

Roll No.
Total No. of Questions – 7
Time Allowed – 3 Hours

FINAL
GROUP-I PAPER-3
ADVANCED AUDITING AND
PROFESSIONAL ETHICS

MAY 2015

Total No. of Printed Pages – 7

Maximum Marks – 100

FLA

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, answers in Hindi, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are required to answer any five questions from the remaining six questions.

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

FLA

P.T.O.

(2)

FLA

Marks

- (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**

FLA

(3)

FLA

Marks

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

FLA

P.T.O.

(4)

FLA

Marks

- (c) During the bank audit AB & Co. a new Chartered Accountant firm, 4
observed the sale/purchase of NPAs. Please help them by narrating the
aspects, relating to sale/purchase of NPAs, to be considered.
- (d) Draft an audit report under following circumstances : 4
- (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. (a) R and M is an audit firm having partners CA R, CA M and CA G. Mr. S 4
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. ?
- (b) As an auditor, during your interim visit at Marathon Ltd. you observed 6
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 ?

FLA

(5)

FLA

Marks

- (c) Parent Ltd. acquired 51% shares of Child Ltd. during the year ending 31-3-2014. 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 31-3-2014 and 31-3-2015 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 : **4**
- (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 account 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 personnel, conduct training program for and on behalf of the client. **4**

- Comment.

FLA

P.T.O.

(6)

FLA

Marks

- (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 44 AB of Income Tax Act, 1961 and VAT law. 4
- (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
- (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

FLA

(7)

FLA

Marks

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 |
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FLA

(8)

FLA

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