

(CA ALL INTERMEDIATE BATCHES)

DATE: 12.01.2021

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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

- (1) (IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) All of the above
- (2) The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.
- (a) Objectivity
 - (b) Independence
 - (c) Confidentiality
 - (d) Integrity
- (3) 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
- (4) A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
- (a) Positive confirmation request
 - (b) Non Response
 - (c) Negative Confirmation request
 - (d) Exception
- (5) 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
- (6) Controls can be _____ related to an assertion.
- (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above

- (7) 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
- (8) 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
- (9) _____refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
- (a) Audit Techniques
 - (b) Audit evidence
 - (c) Audit Documentation
 - (d) None of the above
- (10) Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:
- (a) Authorization.
 - (b) Performance reviews.
 - (c) Information processing.
 - (d) All of the above
- (11) Which of the following is a General IT control?
- (a) IT Environment
 - (b) Application Control
 - (c) Access Security
 - (d) IT Dependent Control
- (12) The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?
- (a) ICAI
 - (b) SEBI
 - (c) MCA
 - (d) RBI
- (13) Which of the following factors is (are) considered in determining the sample size for tests of control?
- (a) Projected error
 - (b) Tolerable error
 - (c) Expected error
 - (d) Both (b) and (c)

- (14) What are analytical procedures?
- (a) Substantive tests designed to assess control risk
 - (b) Substantive tests designed to evaluate the validity of management's representation letter
 - (c) Substantive tests designed to study relationships between financial and non-financial
 - (d) All of the above
- (15) Wages paid to workers would always qualify as:
- (a) Revenue expenditure
 - (b) Capital expenditure
 - (c) Revenue or capital expenditure depending upon facts and circumstances.
 - (d) None of the above
- (16) 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.
- (17) 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
- (18) An auditor should disclose the substantive reasons for expressing an adverse opinion in an explanatory paragraph.
- (a) Preceding the scope paragraph.
 - (b) Preceding the opinion paragraph.
 - (c) Following the opinion paragraph.
 - (d) Within the notes to the financial statements.
- (19) Positive confirmation request required the third party to reply to the auditor-
- (a) In the case of agreement with given information
 - (b) In the case of disagreement with given information
 - (c) In the case of agreement / disagreement with the given information
 - (d) None of these
- (20) Under Section 141(3), a person who or his relative or his partner is holding any security in _____ is not qualified to be appointed as auditor of the company-
- (a) The company
 - (b) Its associate company
 - (c) Its holding company
 - (d) All of these

QUESTIONS (21-25) CARRY 2 MARKS EACH

- (21) 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.
- (22) 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.
- (23) 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.
- (24) 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.
- (25) 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 2017-18. 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?

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) There is no relation between Audit Plans and knowledge of the client's business.
- (ii) An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 30 days after the date of the auditor's report.
- (iii) Audit procedures used to gather audit evidence may be effective for detecting an intentional misstatement.
- (iv) Audit documentation is a substitute for the entity's accounting records.
- (v) The matter of difficulty, time, or cost involved is in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
- (vi) When the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall not perform substantive procedures that are specifically responsive to that risk.
- (vii) Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- (viii) An audit is an official investigation into alleged wrongdoing.

(2 x 7 = 14 Marks)

Question 2:

- (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 3:

- (a) Mr. A, a chartered accountant, has been appointed as an auditor of Laxman Ltd. in the Annual General Meeting of the company held in September, 2016, which assignment he accepted. Subsequently in January, 2017 he joined Mr. B, another chartered accountant, who is the Manager Finance of Laxman Ltd., as partner. Analyse and explain.

(4 Marks)

- (b) 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?
(4 Marks)
- (c) The first auditor of Bhartiya Petrol Ltd., a Government company, was appointed by the Board of Directors. Analyse and Explain
(3 Marks)
- (d) Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term?
(3 Marks)

Question 4:

- (a) 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
(5 Marks)
- (b) The auditor can formulate his entire audit programme only after he has had a satisfactory understanding of the internal control systems and their actual operation. Analyse and explain.
(5 Marks)
- (c) Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Explain
(4 Marks)

Question 5:

- (a) 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?
(5 Marks)
- (b) The form, content and extent of audit documentation depend on factors such as the size and complexity of the entity, the nature of the audit procedures to be performed etc. Explain in detail.
(4 Marks)
- (c) The auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. Plans should be based on knowledge of the client's business. Explain
(5 Marks)

Question 6:

- (a) The auditor shall document the overall audit strategy, the audit plan and any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. Explain
(5 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.
(5 Marks)
- (c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Explain
(4 Marks)

__**__