

**MOCK TEST PAPER**  
**FINAL NEW 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. (a) A Co. Ltd. has not included in the Balance Sheet as on 31-03-2017 a sum of ₹ 1.50 crores being amount in the arrears of salaries and wages payable to the staff for the last 2 years as a result of successful negotiations which were going on during the last 18 months and concluded on 30-04-2017. The auditor wants to sign the said Balance Sheet and give the audit report on 31-05-2017. The auditor came to know the result of the negotiations on 15-05-2017. Advise.
- (b) KRP Ltd., at its annual general meeting, appointed Mr. X, Mr. Y and Mr. Z as joint auditors to conduct auditing for the financial year 2015-16. For the valuation of gratuity scheme of the company, Mr. X, Mr. Y and Mr. Z wanted to refer their own known Actuaries. Due to difference of opinion, all the joint auditors consulted their respective Actuaries. Subsequently, major difference was found in the actuary reports. However, Mr. X agreed to Mr. Y's actuary report, though, Mr. Z did not. Mr. X contends that Mr. Y's actuary report shall be considered in audit report due to majority of votes. Now, Mr. Z is in dilemma.
- You are required to decide the responsibility of auditors Mr. X and Mr. Z, in case, report made by Mr. Y's actuary, later on, found faulty.
- (c) As an auditor of ABC Limited, in view of given circumstances, you are required to draft disclaimer of opinion and basis for disclaimer of opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statement.
- Audit of a complete set of financial statements of an entity other than a company incorporated under the Companies Act, 2013, using a fair presentation framework. The audit is not a group audit (i.e., SA 600, does not apply).
  - The financial statements are prepared by management of the entity in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (a general purpose framework).
  - The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SA 210.
  - The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit

evidence are deemed to be both material and pervasive to the financial statements.

- The relevant ethical requirements that apply to the audit are ICAI's Code of Ethics and applicable law/regulation
  - Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
  - A more limited description of the auditor's responsibilities section is required.
  - In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under relevant law/ regulation.
- (d) The audit report of P Ltd. for the year 2016-17 contained a qualification regarding non-provision of doubtful debts. As the statutory auditor of the company for the year 2017-18, **decide how would you report**, if :
- (i) The company does not make provision for doubtful debts in 2017-18?
  - (ii) The company makes adequate provision for doubtful debts in 2017-18?

**(5 x 4 = 20 Marks)**

2. (a) Ms. Preeti is a practicing Chartered Accountant. Mr. Preet is a practicing Advocate representing matters in the court of law. Ms. Preeti and Mr. Preet decided to help each other in the matters involving their professional expertise. Accordingly, Ms. Preeti recommends Mr. Preet in all tax litigation matters in the court of law and Mr. Preet consults Ms. Preeti in all matters related to finance and other related matters, which comes to him in arguing various cases in the court of law. Consequently, they started sharing some part in the profits of their professional work. **Comment** on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
- (b) Mr. A engaged in business as a sole proprietor presented the following information to you for the FY 16-17. Turnover made during the year ₹ 124 lacs. Goods returned in respect of sales made during FY 14-15 is ₹ 20 lacs not included in the above. Cash discount allowed to his customers ₹ 1 lac for prompt payment. Special rebate allowed to customer in the nature of trade discount ₹ 5 lacs. Kindly **advise** him whether he has to get his accounts audited u/s 44AB of the Income Tax Act, 1961.
- (c) The Balance Sheet of G Ltd. as at 31st March 16 is as under. Comment on the presentation in terms of Schedule III.

| Heading                           | Note No. | 31 <sup>st</sup> March, 16 | 31 <sup>st</sup> March, 15 |
|-----------------------------------|----------|----------------------------|----------------------------|
| <b>Equity &amp; Liabilities</b>   |          |                            |                            |
| Share Capital                     | 1        | XXX                        | XXX                        |
| Reserves & Surplus                | 2        | 0                          | 0                          |
| Employee stock option outstanding | 3        | XXX                        | XXX                        |

|   |    |      |      |
|---|----|------|------|
| Share application money refundable                      | 4  | XXX  | XXX  |
| <b>Non-Current Liabilities</b>                          |    | XXX  | XXX  |
| Deferred tax liability (Arising from Indian Income Tax) | 5  | XXX  | XXX  |
| <b>Current Liabilities</b>                              |    |      |      |
| Trade Payables  | 6  | XXX  | XXX  |
| <b>Total</b>  |    | XXXX | XXXX |
| <b>Assets</b>   |    |      |      |
| <b>Non-Current Assets</b>                               |    |      |      |
| Fixed Assets-Tangible                                   | 7  | XXX  | XXX  |
| CWIP (including capital advances)                       | 8  | XXX  | XXX  |
| <b>Current Assets</b>                                   |    |      |      |
| Trade Receivables                                       | 9  | XXX  | XXX  |
| Deferred Tax Asset (Arising from Indian Income Tax)     | 10 | XXX  | XXX  |
| Debit balance of Statement of Profit and Loss           |    | XXX  | XXX  |
| <b>Total</b>  |    | XXXX | XXXX |

- (d) While auditing Z Ltd., you observe certain material financial statement assertions have been based on estimates made by the management. As the auditor how do you minimize the risk of material misstatements? **(5 x 4 = 20 Marks)**
3. (a) A special notice has been issued for a resolution at 3rd annual general meeting of Fiddle Ltd. providing expressly that CA. Smart shall not be re-appointed as an auditor of the company. Consequently, CA. Smart submitted a representation in writing to the company as provided under section 140(4)(iii) of the Companies Act, 2013. In the representation, CA. Smart incorporated his independent working as a professional throughout the term of office and also indicated his willingness to continue as an auditor if reappointed by the shareholders of the Company. **Advise** on above with reference to the Chartered Accountants Act, 1949, and Schedules thereto.
- (b) A nationalised bank received an application from an export company seeking sanction of a term loan to expand the existing sea food processing plant. In this connection, the General Manager, who is in charge of Advances, approaches you to conduct a thorough investigation of this limited company and submit a confidential report based on which he will decide whether to sanction this loan or not.
- Decide the points you will cover in your investigation before submitting your report to the General Manager.
- (c) A Pvt. Ltd., started stock broking activities in 2016. For this purpose it acquired membership of a stock exchange for ₹ 110 lacs. While finalizing the accounts, the

company disclosed the above amount under the Fixed Assets schedule as “Stock Exchange Membership Rights”. The company also did not write off any amount since the rights would enable the company to perpetually carry on its business.

- (d) Parent Ltd. acquired 51% shares of Child Ltd. during the year ending 31-3-2016. During the financial year 2016-17 the 20% shares of Child Ltd. were sold by Parent Ltd. Parent Ltd. while preparing the financial statements for the year ending 31-3-2016 and 31-3-2017 did not consider the financial statements of Child Ltd. for consolidation. Comment.

**(5 x 4 = 20 Marks)**

4. (a) Alora Pvt. Ltd. approached CA. Neha, a practicing Chartered Accountant since 1998, for recovery of debts amounting ₹ 20 crore. CA Neha accepted the work and requested to charge fees @ 1.5% of the debt recovered. Later on, she raised a bill for debts recovered and charged ₹ 27 lacs for recovering 90% of the debts. Comment with reference to the Chartered Accountants Act, 1949.
- (b) The Managing Director of the Company has committed a “Teeming and Lading” Fraud. The amount involved has been however subsequently after the year end deposited in the company. As a Statutory Auditor, how would you deal?
- (c) As on 31st March 2017 while auditing Safe Insurance Ltd, you observed that a policy has been issued on 25th March 2017 for fire risk favouring one of the leading corporate houses in the country without the actual receipt of premium and it was reflected as premium receivable. The company maintained that it is a usual practice in respect of big customers and the money was collected later on. As an auditor discuss the steps to be taken while verifying the Premium of Life Insurance Company.
- (d) Describe application controls and give three examples of automated application controls.
- (e) ABG & Co., a Chartered Accountant firm has been appointed by C & AG for performance audit of a Sugar Industry. List out the factors to be considered generally by ABG & Co., while planning a performance audit of Sugar Industry?

**(4 x 5 = 20 Marks)**

5. (a) CA. Aman, a practicing Chartered Accountant, took over as the executive chairman of Signora IT Ltd. on 01.04.2016. However, realizing about obtaining prior approval from the Council of the ICAI for engaging into other business, he applied to the Council for permission within 10 days. Comment with reference to the Chartered Accountants Act, 1949.
- (b) Mr. 'P' have been appointed as operational auditor of M/s Books & Magazine Ltd. and observed a totaling error in invoice of ₹ 1,000. He has not taken care of the same saying that this is out of scope of his work. Comment.
- (c) Energy shortage and the cost of environmental quality control have made the use of energy very costly to many industrial establishments. As a result, many factories have opted for establishing energy management programmes to cope with severe energy

shortages and for improving the profitability of their operations. The steps to be followed are general in nature which includes conducting energy audits.

In view of the above, you are required to briefly explain what is energy audit and state some of the key functions of the energy auditor.

- (d) Mr. Suzain has been appointed as a director of CAC Ltd. As an auditor, you are required to state the information to be provided to the shareholders of the company in accordance with Regulation 36 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
  - (e) New Life Hospital is a multi-speciality 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 basis system of control has been violated? Also advise the other general conditions pertaining to such system which needs to be maintained and checked by the management. **(4 x 5 = 20 Marks)**
6. (a) Your engagement team member, Mr. Shyam, is engaged as practitioner for compilation of historical financial information of Rama Ltd.
- You as a senior audit engagement team in-charge, you are required to examine the practitioner's responsibilities as he is engaged to assist management with the preparation and presentation of historical financial information without obtaining any assurance on that information.
- (b) Mr. Fresh, a newly qualified chartered accountant, wants to start practice and he requires your advice, among other things, on criminal liabilities of an auditor under the Companies Act, 2013. You are required to briefly explain the same to Mr. Fresh.
  - (c) The financial statements of AKY & 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 advise the considerations to be taken care while planning and performing audit?
  - (d) Your firm has been appointed as Central Statutory Auditors of a Nationalised Bank. The Bank follows financial year as accounting year. The bank is a consortium member of Cash Credit Facilities of ₹ 50 crores to X Ltd Bank's own share is ₹ 10 crores only. During the last two quarters against a debit of ₹ 1.75 crores towards interest the credits in X Ltd's account are to the tune of ₹ 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing. Advise your views on the issue which were brought to your notice by your Audit Manager.
  - (e) List out the consequences if the Quality review board notices major non-compliances with the requirements of the Standards on quality control or standards on auditing or accounting standards? **(4 x 5 = 20 Marks)**