Date
Page 1

TOTAL MARKS - 29

Overall attempt is fair. You have good conceptual knowledge of relevant part, presentation is fair. You can perform better. It is also advisable to mention applicable Engagement Quality Control Standards or Accounting Standards or Sections in audit paper wherever required. Answer should be crisp, precise and to the point to secure good marks. Days before examination date do not add any new topic in your schedule. Just focus on revision, revision and revision

Audit
Test Paper 3

Q-1]
1. c
2. b
3. a
4. c
5. c
6. c
7. c

10 marks

3 marks

Q-2] The bank is a consortium member of cash credit facilities of ₹50 crores to Xalta Ltd.
The Bank's own share is ₹10 crores.
During the last two quarters, against a debit of ₹1.75 crores towards interest, the credits in Xalta Ltd's A/c are to the tune of ₹1.25 crores only.

When a consortium of banks collectively lend / make advances to a large customer under the leadership of the 'lead bank', then each bank may classify the advance given by it according to its own experience of recovery and other factors.

You have correctly described this.

Since in the last two quarters the amount remains outstanding, the interest income should be reversed and the advance should be ~~th~~ classified as a non-performing asset despite the certificate of the lead bank to classify the account as performing.

2 marks

Q.5] SA 402, 'Audit considerations relating to an entity using a service organization' requires the auditor to perform the following audit procedures :

1] Obtaining an understanding of the service provided by the service organization.

2] Understanding the controls relating to the service provided by the service organization.

3] Obtain sufficient and appropriate audit evidence relating to the auditor's assessed risk of material misstatements.

4] Further procedures when sufficient understanding cannot be obtained from user entity.

you have good understanding of this question.

5] Fraud, non-compliance with laws and regulations and uncorrected misstatements in relation to activities at the service organization.

Thus, merely checking the calculation of the printed payroll report is not sufficient as per SA 402 hence, it would be a violation of the ~~audit~~ auditing standards.

3 marks

Q-3. Banks are required to design, implement and maintain a system of internal controls for mitigating risks and ensuring compliance with the relevant laws and regulations.

In the instant case, Peter, a peon, opens all mail and forwards it to the concerned person. Further, he does not have a signature book so as to verify signatures on important communications. Also, Prem has the sole possession of all bank forms (eg cheque books, traveller's cheques, demand draft) for which he maintains meticulous records.

The aforementioned processes are not in line with the implementation and maintaince of sound internal control policies:

1] All mail should only be opened by a responsible official.

2] Signatures on all letters, advices and instructions recieved from other banks / branches / customers should be verified with the signature book by a responsible official.

You have good conceptual knowledge of this question.

3] All bank forms should be kept in the custody of an officer and another official should verify the issuance and stock of such stationery.

Hence, the contentions of ~~be~~ the branch being a small branch with shortage of manpower due to which they are not able to check the work and

records on a regular basis and non-segregation of duties, is not tenable as such lapses in internal controls pose the risk of frauds.
Thus, the auditor should report the same accordingly, in line with SA 705.

4 marks

Q-4) Section 64VA of the Insurance Act, 1938 and the Insurance Laws (Amendment) Act, 2015 require every insurer and re-insurer to maintain an excess of the value of assets over the value of liabilities at all times, which shall not be less than 50% of the amount of minimum capital requirement.

Good attempted.

If at any time, the insurer / re-insurer does not maintain the required level of solvency margin, he is required to submit a financial plan to the satisfaction of the authority indicating the plan of action to correct the deficiency.

Section 64VA further states that if an insurer / re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall be deemed insolvent and may be wound up by the court on an application made by the authority.

Also, the solvency margin is required to be maintained throughout the year.
Thus, the contention of Contingencies Ltd of maintaining solvency margin as per prescribed limits only on the last day of FY is not tenable.

3 marks

Q-5) In the given case, AB Ltd, a company other than a company in which the public is substantially interested, has recieved a consideration of ₹80/share for issue of shares whose face value (FV) is ₹10 and whose fair market value (FMV) is ₹60/share.

Provision:

A tax auditor has to furnish details of shares issued during the previous year, in form 3CD, in case, the assessee recieves any consideration for issue of such shares which is above its FMV as per section 56(2)(b) of the Income tax Act, 1961.

You have explained nicely, whole concept.

The section further states that where a company, not being a company in which the public are substantially interested in, recieves, in any previous year, from any person being a resident, any consideration for issue of shares which exceeds the FV of such shares, then the aggregate consideration for issue of such shares which exceeds its FMV, shall be chargeble to income under the head, 'Income from other sources.'

Conclusion:

As per the facts of the abovementioned case and the relevant provisions, the income generated by AB Ltd, due to the differential consideration recieved (consideration recieved - FMV) for the shares issued, will be charged to income tax under the

head, 'Income from other sources'
Thus, the tax auditor of AB Ltd is required to furnish the details of the shares issued in form 3CD.

The contention of AB Ltd that reporting is not required since it is a normal issue of shares, is not tenable.

4 marks

Q-1] A component may prepare its financial statements (FS) on the basis of the parent's accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group's consolidated financial statements (CFS).

The group accounting manual normally contains all Accounting policies including relevant disclosure requirements which are consistent with the financial reporting framework (FRFW) under which the CFS are prepared.

Thus, using group accounting policies as financial accounting framework for components to report under, the principal auditor should perform procedures necessary to determine compliance of group accounting policies with the GAAP applicable to the parent's FS.

A change in the method of depreciation is a change in accounting estimate and not a change in accounting policy. as per Ind-AS 8

The entity should select a method of dep that most closely reflects the expected pattern

You have done this question well.

of consumption of future economic benefits. The method selected should be applied consistently from period to period, unless there is a change in the expected pattern of consumption, in the standalone and CFS.

In the given case, R Co Ltd (subsidiary) ~~is~~ and H Co Ltd (parent) are depreciated using SLM while S Co Ltd (subsidiary) uses WDV method.

According to IND AS 16 on Property, Plant and Equipment, each part of an item of PPE with a cost which is significant in relation to the total cost should be depreciated seperately.

Thus, ~~R Co L~~ R Co Ltd, though adopting SLM of depreciation but not giving effect to component accounting of dep to higher value assets is in non-compliance with IND AS 16.