



- (c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare.
- (d) All of the above
7. Which of the following is not a type of modified opinion:
- (a) qualified opinion  
(b) adverse opinion  
(c) disclaimer of opinion  
(d) None of the above
8. Which of the following is an example of inflating cash payments?
- (a) Making payments against purchase vouchers.  
(b) Teeming and lading.  
(c) Not accounting for cash sales fully.  
(d) Making payments against inflated vouchers.
9. 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)
10. 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
11. Controls can be \_\_\_\_\_ related to an assertion.
- (a) Directly  
(b) Indirectly  
(c) Directly or indirectly  
(d) None of the above
12. 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
13. 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.
14. 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.
15. The basic assumption underlying the use of analytical procedures is:
- (a) It helps the auditor to study relationship among elements of financial information
  - (b) Relationship among data exist and continue in the absence of known condition to the contrary
  - (c) Analytical procedures will not be able to detect unusual relationships
  - (d) None of the above
16. 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

17. Which of the following is fund based advance :
- (a) Term loans
  - (b) Cash credits,
  - (c) Demand Loans
  - (d) All of the above
18. As on date of appointment no audit firm having a common partner or partners to audit firm, whose tenure has expired in a company, shall be appointed as auditor of the same company for a period of\_\_\_\_\_years
- (a) 1
  - (b) 3
  - (c) 5
  - (d) 10
19. The auditor shall establish existence of preconditions for an audit of financial statements
- (a) Before confirming common understanding between the auditor and management of the terms of audit engagement.
  - (b) After confirming common understanding between the auditor and management of the terms of audit engagement
  - (c) Before appointment of auditor
  - (d) After the date of auditor's report.
20. Auditor can obtain knowledge of client's business from following details do management and the auditor usually agrees upon at this time?
- (a) The specific matters to be included in the communication with the audit committee
  - (b) The minimum amount of misstatements that may be considered to be reportable conditions
  - (c) The schedules and analyses that the client's staff should prepare
  - (d) The effects that inadequate controls may have over the safeguarding of assets

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

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21. Which of the following is required documentation in an audit in accordance with generally accepted auditing standards?
- (a) A flowchart or narrative of the information system relevant to financial reporting describing the recording and classification of transactions for financial reporting.
  - (b) An audit plan setting forth in detail the procedures necessary to accomplish the engagement's objectives.
  - (c) A planning memorandum establishing the timing of the audit procedures and coordinating the assistance of entity personnel.
  - (d) An internal control questionnaire identifying controls that assure specific objectives will be achieved.
22. 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.

23. Which of the following is an automated control?
- (a) Program change
  - (b) System generated report
  - (c) Application control
  - (d) Configurations
24. Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company i.e. rent expense of Rs. 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario?
- (a) CA. Felix would inspect every single rent invoice per month of Rs. 1,20,000 and verify other elements appropriately.
  - (b) CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.
  - (c) CA. Felix would select the first month rent invoice of Rs. 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be Rs. 14,40,000 (i.e. Rs. 1,20,000 \* 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation.
  - (d) (a) and (b), both.
25. In July, 2018, 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.

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

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**Question 1:**

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

- (i) "Sweat Equity Shares" means equity shares issued by the company to employees or directors at a premium or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.

- (ii) If Company X’s balance sheet shows building with carrying amount of Rs. 100 lakh, the auditor shall assume only one point that the management has only asserted that the building recognized in the balance sheet exists as at the period-end.
- (iii) The securities premium account may only be applied by the Company towards the issue of unissued shares of the company to the members of the company to the members of the company as fully bonus shares.
- (iv) The auditor shall modify the opinion in the auditor’s report only when the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatements.
- (v) The auditor shall express a adverse 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.
- (vi) The auditor can assume that the system generated information is correct and relied upon without evidence that demonstrates that the system driven information is based on validation of the required parameters for the time being in force and applicable.
- (vii) Registered mortgage is effected by a mere delivery of title deeds or other documents of title with intent to create security thereof.
- (viii) According to ‘propriety audit’, the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

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

**Question 2:**

- (a) When we find in the balance sheet:

Particulars		Rs.
Plant and Machinery (at cost)		2,00,000
Less: Depreciation till the end of previous year	70,000	
Depreciation for the year	13,000	83,000
		1,17,000

What are the obvious assertions that would strike the mind of the auditor?

**(4 Marks)**

- (b) “The utility of the audit programme can be retained and enhanced only by keeping the pro ramme and also the client’s operations and internal control under periodic review so that inadequacies or redundancies of the programme may be removed” Discuss stating clearly the advantages of an audit programme.

**(4 Marks)**

- (c) The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker’s certificate in support of Fixed deposits whereas management provides only written representation on the matter.

Required

Discuss how would you deal as an auditor.

**(3 Marks)**

- (d) Explain the audit Procedures generally required to be undertaken while auditing depreciation and amortization expense.

**(3 Marks)**

**Question 3:**

- (a) How would you vouch/verify the following:  
(1) Advertisement Expenses.  
(2) Sale of Scrap. **(6 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. **(4 Marks)**

**Question 4:**

- (a) What are the different types of Agricultural Advance, what are the NPA norms would apply to agricultural advance? **(4 Marks)**
- (b) Mention the special steps involved in the audit of cinema. **(4 Marks)**
- (c) State the points which should be kept in mind while constructing an audit programme. **(3 Marks)**
- (d) As per SA-315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment", the auditor shall obtain an understanding of the what areas. **(3 Marks)**

**Question 5:**

- (a) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain **(3 Marks)**
- (b) The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, there are other advantages of audit. Some or all of these are of considerable value even to those enterprises and organisations where audit is not compulsory. Explain. **(4 Marks)**
- (c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit. Explain **(4 Marks)**
- (d) Explain the benefits of planning in the audit of financial statements. **(3 Marks)**

**Question 6:**

- (a) Explain the duties of Auditor to inquire under Section 143(1) of the Companies Act, 2013. **(4 Marks)**
- (b) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Explain **(3 Marks)**
- (c) Define Emphasis of Matter paragraph. When the auditor shall include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's report? **(4 Marks)**
- (d) Discuss the different ways in which defalcation of cash may take place. **(3 Marks)**

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