

Gurukripa's Guideline Answers to Nov 2015 Exam Questions CA Final – Advanced Auditing and Professional Ethics

Notes:

- 1. Page Number References:** Page Number References are given with the following abbreviations –
- **SA Book** means – “Padhuka’s Students’ Referencer on Standards on Auditing – For CA Final”
 - **This Book** means – “Padhuka’s Students’ Handbook on Advanced Auditing – For CA Final”

Question No.1 is compulsory (**4 × 5 = 20 Marks**).

Answer **any five** questions from the **remaining six** questions (**16 × 5 = 80 Marks**). [Answer any 4 out of 5 in Q.7]

Q.No.	Question	Answer/Reference	M
1	(a) Mr. A, a Practicing Chartered Accountant, has been appointed as an Auditor of True Pvt Ltd. What factors would influence the amount of Working Papers required to be maintained for the purposes of his Audit?	Refer: Page 27, Q.No.3, SA–230 of SA Book. Same as N 90, N 06, N 08, M 09	5
	(b) M/s T K Projects Limited, a manufacturing Company in the Steel Industry was allegedly involved in some irregularity relating to allotment of Coal Blocks for which a complaint was lodged against the Company by the Government. The Financial Institutions stopped additional working capital finance which caused a financial crisis resulting in stoppage of production. The Company incurred a massive loss during the year 2014–2015. There were delays in salary and other payments. Certain key managerial personnel including GM Finance and certain other Employees left the Company. The Company has no sound action plan to mitigate these situations. Guide the Statutory Auditor on how he should deal with this situation.	Refer: Page 129, Q.No.3, SA–570 of SA Book. Same as M 08	5
	(c) “If Inventory is material to the Financial Statements, the Auditor shall obtain sufficient appropriate audit evidence regarding the existence of Inventory by attending the physical inventory counting unless impracticable.” Discuss.	Refer: Page 86, Para 4 – 8, SA–501 of SA Book.	5
	(d) P Limited is a Listed Company and its Business Activities are divided into three regions. The Company appointed PY & Co, KL & Co, and MK & Co. Chartered Accountants to conduct a Joint Audit and report on the Financial Statements for the Financial Year 2014–2015. Explain the relationship among the Joint Auditors for the Audit of the Financial Statements for the year 2014–2015	Refer: Page 48, Para 5, 10, 11 SA–299 of SA Book.	5
2	(a) In the course of the Statutory Audit of Z Ltd, its Statutory Auditors, having determined that the work of Internal Auditor is likely to be adequate for the purpose of Statutory Audit, wanted to use the work of the Internal Auditor in respect of physical verification of Fixed Assets. How should an evaluation be carried out of this specific work done by the Internal Auditor?	Refer: Page 144, Q.No.9, SA–610 of SA Book. Same as M 12	4
	(b) Describe the relevance of SA 600 while Auditing consolidation of Financial Statements.	Refer: Page 13.18, Q.No.6 of this Book.	4
	(c) The reliability of data is influenced by its Source and Nature and is dependent on the circumstances under which it is obtained. Accordingly, what are the relevant criteria which determine whether the data is reliable for the purpose of designing Substantive Analytical procedures?	Refer: Page 97, Q.No.7, SA–520 of SA Book.	4

	(d) JY & Co. is appointed as Auditor of Breeze Ltd. JY & Co. seeks your guidance for reviewing the records and documentation of the Company regarding 'Related Party Transactions in the normal course of Business'. Describe the steps to be followed.	Refer: Page 119, Q.No.8, SA-550 of SA Book. Same as M 12	4
3	(a) You are appointed as the Auditor of a NBFC which is an Investment Company registered with RBI. What shall be the special points to be covered for the audit of NBFC in case of Investment Companies?	Refer: Page 12.5, Para 12.1.8 of this book. Same as RTP, M 03, N 12	4
	(b) What can be the possible instances of Capital Receipt which, if not credited to the Profit and Loss Account, needs to be reported in Form 3CD?	<p>Refer: Page 10.10, Clause 16(e) of this book.</p> <p>Hint: Possible instances of capital receipts which, if not credited to Profit and Loss Account are to be stated under Clause 16(e) are –</p> <ul style="list-style-type: none"> • Capital Subsidy received in the form of Government Grants which are in the nature of Promoter's Contribution, i.e. given with reference to the total investment of the undertaking or by way of contribution to its Total Capital Outlay, e.g. Capital Investment Subsidy Scheme. • Government Grant in relation to a specific Fixed Asset where such Grant is shown as a deduction from Gross Value of the asset by the Entity, in arriving at its Book Value. • Compensation for surrendering certain rights. • Profit on Sale of Fixed Assets/ Investments to the extent not credited to P&L Account 	4
	(c) Explain the Audit of Depositories under the SEBI (Depositories and Participants) Regulations, 1996 and records and documents which are required to be maintained by the Depositories.	Refer: Page 13.14, Para 13.2.6 of this book.	4
	(d) XYZ Limited, a Company engaged in the business of manufacturing and distribution of Copper Rods and Copper Wire is interested in acquiring a listed Company having a Market Share of 38% of Insulated Copper Wires. You were appointed to conduct a "Due Diligence" of the target company and you have completed review of a few key areas. List out the contents of the Due Diligence Report which you will submit to XYZ Limited.	Refer: Page 16.22, Para 16.3.10 of this book. Similar to M 03	4
4	(a) New Life Hospital is a Multi-Specialty Hospital which has been facing a lot of pilferage and troubles regarding their Inventory maintenance and control. On Investigation into the matter it was found that the person in charge of Inventory Inflow and Outflow from the store house is also responsible for purchases and maintaining inventory records. According to you, which Basic System of Control has been violated? Also list down the other general conditions pertaining to such system which needs to be maintained and checked by the management.	Refer: Page 16.16, Para 16.2.14 of this book.	4
	(b) What steps needs to be taken to Investigate Frauds of Cash Receipts?	Refer: Page 16.20, Q 20 of this book. Same as N 07, N12	4
	(c) Management Audit and Operational Audit are complementary and supplementary to one another. Discuss.	Refer: Page 15.17, Para 15.4.6 of this book.	4

	(d) Mr. Adnan, a Chartered Accountant in practice, is a partner of 4 firms. While printing his personal letter heads, Mr. Adnan gave the names of all the Firms in which he is a Partner. Comment.	Refer: Pg. 20.29, Refer Illustration of this book. Same as M 06,09,10 Hint: Not Guilty of Professional Misconduct – Clause (7) of Part I of First Schedule	4
5	(a) M/s ASKS, a firm of Chartered Accountants, having three partners accepts an audit assignment of a Private Limited Company for a fee of ₹ 4,000 only. Comment.	Refer: Pg. 20.61, Para 20.4.14 of this book. Hint: Guilty of Professional Misconduct – Clause (1) of Part II of Second Schedule Minimum Fees : If Audit Firm is located in the following Cities – Class A Cities –Delhi, Mumbai, Calcutta, Chennai, Pune, Hyderabad, Bangalore and Ahmedabad – ₹45,000. If Audit Firm is located in any other place other than above – Class B Cities – ₹30,000.	4
	(b) Mr. K, Chartered Accountant in Practice as a Sole Proprietor at Chennai, has an office in the suburbs of Chennai. Due to increase in the Income Tax Assessment work, he opens another office near the Income Tax office, which is within the city and at a distance of 30 kms from his office in the suburb. For running the New Office, he has employed a retired Income Tax Commissioner who is not a Chartered Accountant. Comment.	Refer: Pg. 20.5, Para 20.1.5 and Illustration of this book. Same as N 10 Hint: CA. K is not guilty of Professional misconduct, as the Second office is within 50 Kms from his First Office.	4
	(c) During the course of his audit, the Auditor noticed material weaknesses in the Internal Control System and he wishes to communicate the same to the management. You are required to elucidate the important points the auditor should keep in mind while drafting the Letter of Weaknesses in Internal Control System.	Refer: Page 46, Para 11, SA–265 of SA Book.	4
	(d) M/s IT Limited has prepared the Financial Statements for the year 2014–15 and mentioned in the Significant Accounting Policies that depreciation on Tangible Fixed Assets is provided on the Straight Line Method over the useful lives of the Assets as estimated by the management. The Company has ignored the useful lives of Assets mentioned in Schedule II of the Companies Act, 2013. As Statutory Auditor of the Company how would you deal with this?	Refer: Page 3.14, Para 3.3.1 of this book.	4
6	(a) Mr. S, a Practicing Chartered Accountant agreed to provide “Portfolio Management Services” to his client M/s D Limited. Comment with reference to the Chartered Accountants Act, 1949.	Refer: Page 20.3, Refer Illustration of this book. Same as RTP, M 06 Hint: Providing Portfolio Management Services is not permitted.	4
	(b) AX Insurance Limited has made a provision of 75% of Net Premium in case of marine hull insurance and 50% in case of marine cargo and miscellaneous business of net premium for Unexpired Risks Reserve in its Books. Comment.	Refer: Q 21 Page 9.19 of this book. Same as M 96	4
	(c) You are appointed as an Auditor of Global Ltd. Explain the risk factors relating to misstatements arising from misappropriation of Assets.	Refer: Page 36 , Q 24, SA 240 of SA book.	4
	(d) While compiling the accounts of Hope Ltd, you observed that a few Accounting Standards have not been followed and there have been omission of some information which was required to be followed in the current situation. How would you deal with this?	Refer: Page 256, Para 21, 23 SRS 4410 of SA book.	4

7	Write Short notes on any four of the following:		
	(a) Gross exposure margin and Volatility margin	Refer: Pg. 11.3, Para 11.1.4 of this book.	4
	(b) Permanent Consolidated Adjustments	Refer: Pg. 13.80, Q.9 of this book. Same as M 13, M14	4
	(c) Aspects to be covered in the Books of Accounts to be maintained by a Multi–State Co–Operative Society.	Refer: Pg. 12.16, Para 12.3.5 of this book.	4
	(d) Matters addressed in Clause 49 regarding Corporate Governance.	Refer: Pg. 17.2, Para 17.1.3 of this book.	4
	(e) Obligation of the Statutory Auditor to report Frauds to the Central Govt. during the audit carried out under the Companies Act 2013.	Refer: Pg. 2.19, Para 2.3.6 Point 8 of this book.	4