

Test Series: February, 2016

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory.

Attempt any five questions from the Rest.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) While auditing a company, you observed certain material financial statement assertions that have been based on estimates made by the management. As the auditor, how do you minimise the risk of material misstatements?
 - (b) M/s Zubin & Co. was appointed to compile the financial statements of XYZ & Co. for tax purposes. During the course of work, the leading in-charge of the audit firm came to know that the inventory is grossly understated. On pointing the same, the partners of XYZ & Co. told him that since he is not conducting the statutory audit, the said figures duly certified by the entity should be accepted. Describe, in brief, the procedure you would suggest to the auditor to be followed in the above case.
 - (c) 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 obsolete and not in use. Draft a suitable audit programme for the above.
 - (d) Max Ltd. had five subsidiaries as at 31st March, 2016 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, 2016 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 × 4 = 20 Marks)
2. (a) Funtoosh Ltd. has five entertainment centers to provide recreational facilities for public especially for children and youngsters at five different locations in the peripheral of 250 kilometers. Collections are made in cash. Specify the adequate internal control system towards collection of money. (4 Marks)
 - (b) M/s Raga & Co., Chartered Accountants, appointed as the statutory auditor of R Ltd. for the financial year 2015-16. The company is also in need of an advisor for its investments. Thus, the Board of Directors of the company offered M/s Swara & Co., an associate of M/s Raga & Co., to provide an investment advisory service which has been duly accepted by the firm. Comment. (4 Marks)

- (c) Alappa Ltd. is a Chennai based company. The total turnover of the company is Rs. 10 crores for the year 2015-16. The company has a branch office at an area which was recently affected by tsunami. The transportation services are not available due to destruction caused by tsunami. The branch office recorded turnover of Rs. 2,50,000 in the Financial Year 2015-16. 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 Marks)*
- (d) EXE & Co. has been appointed as an auditor of a Multinational Company ZEE Ltd. The company is working in a CIS environment. You are a member of the audit team of EXE & Co. The partner in-charge of EXE & Co. wants you to train your audit team member about use of Computer Assisted Auditing Techniques (CAATs). You are required to indicate the control procedures which the auditor should adopt in applying CAATs in an audit under CIS environment. *(4 Marks)*
3. (a) Alora Pvt. Ltd. has fully paid capital and reserves of Rs. 40 lakh. During the financial year 2014-15, the company had borrowed Rs. 30 lakh from a bank. The company defaulted in repayments of its dues (including interest) during the year and the same remained outstanding as at 31st March, 2015. However, the company settled the total outstanding dues on 25th April, 2015 i.e. before the completion of audit. The management of the company asked the auditor not to report under CARO, 2015 contending that the company does not fall under the scope of reporting under CARO. Discuss how would you deal with this matter and draft a suitable Auditor's Report. *(6 Marks)*
- (b) In order to have uniformity in reporting, frauds have been classified based mainly on the provisions of the Indian Penal Code. Explain classification of frauds by NBFC and its reporting. *(6 Marks)*
- (c) Briefly explain the responsibility of holding company for preparation of Consolidated Financial Statements. *(4 Marks)*
4. (a) As a branch auditor of a nationalised bank, how would you verify the following?
- (1) Advances to DOT COM Companies.
- (2) Balances in account of a bank situated in a foreign country. *(6 Marks)*
- (b) Liquim Ltd., a non-resident company, is engaged in the business of extraction of mineral oils having turnover of Rs. 20 lakhs during the financial year 2015-16. The company claims that its profits and gains chargeable to tax under the head "Profits and gains of business or profession" is lower than the deemed income chargeable under section 44BB of the Income Tax Act, 1961. Therefore, it decided to get its accounts audited under section 44AB of the Income tax Act, 1961. As a tax auditor, how would you report under Form 3CD? *(6 Marks)*
- (c) Enumerate the main areas (any four) to be covered by the auditor in the case of environment audit of an industrial unit. *(4 Marks)*

5. (a) In a company, it is suspected that there has been embezzlement in cash receipts. The company appoints you as an investigator. What are the areas you would verify?
(6 Marks)
- (b) While auditing an insurance company, the auditor in-charge instructed you to examine "Claims Paid" by the company. What are the specific areas to which you will give your attention while examining such "Claims Paid"?
(6 Marks)
- (c) You have been appointed as an internal auditor of a company. The Managing Director of the company requests you to analyse the causes for high employee attrition rate in his company. What factors would you consider in such analysis?
(4 Marks)
6. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
- (a) CA. X, a practicing Chartered Accountant, failed to return the books of account and other documents of ABC Ltd. despite many reminders from the company. The company had settled his entire fees dues also.
- (b) CA. Laxya in practice, is offered the office of managing director of Rahi Pvt. Ltd. which he accepted spontaneously and joined the office from the very next moment.
- (c) A Chartered Accountant in practice certified in requisite Form that an articled assistant was undergoing training with him, whereas, he was also employed in a company between 10 a.m. and 6 p.m. on a monthly salary of Rs. 17,000 and attended the office of the Chartered Accountant thereafter until 7 p.m. The Chartered Accountant pleaded that the articled assistant was on audit of the company.
- (d) XYZ & Co. appointed CA. M, a practicing chartered accountant, as liquidator of the company. CA. M charged his professional fees based on percentage of the realisation of assets.
(4 × 4 = 16 Marks)
7. Write short notes on **any four** of the following:
- (a) Focus of a Peer Review.
- (b) Principal Methods of Selection of Samples.
- (c) Advantages of Cost Audit to Management.
- (d) Classes of Companies Required to Constitute Audit Committee.
- (e) Criminal Liability for Misstatement in Prospectus as Envisaged under section 34 of the Companies Act, 2013.
(4 × 4 = 16 Marks)