

(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 18.03.2021

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. 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.

3. Restrictions imposed by a retail entity that is a new client prevent an auditor from observing any physical inventories. These inventories account for 40% of the entity's assets. Alternative auditing procedures cannot be applied due to the nature of the entity's records. Under these circumstances, the auditor should express a(an):
 - (a) Disclaimer of opinion.
 - (b) Qualified opinion.
 - (c) Adverse opinion.
 - (d) Unqualified opinion with an explanatory paragraph.

4. Auditor obtains a written representation with respect to stock lying with transporter. It can be regarded-
 - (a) As sufficient evidence
 - (b) As just an additional evidence
 - (c) Having no significance at all
 - (d) None of these

5. If, as a result of a misstatement resulting from fraud, the auditor encounters exception 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

6. Which of the following is source of Non Sampling risk :
- (a) Human Mistakes
 - (b) Applying audit procedures not appropriate to the objectives of audit
 - (c) Misinterpreting the sample results
 - (d) All of the above
7. Which of the following is more scientific :
- (a) Statistical
 - (b) Non- statistical
 - (c) Both (a) and (b)
 - (d) None of the above
8. _____ 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
9. At any AGM, a retiring auditor may be re-appointed if
- (a) He is not disqualified for re-appointment
 - (b) He has not given the company a notice in writing of his unwillingness to be re-appointed
 - (c) A special resolution has not been passed at that AGM appointing some other auditor or providing expressly that he shall not be re-appointed
 - (d) All of above
10. For removal of auditor before expiry of term of auditor, which of the following form is filed with CG for getting approval of such removal
- (a) ADT-1
 - (b) ADT-2
 - (c) ADT-3
 - (d) ADT-4
11. Statement (1): Auditor should perform compliance procedures to determine nature, timing and extent of substantive procedures.
Statement (2): Auditor should perform substantive procedures to determine the nature, timing and extent of compliance procedures.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true
12. Statement (1): Auditor may not reveal all the misstatements due to inherent limitations of audit.
Statement (2): In case of doubtful situations, the auditor should extend his procedures to confirm or dispel the doubt.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true

13. Who is mainly responsible for implementation of internal financial controls in a company
- (a) Auditors
 - (b) Directors
 - (c) Employees
 - (d) Regulators
14. Statement (1): Doubt about competence and integrity of management increases the risk of mis-statement in the financial statements.
Statement (2): Unusual pressure and unusual transactions increase the risk of mis-statement in the financial statements.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Statements (1) and (2) both are true
 - (d) None of the statements is true
15. Statement (1): The use of fundamental accounting assumption cannot be assumed.
Statement (2): If any fundamental accounting assumption is followed, the fact should be disclosed in the financial statements.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Statements (1) and (2) both are true
 - (d) None of the statements is true
16. Statement (1): If audit evidence obtained from one source is consistent with that obtained from another, the auditor shall obtain extra evidences to resolve the same.
Statement (2): If auditor has doubts about reliability to information, he shall perform extended procedures.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true
17. State which of the following sequence is correct as per SA-320-
- (a) Selection of benchmark - Application of percentage - Determination of materiality
 - (b) Determination of materiality - Application of percentage - Selection of Benchmark
 - (c) Selection of Benchmark - Determination of materiality - Application of percentage
 - (d) Application of percentage - Selection of Benchmark - Determination of materiality
18. Statement (1): Audit techniques and audit procedures are one and the same thing.
Statement (2): Audit techniques refer to certain means and methods for collecting evidences.
- (a) Only statement (1) is true
 - (b) Only statement (2) is true
 - (c) Both the statements are true
 - (d) None of the statements is true

19. Under Section 140(4), at an AGM, special notice shall be required for not reappointing the retiring auditor except in following case/cases-
- (a) If retiring auditor has completed consecutive tenure of 5 years / 10 years as per Section 139(2)
 - (b) Government companies
 - (c) Both (a) and (b)
 - (d) None of (a) and (b)
20. If any case has been filed against the published for breach of copyright as at balance sheet date, the auditor need not-
- (a) Check adequacy of disclosure in financial statements
 - (b) Seek experts opinion
 - (c) Both option (a) and option (b)
 - (d) None of option (a) and option (b)

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. Which of the following statements correct about materiality?
- (a) The concept of materiality recognizes that some matters are important for fair presentation of financial statements in conformity with GAAP, while other matters are not important.
 - (b) An auditor considers materiality for planning purposes in terms of the largest aggregate level of misstatements that could be material to any one of the financial statements.
 - (c) Materiality judgements are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative judgement.
 - (d) An auditor's consideration of materiality is influenced by the auditor's perception of the needs of a reasonable person who will rely on the financial statements.
22. 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.
23. Which of the following statement is not true
- (a) The auditor shall express an opinion on financial statements
 - (b) Auditor's opinion is not guarantee to future viability of business
 - (c) Auditor is responsible for prevention and detection of fraud and error in financial statements
 - (d) Auditor should examine whether recognized accounting principles have been followed

24. 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)
25. Which of the following is an automated control?
- (a) Program change
 - (b) System generated report
 - (c) Application control
 - (d) Configurations

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. Disclosure of fundamental accounting assumptions is needed whether these are followed or not.
2. Auditor should not communicate weakness in internal control system to the management as he checks only financial statement.
3. Reply is required in all cases in positive confirmation request.
4. As per SA 230 on "Audit Documentations", the working papers are not the property of the auditor.
5. Audited financial statements help the lenders.
6. RBI has been entrusted with the responsibility of regulating the activities of commercial banks only.
7. As per Section 139(6), the first auditor of a company, including a Government company, shall be appointed by the Board of Directors within 60 days from the date of registration of the company.
8. Only purpose of analytical procedures is to obtain relevant and reliable audit evidence when using substantive analytical procedures.

(2 x 7 = 14 Marks)

Question 2:

- (a)** Pride India Ltd is a manufacturer of various FMCG (fast moving consumable goods) range of products. The company is having several cases of litigation pending in courts. The auditor wanted to identify litigation and claims resulting to risk of material misstatements.

Required:

Suggest the auditor with reference to SAs.

(4 Marks)

- (b) 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). Obtain 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)**
- (c) Mention the special features of co-operative audit, to be borne in mind in general while conducting the audit by the auditor. **(3 Marks)**
- (d) Explain the overall objective of the auditor as contained in SA 200. **(3 Marks)**

Question 3:

- (a) M & Co. was appointed as auditor of IGI Ltd. As an auditor what are the factors that would be considered in the development of overall audit plan? **(4 Marks)**
- (b) Discuss the meaning and nature of Audit Documentation. **(3 Marks)**
- (c) Explain the meaning of automated environment. Also discuss the key features of an automated environment. **(4 Marks)**
- (d) Explain with examples the audit procedure to establish the existence of intangible fixed assets as at the period- end. **(3 Marks)**

Question 4:

- (a) ABC & Co." is an Audit Firm having partners "Mr. A", "Mr. B" and "Mr. C", Chartered Accountants. "Mr. A", "Mr. B" and "Mr. C" are holding appointment as an Auditor in 4, 6 and 10 Companies respectively.
- Provide the maximum number of Audits remaining in the name of "ABC & Co."
 - Provide the maximum number of Audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.
 - Can ABC & Co. accept the appointment as an auditor in 60 private companies having paid- up share capital less than Rs. 100 crore, 2 small companies and 1 dormant company?
 - Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of Rs. 110 crore each? **(7 Marks)**
- (b) Explain Propriety Audit? **(3 Marks)**
- (c) You notice a misstatement resulting from fraud or suspected fraud during the audit and conclude that it is not possible to continue the performance of audit. As a Statutory Auditor, how would you deal? **(4 Marks)**

Question 5:

- (a) XYZ & Associates, Chartered Accountants, while evaluating the operating effectiveness of internal controls, detects deviation from controls. In such a situation, state the specific inquiries to be made by an auditor to understand these matters and their potential consequences. **(3 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. **(4 Marks)**
- (c) You are an auditor of PQR Ltd. which has spent Rs. 10 lakhs on Research activities of the product during period under audit. Board of Directors want to recognize it as an internally generated intangible assets. Advise and discuss the conditions necessary to be fulfilled to recognize the intangible assets in the financial statements. **(4 Marks)**
- (d) The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. Explain clearly stating the essential audit reporting differences between the approaches. Also define comparative information and audit procedures regarding comparative information. **(3 Marks)**

Question 6:

- (a) The first auditor of Bhartiya Petrol Ltd., a Government company, was appointed by the Board of Directors. Analyse and Explain **(3 Marks)**
- (b) On the basis of which assumption the financial statements of a company are prepared. Explain. Also describe the objectives of the auditor regarding going concern. **(4 Marks)**
- (c) Explain the meaning, objectives and scope of internal audit functions as per SA 610. Also discuss who can be appointed as Internal Auditor? **(4 Marks)**
- (d) Explain clearly the purpose of communicating key audit matters. **(3 Marks)**