



# CA Test Series.org (Since 2015)

CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

Question Paper	
ADV. Audit & Professional Ethics	Duration: 65
Details: Test – 3	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.

**Legal:** Material provided by catestseries.org is subject to copyright. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher. For permission requests, write to the publisher, addressed “Attention: Permissions Coordinator,” at **exam@catestseries.org**. If any person caught of copyright infringement, strong legal action will be taken. For more details check legal terms on the website: catestseries.org

**TEST-3 CH-8, 9, 10, 11, 12**

**SA- 402, 450**

**Q-1** H Co. Ltd. is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd. The H Co. Ltd. adopts straight line method of depreciation for its assets whereas S Co. Ltd. follows written down value or diminishing value method. Though R Co. Ltd. follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. While consolidating the financials of the R Co. Ltd., and S Co. Ltd., with those of H Co. Ltd., determine the possible issues that you have to ensure for compliance in the light of above facts.

**(5 marks)**

**Q-2** Your firm has been appointed as Central Statutory Auditors of a Nationalized Bank. The Bank follows financial year as accounting year. The bank is a consortium member of Cash Credit Facilities of Rs. 50 crores to Xalta Limited. Bank's own share is Rs. 10 crores only. During the last two quarters against a debit of Rs. 1.75 crores towards interest the credits in Xalta Ltd's account are to the tune of Rs. 1.25 crores only. Based on the certificate of lead bank, the bank has classified the account of X Ltd as performing. Comment

**(4 marks)**

**Q-3** You are auditing a small bank branch with staff strength of the manager, cashier and three other staff Peter, Prem and Pran. Among allocation of work for other areas, Peter who is a peon also opens all the mail and forwards it to the concerned person. He does not have a signature book so as to check the signatures on important communications. Prem has possession of all

bank forms (e.g. Cheque books, demand draft/pay order books, travelers' cheques, foreign currency cards etc.). He maintains a record meticulously which you have test checked also. However, no one among staff regularly checks that. You are informed that being a small branch with shortage of manpower, it is not possible to always check the work and records. Give your comments.

**(4 marks)**

**Q-4** M/s MPS & Associates, Chartered Accountants started the statutory audit of their client Contingencies Ltd., a General Insurance company, which has a paid-up capital of Rs. 16,800/- lac. During the course of the audit, it was found that the Company was not maintaining the required solvency margin as per the provisions of Insurance Act, 1938. When the issue was escalated to the management, they replied that solvency margin needs to be maintained as per limits prescribed only on last day of the financial year. Comment whether reply of management is tenable or not.

**(5 marks)**

**Q-5** A company has outsourced its payroll accounting to another organization. Payroll constitutes 45% of total expenditure. The auditor examines the printed reports received by the client from the payroll company and test checks the calculation, which he finds to be in order. Based on this he concludes that a payroll expense is not materially misstated. Would this be a violation of auditing standards?

**(3 marks)**

**Q-6** AB Ltd. is a company in which public are not substantially interested. During the previous year 2020-21, the company issued shares to residents of India and provides you the following data related to such issue:

No. of shares issued 1,00,000

Face Value 10 per share

Fair Market Value (FMV) 60 per share

Consideration received 80 per share

The management of the company contends that, it is a normal issue of shares, thus, needs not to be reported. As the tax auditor of AB Ltd., how would you deal with the matter in your tax audit report?

**(4 marks)**

**Q-7 MCQs:-**

1. NT 22 Group is a large group comprising of 22 subsidiary companies, 14 associate companies and 19 joint ventures. NT Ltd. is the holding company which is also listed on Bombay Stock Exchange and New York Stock Exchange. The Group prepares its consolidated financial statements every quarter for various reporting requirements – SEBI (Stock and Exchange Board of India), Stock Exchanges, Registrar of Companies in India and others. The turnover of the Group is INR 15,000 crores and many of its components have significant operations at standalone level. The Group is audited by one audit firm, Seema & Co LLP. For the purpose of group audit of the current year, the auditors have considered performing testing of journal entries across the group to address the significant risk, however, the auditors are facing challenges to perform this audit procedure across the group because of the volume and limitation of resources. Please suggest the correct options in respect of this matter

- (a) The Group auditors have a choice to test journal entries of the components which is also backed up by the auditing standards.
- (b) The Group auditors must test journal entries of all components.
- (c) The Group auditors need not test journal entries of components requiring analytical response at group level.
- (d) The Group auditors need not test journal entries of components scoped with comprehensive approach

2. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31st March, 2019. Ten branches of the bank were already covered for concurrent audit and the Bank's Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019-20.

1. Allahabad branch which started foreign exchange business from February 2019.
  2. Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank. Whether the decision of audit committee to include both the branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?
- (a) The decision of audit committee is valid as according to RBI Guidelines, both the branches fulfill the criteria for compulsory concurrent audit.
  - (b) Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines; however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit.
  - (c) Allahabad and Rae Bareilly branch are compulsorily not required to be covered under concurrent audit as per RBI Guidelines.
  - (d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines B only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered

under compulsory concurrent audit criteria as per RBI Guidelines but the Rae Bareilly branch is covered under compulsory concurrent audit criteria.

3. As per clause 6(2) of IRDA (Protection of Policyholders Interest) Regulations, 2002, “the insurer shall inform by the letter forwarding the policy that he has a period of \_\_\_\_\_ from the date of receipt of the policy document to review the terms and conditions of the policy and where the insured disagrees to any of those terms or conditions, he has the option to return the policy stating the reasons for his objection, when he shall be entitled to a refund of the premium paid, subject only to a deduction of a proportionate risk premium for the period on cover and the expenses incurred by the insurer on medical examination of the proposer and stamp duty charges”.

- (a) 15 days
- (b) 30 days
- (c) 60 days
- (d) 45 days

(2 × 3 = 6 Marks)

4. A company has defaulted in repayment of loans or borrowings to a NBFC. Auditor is required to report the period and amount of the default:

- (a) Under Clause (vii)(a) of Para 3 of CARO, 2020.
- (b) Under Clause (vii)(b) of Para 3 of CARO, 2020.
- (c) Under Clause (ix) of Para 3 of CARO, 2020.
- (d) No reporting required, as default of dues of NBFC are not covered in CARO, 2020



5. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits, but the same clients had some other firms as their tax auditors. In the current year (FY 2020-21), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits up to the maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed. You are requested to advise the firm in this matter.

- (a) There is no limit on no of tax audits in case of LLP.
- (b) All the partners of the firm can collectively sign 450 tax audit reports.
- (c) All the partners of the firm can collectively sign 600 tax audit reports.
- (d) All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.

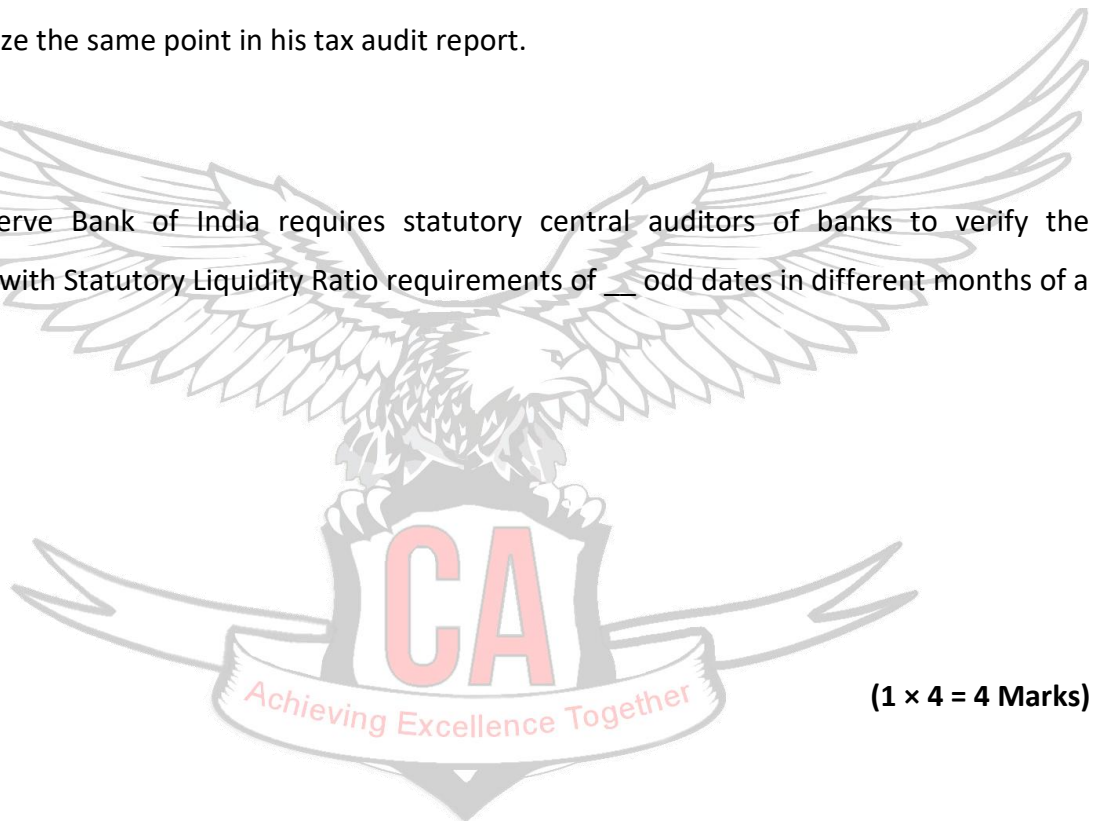
6. RK & Associates are the tax auditors of OPQ Pvt Ltd. While performing procedures in respect of clause 21(d) of form 3 CD, the tax auditors came across various payment vouchers where the cash paid exceeds INR 50,000 during a day. The tax auditors want the management to report all of these payments in Form 3CD, however, the management has a different view. The management said that the payment voucher is one for various payments made during a day to various/ same parties but any payments made to various parties or all payments taken together during a day to a single party do not exceed the criteria for reporting under clause 21(d) of Form 3CD. Please suggest how would you deal with this matter as tax auditor.

- (a) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD otherwise the tax auditor should report this in his tax audit report.

- (b) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. Tax auditor should qualify his report and send a written communication about this matter to Income Tax Department.
- (c) None of the payment to a single party during a day exceeds the prescribed limit, thus, it should not be reported in Form 3CD.
- (d) Since the payment in a single voucher exceeds the prescribed limit it should be reported in Form 3CD. However, tax auditor may ignore this if the amount is immaterial; however, he should insist the management to give a disclosure of the same in Form 3CD and should emphasize the same point in his tax audit report.

7. The Reserve Bank of India requires statutory central auditors of banks to verify the compliance with Statutory Liquidity Ratio requirements of \_\_\_ odd dates in different months of a fiscal year.

- (a) 6
- (b) 8
- (c) 12
- (d) 15



**(1 × 4 = 4 Marks)**