chapter on Management and Operational Audit)
8(a)	(Refer SA 300)
8(b)	(Refer Chapter on Audit of Members of Stock Exchanges)
8(c)	(Refer Part I, Clause 7, Second Schedule)
8(d)	(Refer SA 520)
8(e)	(Refer SA 700)
8(f)	(Refer SA 500)

* * *

NOVEMBER, 2009

1. As an auditor, how would you deal with the following:
 - (a) During the audit of ABC Pvt. Ltd. for the year ended 31st March, 2009, it is noticed that the company has not maintained proper books of account and the final accounts were drawn up from the bank summaries. The number of transactions in the entire year for the company were only 30.
 - (b) PQR Ltd. had acquired a Brand from another company for ₹ 100 lakhs. PQR Ltd. contends that since the said brand is a very popular and famous brand, no depreciation or amortisation needs to be provided.
 - (c) XY Ltd. had entered into derivative transactions in foreign currency which were based on probable export orders. As at the year end on 31st March, 2009, the mark-to-market (MTM) loss on the said derivatives was ₹ 250 lakhs. The company contends that since the MTM loss is notional and likely to be recouped in the next year, the same need not be provided for.
 - (d) The statutory auditor of the Holding Company demands for the working papers of the auditors of the subsidiary company, of which you are the auditor.
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) M/s MN & Co., a firm of Chartered Accountants prepared and signed the forecast of a company's earnings contingent upon future transactions without mentioning the basis on which the said estimates were prepared. A bank granted a loan to the said company based on the above forecast signed by M/s MN & Co. When the company defaulted in repayment of the loan, the bank filed a complaint against M/s MN & Co.
 - (b) Mr. P, a Chartered Accountant, did not maintain any books of account on the ground that his income did not exceed the limits prescribed under section 44AA of the Income-tax Act, 1961.
 - (c) M/s ABC, a Kolkata based firm of Chartered Accountants having 5 partners accepts the statutory audit of D Pvt. Ltd. for 2008-2009 at an audit fee of ₹ 5,000. D Pvt. Ltd. was incorporated on 1st October, 2005.
 - (d) An auditor of a cooperative society has agreed to charge fees @ 5% of the profits of the society.
3.
 - (a) What are the procedures to be followed by a Statutory Auditor in the audit of opening balances if the financial statements for the preceding year were audited by another auditor?
 - (b) Give an illustration of an Audit Report containing Emphasis of Matter' for significant uncertainty.
4.
 - (a) In the context of Audit of Banks how will you verify the following:
 - (i) Contingent liabilities.
 - (ii) Inter office adjustments.
 - (b) Discuss the reporting requirements in Form 3CD of the Tax Audit Report u/s 44AB of the Income-tax Act, 1961 for the following:
 - (i) Tax on distributed profits.
 - (ii) Brought forward loss or depreciation allowance.
5.
 - (a) As a Statutory Auditor, how do you verify the existence of Related Parties and disclosure of Related Party Transactions?
 - (b) Draft an illustrative engagement letter for an engagement to compile financial statements of DEF Ltd.

6. Write short notes on the following:

- (a) Register of Claims for General Insurance Companies.
- (b) Current Period Consolidation Adjustments.
- (c) External Confirmations in Audit.
- (d) Propriety elements in CARO, 2016 (*adapted*).

Suggested Hints

Question No.	Hints
1(a)	(Refer Section 209, 227(3) of Companies Act) (now Section 128 and 143(3) of the Companies Act, 2013)
1(b)	(Refer AS 26)
1(c)	(Refer AS 30)
1(d)	(Refer SA 230, SA 600)
2(a)	(Refer SAE 3400 and Clause 3 Part I Schedule II)
2(b)	(Refer Council General Guidelines, 2008 for Books of Accounts)
2(c)	(Refer Council General Guidelines, 2008 for Fees)
2(d)	(Refer Clause 10, Part I, Schedule II and Regulation 192)
3(a)	(Refer SA 510)
3(b)	(Refer SA 700)
4(a)(i)	(Refer Chapter on Bank Audit)
4(a)(ii)	(Refer Chapter on Bank Audit)
4(b)(i)	(Refer Form 3CD in Chapter on Tax Audit)
4(b)(ii)	(Refer Form 3CD in Chapter on Tax Audit)
5(a)	(Refer SA 550)
5(b)	(Refer SA 210)
6(a)	(Refer Chapter on GIC Audit)
6(b)	(Refer GN on Audit of Consolidated Financial Statements)
6(c)	(Refer SA 505)
6(d)	(Refer Chapter on CARO)

* * *

MAY, 2010

Marks

1. As an auditor how would you deal with the following?
 - (a) There is a Sales-tax demand of ₹ 3 crores against X Ltd. relating to prior years against which the company has gone in appeal. 5
 - (b) When the audit team visited the client to perform substantive audit of debtors the client produced Ledger accounts of customers and confirmations for the top 10 debtors. One of the debtors was more than 5 years old, but had confirmed his balance. 5
 - (c) A Ltd., prepared an invoice for an export consignment on FOB basis on 30th March, 2010. The goods were dispatched from the factory on 30th March, 2010 and the Bill of Lading was made on 3rd April, 2010. A Ltd., had booked the invoice in the Sales Register for March, 2010. 5
 - (d) LMN Pvt. Ltd. is a dealer in government securities. The turnover on account of sale of securities for the year ended 31st March, 2010 is ₹ 85 crores whereas the net profit is ₹ 0.10 crores. While finalising the accounts, the company did not prepare the Cash Flow Statement. 5

2. Comment on the following with reference to the Chartered Accountants Act, 1949 as amended by the Chartered Accountants Act, 2006 and Schedules thereto:
 - (a) M/s PQR a firm of Chartered Accountants responded to a tender from a State Government department for switching over to double entry system of accounting. For the purpose the firm also paid ₹ 20,000 as earnest money deposit as per the terms of the tender. 4
 - (b) K, a Chartered Accountant in practice takes up appointment as Managing Director of XY Ltd. 4
 - (c) X was appointed statutory auditor in ABC Ltd. for the year ended 31st March, 2010. On inquiry, X found that his wife had acquired before a few years, 100 shares in the said company. She was still holding the shares with the name of X as joint holder. Can X accept the appointment? 4
 - (d) A is a partner of 2 firms, M/s ABC & Company and M/s A & Associates. For most of the audits handled by him, the appointment is in the name of M/s ABC & Company. The visiting cards of A carries the names of both the firms. 4

3. Answer the following:
 - (a) What are the procedures to be followed by a statutory auditor for verifying the provision for accrued liability for retirement benefits which is based on a certificate of an reputed actuary. 8
 - (b) Describe the areas where the Statutory Auditor of a company has to make: 8
 - (i) Statement of facts
 - (ii) Give his opinion.

4. Answer the following:
 - (a) What are the additional matters which the Statutory Auditor of a Banking company has to state in his report? 4

- (b) Describe briefly the major verification areas in a due diligence for a proposed merger. 6
- (c) As an auditor, what are the indicators you would consider while verifying compliance with laws and Regulations? 6
5. Answer the following:
- (a) As an Internal Auditor of a Cement Manufacturing Company, draft an audit program for verification of transportation charges for despatches from the factory. 8
- (b) Discuss the reporting requirements in Form 3CD of the Tax Audit Report under section 44AB of the Income-tax Act, 1961 for Accounting Ratios. 4
- (c) What are the broad matters to be considered while obtaining knowledge of business for a new audit engagement of a manufacturing concern? 4
6. Write short notes on the following: $4 \times 4 = 16$
- (a) Energy Audit
- (b) Use of 'Check Lists' in Audit
- (c) CEO/CFO Certification to the Board
- (d) Audit report under VAT.

Suggested Hints

Question No.	Hints
1(a)	Refer AS 29
1(b)	Refer SA 510, 505
1(c)	Refer AS 9
1(d)	Refer AS 3 of CASR 2006
2(a)	Refer Clause 6, Part I, First Schedule
2(b)	Refer Clause 11, Part I, First Schedule
2(c)	Refer Clause 4, Part I, Second Schedule
2(d)	Refer Clause 7, Part I, First Schedule
3(a)	Refer AS 15(R), SA 620
3(b)	Refer Section 227(1A) and Section 227(3) (now Section 143(1) & (3) of the Companies Act, 2013)
4(a)	Refer Chapter on Audit of Banks
4(b)	Refer Chapter on Investigations
4(c)	Refer SA 250
5(a)	Refer Chapter on Management and Operational Audit for guidelines
5(b)	Refer Clause 32 of Form 3CD in Chapter on Tax Audit
5(c)	Refer SA 310

Question No.	Hints
6(a)	Refer Chapter on Special Aspects
6(b)	Refer PCC Study Material on Auditing and Assurance
6(c)	Refer Clause 49 in Chapter on Special Aspects
6(d)	Refer Chapter on Audit of Indirect Taxes

* * *

NOVEMBER, 2010

Marks

1. As an auditor, how would you deal with the following?
 - (a) Mr. Honest, director of Truth Private Ltd., is also a director of another company — False Private Ltd, which has not filed annual returns and accounts for the last three years, 2006-07; 2007-2008 and 2008-09 with the registrar of companies. Truth Private Ltd, passed the following resolution reappointing Mr. Honest as director of the company at the annual general meeting held on 31-8-10. 5
 - (b) 'A' Ltd. has not made any provision in its accounts as regards losses sustained by its subsidiary 'B' Ltd. However, it has credited to the profit & loss account the dividend declared by its subsidiary 'C' Ltd., on its investments made in the subsidiary. 5
 - (c) XYZ Ltd. purchased an equipment at a price of ₹ 1,00,000 on 2-4-09. Upon terms of credit that price should be settled within six months from the date of purchase. The company capitalizes the asset in terms of Indian rupees at a rate of exchange prevailing as on date of purchase.
When the liability is settled as per terms on 10-9-2009, it incurs an additional amount of ₹ 3,50,000 due to exchange rate fluctuation on the date of settlement. The said sum is charged off to profit & loss account. 5
 - (d) LMN Ltd. has obtained term loan from nationalized bank amounting to ₹ 10 crores for purchase of research and development equipments. Out of this company has utilized ₹ 10 lakhs towards purchase of office furniture and car to be used by the chief executive officer of the company. 5
2. Comment on the following with reference to the Chartered Accountant' Act, 1949 and schedules thereto:
 - (a) Mr. Moon is the auditor of M/s Sum Ltd., which has a turnover of ₹ 100 crores. The audit fee for the year is fixed at ₹ 25 lakhs. During the year the company offers Mr. Moon an assignment of management consultancy for a remuneration of ₹ 50 lakhs. 4
 - (b) A firm of chartered accountants RJ & Co, was appointed by a company to evaluate the cost of products manufactured by it for its information system. One of the partners of the firm RJ & Co., was a non- executive director of the company. 4
 - (c) Mr. A, Chartered Accountant in practice as a sole proprietor has an office near Egmore. Due to increase in professional work, he opens another office in Tambaram which is approximately 30 Kms away from his existing office. For running the new office, he has employed a retired Income Tax officer. 4
 - (d) A partner of a firm of chartered accountants during a T.V interview handed over a bio data of his firm to the chairperson. Such biodata detailed the standing with international firm and also his achievements and recognition as an expert in the field of taxation. The biodata was read out during the said interview. 4
3. (a) The auditors need not review accounting policies unless there is a change in the basis of accounting — Comment. 8
 - (b) (i) 'A' Ltd. having fixed assets at 10 different locations, in total valuing ₹ 5,000 crores, have been physically verifying the assets every third year. Auditor insists for yearly verification of the same — Comment. 4

- (ii) 'B' Ltd. manufacturing cycles has 150 employees. Auditors observe that it has not registered itself for Provident Fund and ESI purposes, not remitting the dues in time and auditor insists for qualifying the Report. Management contends that in the absence of registration it can't be construed that the company is in default of statutory dues on regular basis — Comment.

4

4. (a) The Company ABC Ltd. has passed a Special Resolution at the Annual General Meeting held on 30-9-2009 for buy back of shares to the extent of ₹ 12,50,000.

8

Summary of Financial Position of ABC Ltd. as on 31-3-2009

Subscribed & Paidup		Fixed Assets	40,00,000
Share Capital	25,00,000		
Reserves and Surplus	20,00,000	Current Assets	12,00,000
Current Liabilities	15,00,000	Loans & Advances	8,00,000
	<u>60,00,000</u>		<u>60,00,000</u>

Comment whether the action of the Company is valid.

- (b) PQR Private Ltd. has prepared the financial statements for the year ended 31-3-2010 and submitted the same to you for audit. Comment whether sundry debtors and loans and advances has been disclosed as required under Schedule VI of the Companies Act, 1956.

8

Balance Sheet of PQR Private Ltd. as on 31-3-2010

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Authorised 1,00,000 Equity		Gross Block	
Share of ₹ 10 each	10,00,000	Less deprecation	25,00,000
Subscribed & Paid up 1,00,000 Equity Shares of ₹ 10 each	10,00,000	Current Assets	
		Loans & Advances	
		Cash & Bank	2,00,000
Reserves & Surplus		Sundry Debtors	7,00,000
Profit & Loss A/c	1,50,000	Loans & Advances	2,50,000
Secured Loans			
Indian Bank			
(against hypothecation of Fixed Assets)	20,00,000		
Current Liabilities & Provisions			
Creditors for Trade	5,00,000		
	36,50,000		36,50,000

5. (a) (i) For determining the liability for Gratuity, Actuary's Report is produced to the auditor. On examination auditor notices a serious wrong assumption in the report. Auditor challenges the Actuary's report — Comment. 4
- (ii) The loss as per Profit and Loss Account of a Ltd. Company is converted in to profits due to crediting of time barred liability relating to the purchase of Plant & Machinery. Directors propose to declare dividend out of such profits — Comment. 4
- (b) You have been approached by an organization to suggest a system where the user wants to access data immediately. What would be your suggestions if they want to process it after validation? 8
6. (a) (i) ARG Bank has granted loans to the extent of ₹ 1500 crores. 10 parties have not been repaying the principal amount and servicing the interest for more than 36 months. During the year ended 31-3-2010, it was found that two of the ten parties have paid interest partly and bank has accounted full amount of interest accrued as income in respect of two parties — Comment. 4
- (ii) ARG Bank has paid money on the drafts issued by other branches. But later on it was found that this amount is shown under suspense account — Comment. 4
- (b) AB & Co., Chartered Accountants, was appointed to compile Financial statements of Y & Co., a firm for Tax Audit purposes. During the course of work, the audit firm has noticed that the stock valuation was grossly understated. When it was pointed out, the management told that AB & Co. are not the statutory auditors of the company and need not be concerned about valuation of stock — Comment. 8
7. Write short note on any four the following: 4 × 4 = 16
- (a) Other Misconduct
- (b) Rolling Settlement
- (c) Corporate Governance.
- (d) Enquiry.
- (e) Reconciliation of cost and financial records.

Suggested Hints

Question No.	Hints
1(a)	(Refer Section 274(1)(g) and Guidance Note on Reporting under section 227(3)(e) & (f) of the Companies Act, 1956) (now Section 164(2) and 143(3)(g) of the Companies Act, 2013)
1(b)	(Refer AS 4, AS 29 and Schedule VI) (now Schedule III)
1(c)	(Refer AS 11 and Schedule VI) (now Schedule III)
1(d)	Refer Para 3 (viii) and (ix) of CARO, 2016
2(a)	(Refer Central Council General Guidelines 2008 on Statutory Audit Fees and Fees for Other Services)
2(b)	(Refer Clause 4 of Part I of Second Schedule, appointment not for expression of opinion)
2(c)	(Refer Section 27 of the CA Act, 1949 as amended)
2(d)	(Refer Clause 6 and Clause 7 of Part I of First Schedule)

Question No.	Hints
3(a)	(Refer SA 320, SA 400, SA 315 and SA 330)
3(b)(i)	(Refer CARO, SA 400, SA 315 and SA 330)
3(b)(ii)	(Refer Schedule VI) (now Schedule III)
4(a)	(Refer Section 77A of the Companies Act, 1956) (now Section 68 of the Companies Act, 2013)
4(b)	(Refer Schedule VI) (now Schedule III)
5(a)(i)	(Refer SA 620)
5(b)(ii)	(Refer Section 205 of the Companies Act <i>vis-à-vis</i> Capital Profits vs. Revenue Profits) (now Section 123 and 124 of the Companies Act, 2013)
5(b)	(Refer Chapter on EDP Audit)
6(a)(i)	(Refer Chapter on Bank Audit)
6(b)(ii)	(Refer Chapter on Bank Audit)
6(b)	(Refer SRS 4410)
7(a)	(Refer Part IV and Part III of First Schedule and Second Schedule respectively of CA Act, 1949 as amended)
7(b)	(Refer Chapter on Audit of Members of Stock Exchanges. In examination there seems to be a typographical error whereby it was asked as 'Rolling Statement')
7(c)	(Refer Clause 49 in the Chapter on Other Aspects/Special Aspects)
7(d)	(Refer SA 500, SA 501 and Section 227(1A) of the Companies Act, 1956) (now Section 143(1) of the Companies Act, 2013)
7(e)	(Refer Chapter on Cost Audit)

* * *

MAY, 2018

1. (a) For the year ended 31st March, 2016, the audit report of Avinash Ltd., contained a qualification regarding non-provision for diminution in the value of investments to the extent of ₹ 50 lacs. As an Auditor of the Company for the year 2016-17, how would you report, if:
- (i) The Company does not makes provision for diminution in the value of investments in the year 2016-2017.
- (ii) The Company makes adequate provision for diminution in the year 2016-2017. 5
- (b) Crush Ltd. is a dealer in fast moving consumer goods. The Company has warehouses throughout the country where the stocks are stored. The Auditor of the Company normally conduct physical verification of stocks along with the Management at the end of the financial year. However, the Auditor could not be physically present during stock- tacking at two places on account of certain disturbances in the region.
- In the light of the above facts:
- (i) How sufficient appropriate audit evidence regarding the condition and existence of inventory may be obtained ?
- (ii) How an Auditor is supposed to deal when attendance at physical inventory counting is impracticable? 5
- (c) Durafone Mobile Co. Ltd. have pan India presence and market leader in mobile operation. It has outsourced all its revenue operation including accounting functions to Set Solutions (P) Ltd. As an Auditor of the mobile company, enumerate the factors to be taken into consideration related to its financial reporting. 5
- (d) Gap Ltd. possesses some investment for which there is no ready market and to assess its fair market value it hires an expert, the result of which it can use in preparing its financial statement. Being an Auditor of the Company, state the matters which may affect the nature, timing and extent of audit procedure to be adopted by you in the instant case. 5
2. (a) AP & Co., a firm of Chartered Accountants, was appointed by D Ltd. to evaluate the cost of a new product manufactured by it for their information system and fixation of fair market price. Partner 'P' of the CA firm is a non-executive director of the Company. Comment with reference to Chartered Accountants Act, 1949 and Regulations there to. 4
- (b) The growth and development in the field of Information Technology is a fast paced one with regular updation and the auditors are required to be alert and equip their knowledge to the recent changes. Discuss few instances of recent changes, which you, as an auditor, may need to be aware of and addressed in discharging your responsibility of audit assignment. 4
- (c) You have been appointed as auditor of Bahubali Ltd. for the first time. Enumerate the factors to be considered while establishing an overall audit strategy and its benefits. 4
- (d) In the course of your audit assignment of Indraprastha Ltd., you want to guide your audit assistants in selecting sample items in such a way that sample can be expected to be representative of the population and all items have an opportunity of being selected. Guide your assistants with principal methods of collecting samples. 4
3. (a) You were the statutory auditor of Speed Ltd., a PSU, for the year 2016-17. In the course of your audit, you did not observed any fraud having been committed during that year. However, the C & AG audit staffs during their routine inspection found that chief cashier of the Company have committed a fraud in Debtor's ledger and absconded with the amount. Investigation made in the fraud revealed that the Auditor did not exercise proper skill and care and performed his work III an Improper way.
- Director of the Company, intends to file disciplinary proceedings against the Auditor with the ICAI. Discuss the position of the auditor with regard to the disciplinary proceedings under Chartered Accountants Act, 1949 and Regulations there to. 4

- (b) Director (Finance) of Beta Ltd. is of the opinion that total trade payables mentioned in the financial statement is sufficient disclosure in the Balance Sheet as per Part I of Schedule III to the Companies Act, 2013. They did not mention details regarding Micro, Small and Medium Enterprises (MSME). Give your view as statutory auditor of the Company and state the details required to be disclosed in notes regarding MSME. 4
- (c) Discuss any eight (8) adverse or qualified statement or disclosure, which you would like to make in respect of non-compliance with requirements of Corporate Governance of a company. 4
- (d) Deluxe Ltd. holds the ownership of 51 % of voting power and control over Executive Ltd. Holding company have prepared the consolidated financial statement as required by Sec. 129 of the Companies Act, 2013. What will be your objective, as an Auditor, in the audit of such Consolidated Financial Statement? 4
4. (a) Efficient Ltd. is running into losses and in order to optimize resource utilization and cost reduction, approaches you to carryout the assignment and offers a fee of 5% of benefits derived from the suggestions made by you.
Comment with respect to Chartered Accountants Act, 1949 and Regulations there to. 4
- (b) Give examples of Emphasis of Matters which may have an adverse effect on the functioning of the company as well as those which may not affect the functioning of the company. 6
- (c) M/s ABC and Co., a firm of Chartered Accountants, comprising of three partners A, B, and C are Statutory Auditors of 50 Companies as per details given below:
- (i) Small Companies -10
(ii) Private Companies having paid up share capital of less than ₹ 100 Crores - 20
(iii) Private Companies having paid up share capital of more than ₹ 100 Crores – 15
(iv) Public Companies - 5
- Mr. A signs the Balance Sheet of 10 Small Companies and 10 Private Companies having paid up share capital of less than ₹ 100 Crores. Mr. B signs the Balance Sheet of 10 Private Companies having paid up share capital of less than ₹ 100 Crores and 5 Private Companies having paid up share capital of more than ₹ 100 Crores. Mr. C signs the Balance Sheet of 10 Private Companies having paid up share capital of more than ₹ 100 crores and 5 Public Companies.
- What is the maximum number of audits that the firm as a whole can accept and what is the maximum number of audits each individual partner can accept? 6
5. (a) In the course of his audit assignment in M/s Bailey Ltd., CA Soft came to know that the company, due to financial crunch and unable to meet employees salary, has taken a loan of { 50 lacs from Employees Gratuity Fund. The said loan was not reflected in the book of account of the company and the auditor ignored this transaction in his report.
Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to. 4
- (b) Your audit assistant seeks your help in checking the claim liability of Bharat Insurance Co. Ltd. and wants to know the registers and records which they should obtain and review in this regard. 4
- (c) Your firm has been appointed as branch auditor of East West Bank Ltd. In carrying out verification of advances, what are the primary evidences you will look into? 4
- (d) Tiger Ltd., is a company engaged in the production of wool. Along with its production business, it is also engaged in buying and selling of securities with the expectation of a favourable price change. During the year, its speculation loss on account of purchase and sale of securities was to the tune of ₹ 12 lacs.
As a tax auditor, what is the reporting requirement in Form 3CD under Section 44 AB of the Income Tax Act, 1961? 4

6. (a) In carrying out efficiency audit of a Public Sector Undertaking (PSU), what important aspects are required to be looked into, to assess the efficiency? 4
- (b) M/s ISBN Bank Ltd. appoints you to investigate on behalf of them for advancing loan to M/s Dust Ltd. As an investigating accountant, what information and factors you will enquire into? 4
- (c) In evaluating the organizational structure of a company, what aspects may be considered by the operational auditor to achieve his objectives? 3
- (d) While doing the audit of a Nationalised bank branch, your audit assistant informed you that he suspects some irregularities in Guarantees issued by the Bank. What should be your guidance in the matter to check the same? 5
7. Answer any four (4). Write short notes:
- (a) Power of Securities and Exchange Board of India to levy monetary fines and penalties under SEBI Act, 1992. 4
- (b) KYC norms for a Chartered Accountant in practice. 4
- (c) Besides statutory cost audit, circumstances that may warrant cost audit. 4
- (d) Eligibility criteria to be a Peer Reviewer. 4
- (e) Direction by Tribunal in case auditor acted in a fraudulent manner. 4

Suggested Hints

Question	Suggested Hints
1.(a).	Refer SA 710
1.(b).	Refer SA 500 and SA 501
1.(c).	Refer SA 402, SAE 3402, AS 9 or Ind AS 11, as applicable, AS 30 or Ind AS 109 as applicable
1.(d).	Refer SA 500 and SA 620
2.(a).	Refer Clause 4, Part I, Second Schedule of the Chartered Accountants Act, 1949
2.(b).	Refer Chapter on EDP Audit
2.(c).	Refer Chapter on Audit Strategy
2.(d).	Refer SA 530
3.(a).	Refer Clause 7 and Clause 8 Part I, Second Schedule of the Chartered Accountants Act, 1949
3.(b).	Refer Schedule III of the Companies Act, 2013 regarding MSMED Disclosures
3.(c).	Refer Chapter on Corporate Governance and Audit Committee
3.(d).	Refer Guidance Note on Audit of Consolidated Financial Statements
4.(a).	Refer Clause 10, Part I, First Schedule of the Chartered Accountants Act, 1949 and Regulation 192 of Chartered Accountants Regulations, 1988
4.(b).	Refer SA 706
4.(c).	Refer Section 141(3)(g) of the Companies Act, 2013 as well as Council General Guidelines, 2008 regarding ceiling on number of statutory audits

Question	Suggested Hints
5.(a).	Refer Clause 5 and Clause 6, Part I, Second Schedule of the Chartered Accountants Act, 1949
5.(b).	Refer Chapter on Audit of General Insurance Companies
5.(c).	Refer Chapter on Audit of Banks
5.(d).	Refer Clause 32 of Form 3CD in the Chapter on tax Audit
6.(a).	Refer Chapter on Audit of PSU [or discussion on the same under SA 200 (Revised) if you are referring Class Notes]
6.(b).	Refer Chapter on Due Diligence, Investigation and Forensic Audit
6.(c).	Refer Chapter on Management and Operational Audit
6.(d).	Refer Chapter on Audit of Banks
7.(a).	Refer Section 15 (series) in SEBI Act, 1992 in Corporate and Economic/ Allied Laws Paper
7.(b).	Refer Chapter on Code of Ethics
7.(c).	Refer Chapter on Cost Audit
7.(d).	Refer Chapter on Peer Review
7.(e).	Refer Chapter on Appointment and Removal of Auditor for Section 140(5) of the Companies Act, 2013

* * *