

Test Series: March, 2016

MOCK TEST PAPER – 2

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. Comment on the following:
  - (a) You are the auditor of Swift Communications Ltd. for the year 2015–16. The inventory as at the end of the year i.e. 31.3.16 was Rs. 4.55 crores. Due to unavoideable circumstances, you could not be present at the time of annual physical verification. Under the above circumstances how would you ensure that the physical verification conducted by the management was in order?
  - (b) You have been appointed as the auditor of Top Health Ltd. for 2015-16 which was audited by CA Trustworthy in 2014-15. As the Auditor of the company state the steps you would take to ensure that the Closing Balances of 2014-15 have been brought to account in 2015-16 as Opening Balances and the Opening Balances do not contain misstatements.
  - (c) Star Limited replaced its statutory auditor for the financial year 2015-16. During the course of audit, the new auditor found a credit item of Rs. 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 auditor of Moon Pvt. Ltd. having turnover of Rs. 12 crore, was not able to get the confirmation about the existence and value of certain stock. However, a certificate from the Management has been obtained regarding the existence and value of the stock at the year end. The auditor relied on the same and without any further procedure, signed the Audit Report. Is he right in his approach?

*(5 × 4 = 20 Marks)*
2.
  - (a) As auditor of Zapex 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 Marks)*
  - (b) M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of Enn Ltd. for the Financial Year 2015-16. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in

- Enn Ltd. having market value of Rs. 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as auditors of Enn Ltd.? (4 Marks)
- (c) RX Ltd. is a sugar manufacturing company. The company appointed Mr. Suresh, a practicing cost accountant, to conduct cost audit of its cost records under section 148 of the Companies Act, 2013. While conducting audit, Mr. Suresh found some misstatement resulting into fraud committed by the officers of the company. However, he did not report the matter to the Central Government believing that liability for such reporting lies only with statutory auditor of the company. Advise. (4 Marks)
- (d) State any four important characteristics of an effective computer audit programme system. (4 Marks)
3. (a) Amar Pvt. Ltd. has granted a loan of Rs. 22 crores to its associate Prem Pvt. Ltd. at the beginning of the financial year and it remain outstanding at the year end. How the auditor should report the fact? (6 Marks)
- (b) Ajanta Ltd. owns 51% voting power in Alora Ltd. It discloses all the shares as "Stock-in-trade" in its accounts with a view to their subsequent disposal in the near future. Ajanta Ltd. represents that while preparing Consolidated Financial Statements, Alora Ltd. can be excluded from the consolidation. As a Statutory Auditor, how would you deal? (6 Marks)
- (c) CA. X, holding CoP while in employment also, recommends his lawyer friend to his employer in respect of some case. His friend, out of the professional fee received from his employer, paid a particular sum of fee by way of gratification to CA. X. Comment – Is CA. X under no misconduct for receiving such fees from his lawyer friend? (4 Marks)
4. (a) SEBI Act, 1992 empowers SEBI to levy monetary fines and penalties on any person incurring a default under the Act. Briefly mention some of the cases where monetary fines and penalties are levied. (6 Marks)
- (b) As a tax auditor, how would you deal and report the following in Form 3CD:
- (i) An assessee has borrowed Rs. 50 lakhs from various persons, some of them by way of cash and some of them by way of Account Payee Cheque/Draft.
- (ii) An assessee has paid rent to his brother Rs. 2,50,000. (6 Marks)
- (c) You firm have been appointed as an auditor of a nationalised bank. You allocated the task of verifying Telegraphic Transfers and Demand Draft to your Audit Assistant. While verifying, the Audit Assistant informed you that there are a lot of irregularities in Telegraphic Transfers and Demand Drafts. What guidance would you give him? (4 Marks)
5. (a) M/s CD & Co., a firm of Chartered Accountants, accepted an assignment for audit under State level VAT Act and communicated the same over phone to the previous auditor, M/s AB & Co., Chartered Accountants. Comment. (4 Marks)

- (b) Incentivise Pvt. Ltd. had paid up capital of Rs. 50 lakh during the previous financial year which rose to Rs. 60 lakh in current financial year. The company had turnover of Rs. 210 crore during the previous financial year which declined to Rs. 151 crore in current financial year. Discuss whether the company is required to appoint an internal auditor to conduct internal audit of the functions and activities of the company. (4 Marks)
- (c) Conducting Cost Audit is useful to the management, society, shareholders and the government in many ways. Briefly mention some of the advantages of cost audit to the government. (4 Marks)
- (d) H 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 sales? (4 Marks)
6. (a) The areas covered in comprehensive audit vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. You are required to list down some of the broad areas to be examined in comprehensive audit. (4 Marks)
- (b) CA. Preeti is a leading Income Tax Practitioner in Delhi. She is very much fond of cooking. Due to this passion of her, she also wrote a cookery book "Delight your tummy" during the year. But, she didn't take any permission from the Council of the Institute for engaging herself into authorship of such book. Comment. (4 Marks)
- (c) You have been appointed as an auditor of an equipment leasing finance company. What are the special points would you consider while auditing such company. (4 Marks)
- (d) A special notice has been issued for a resolution at 3<sup>rd</sup> annual general meeting of Tiddle Ltd. providing expressly that CA. Modish shall not be re-appointed as an auditor of the company. Consequently, CA. Modish submitted a representation in writing to the company as provided under section 140(4)(iii) of the Companies Act, 2013. In the representation, CA. Modish incorporated his independent working as a professional throughout the term of office and also indicated his willingness to continue as an auditor if re-appointed by the shareholders of the Company. Comment – Is CA. Modish allowed to submit the representation and write such content? (4 Marks)
7. Write short notes on **any four** of the following:
- (a) Restriction on shareholding in a Co-operative Society.
- (b) Audit programme for verification of transportation charges.
- (c) Usual evidence to justify hoarding advertisement expenses.
- (d) Mandatory Review Areas of the Audit Committee as per Clause 49.
- (e) Technical, Ethical and Professional Standards as per Statement on Peer Review.

(4 × 4 = 16 Marks)