

MOCK TEST PAPER -1
FINAL COURSE: GROUP – I
PAPER – 3 : ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

1. (a) Following is the data regarding six segments of Z Ltd.:

(₹ in '000s)

Particulars	A	B	C	D	E	F
Segment Revenue (Rs.)	150	310	40	30	40	30
Segment Result (Rs.)	25	(95)	5	5	(5)	15
Segment Assets (Rs.)	20	40	15	10	10	5

The Finance Director is of the view that it is sufficient that segments A and B alone be reported. Advise

- (b) B Ltd. wishes to obtain a machine tool costing ₹ 20 lakhs by way of lease. The effective life of the machine tool is 12 years but the company requires it only for the first five years. It enters into an agreement with R Ltd. for a lease rental of ₹ 2 lakhs p.a.

The Finance Director of B Ltd. is not sure about the treatment of these lease rentals and hence requests your assistance in proper disclosure of the same. For calculation purposes, the implicit rate of interest may be taken at 15%. Discount factors : 0.87, 0.76, 0.66, 0.57 and 0.50.

- (c) Honey Ltd., as part of overall cost cutting measure announced voluntary retirement scheme (VRS) to its employees, to reduce the employee strength. During the first half year ended 30.9.2013 the company paid a compensation of ₹ 72 lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular salaries and wages paid by the company. Is this correct?
- (d) During the course of statutory audit of an investment company dealing in shares and securities, in spite of repeated reminders by the statutory auditor, the company officials did not provide the investments held by the company at the Balance Sheet date for verification and also did not provide the details for valuation of unlisted shares as on the Balance Sheet date. The statutory auditor, in his final audit report to the shareholders, reported as follows:

"Subject to the verification of the existence and value of the investments, the Balance Sheet shows a true and fair view."

Is the report made by the Statutory auditor correct? (5 × 4 = 20 Marks)

2. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
- (a) Mr. Rajiv, 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 ABC a firm of Chartered Accountants received ₹ 2 lakhs in January, 2013 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, 2013, when he is due to return to India.
 - (d) Mr. Jojo, a practicing Chartered Accountant engages himself as part time finance manager of Fast Return Securities Ltd. He is of the view that as both functions are independent, he need not take permission from the Institute. (4 × 4 = 16 Marks)
3. (a) As a Statutory Auditor, how would you report on the following under CARO:
- (1) OM Pvt. Ltd. Is a dealer in Shares and Securities.
 - (2) RST 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. (8 Marks)
- (b) 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. (8 Marks)
4. (a) Raja & Co, a firm of Chartered Accountants, requires your help in identifying the audit procedures that can be performed using CAATs. Please guide them. (4 Marks)
- (b) TUI 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. TUI 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 TUI 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. (4 Marks)

(c) Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. State your views on the following issues which were brought to your notice by your Audit Manager:

(i) The bank has recognised on accrual basis income from dividends on securities and Units of Mutual Funds held by it as at the end of financial year. The dividends on securities and Units of Mutual Funds were declared after the end of financial year.

(ii) In case of all such advances which have been classified as non-performing for the first time during the current financial year, only the last date of the financial year has been reckoned as the date of account becoming non-performing.

(4 x 2 = 8 Marks)

5. (a) Designing an Audit Strategy is the backbone of the "Audit Planning" process. Discuss. (8 Marks)

(b) Elaborate how the Statutory Auditor can verify the existence of related parties for the purpose of reporting under Accounting Standard 18. (8 Marks)

6. (a) As a Statutory Auditor, how would you deal with the following?

(i) While commencing the statutory audit of Binu 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.

(ii) While auditing accounts of a public limited company for the year ended 31st March 2013, an auditor found out an error in the valuation of inventory, which affects the financial statement materially – Comment as per standards on auditing.

(iii) At the statutory audit of PQR 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. (4 x 3 = 12 Marks)

(b) Briefly discuss any four areas in which Due Diligence can take place. (4 Marks)

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

(a) Other Misconduct

(b) Rolling Statement

(c) Corporate Governance

(d) Inquiry

(e) Reconciliation of cost and financial records. (4 x 4 = 16 Marks)