

## CHAPTER 11 - SM QUESTIONS

## (TEST YOUR UNDERSTANDING, TEST YOUR KNOWLEDGE, ILLUSTRATIONS)

## Test Your Understanding

## TYU 1

## Question Analysis:

**Context:** A company approaches CA. Hemant for an assurance report on prospective financial information of a project.

**Observation:** Depreciation on proposed fixed assets calculated according to the Income Tax Act, with no disclosure.

**Query:** How should the matter be proceeded with?

## Answer Analysis:

1. **SA 3400:** Reference to SA 3400, its full name & its applicable in the given scenario.

2. **Concept:** (CNO 3400.040) Duties of Member who is Examining the Prospective Financial Information – Consistency with Historical Statements

3. **Case Discussion:** Discuss Case.

4. **Conclusion:**

**Inconsistency:** Depreciation calculated according to the Income Tax Act is not consistent with historical financial statements prepared under the Companies Act.

**Disclosure:** The inconsistency with historical financial statements and the use of inappropriate accounting principles need to be stated.

**Modify Opinion:** Inadequate presentation and disclosure may lead to a qualified or adverse opinion, or withdrawal from the engagement as appropriate.

## TYU 2

## Question Analysis:

**Entity:** Bansi Group, an institution running postgraduate courses in management.

**Outsourcing:** Outsourced student applications process to Easy Solutions Limited.

**Auditor's Objective:** Ensure design and operating effectiveness of controls at Easy Solutions Limited.

**Report Nature:** What should be the nature of the report from auditors of Easy Solutions Limited as per SA 3402?

## Answer Analysis:

1. **SA 3402:** Reference to SA 3402, its full name & its applicable in the given scenario.

2. **Concept:** (CNO 3402.040) Type 1 Report & Type 2 Report (Explain Type 2 Report)

3. **Case Discussion:** Discuss Case.

4. **Conclusion:** Type 2 report is a report on the description, design and operating effectiveness of controls operating at the service organization. Auditors of Easy Solutions Limited should provide such a report giving assurance on these matters. It should also include details of tests of controls performed and details of deviations, if any.

## TYU 3

## Question Analysis:

**Client:** The management of S Ltd.

**Engagement:** Report on the compilation of pro forma financial information for a prospectus.

**Standard Reference:** SAE 3420.

**Consideration:** Factors regarding the company acknowledging and understanding its responsibility before accepting the engagement.

**Answer Analysis:**

1. **SA 3420:** Reference to SA 3420, its full name & its applicable in the given scenario.
2. **Concept:** (CNO 3420.100) Engagement Acceptance (Agreement of the Responsible Party)
3. **Case Discussion:** Discuss Case.
4. **Conclusion:** Above matters should be covered in the agreement.

### Theoretical Questions

#### Theoretical Question 1

**Question Analysis:**

**Company:** Ayurda Ltd., a fast-growing SaaS software company headquartered in Mumbai with offices in the UK.

**Service:** Provides cloud-based professional services automation (PSA) software solutions globally.

**Request:** Seeking an assurance report for one of its major clients over the controls it operates as a service organization.

**Query:** Can such an assurance report be provided?

**Answer Analysis:**

**CNO:** (CNO 3402.020) Objectives of Service Auditor in Accordance with SAE 3402.

Also explain Type 1 / Type 2 report in brief and explain it can be issued to client as per requirement.

#### Theoretical Question 2

**Question Analysis:**

Discuss the significance of Pro forma financial information included in prospectus of a company.

**Answer Analysis:**

**CNO:** (CNO 3420.020) What is Pro forma financial information?

#### Theoretical Question 3

**Question Analysis:**

Discuss the term “Pro forma adjustment” under SAE 3420

**Answer Analysis:**

**CNO:** (CNO 3420.120) Planning and Performing the Engagement – (Obtaining Evidence on Adjustments:)

#### Theoretical Question 4

**Question Analysis:**

Discuss, how, a Chartered Accountant can be associated with prospective financial information without violating relevant provisions of the Chartered Accountants Act, 1949.

**Answer Analysis:**

**CNO:** See Clause 3 of Part 1 to Second Schedule in Chapter 19 Professional Ethics