

(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 23.04.2021

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER : AUDITING

DIVISION – A (MULTIPLE CHOICE QUESTIONS)

QUESTIONS (1-20) CARRY 1 MARK EACH

1. 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

2. 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

3. Audit risk is a function of the risks of material misstatement and _____.
 - (a) Detection risk.
 - (b) Inherent risk
 - (c) Control risk
 - (d) Business risk

4. 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

5. Which of the following is a General IT control?
 - (a) IT Environment
 - (b) Application Control
 - (c) Access Security
 - (d) IT Dependent Control

6. 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

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. 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.
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. 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
11. Controls can be_____related to an assertion.
- (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above
12. 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
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. 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.
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. The C&AG Act gives which of the following power to the C&AG in connection with the performance of his duties-
- (a) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts.
 - (b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.
 - (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

17. Which of the following is fund based advance :
- (a) Term loans
 - (b) Cash credits,
 - (c) Demand Loans
 - (d) All of the above
18. 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
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. _____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

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. 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.

22. 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?
- That the periodical instalments paid are charged as an expenditure by M/s Jerry & Co.
 - That the hire purchase agreement specifies clearly the hire-purchase price of the machinery to which the agreement relates.
 - That M/s Tom & Co. charges depreciation throughout the life of the machinery.
 - All of the above.
23. 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	10,00,000
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
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?

- 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.
- 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.
- 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.
24. While auditing the accounts of Thought Co Ltd., CA. Bliss, the auditor of the company came across certain accounts payable balances for which direct confirmation procedure needs to be applied. Thus, for the year ending 31st March, 2018, he sent positive confirmation requests wherein the trade payables are requested to respond whether or not they are in agreement with the balance shown. The auditor received all the confirmation replies from the trade payables on time as correct except from five of them. What other option the auditor is left with regard to trade payables from which no reply for confirmation requests received?
- (a) Perform additional testing which may include agreeing the balance to subsequent cash paid.
- (b) Accept the balances as it is assuming other replies against received confirmation requests being correct.
- (c) Accept the balances as it is assuming that the trade payables must have replied in case of any discrepancies.
- (d) None of the above.
25. 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.

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) "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 audit engagement letter is sent by the client to auditor.
- (vi) The auditor has to report under section 143 of companies act, 2013 whether company has adequate internal controls in place and overall effectiveness of such internal controls.
- (vii) An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 180 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.
- (viii) Statistical sampling has narrower application where a population to be tested consists of a large number of similar items.

(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 programme 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) Engagement partner of Audit Firm MKC AND COMPANY thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning would benefit the audit of financial statements in several ways. Analyse explaining the benefits of adequate planning. **(4 Marks)**
- (b) The auditor of FAST CARS Ltd obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether management has created and maintained a culture of honesty and ethical behaviour and the strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control. Advise what is included in control environment. Also explain the elements of control environment. **(4 Marks)**
- (c) The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit. **(6 Marks)**

Question 4:

- (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 5:

- (a) Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. Explain stating clearly objectives of the auditor regarding written representation. **(4 Marks)**
- (b) In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required. **(6 Marks)**
- (c) Explain in detail the duties of Comptroller and Auditor General of India. **(4 Marks)**

Question 6:

- (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)

—**—

Mittal Commerce Classes