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Question Paper	
ADV. Audit & Professional Ethics	Duration: 65
Details: Test – 5	Marks: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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TEST-5 CH-6, 16, 18

SA- 300, 315, 320, 330

Q-1 AKY Ltd. is a listed company engaged in the business of software and is one of the largest company operating in this sector in India. The company's annual turnover is Rs. 40,000 crores with profits of Rs. 5,000 crores. Due to the nature of the business and the size of the company, the operations of the company are spread out in India as well as outside India. The company's contracts with its various customers are quite complicated and different. During the course of the audit, the audit team spends significant time on audit of revenue – be it planning, execution or conclusion. This matter was also discussed with management at various stages of audit. The efforts towards audit of revenue also involve significant involvement of senior members of the audit team including the audit partner.

After completion of audit for the year ended 31 March 2019, the audit partner was discussing significant matters with the management wherein they also communicated to the management that he plans to include revenue recognition as key audit matter in his audit report. The management did not agree with revenue recognition to be shown as key audit matter in the audit report. Comment;

(6 marks)

Q-2 Ekbote Co. is currently a large organization trading in items of office furniture. The Entity wants to expand and hence are looking at acquisition of Rawat Co which deals in items of household furniture. Ekbote Co. hires a Chartered accountant to conduct a due diligence to consider whether there is the potential for additional value to be brought out of the target company by improving its operational function and also whether there are serious operational risks about which the potential buyer should be concerned (thereby allowing the buyer to consider aborting the deal or renegotiating the price). Which of the due diligence review would

be helpful to achieve the above objective? You are also required to briefly discuss the contents of a due diligence report.

(4 marks)

Q-3 M/s SS limited is a partly owned subsidiary of M/s HH limited. For the upcoming financial year, M/s DD & Co., Chartered Accountants, were appointed as the statutory auditors of SS limited. The CEO of the holding company was impressed with the knowledge and experience of Mr. D, one of the partners of the firm and hence, he offered Mr. D to take up the position of Director (not MD/ whole- time director) of HH limited. At the same time, Mr. D's friend approaches him with an assignment to act as a Recovery Consultant for a bank. Mr. D is now confused whether to accept or reject the offers. He approaches you and seeks your advice on the same. Advise what Mr. D about what he can do with the offers with reference to the Chartered Accountants Act, 1949 and Schedules thereto.

(5 marks)

Q-4 Mr. Yuvi, a Chartered Accountant in practice, is the auditor of Prime Ltd. He advised the Managing Director of the company to include 'orders under negotiation' in sales, to reflect higher profit and better financial position for obtaining bank loans in future. Mr. Yuvi, thereafter, gave clean reports on the balance sheet prepared accordingly without examining the accounts. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.

(4 marks)

Q-5 CA Robo has been appointed as Forensic Auditor by BMY Bank Limited for one of its borrowal accounts WRONG Ltd. CA Robo started the audit by first reviewing the transactions of the borrower in Bank statement as per Bank records to identify any hidden patterns in that information. She had to review huge volume of data, as the number of transactions per day was in hundreds and the data was to be reviewed for the last three years. So, she was stuck up as to how to proceed further to identify any hidden patterns in information, if any. Guide CA Robo, suggesting which technique to be used for identifying any hidden patterns in the information.

(3 marks)

Q-6 In the course of his audit assignment in M/s Bailey Ltd., CA Soft came to know that the company, due to financial crunch and unable to meet employees salary, has taken a loan of Rs. 50 lacs from Employees Gratuity Fund. The said loan was not reflected in the books of account of the company and the auditor ignored this transaction in his report. Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to.

(3 marks)

Q-7.MCQs:-

1. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020; friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper misconduct on the part of CA Dharma and what actions can be taken against him?

(a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine up to Rs.5,00,000.

(b) Yes, it is a misconduct under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine up to Rs.1,00,000.

(c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine up to Rs. 1,00,000.

(d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine up to Rs.5 ,00,000

2. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020- 21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalization of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent.

What is correct course of action that CA Kamal should consider in such a situation?

(a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21.

(b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report.

(c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report.

(d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.

3. ZARI & Associates is a partnership firm and has been in existence for the last 15 years. The firm is engaged in consultancy business related to various areas and has built a good name for itself over the period. Some of the clients of the firm are very old who have been continuing since its existence. The business of the firm has gone through various phases some of them were very bad. But currently the business is going very well and the firm is looking to expand its operations into different geographies. For this, the firm's management decided that some of its senior partners will move to new offices and new partners would be inducted. A team of new partners is in discussion with the senior old partners regarding their joining the firm.

The new partners would be interested to know whether the terms offered to them are reasonable having regard to the nature of the business, profit records, capital distribution, personal capacity of the existing partners, socio-economic setting etc. and whether they would be able to derive continuing benefits in the shape of return of capital to be contributed and remuneration of services to be offered. In addition, they also want to ascertain whether the capital to be contributed by them would be safe and applied usefully or not.

For this purpose, an investigation of the business of the firm was set up on behalf of these new partners. At the time of scrutiny of the record of profitability of the firm's business, the investigating accountant picked up records of last 4-5 years wherein he observed 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating. The investigating accountant, therefore, went into the profits of last 7-8 years to iron out the fluctuation. He also examined the provisions of the partnership deed particularly the composition of partners, their capital contribution, drawing rights, retirement benefits and goodwill. He also asked for details of jobs/ contracts in hand and the range of current clientele of the firm for his examination. Some of these procedures of the investigating accountant were

not found appropriate by the senior partners of the firm and they advised the investigating accountant not to go beyond his scope. In the given situation, which of the following is correct?

(a) The investigating accountant should not have asked for the records of the profits of last 7-8 years as that would be too much of the information for his review. Also the details of jobs/ contracts in hand and the range of current clientele of the firm are confidential and hence does not get covered in his scope.

(b) After finding 2 years which were unusual because the profits during those 2 years were highly erratic and fluctuating, the investigating accountant should have reported the matter to the new partners instead of asking for more details related to the profits of last 7-8 years. Also he is not required to examine the provisions of the partnership deed as these details would have already been discussed with the new partners and they would have checked that.

(c) The procedures of the investigating accountant looks completely reasonable considering his scope of work. Further, no changes are required in his work approach.

(d) At the outset, it can be said that investigation in the given case was not required. However, even if the new partners decided to carry out the investigation it should have been limited to mainly inquiry procedures by the investigating accountant. The investigating accountant could have also reviewed the manner of computation of goodwill which doesn't seem to have been performed on the basis of the above mentioned facts.

(2×3 = 6 Marks)

4. Identify the option having steps involved in Forensic Accounting assignments in correct order:

a) Initialization / Obtain relevant evidence / Developing the plan / Perform analysis / Reporting/ Court proceedings.

b) Initialization / Developing the plan / Obtain relevant evidence / Perform analysis / Reporting/ Court proceedings

c) Initialization / Obtain relevant evidence / Developing the plan / Perform analysis / Court proceedings/ Reporting.

d) Initialization / Developing the plan / Obtain relevant evidence / Perform analysis / Court proceedings/ Reporting".

5. Mr. R, (friend of Mr. P) a CA in practice invited Mr. P to set up a 'Network Firm' along with 2 more friends. All the four auditors agreed to the same and decided to start a network firm by the name M/s RP & Co. However, one of the auditors suggested that they cannot use the term '& Co.' and it needs to be changed. But Mr. R informed that there is no such Regulation regarding the firm's name. Which among the name shall be suitable to the newly started 'Network Firm', in accordance with the provisions of Chartered Accountant Act and Regulation?

(a) RP and Co.

(b) RP & Associates.

(c) RP and Networks.

(d) RP & Affiliates

6. KB Associates a chartered accountant firm has been appointed as an auditor of the company for the financial year 2020-21. It consists of two partners CA K & CA B. CA K is brother of the father of the finance director of the company. CA B is an old friend of the finance director of the company. What kind of ethical threat is associated with appointment of KB Associates as an auditor of ABC LTD.?

(a) Self Interest Threat.

(b) Advocacy Threat.

(c) Familiarity Threat.

(d) Self-Review Threat.

7. Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three installments of Rs.25 lakhs each in the month of May, July and September 2017. The title deed for the land was to be transferred after the payment of second installment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?

a) Incorporate the changes in financial statements as per the legal requirement.

b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.

c) Take management representation on the same.

d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.

(1×4 = 4 Marks)