aglasem.com

FOR CA FINAL EXAM PREPARATION

CA Final 2023 Question Paper · Paper 3 Advanced Auditing and Professional Ethics (Old Scheme)

EXAM	YEAR	TYPE
CA Final	2023	Question Paper

SUBJECT

Paper 3 Advanced Auditing and Professional Ethics (Old Scheme)

DATE

May 2023

Final New Syllabus

Paper - 3

Advanced Auditing and Professional Ethics

MAY 2023

CKN2

Roll No. ..... 21/05/2023 5:35 PM

Total No. of Printed Pages – **11**

Total No. of Questions – **6**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, and (b) the answer book in respect of descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 Marks

1. Question paper comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
2. Working notes should form part of the answer.
3. Answers to the 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/her answers in Hindi will not be evaluated.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

PART – II

1. (a) Joy Ltd. is an entertainment company which runs a circus and travels around the country to entertain the masses. The circus began losing its popularity over the past few years and attendance has reportedly dropped by as much as 75% in the current financial year. Animal rights activists continuously targeted the circus for its use of animal creatures like elephants in the show. The CEO noted that the audience seemed to be abandoning the circus due to their expanding entertainment options. The high cost of moving the show from city to city eventually made the business model untenable. As a result, many key managerial personnel of the company left the company, there were delays in the payment of wages and salaries, and the bank from whom the company had taken funds also decided not to extend further finance or to fund further working capital requirements of the company. 5

When discussed with the management, the statutory auditor understood that the company had no action plan to mitigate such circumstances (Use of going concern assumption is inappropriate) Further, all such circumstances were not reflected in the financial statements of Joy Ltd. What course of action should the statutory auditor of the company take in the auditor's report in such situation ?

(b) HAM Ltd. is engaged in the business of manufacturing of medicines. The manufacturing process requires raw materials such as hydrochloric acid, caustic soda and other chemicals for the manufacturing of various drugs. The Company has maintained large stock of raw materials of all types of chemicals being used. The nature 5

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

of raw material is such that its physical verification requires the involvement of an expert. Management hired their expert for the stock taking and auditors also involved their expert for the same purpose.

The auditor observed that the work of the auditor's expert was not adequate for the auditor's purposes and he could not resolve the matter through additional audit procedures which included further work performed by both the auditor's expert and the auditor.

Based on above, the auditor knows that it would be right to express a modified opinion in the auditor's report because he has not obtained sufficient appropriate audit evidence. But he was reluctant in doing so and issued a clean audit report and included the name of the expert in his report to reduce his responsibility for the audit opinion expressed. Comment with respect to relevant Standard of Auditing relating to the action of the auditor of issuing clean audit report.

(c) M/s ABC Limited is engaged in the business of construction of infrastructure and housing projects. While preparing the financial statements for the year ended 31.03.2023 management has made various accounting estimates and confirmed to the auditor that all necessary accounting estimates have been recognized, measured and disclosed in the financial statements are in accordance with the applicable financial reporting framework. The auditor during the course of audit observed some changed circumstances giving rise to the need for an accounting estimate. Inquiries of same were sought from the management. Can you list down some circumstances, change of which will result in inquiries from the management ? **4**

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

2. (a) While conducting audit of PC Ltd., CA. T decided to use sampling technique to test the trade receivables at the planning stage. He directed his team members to divide the whole population of trade receivables balances to be tested in a few separate groups called 'strata'. He directed to treat each stratum as if it was a separate population and divided the trade receivables balances of PC Ltd. for the Financial Year 2022 -23 into groups on the basis of personal judgment as follows : 5

Sl. No.	Particulars
1	(a) Balances in excess of ₹ 50,00,000;
2	(b) Balances in the range of ₹ 40,00,001 to ₹ 50,00,000;
3	(c) Balances in the range of ₹ 30,00,001 to ₹ 40,00,000;
4	(d) Balances in the range of ₹ 20,00,001 to ₹ 30,00,000;
5	(e) Balances in the range of ₹ 10,00,001 to ₹ 20,00,000;
6	(f) Balances ₹ 10,00,000 and below

From the above mentioned groups, CA. T directed to pick up different percentage of items for examination from each of the group. One of the team members, Mr. Neel, wants to use some other technique of sampling for the above purpose as the concept of stratification is not clear to him. You are required to explain the concept of stratification and its uses to Mr. Neel.

(b) SPM Ltd., about to complete fifty years of age since its incorporation in the F.Y 2023-2024, decided during the F.Y year 2022-23 to upgrade its registered office at an important location in Mumbai city. As part of planned package, it decided to acquire a land very adjacent to the site of registered office, which had been owned by Mr. Parry who is a 5

© The Institute of Chartered Accountants of India

director of the Company. Since he was reluctant to part with the ownership, he had been persuaded to convey the property in favour of the company in exchange of a site owned by the company located at the next street to the street where the registered office is situated, which is 1.50 times larger in area than that of the site owned by the director adjacent to the Registered office. Happier with what he was offered in negotiation, Mr. Parry agreed for transferring the property in favour of the company in a deed of exchange duly executed by authorized persons of the Board, and Mr. Parry. The registration formalities were completed by 31st December, 2022. Assuming that you are the engagement partner for the audit of the accounts of the company for the financial year ended on 31st March, 2023, give a list of additional audit procedures and reporting requirements, if any, that this transaction might trigger in your audit.

(c) Discuss the reporting of the following issues under tax audit report of PPK Limited engaged in – (i) giving consultancy for agriculture of sugarcane planting and (ii) cultivation / growing of sugarcane crop at a stretch of land for about 15 KMs taken on lease from state government. **4**

(i) The company during the year absorbed another company- AFM Ltd., (resulting in the latter becoming merged with this Company). The purchase price over the value of net assets taken over was more by ₹ 40 lakhs. The Management wished to write it off over five years and to claim the same as depreciation for intangibles at rates as allowed by Income Tax rules for intangible assets.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

(ii) The Profit and loss statement of the company indicated the operating revenue of consultancy fees ₹ 75 lakhs and agriculture income of ₹ 225 lakhs (gross revenue from crop sale). The expenses included material consumed for plantation and add-ons for crop growing, staff cost- for plantation, interest cost (combined), Depreciation for planation equipment and its ancillary parts.

3. (a) As a part of the listing process, M/s Sun Ltd. prepared and issued its prospectus to the public. The top executives thought that pending litigation against the company (which would cause a cash outflow of ₹ 1.25 crores) may affect the demand for share applications. Due to this, they omitted the fact, for the well-being of the company. Mr. A, who was well aware of this matter had authorised himself to be named in the prospectus as a director. However, Mr. A was a little reluctant, so he informed and agreed that he shall become such director after an interval of some time. Unfortunately, after a few days, but before joining of Mr. A as director, this matter got leaked and several subscribers sustained losses. Mr. A is now defending himself stating that he is currently not holding the director's post hence no action can be taken against him. Analyse and Comment on the situation. **5**

(b) CTR & Associates is an audit firm with CA C and CA T as partners. M/s CTR & Associates has been appointed as statutory auditor of M/s TP Hotel Ltd for the financial year 2022-23. The audit firm is a regular customer of the hotel and the partners usually used to stay in the same hotel at various locations in the course of travelling for their various professional assignments. Normally, payments for such stays are settled against monthly bills raised by the company. Give your comment on qualification of the audit firm with respect to the provisions of The Companies Act, 2013. **5**

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

(c) SR and Associates are the statutory auditor of ABC Ltd. Audit of the company is pending for F.Y 2021-22 and 2022-23 due to a dispute between auditor and company with respect to certain proposed remarks by the auditor in the audit report for F.Y. 2021-22. The company removed the auditor on 02.05.2023 in shareholders meeting complying with all legal formalities. SR and Associates after coming to know about the removal, intimated the Registrar of Companies (ROC) through letter highlighting the points of dispute including non-existence of fixed assets, bogus creditors etc. ABC Ltd complained to ICAI against SR and Associates for their above letter to ROC. Comment with reference to the Chartered Accountants Act,1949 and schedules thereto. **4**

4. (a) BETA Ltd is engaged in the Construction business since year 2001. The auditor understands that a thorough construction estimate is vital to the viability of any construction business and requested the information related to financing and operating estimated costs from the management to review the outcome of accounting estimates included in the prior period financial statements and their subsequent re-estimation for the purpose of current period. **5**

The management refused to provide the information to the auditor as it believed that the judgments and estimates made in the prior periods were based on the information available at that time, and the review of the prior period information should not be done by the auditor in the current financial year. With reference to the relevant SA, comment on whether the contention of management is correct or not.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

(b) RB & Co are the statutory auditors of Legal Finance Ltd, an NBFC engaged in the business of accepting public deposits and giving loans. Auditors are concerned that the format of the financial statements should be prepared as per the notification issued by the Ministry of Corporate Affairs dated 11th Oct, 2018. While auditing there was a difference of opinion between CA R and CA B regarding the disclosure of "Other Income" in the financial statements. CA R believes that there is no difference in the presentation requirements between Division II and Division III of Schedule III of the Companies Act, 2013. Is the contention of CA R correct ? 5

(c) ABC & Co is a firm of Chartered Accountants located at Mumbai with branches at Calcutta and Chennai. During the financial year 2021-22, the firm carried out statutory audits of 4

(1) Eighteen listed companies consisting of –

(A) Ten companies with turnover exceeding ₹ 1000 crores – one public sector Listed Company, the rest nine being companies in private sector and

(B) Eight companies with turnover exceeding ₹500 crores and less than or equal to ₹1000 crores- and

(2) Twenty four private limited companies.

The firm had subjected itself to Peer Review process during 2020-21 and continues to hold certificate issued by Peer Review Board with validity date unexpired. During the F.Y. 2022-23 it had been decided that the firm be subjected to Quality Review (QR) by QRB of the Institute. Can QR be so conducted for this firm? If yes, can one of the audits of listed companies- viz. audit of public sector Company done by firm in 2021-22 be subjected to QR by QRB, as this is the biggest statutory audit in terms of turnover of the auditee, as well as of complexity of audit issues involved ?

© The Institute of Chartered Accountants of India

5. (a) MBP Ltd. is into the footwear manufacturing business and started its operations in the year 2015. For the last two financial years, the company's profit declined even when there was an increase in the sales and production of goods by the company. So, the management of MBP Ltd. felt a need to assess how well their team is applying its strategies and resources. They appointed Mr. Pal to conduct the management audit with the objective of detecting and overcoming current managerial deficiencies. **5**

After completing the management audit Mr. Pal is in the process of drafting the final management audit report. Briefly discuss the steps to be taken into consideration by him in preparing the management audit report.

(b) CA Mohan has been appointed as a Peer Reviewer for M/s TB & Associates. He has asked for all the management consultancy engagements done by the firm and representations before various authorities carried out by the M/s TB Associates for his peer review during the period considered for peer review purposes by the board. He has also sent out a mail to Peer Review Board regarding his selections. Mr. T, the managing partner of the firm believes that these areas are outside the scope of the Peer Reviewer. Is the contention of Mr. T correct or not ? **5**

(c) LMN Ltd., a manufacturing concern, sold a house property owned by it in Chennai for a consideration of ₹ 58 lakhs, to Mr. X on 14.09.2022. LMN Ltd. purchased the house property in the year 2017 for ₹ 45 lakhs. The stamp duty value on the date of transfer i.e. 14.09.2022 is ₹ 74 lakhs for the said house property. How would you deal with this matter in the tax audit report of LMN Ltd. ? **4**

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

6. (a) SAM Yarns Limited - a listed Company, having its registered office at Meerut is engaged in manufacturing of various types of yarns to be supplied to the textile mills. The Company has installed pollution control equipment for processing the pollutants so that before discharge of effluents outside factory, the level of pollution is kept at a level below the prescribed standard. The Company managed to get pollution clearance certificate by unfair means, while still there continues to be breach of pollution control laws in matters of discharge of polluting effluents. Amount of ₹10.25 Lacs had been incurred for arranging clearance certificate and the amount incurred unlawfully had been booked as pollution recycling expenditure. The matter had not reached to those in governance, and the Director-Finance who is a Chartered Accountant came to know of these matters on review of major expenditure incurred during the period. Comment the action/responses expected of Director -Finance (CA Rahul) referring to any applicable requirements of Responses for NOCLAR under code of Ethics. **5**

(b) When auditing in an automated environment the auditor should be aware, adhere to, and be guided by the various standards, guidelines, and procedures that may be relevant to both audit and the automated environment. Explain briefly the following common standards and guidelines that are relevant in this context- **5**

(i) The Cyber security Framework.

(ii) Control Objectives for Information and Related Technologies.

(iii) The Payment Card Industry.

(iv) Information Technology Infrastructure Library.

© The Institute of Chartered Accountants of India

aglasem.com For more Question Papers, Sample Papers, Notes & Syllabus visit aglasem.com

(c) AB Ltd wants to acquire a unit of CT Ltd. AB Ltd is uncertain about the future viability of the unit under consideration. You are appointed to investigate economic and financial position of the unit. What are the factors that you shall consider while studying the economic and financial position of the business ? 4

OR

RR & Co have been appointed as the auditors of HDG Insurance Company Limited. While conducting its audit, engagement partner noticed various actuarial assumptions disclosed by way of notes to the accounts and several other important actuarial processes being followed in accordance with general regulatory guidelines. Actuaries in the life insurance business have gained tremendous importance. Explain the role of the auditor in the actuarial process, and the area of the insurance business where the actuarial department concentrates. 4

© The Institute of Chartered Accountants of India