

**(GI-1, GI-2+4, GI-3, GI-5+6 & VDI-1, VI-1, SI-1)****DATE: 07.10.2020****MAXIMUM MARKS: 100****TIMING: 3¼ Hours****PAPER : AUDITING****DIVISION – A (MULTIPLE CHOICE QUESTIONS)****QUESTIONS (1-20) CARRY 1 MARK EACH**

- (1) CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?
- (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (2) 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.
- (3) When credit purchases of Rs. 5100 is recorded on credit side and credit sales of Rs. 5100 is recorded on debit side, this kind of error is called\_\_\_\_\_.
- (a) Error of omission
- (b) Compensating error
- (c) Error of principle
- (d) Error of commission
- (4) 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
- (5) 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
- (6) 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
- (7) Which of the following is not classification of NPA-
- (a) Impaired
- (b) Sub standard
- (c) Doubtful
- (d) Loss
- (8) Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the who shall cause them to be laid before House of Parliament/State Legislature
- (a) President/Governor
- (b) Prime Minister/ Chief Minister
- (c) Union Finance Minister/State Finance Minister
- (d) All of the above

- (9) Tolerable error, is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to
- (a) Sample size
  - (b) Audit risk
  - (c) Materiality
  - (d) Expected error
- (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) Which of the following is not an example of revenue expenditure -
- (a) Salaries and wages of employees engaged directly or in-directly in production
  - (b) Repairs, maintenance and renewals of fixed assets
  - (c) Legal and professional expenses
  - (d) Development expenditure on land
- (12) During the course of audit of intangible assets, expenditure incurred during following phase is generally not capitalised:
- (a) Development phase
  - (b) Research phase
  - (c) None of the above
  - (d) Both (a) and (b)
- (13) The auditor shall express\_\_\_\_\_opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- (a) Adverse
  - (b) Qualified
  - (c) Disclaimer
  - (d) None of the above
- (14) Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion:
- (a) Rights and obligations
  - (b) Existence
  - (c) Valuation
  - (d) Completeness
- (15) While auditing a cinema hall, the auditor needs to verify that-
- (a) Entrance to the cinema-hall during show is only through printed tickets
  - (b) Tickets are serially numbered and bound into books
  - (c) That for advance booking a separate series of tickets is issued
  - (d) All of the above

- (16) \_\_\_\_\_ 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
- (17) SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading:
- (a) Key audit matters
  - (b) Basis of opinion
  - (c) Date
  - (d) All of the above
- (18) Which of the following is not an Audit procedures to obtain audit evidence:
- (a) Inspection
  - (b) Observation
  - (c) External Confirmation
  - (d) None of the above
- (19) As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit on financial statements, the overall objectives of the auditor are-
- (a) To obtain reasonable assurance
  - (b) To report on the financial statements
  - (c) Both (a) and (b) above
  - (d) None of the above
- (20) 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

---

**QUESTIONS (21-25) CARRY 2 MARKS EACH**

---

- (21) The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2018-19. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?
- (a) Are authorized signatories for purchases limited to elected officials?
  - (b) Are payments approved only on original invoices?
  - (c) Does authorized officials thoroughly review the documents before signing cheques?
  - (d) Are monthly bank reconciliations implemented for each and every bank accounts of the company?

- (22) In July, 2020, M/s Tom & Co. entered into an agreement with M/s Jerry & Co. under which a machinery would be let on hire and M/s Jerry & Co. would have the option to purchase the machinery in accordance with the terms of the agreement. Thus, M/s Jerry & Co. agreed to pay M/s Tom & Co. a settled amount in periodical instalments. The property in the goods shall be passed to M/s Jerry & Co. on the payment of last of such instalments. While checking such hire-purchase transaction, what would the auditor examine?
- (a) That the periodical instalments paid are charged as an expenditure by M/s Jerry & Co.
  - (b) That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.
  - (c) That M/s Tom & Co. charges depreciation throughout the life of the machinery.
  - (d) All of the above.
- (23) 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 31<sup>st</sup> March, 2020 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.

Examine with reasons (in short) whether the following statements are correct or incorrect:

- (24) Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) does not need any revision.
- (25) The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

---

**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)**

- (i) The objective of audit is to obtain absolute assurance and to report on the financial statements.
- (ii) Teeming and lading is one of the techniques of suppressing cash receipts.
- (iii) There is direct relationship between materiality and the degree of audit risk.
- (iv) As per SA 230 on "Audit Documentations", the working papers are not the property of the auditor.

- (v) Control risk is the susceptibility of an account balance or class of transactions to misstatement that could be material either individually or, when aggregated with misstatements in other balances or classes, assuming that there were no related internal controls.
- (vi) As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor.
- (vii) The term "internal audit" is defined as the "checks on day to day transactions which operate continuously as part of the routine system whereby the work of one person is proved independently or is complementary to the work of another, the object being the prevention or early detection of errors or fraud".
- (viii) A Chartered Accountant holding securities of S Ltd. having face value of Rs. 950 is qualified for appointment as an auditor of S Ltd.

**(7 x 2 = 14 Marks)**

**Question 2:**

- (a) Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Explain  
**(4 Marks)**
- (b) Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO, 2016.  
**(3 Marks)**
- (c) The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances.  
**(3 Marks)**
- (d) State the circumstances which could lead to any of the following in an Auditor's Report:
  - (a) A modification of opinion.
  - (b) Disclaimer of opinion.
  - (c) Adverse opinion.
  - (d) Qualified opinion.**(4 Marks)**

**Question 3:**

- (a) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director.  
**(3 Marks)**
- (b) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?  
**(4 Marks)**
- (c) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts

for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.

**(4 Marks)**

- (d)** CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs. 30,000. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation.

How much fine may he be punishable with under section 140(3) for non-compliance of section 140(2) of the Companies Act, 2013?

**(3 Marks)**

**Question 4:**

- (a)** Explain clearly the purpose of communicating key audit matters.

**(3 Marks)**

- (b)** In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous. Explain stating uses of Data analytics.

**(4 Marks)**

- (c)** Point out any eight areas where external confirmation are used as an audit procedure.

**(4 Marks)**

- (d)** Discuss the different ways in which defalcation of cash may take place.

**(3 Marks)**

**Question 5:**

- (a)** The functioning of banking industry in India is regulated by the Reserve Bank of India (RBI) which acts as the Central Bank of our country. Explain.

**(4 Marks)**

- (b)** Judging the significance of a matter requires an objective analysis of the facts and circumstances. Documentation of the professional judgments made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgment. Explain with the help of examples.

**(4 Marks)**

- (c)** Explain the audit procedure to vouch/verify:

- (i) Rent expenses
- (ii) Power and Fuel expenses

**(3 Marks)**

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

**(3 Marks)**

**Question 6:**

- (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 Marks)**
- (b) 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.  
**(3 Marks)**
- (c) Reserves are amounts appropriated out of profits whereas on the contrary, provisions are amounts charged against revenue. Discuss explaining the difference between the two and also explain clearly revenue reserve and capital reserve.  
**(3 Marks)**
- (d) The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality. Analyse and Explain stating clearly the factors affecting the auditor's judgement as to sufficiency of audit evidence.  
**(4 Marks)**

— \*\* —