

(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 31.05.2020

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER : AUDITING**DIVISION – A (MULTIPLE CHOICE QUESTIONS)****QUESTIONS (1-20) CARRY 1 MARK EACH**

1. For an entity's financial statements to be presented fairly in conformity with generally accepted accounting principles, the principles selected should:
 - (a) Be applied on a basis consistent with those followed in the prior year.
 - (b) Be approved by the Auditing Standards Board or the appropriate industry sub-committee.
 - (c) Reflect transactions in a manner that presents the financial statements within a range of acceptable limits.
 - (d) Match the principles used by most other entities within the entity's particular industry.

2. After considering an entity's negative trends and financial difficulties, an auditor has substantial doubt about the entity's ability to continue as a going concern. The auditor's considerations relating to management's plans for dealing with the adverse effects of these conditions most likely would include management's plan to:
 - (a) Increase current dividend distributions.
 - (b) Reduce existing lines of credit.
 - (c) Increase ownership equity.
 - (d) Purchase assets formerly leased.

3. When an auditor expresses an adverse opinion, the opinion paragraph should include.
 - (a) The principal effects of the departure from generally accepted accounting principles.
 - (b) A direct reference to a separate paragraph disclosing the basis for the opinion.
 - (c) The substantive reasons for the financial statements being misleading.
 - (d) A description of the uncertainty or scope limitation that prevents an unqualified opinion.

4. Which of the following events occurring after the issuance of an auditor's report most likely would cause the auditor to make further inquiries about the previously issued financial statement?
 - (a) An uninsured natural disaster occurs that may affect the entity's ability to continue as a going concern.
 - (b) A contingency is resolved that had been disclosed in the audited financial statements.
 - (c) New information is discovered concerning undisclosed lease transactions of the audited period.
 - (d) A subsidiary is sold that accounts for 25% of the entity's consolidated net income.

5. Auditor shall obtain sufficient and appropriate evidences with respect to _____ of inventory as per SA-501.
 - (a) Existence
 - (b) Condition
 - (c) Existence and condition both
 - (d) None of these
6. Auditor obtains a written representation with respect to stock lying with transporter. It can be regarded-
 - (a) As sufficient evidence
 - (b) As jus an additional evidence
 - (c) Having no significance at all
 - (d) None of these
7. Stratification should be adopted in case of-
 - (a) Homogenous population
 - (b) Heterogeneous population
 - (c) All kinds of population
 - (d) It is not a good approach while adopting sampling
8. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as-
 - (a) Self-revealing errors
 - (b) Intentional errors
 - (c) Concealed errors
 - (d) Unconcealed errors
9. Analytical procedures issued in the planning stage of an audit, generally:
 - (a) Helps to determine the nature, timing and extent of other audit procedures
 - (b) Directs attention to potential risk areas
 - (c) Indicates important aspects of business
 - (d) All of the above
10. What is the primary objective of analytical procedures used in the overall review stage of an audit?
 - (a) To help to corroborate the conclusions drawn from individual components of financial statements
 - (b) To reduce specific detection risk
 - (c) To direct attention to potential risk areas
 - (d) To satisfy doubts when questions arise about a client's ability to continue
11. _____ aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
 - (a) Audit against provision of funds
 - (b) Propriety audit
 - (c) Audit of sanctions
 - (d) Audit against rules and orders
12. Controls can be _____ related to an assertion.
 - (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above

13. The overall audit strategy and the audit plan remain the _____ responsibility.
- (a) Auditor's
 - (b) Management's
 - (c) Those charged with governance
 - (d) All of the above
14. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
- (a) Independence
 - (b) Professional Judgment
 - (c) Professional skepticism
 - (d) All of the above
15. Auditor's judgment as to sufficiency may be affected by which factor:
- (a) Materiality
 - (b) Risk of material misstatement
 - (c) Size and characteristics of the population.
 - (d) All of the above
16. With reference to SA 300, the auditor shall document:
- (a) The overall audit strategy
 - (b) The audit plan
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
 - (d) All of the above
17. If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-
- (a) Withdraw from the engagement immediately
 - (b) Report to Audit team regarding withdrawal
 - (c) Determine the professional and legal responsibilities applicable in the circumstances
 - (d) Ask the management for his withdrawal
18. While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management?
- (a) If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.
 - (b) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.
 - (c) Goodwill is recognised only when there is a contractual or other legal rights for a physical asset which shall not be amortized over the period.
 - (d) All of the above.

19. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31st March, 2018, the company did not opt for any borrowing at any point of time and have a total revenue of Rs. 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus-

Particulars	Amount (in Rs.)
Paid-up Capital	
- Consideration received in cash for equity shares (including unpaid calls of Rs. 5,00,000)	40,00,000
- Consideration received in cash for preference shares	25,00,000
- Bonus shares allotted	7,00,000
- Share application money received pending allotment	<u>10,00,000</u>
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	<u>25,00,000</u>
GRAND TOTAL	1,07,00,000

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2016, (CARO, 2016) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding Rs. 10 crore during the financial year. Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2016?

- (a) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.07 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- (b) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.02 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- (c) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.92 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.
- (d) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.82 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.
20. CA. Daffy is the auditor of xBose Ltd. for the previous 2 years. However, due to certain unavoidable circumstances, no Annual General Meeting (AGM) was held for the current Financial Year ending on 31st March, 2018 within every possible time limit and thus, the ratification procedure for her appointment in the AGM could not be performed. Whether she may continue to hold the office of the auditor?

- (a) CA. Daffy may continue to hold the office of the auditor for the current Financial Year only and thereafter shall resign herself as the ratification procedure could not be completed.
- (b) CA. Daffy shall continue to hold the office of the auditor and ask the Board to re-appoint her in a private meeting.
- (c) CA. Daffy shall continue to hold the office of the auditor as no such ratification provisions for appointment by members at every AGM exist.
- (d) CA. Daffy shall not continue to hold office of the auditor as the ratification procedure could not be completed as per proviso to section 139(1) of the Companies Act, 2013.

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. When an accountant complies a financial forecast, the accountant's report should include a(an):
- (a) Explanation of the difference between a financial forecast and a financial projection.
 - (b) Caveat that the prospective results of the financial forecast may be achieved.
 - (c) Statement that the accountant's responsibility to update the report is limited to one year.
 - (d) Disclaimer of opinion on the reliability of the entity's internal controls.
22. Before accepting an audit engagement, a successor auditor should make specific inquiries of the predecessor auditor regarding the predecessor's:
- (a) Opinion of any subsequent events occurring since the predecessor's audit report was issued.
 - (b) Understanding as to the reasons for the change of auditors.
 - (c) Awareness of the consistency in the application of GAAP between periods.
 - (d) Evaluation of all matters of continuing accounting significance.
23. Coyote Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under the custody of third party). CA. Star, the auditor of the company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Star to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party?
- (a) Attend third party's physical counting of inventory.
 - (b) Arrange for another auditor to attend third party's physical counting of inventory.
 - (c) Inspect warehouse receipts regarding inventory held by third parties.
 - (d) All of the above.
24. CA. Bobby is a recently qualified Chartered Accountant. He is appointed as an auditor of Droopy Ltd. for the current Financial Year 2017-18. He is quite conservative in nature which is also replicated in his professional work. CA. Bobby is of the view that he shall record all the matters related to audit, audit procedures to be performed, audit evidence obtained and conclusions reached. Thus, he maintained a file and recorded each and every of his findings during the audit. His audit file, besides other thing, includes audit programmes, notes reflecting preliminary thinking, letters of

- confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?
- (a) Audit programmes.
 - (b) Notes reflecting preliminary thinking.
 - (c) Letters of confirmation.
 - (d) E-mails concerning significant matters.
25. Which of the following transaction is not covered within the meaning of business relationship for the purpose of disqualification of auditor
- (a) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor under the Co Act, 2013 and Chartered Accountants Act, 1949 and rules or regulations made under those Acts
 - (b) Commercial transaction which are in the ordinary course of business of the company at arm's length price – like sale of product or services to the auditor, as customer, in the ordinary course of business.
 - (c) Both (a) and (b)
 - (d) None of these

DIVISION B-DESCRIPTIVE QUESTIONS
QUESTION NO. 1 IS COMPULSORY
ATTEMPT ANY FOUR QUESTIONS FROM THE REST

Question 1:

Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)

1. Auditor is responsible for prevention & detection of misstatements.
2. Disclosure of fundamental accounting assumptions is needed whether these are followed or not.
3. Substantive procedures are carried out to check data produced by accounting systems.
4. There is inverse relation between materiality & audit risk.
5. Reply is required in all cases in positive confirmation request.
6. Results of surprise checks are always included in auditor's report.
7. Auditor should not communicate weakness in internal control system to the management as he checks only financial statement.
8. There is direct relationship between detection risk and combined level of inherent and control risk.

(2 x 7 = 14 Marks)

Question 2:

- (a) Ashu Pvt. Ltd. has fully paid capital and reserves of Rs. 50 lakh. During the year, the company had borrowed Rs. 70 lakh each from a bank and a financial institution independently. It has the turnover of Rs. 900 lakh. Mention whether the Ashu Pvt. Ltd. full fill the condition relating to borrowings under CARO, 2016.

(4 Marks)
- (b) Discuss the objective of the auditor as per Standard on Auditing (SA) 705 "Modifications to The Opinion in The Independent Auditor's Report"

(4 Marks)
- (c) Under what circumstances when corresponding figures are presented, the auditor's opinion shall refer to the corresponding figures.

(3 Marks)

- (d) Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. for the accounting year 2017-2018. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd. Comment.

(3 Marks)

Question 3:

- (a) When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole. Explain

(4 Mark)

- (b) Explain Auditor's right to-

- (a) Report to the members of the company on the accounts examined by him
(b) Obtain information and explanation from officers

(4 Mark)

- (c) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain

(3 Mark)

- (d) Under **sub-section (3) of section 141 of the Companies Act, 2013** along with **Rule 10** of the Companies (Audit and Auditors) Rules, 2014, state the persons who shall not be eligible for appointment as an auditor of a company

(3 Mark)

Question 4:

- (a) Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity. Explain stating also criteria for a liability to be classified as current liability.

(4 Mark)

- (b) Misappropriation of Assets involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more able to disguise or conceal misappropriations in ways that are difficult to detect. Misappropriation of assets can be accomplished in a variety of ways. Analyse and Explain

(4 Mark)

- (c) External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. Analyse and Explain.

(3 Mark)

- (d) The relationship between auditing and law is very close one. Discuss.

(3 Mark)

Question 5:

- (a) What are the different types of Agricultural Advance, what are the NPA norms would apply to agricultural advance? **(4 Marks)**
- (b) In what condition NPA's should be straight-away classified as doubtful or loss asset as appropriate. **(3 Marks)**
- (c) Explain Propriety Audit? **(3 Marks)**
- (d) Explain Role of C&AG is prescribed under sub section (5), (6) and (7) of section 143 of the Companies Act, 2013. **(4 Marks)**

Question 6:

- (a) Explain how would you deal as an auditor if, as a result of a misstatement resulting from fraud or suspected fraud, you encounter exceptional circumstances that bring into question your ability to continue performing the audit. **(3 Marks)**
- (b) Explain techniques available as substantive analytical procedures. **(4 Marks)**
- (c) Explain clearly the purpose of communicating key audit matters. **(3 Marks)**
- (d) You have been appointed as an auditor of an NGO, briefly state the points on which you would concentrate while planning the audit of such an organisation? **(4 Marks)**
