

## FSM

Answer 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, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

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

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1. (a) The Balance Sheet of G Ltd as at 31<sup>st</sup> March 13 is as under. Comment on the presentation in terms of revised Schedule VI and Accounting Standards issued by NACAS. 5

Heading	Note No.	31 <sup>st</sup> March 13	31 <sup>st</sup> March 12
<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

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<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
P & L Debit balance		XXX	XXX
<b>Total</b>		XXXX	XXXX

- (b) Z Ltd changed its employee remuneration policy from 1<sup>st</sup> of April 2012 to provide for 12% contribution to provident fund on leave encashment also. As per the leave encashment policy the employees can either utilize or encash it. As at 31<sup>st</sup> March 13 the company obtained an actuarial valuation for leave encashment liability. However it did not provide for 12% PF contribution on it. The auditor of the company wants it to be provided but the management replied that as and when the employees availed leave encashment, the provident fund contribution was made. The company further contends that this is the correct treatment as it is not sure whether the employees will avail leave encashment or utilize it. Comment. 5
- (c) T Ltd. commenced its manufacturing activities from 1<sup>st</sup> April 2012. In the course of production the company generated certain by-products. As at 31<sup>st</sup> March 13 the company did not value the by-products considering the value as insignificant. The auditor of the company is of the opinion that the by-products are inventory of the company and it should be valued and brought into books of account. Comment. 5

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- (d) K Ltd. had 5 subsidiaries as at 31<sup>st</sup> March 2013 and the investments in subsidiaries are considered as long term and valued at cost. Two of the subsidiaries net worth eroded as at 31<sup>st</sup> March 13 and the prospects of their recovery are very bleak and the other three subsidiaries are doing exceptionally well. The company did not provide for the decline in the value of investments in two subsidiaries because the overall investment portfolio in subsidiaries did not suffer any decline as the other three subsidiaries are doing exceptionally well. Comment. **5**

2. Give your comments with reference to Chartered Accountants Act, 1949 and Schedules thereto.

- (a) Mr. A, a practicing Chartered Accountant, failed to return the books of account and other documents of a client despite many reminders from the client. The client had settled his entire fees dues also. **4**
- (b) Mr. B, a practicing Chartered Accountant as well as a qualified lawyer, was permitted by the bar council to practice as a lawyer also. He printed his visiting card where he mentioned his designation as Chartered Accountant and Advocate. **4**
- (c) Mr. C, a practicing Chartered Accountant, in the course of the audit of a listed company discovered serious violations of the provisions of the Companies Act 1956, informed the Registrar of Companies out of public interest. **4**
- (d) Mr. D, a practicing Chartered Accountant, did not complete his work relating to the audit of the accounts of a company and had not submitted his audit report in due time to enable the company to comply with the statutory requirements. **4**

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3. (a) In the course of audit of Z Ltd, its auditor wants to rely on audit evidence obtained in previous audit in respect of effectiveness of internal controls instead of retesting the same during the current audit. As an advisor to the auditor kindly caution him about the factors that may warrant a re-test of controls. **4**
- (b) In audit plan for T Ltd, as the audit partner you want to highlight the sources of misstatements, arising from other than fraud, to your audit team and caution them. Identify the sources of misstatements. **4**
- (c) The auditor of H Ltd wanted to obtain confirmation from its creditors. But the management made a request to the auditor not to seek confirmation from certain creditors citing disputes. Can the auditor of H Ltd accede to this request ? **4**
- (d) R & Co, a firm of Chartered Accountants have not revised the terms of engagements and obtained confirmation from the clients, for last 5 years despite changes in business and professional environment. Please elucidate the circumstances that may warrant the revision in terms of engagement. **4**
4. (a) In course of audit of Good Samaritan Bank as at 31<sup>st</sup> March 13 you observed the following :
- (i) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government ? **5**
- (ii) The bank's advance portfolio comprised of significant loans against Life Insurance Policies. Write suitable audit program to verify these advances. **3**

- (b) As at 31<sup>st</sup> March 2013 while auditing Safe Insurance Ltd you observed that a policy has been issued on 25<sup>th</sup> March 2013 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 on 5<sup>th</sup> April 2013. You further noticed that there was a fire accident in the premises of the insured on 31<sup>st</sup> March 2013 and a claim was lodged for the same. The insurance company also made a provision for claim. Please respond. **4**
- (c) While writing the audit program for tax audit in respect of A Ltd you wish to include possible instances of capital receipt if not credited to Profit & Loss Account which needs to be reported under clause 13(e) of form 3CD. Please elucidate possible instances. **4**
5. (a) J Ltd is interested in acquiring S Ltd. The valuation of S Ltd is dependent on future maintainable sales. As the person entrusted to value S Ltd what factors would you consider in assessing the future maintainable turnover ? **4**
- (b) The Managing Director of X Ltd is concerned about high employee attrition rate in his company. As the internal auditor of the company he requests you to analyze the causes for the same. What factors would you consider in such analysis ? **4**
- (c) E & Co, a firm of Chartered Accountants, requires your help in identifying the audit procedures that can be performed using CAATs. Please guide them. **4**
- (d) As the auditor of a large multi locational company, in the planning process, you are requested to identify the inherent audit risk at the account balance and class of transaction level. **4**

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6. (a) H Private Ltd had taken overdrafts from two banks with a limit of ₹ 10 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 9 lacs. The said loans were outstanding as at 31<sup>st</sup> March 13. The paid up capital and reserves of the company as at that date was ₹ 40 lacs and its turnover during the financial year ended on 31<sup>st</sup> March 13 was ₹ 3 crores. The management of the company is of the opinion that CARO 03 is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment. **4**
- (b) XYZ Ltd has significant operations in a foreign country. Due to civil and political unrest in that country physical verification of inventory and fixed assets could not be carried out and you are not in a position to obtain audit evidence through other audit procedures also. The value of fixed assets and inventory forms part of 80% of the asset value of the company. As the auditor of XYZ Ltd what factors do you consider in your reporting responsibility. Also draft a suitable report that will be incorporated in the main audit report (Reporting under CARO 03 need not be considered). **8**
- (c) R Ltd as at 31<sup>st</sup> March 2013 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28<sup>th</sup> February 2013. However the defaulted amount was paid on 5<sup>th</sup> April 2013. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO 03. Comment and draft a suitable report. **4**

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7. Write short notes on any **four** of the following :

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|---|----------|
| (a) Restrictions on investments of funds of a central co-operative society.       | <b>4</b> |
| (b) Technical, ethical and professional standards as per statement on peer review | <b>4</b> |
| (c) Corresponding figures   | <b>4</b> |
| (d) Permanent Consolidated Adjustments  | <b>4</b> |
| (e) Volatility Margin, its computation and its application.                       | <b>4</b> |
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