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**Mock Exam Papers of Tabani's School of Accountancy for Spring 2014
attempt**

Audit

SEND-UP EXAMINATION

ITSA

3. Shiny Happy Windows Co (SHW) is a window cleaning company. Customers' windows are cleaned monthly, the window cleaner then posts a stamped addressed envelope for payment through the customer's front door. SHW has a large number of receivable balances and these customers pay by cheque or cash, which is received in the stamped addressed envelopes in the post. The following procedures are applied to the cash received cycle:

1. A junior clerk from the accounts department opens the post and if any cheques or cash have been sent, she records the receipts in the cash received log and then places all the cash into the locked small cash box.
2. The contents of the cash box are counted each day and every few days these sums are banked by whichever member of the finance team is available.
3. The cashier records the details of the cash received log into the cash receipts day book and also updates the sales ledger.
4. Usually on a monthly basis the cashier performs bank reconciliation, if he misses a month then he catches this up in the following month's reconciliation.

Required:
For the cash cycle of SHW:

- (i) Identify and explain THREE deficiencies in the system; (03)
- (ii) Suggest controls to address each of these deficiencies; and (03)
- (iii) List tests of controls the auditor of SHW would perform to assess if the controls are operating effectively. (05)

4. (i) Describe FIVE types of procedures for obtaining audit evidence; and
(ii) For each procedure, describe an example relevant to the audit of property, plant and equipment. (15)

5. ISA 315 Identifying and assessing the risks of material misstatement through understanding the entity and its environment, requires auditors to understand the entity's internal control. An entity's internal control is made up of several components.

Required:
State the FIVE components of an entity's internal control and give a brief explanation of each component. (10)

6. Haali Limited has a policy to carry its buildings at revalued amounts. At the balance sheet date i.e. 31 December 2012, the valuer had finalized the valuation reports of only 3 out of a total of 8 properties. According to these reports these properties were assigned a valuation of Rs.50 million as against the carrying amount of Rs.62 million.

Required:
Evaluate the above condition and discuss the impact on the audit report in each of the following situations:

- (i) The impairment of Rs. 12 million is recorded in the financial statements.
- (ii) The impairment is not recorded.

(06)

TABANI'S SCHOOL OF ACCOUNTANCY

Send-up Examination (24TH MFC)

AUDITING

Time Allowed: 03 Hours

Module-D

Monday: 03 February, 2014

Maximum Marks: 100



Marks

Q. No.

1. Salt & Pepper & Co (Salt & Pepper) is a firm of Chartered Certified Accountants which has seen its revenue decline steadily over the past few years. The firm is looking to increase its revenue and client base and so has developed a new advertising strategy where it has guaranteed that its audits will minimize disruption to companies as they will not last longer than two weeks. In addition, Salt & Pepper has offered all new audit clients a free accounts preparation service for the first year of the engagement, as it is believed that time spent on the audit will be reduced if the firm has produced the financial statements.

The firm is seeking to reduce audit costs and has therefore decided not to update the engagement letters of existing clients, on the basis that these letters do not tend to change much on a yearly basis. One of Salt & Pepper's existing clients has proposed that this year's audit fee should be based on a percentage of their final pre-tax profit. The partners are excited about this option as they believe it will increase the overall audit fee.

Salt & Pepper has recently obtained a new audit client, Cinnamon Brothers Co (Cinnamon), whose year end is 31 December. Cinnamon requires their audit to be completed by the end of February; however, this is a very busy time for Salt & Pepper and so it is intended to use more junior staff as they are available. Additionally, in order to save time and cost, Salt & Pepper have not contacted Cinnamon's previous auditors.

Required:

- (a) Describe the steps that Salt & Pepper should take in relation to Cinnamon:
- (i) Prior to accepting the audit; and (05)
 - (ii) To confirm whether the preconditions for the audit are in place. (05)
- (b) State **FOUR** matters that should be included within an audit engagement letter. (04)
- (c) (i) Identify and explain **FIVE** ethical risks which arise from the above actions of Salt & Pepper & Co; and (10)
- (ii) For each ethical risk explain the steps which Salt & Pepper & Co should adopt to reduce the risks arising.

2. You have worked as a job in charge on the audit of financial statements of a multinational listed company, engaged

(10) For each ethical risk explain the steps which Salt & Pepper & Co should adopt to reduce the risks arising.

2. You have worked as a job in charge on the audit of financial statements of a multinational listed company, engaged in pharmaceutical business. During the course of your audit, you became aware of various facts and details about the company. It was a long engagement for which you had to move out of the city of your residence. Consequently, a number of people around you, including family, friends and colleagues, are aware of the fact that you were job in charge on the said audit. Some of them are interested in having certain information as discussed below:

- (a) One of your close relative has got an offer for appointment as director marketing of the said client. He wants to be aware of the levels of remuneration at comparable positions in order to negotiate his remuneration properly.
- (b) A manager in your firm (other than the engagement manager for the said client) has inquired about the internal controls in place, in respect of a specific process. Assuming that the same would be effective, he intends to recommend the same as best practice to a local pharmaceutical client.
- (c) Your sister has asked you about the ingredients of a specialized nutritional product for children, being marketed by the company, which she is using for her child. You are aware of all the details about the said product, as you got the opportunity to perform tests on the costing of that product.
- (d) One of your friends is working in the Ministry of Health, Government of Pakistan. He has asked you as to whether the company has complied with certain statutory requirements. You are aware of the fact that the company is not complying with the same and you have already included the matter in the management letter. With reference to specific provisions of law, he has convinced you that it is his duty to enquire about the same, and you are responsible to disclose the relevant information to the Ministry. He has also informed you that in case of no response, you may be served with a legal notice.
- (e) Your younger brother intends to commence distribution business. He has asked you about the rate of commission and being allowed by the said client to its distributors, as he wants to work out the feasibility of business.
- (f) Your father invests his surplus funds in the capital market. Being aware of the fact that companies like that always have a five to ten year's plan in place, he has asked you about the trend of earnings per share of the said company for the last five years, and the expected growth in the net profits for the next five years.

Required:
Discuss each situation to conclude as to whether or not you can provide the requisite information and the extent to which the same can be disclosed without compromising the professional ethics. Support your conclusions, with appropriate arguments. (12)

from the desk of Sir Fahad Hachwal, CMA, FCA, ACCA, CPA, CIMA, CMA (UK), CMA (USA), CMA (CAN), CMA (INDIA), CMA (PAKISTAN), CMA (AUSTRALIA), CMA (NEW ZEALAND), CMA (SOUTH AFRICA), CMA (SINGAPORE), CMA (MALAYSIA), CMA (HONG KONG), CMA (CHINA), CMA (INDONESIA), CMA (PHILIPPINES), CMA (VIETNAM), CMA (THAILAND), CMA (CAMBODIA), CMA (LAOS), CMA (MYANMAR), CMA (BURMA), CMA (SRI LANKA), CMA (MALDIVES), CMA (BANGALADESH), CMA (NEPAL), CMA (BHUTAN), CMA (INDONESIA), CMA (SINGAPORE), CMA (MALAYSIA), CMA (HONG KONG), CMA (CHINA), CMA (INDONESIA), CMA (PHILIPPINES), CMA (VIETNAM), CMA (THAILAND), CMA (CAMBODIA), CMA (LAOS), CMA (MYANMAR), CMA (BURMA), CMA (SRI LANKA), CMA (MALDIVES), CMA (BANGALADESH), CMA (NEPAL), CMA (BHUTAN)

Required:

Evaluate the above condition and discuss the impact on the audit report in each of the following situations:

- (i) The impairment of Rs. 12 million is recorded in the financial statements.
- (ii) The impairment is not recorded.

(06)

7. The audit report of Bhit Gas Limited (BGL) was qualified on account of recognition of mark-up on delayed payment from Salim Enterprises Limited (SEL) amounting to Rs.2.7 billion, because at the time of signing of audit report, SEL had not acknowledged its liability towards mark-up due to BGL and the matter was pending in the Court.

After the issuance of the financial statements, the matter was decided by the Court and SEL was ordered to settle the mark-up by paying Rs. 1.5 billion. After the Court's decision, BGL had filed an appeal against the order for the remaining amount of Rs. 1.2 billion and the management has requested the auditor to remove the qualification and issue a revised audit report.

The management has also informed the auditor that subsequent to the Court's decision, it has decided to revise the financial statements by making a 25% provision against the remaining amount of mark-up.

Required:

Discuss the factors that the auditor should consider with reference to the above and specify the steps that he should take under each of the following circumstances:

- (i) The management and those charged with governance are prohibited by law and regulation from restricting the amendment and approval of the financial statements to the effect of the above event.
- (ii) The management and those charged with governance are not prohibited by law and regulation from restricting the amendment and approval of the financial statements to the effect of the above event.

(12)

The audit of Karim Limited (KL) is in progress. The audit team has requested you to advise on the following issues:

- (a) The confirmation request sent to a customer who owed Rs. 35 million was responded by an e-mail addressed to KL's CFO.
- (b) The management of KL is not allowing auditors to send confirmation to Fareed Limited (FL), on account of certain disputes, as the sending of confirmation will undermine the ongoing negotiations with FL. However, the management has offered to provide specific written representation on the matter.

Required:

Discuss how the auditor should deal with the above situations.

(10)

(THE END)

Company Law

Q. No.	Marks
<p>1 Mention Limited got its shares listed on Karachi Stock Exchange Limited, the management wishes to change its name to Excellence Industries Limited because the management feels that the change in name would help in rebranding and rebuilding the image of the company and in attracting more customers.</p> <p>You are required to explain the requirements of the Companies Ordinance, 1984 which the company is required to comply with, in this regard. Also describe the effect of such change on the rights and obligations of the company.</p>	(07)
<p>2 Ameen group of companies has offered an equity investment of Rs.355 million to Asad Limited. In order to expand the business activities of the company, the management is inclined to accept the proposal. However, the shares to be issued would not rank paripassu with the current shares and shall be termed as Class "B" shares.</p> <p>The current position of the company's capital and reserves is that its issued, subscribed & paid capital is Rs.330 million whereas the authorized capital is Rs.500 million. Rs.53 million is appearing in share premium account whereas un-appropriated profit stood at Rs. 23 million.</p> <p>Identify the relevant provisions which Asad Limited will have to comply with for issuance of shares.</p>	(08)
<p>3 Analog Development Limited is presently facing serious financial crunch. The Board of Directors is considering to raise funds through capital injection in order to overcome this crisis as well as to improve profitability of the company. It seems that the existing shareholders may not be willing to invest at par value which is Rs.10 per share as they have not received any return on their investment since long. However, it is estimated that the company could get just about Rs. 7 per share. The directors have therefore decided to issue shares at discount.</p> <p>Being a Company Secretary, you are required to advise the directors about the procedure to be followed in this regard, under the Companies Ordinance, 1984.</p>	(08)
<p>4 Mr. Arqam has made investment in ordinary share capital of Shandaar Foods Ltd (a listed company) in the year 2012 now it has increased to 13%. Recently, he has written a letter to the company seeking appointment on its Board of Directors. The company secretary had advised that since the election of directors was held in the preceding annual general meeting, hence he should wait for the upcoming election of directors that will be held in the year 2016. Mr. Arqam is not satisfied with the response and has approached for your professional advice on the matter. You are required to briefly discuss what course of action is available to him.</p>	(06)
<p>5 Halves International Limited was formed in the year 2002. In the year 2013 they have issued the shares to the general public. The Annual General Meeting (AGM) of the company was held on January 31, 2014. On declaration of the result of voting on an agenda by the chairman, two shareholders demanded a poll. The chairman refused to hold the</p>	

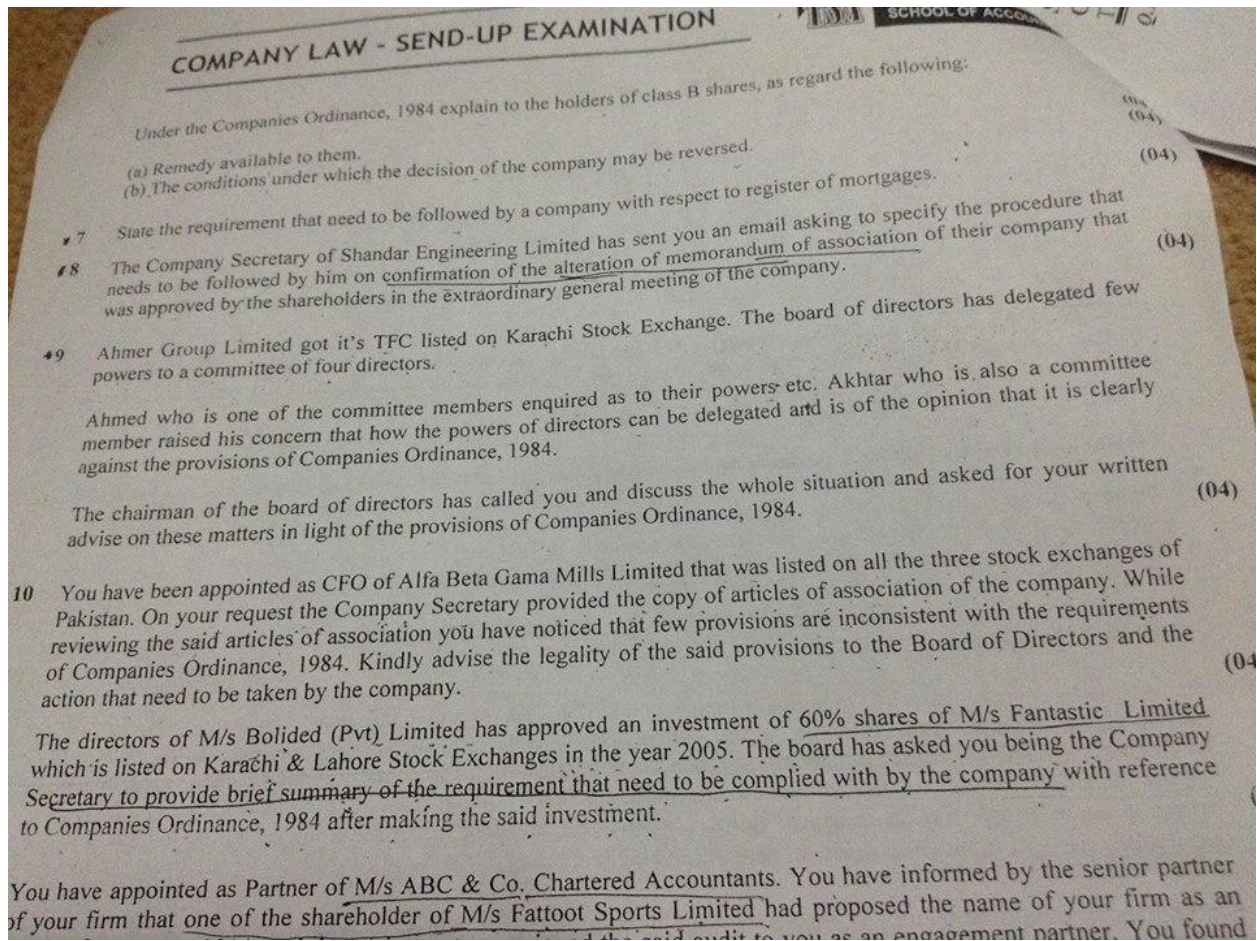
45 Halves International Limited was formed in the year 2002. In the year 2013 they have issued the shares to the general public. The Annual General Meeting (AGM) of the company was held on January 31, 2014. On declaration of the result of voting on an agenda by the chairman, two shareholders demanded a poll. The chairman refused to hold the poll and declared the result of voting on show of hands.

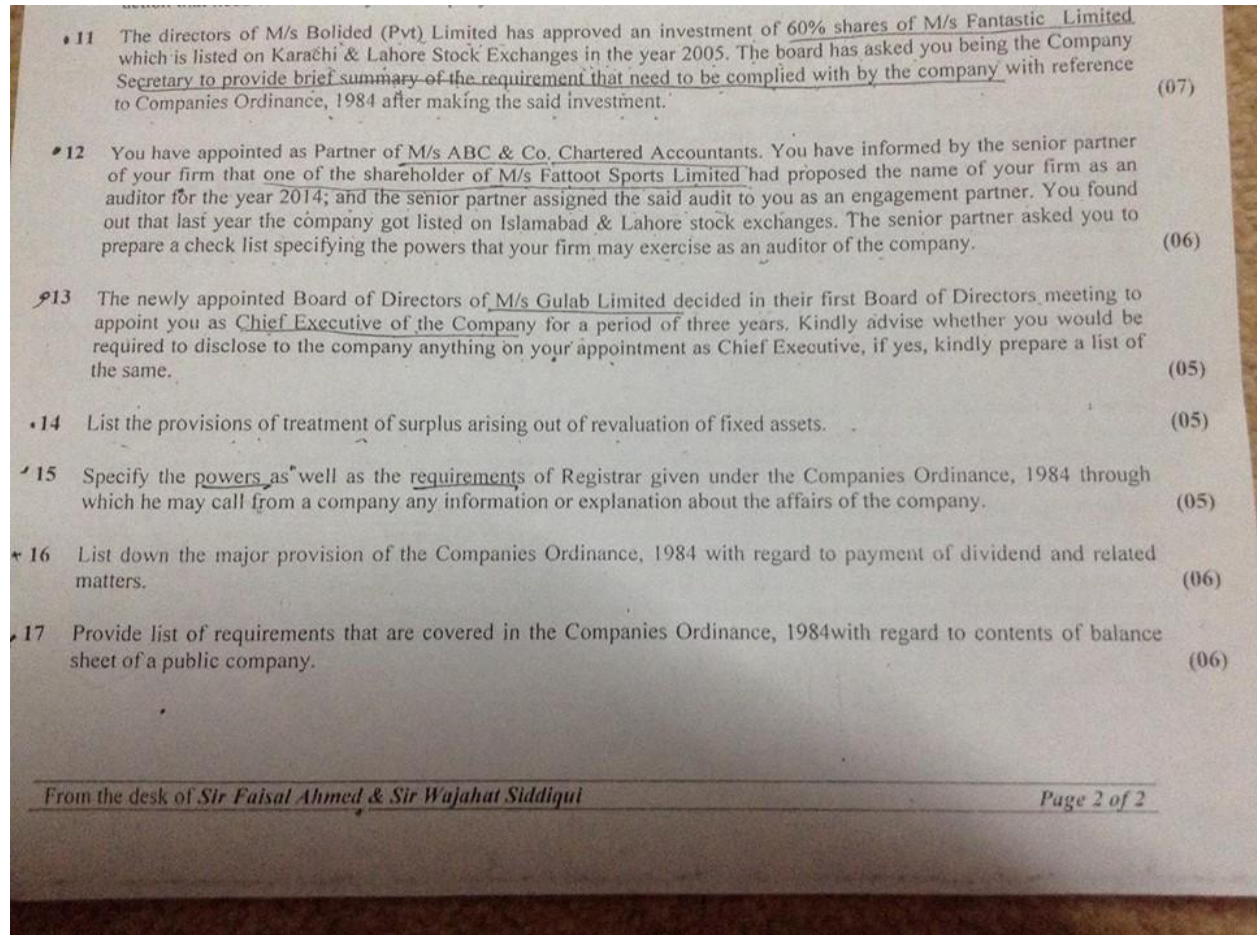
In the light of the provisions of the Companies Ordinance, 1984:

(a) How would you assess whether or not the Chairman's decision of not holding a poll was valid? (04

(b) Explain whether the Chairman can delay the holding of poll to a date subsequent to the date of AGM. (02

6 Bahadur Furniture Limited was established in Hyderabad in the year 1995 with a paid up capital of Rs.500,000/-. The management maintained the standard and quality of its product and every year their sales increases substantially. Accordingly the directors increased the capital after every few years to meet the cash flow requirements. Due to increasing demand the management has opened offices in many cities. However, in order to meet the cash flow requirements finally the management got the company listed company on Lahore Stock Exchange. Now the paid up share capital of the company stood at Rs.500 million. However, in order to give upper hand to the promoters the share capital was divided into two different classes of shares i.e. 'A' and 'B'. Class B shares do not have voting rights. A notice was issued by the company for holding an extraordinary general meeting on January 30, 2014 of the company where a special resolution has been duly passed, to alter some of the rights associated with class B shares, which has aggrieved some of the class B shareholders.





Special thanks to our member for sharing.