Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner) a	b	c	d	e	Total
1	✓	03	02	~~05~~ 04			10
2	✓	03	01	01			05
3	✓	05	06				11
4	✓	01	03	01			05
5	✓	05	02	~~05~~ 04			11
6							
7							
8							
9							
10							
11							
12							
13							
14							
Total							42

Total Marks awarded (in words) forty two only

Examiner's Signature

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
MAY 2019

31 MAY 2019

Use only Blue / Black ... Pen to write and shade ...
AVOID RED ...
Write the marks in the boxes ... shading the respective cir...

Total Marks awarde...

42

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

should be written in figures and words in the allotted space at the right hand corner of the only and nowhere else including additional answer book/s and graph paper.

umber should be written in the box in numbers and darken the appropriate circles of the OMR rtion provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

3. Fill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

10. Before submission of answer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.

Q 3 (a)

Q 3(a)

As per SA 505, "External Confirmation" is defined as direct written response to the auditor from the third party. Positive Confirmation is direct written response to auditor by third party whether it agrees or disagrees with the given information and to provide additional information.

Negative confirmation is less persuasive than positive Confirmation. The confirming party is more likely to respond only when information is not in their favour and less likely to respond otherwise.

In the given question, ABC & Co LLP. along with positive Confirmations intends to use negative confirmation request. Following factors have to be considered while drafting Confirmation requests.

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[1] Assertions being addressed by the auditor in Confirmation request.

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½
[2] Specified identified Risk of Material Misstatements in the Financial Statements.

[3] Layout and Presentation of the draft Confirmation request.
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½

4) Prior experience of the auditor in the previous engagement where similar confirmation requests were sent.
5) Ability of the Confirming Party to respond to the confirmation request
6) Management's Authorisation, wherein management may not encourage to respond, because they might work in an environment where responding to such confirmation requests is disregarded.

Negative confirmations can be used and are more likely to favour when.
1) The Financial Statement consist of homogenous items or similar item.
2) The exception rate is very low.
3) The Auditor is unaware that the third party would disregard request.
4) Low risk of Material Misstatements.

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Q 3(b)

Q 3(b)

SA 560 "Subsequent Events" are those events that occur between the date of Financial Statement and date of Auditor's report and facts that became known to Auditor after the date of Auditor's Report.

The auditor shall inquire Management whether any Subsequent event has occur which might affect Financial statements.

Following are the matters where specific enquiry may be conducted to evaluate subsequent event.

1] Whether there has been any sale or acquisition of any assets or any disposal of the asset which belong to the entity.

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2] Whether there is an increase in capital by issuance of any debt instruments

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3] Whether any asset has been appropriated to the government.

1 4] Whether there are any unusual accounting transaction that are relevant for the auditor to evaluate accounting estimates

5) Whether there has been development in contingencies.

6) Whether there is occurence of any event the might bring into question regarding entities ability to continue as going concern

7) Any subsequent transaction with related party not in the ordinary course of event.

8) Any unusual event that might affect the financial statement (Eg fire, fraud).

9) Whether there have been a change in the accounting policy.

10) Whether there have been new development, acquisitions, mergers, amalgamations, demerger of the enter.

The auditor can evaluate Subsequent Events by

1) Enquiry to the Management as to occurence of any subsequent event.

2) understanding the process by which Management evaluate the occurence of Subseqent Event.

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(3) Reading the Minutes of the Meetings to evaluate Subsequent Events.
(4) Reading Interim Financial Statements.

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P.T.O.

Q 4(a) Q 4(a)

a) As per the Companies Act 2013, a person shall not be qualified to be appointed as auditor of the Company if he, or his partner or his relative is holding any security of the Company, Holding Company, subsidiary of ~~the~~ such Holding Company.

However, relative may hold security or interest in the Company for an amount not exceeding ₹100000.

In the given case,

daughter of Mr Y has purchased security of the company where relative is an auditor of Company.

'Daughter' falls under the definition of 'Relative'. Holding security/interest for an amount not exceeding 100000 will not attract any disqualification as per Companies Act.

Conclusion:- Mr Y can validly hold position of auditor in the first case.

b) 'Husband of Daughter' do not fall under the definition of Relative. Therefore even if he holds security for an amount exceeding 100000, Mr Y will not attract any disqualification. Husband of daughter of Mr Y is also not a partner. therefore no disqualificatn attracted.

The subsequent sale of securities will have no impact.

Conclusion – Mr Y shall not be disqualified

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Q 4 (b).

Q 4(b).

Internal Audit is required if Public Company
Paid up Capital exceeding 10 cr
Turnover exceeding 200 cr during preceeding financial year.
Outstanding Loans, Borrowing exceeding 100 cr at any point of time in preceeding Financial year.
Outstanding deposits exceed 25 cr at any point of time.

In case of Private Company,
Turnover exceeding 200 cr and
Borrowings / Loans exceeding 100 cr.

Essential features of good Internal Audit Report

1. Highlight deficiencies in the internal control
2. Reporting on any material Misstatement in the Financial statement.
3. Appropriate adjustments have been reflected in the financial records.
4. To report on existence of fraud on the Company by any of its officers or employees of the company.
5. To report on material contracts entered into the company.

(6) To report whether there has been Complaince of all those laws and Regulation which the entity has to comply.

(7) Estimates made in the Financial Statement are reasonable are to be stated.

(8) If the controls are weak or controls objectives not met need to be indicated.

(9). Evaluating the appropriateness of Managements use of going concern.

(10) Should be Signed by Internal Auditor.

(11) Date of Audit Report.

(12) Place of signature.

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Q 4(C).

Q4(C)

As per Companies Act, 2013, the holding Company shall in addition to its own Financial Statement shall prepare Consolidated Financial Statement of all its subsidiaries or one or more of the Components to be included in the Financial statement of entity as a whole.

Consolidation of Financial Statement need not be done if.

i) Intention to hold the shares of the subsidiary Company is "Temporary"

ii) The subsidiary Company has severe long term restrictions which impairs its ability to transfer funds.

However, as per Ind AS 110 relating to Consolidation differs from the Accounting Standard 21 of the Companies Act.

There is no such term mentioned in Ind AS 110 like "Temporary Control" or subsidiaries' inability to transfer funds because of severe long term restrictions.

~~Conclusion:-~~ In the given case, R Ltd owns 51% Voting power in S Ltd.

∴ S Ltd is the subsidiary Co of R Ltd.
It is given that shares are exclusively held for subsequent disposal in future. These means that intention to hold shares is temporary.

Though AS 21 specifies not to consolidate the Financial statement of Subsidiary Company. However as per IND AS 110, Financial statements need to be consolidated

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Q 5(a)

Q 5(a)

The stock Exchange, collects margin from the members to restrict extreme price fluctuations.

Following are the types of Margins.

1 ① Gross Exposure Margin – These Margin is exclusively collected by all stock stock Exchanges as per their own risk predictions. It is calculated on basis of total exposure of all the shares & securities Sold and bought.

1 ② Mark to Market Margin – The Margin is collected for the price movement. If the closing price of a security is different from the price at which it was traded multiply by number of shares purchased or sold.

%. x (Closing price – Transaction price) x Buy/Sell units.

1 ③ Volatility Margin – It is collected to curb excessive volatity. It is used to prevent extreme price manipulation. Margin is collected for prevention from extreme price variation and prevent investors from suffering excessive loss. ~~Pr~~

(4) ~~Adhoc Ma~~ In case of volotility margin price variation on account of calls, mergers, amalagamation are adjusted.

(5) Adhoc Margin - This margin is collected on a adhoe basis without any basis.

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(6) Special Margin - Special Margin is collected when exchange predict any significant change in the market because of any news which might disturb the market position

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Q 5(b)

Q5(b)

i) Prescribed NPA norms for advance given for agricultural purposes.

As per the Master Circular guidelines of RBI, Bank ~~me~~ have to follow NPA Norms. In respect of Agricultural advances, it will be considered as NPA

a) In case of Short duration crops - If the principal amount and Interest remain outstanding for more than two crop season.

b) In case of long duration crops. - If the principal amount and Interest remained outstanding for one crop season.

Crop season is determined on basis of Harvesting. As per the latest circular of RBI, in case of natural calamaties, Bank may convert short duration crops into long duration crop by increasing the credit period or reschedulement of loan amount. In that case, it need not be classified as NPA.

ii) Drawing power calcution from stock statement in respect of working capital Account.

Drawing power limit may be ancreased/ decreased as per the Working Capital limits.

The auditor has to verify the

1. Cash flow statement.
2. Fund Flow statement.
3. Working Capital statement on estimation to determine the drawing power limit that can be allowed

Q 5(C)

Q 5(C)

① As per section 64VB Insurance Regulatory Development Act, an insurance company has to maintain excess of assets over liabilities by not less 50% of the paid up capital.

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② The Insurance Company has to maintain Solvency Margin at all times in respect of such Insurance business.

③ If the Insurance Company fails to maintain it shall be wound up by company and
1 deemed to be insolvent.

④ The Authority shall determine control
1 level of Solvency Margin, to be maintained by Insurer, in respect of Insurance Business

⑤ If Insurer cannot, it has to submit a financial plan to the Authority about how
1 it going to manage & plans to correct deficiency

⑥ If the Authority is not satisfied with the financial plan it shall ask the Company to Submit a revised plan.

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⑦ The revised financial plan must be to the satisfaction of Authority to allow the Company to carry on the General Insurancy Business.

⑧. Failure, would deemed to make the Company insolvent and being wound up by Authority.

6

4

Q 1(a)

Q 1(a)

As per SA 701 ~~"Key Audit Matter~~ "Communicating Communicating Key Audit Matters in the Audit of Financial Statement"

Key Audit Matters are those matters which are most significant to the users understanding of the Financial statement.
They are determined from the matters Communicated to Those charged with Governance

Key Audit Matters can be determined if they relate to

i) Areas of Higher Assessed Risk of Material Misstatements.

ii) Significant Auditor's judgement involving in matters relating to the estimates where there is high degree of uncertainty involved.

Following are the examples of key Audit Matter.

1) ~~Early applied~~ Any uncertain event that might affect the users of financial statement.

However, Key audit Matter cannot be a subsitute to

(1) for Expressing a Modified opinion in the Financial statement.

(2) For reporting in ~~ac~~ accordance with SA 570, when there is material uncertainty relating to events or conditions that cast a significant doubt on entity's ability to continue as going concern.

(3) Disclosure by Management in Financial statement

The Auditor shall not communicate key Audit Matter if.

(1) Law or regulation precludes from such disclosure.

(2) Adverse consequence of disclosing would outweigh the public interest benefit arising from such disclosure.

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Q 1(b)

Q1(b)

As per GST Act, 2017, Turnover as per Financial statement as to be reconciled to the GST turnover. since GST became applicable ~~is~~ from 1st July, 2017. ~~and~~ Following additions / subtractions have to be made for reconciliation. One such element is-

Unbilled transaction at beginning of the Financial year.

① As per the previous Act, services ~~or~~ may have been provided or goods may have been ~~sold~~ bought or sold for which bill may have not been raised, the auditor has to look for subsequent events which would give evidence ~~for~~ of the transaction.

② Goods on sale or return basis have to be looked into.

③ Pending Services Contracts on the date of 1st ~~30~~ July where Service tax will be applicable has to be reduced from the GST turnover.

④ If Goods are returned after 6 months of appointed date, they shall form part of GST turnover

(5) Branch transfer need not be included in the GST turnover.

(6) Turnover shall ~~fo~~ was made from 1st April to 30th June have to be excluded from Total turnover of the relevant preceding year.

· Services and goods sold & bought in April-June for bill not raised will be excluded

3

Q1(c)

Q1(c)

SA 570 "Going Concern", wherein auditor has to obtain Sufficient Appropriate Audit Evidence regarding appropriateness of management use of going concern assumption. Auditor has to Find out whether there are events that cast a significant doubt on the entity's ability to continue as Going Concern and how it plans to deal with those event, plans for future action.

Operating Conditions of the entity are:-

1. Management's intention to liquidate the entity or to cease operation.
2. Loss of Major Market share
3. Shortage of Important supplies.
4. Loss of Key Managerial Person, entity's supplier wherein major business was dependent or effected by such supplier.
5. Emergence of a highly successful competititor that would have an adverse impact on the organisations funtioning.

If the Auditor satisfies that use of Going Concern is appropriate but

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uncertainty exists. The auditor shall evaluate, whether financial statement adequately disclose principal events that cast a doubt on entity ability to continue as going concern.

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Addl. Book No. 1

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

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Q2(a)

Q2(a)

As per SA 520 'Analytical Prodecures' are applied ~~to identify~~ analysis of Financial & non financial data relationship, to find whether there are identified fluctuations or relationship which are inconsistent with other information or differ from the information by a Significant Amount

In case of Room Rentals, if the auditor has knowledge of predetermined rate charged for the rooms and the number of rooms availability it can estimate the amount of Room Rentals which the entity should have booked in the Financial statement.

Room Rental = Rate x No of rooms.

If room rental exceed the estimate the auditor shall perform additional procedures to resolve the inconsistency.

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Analytical procedure would include to determine estimate or recorded amount that is acceptable without further investigation. If the amount of difference between expected amount and recorded amount differs significantly he shall perform additional analytical procedure to resolve inconsistency.

Pay Roll expense - Where auditor has knowledge of Number of Employees working and the average salary of the personnel working in organisation, Auditor can determine such expected Payroll expenditure

Pay Roll Expense = No of Employees x Average Salary.
In case of difference from expected value perform additional procedures

3

Q 2(b)

Q 2(b). Obligations under SEBI Regulation in Regard to Board or Non Executive Direction.

① Remuneration and Appointment of Nomination and Remuneration Committee.
② Appointment and Remuneration of Audit Committede.
③ Vigil Meganism Committee.
④ Shakeholder Relationship Committee.
⑤ Related party Transactions.
⑥ Appointment of Directors on Board.
⑦ Managerial Remuneration.

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Q 2(C)

Q 2 (C)

As per Chartered Accountants Act, 1949, a CA in practise shall be deemed to be guilty of Professional Misconduct if he advertises his professional attainments or uses designation other than CA on any.

① Professional Documents.
② Visiting Cards.
③ Letter head.
④ Signboard unless it is a degree of a ① University of law established in India
② a title indicating membership of a professional body which is recognised
③ any other professional body which has been recognised by Council in India.

In the given case, a CA has indicated he being empannelled as Insolvency Professional (IP) on visiting card, ~~&~~ letter head. Mentioning in such professional attainment or designation other than CA will make the person liable to professional misconduct under CA Act, 1949

CA i[illegible] is therefore guilty under Clause 7 [illegible] I of First schedule. Board of D[illegible] can therefore impose penalty, [illegible]d the member for such [illegible]nal misconduct.

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