

(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 09.11.2021

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER : AUDITING

DIVISION – A (MULTIPLE CHOICE QUESTIONS)

QUESTIONS (1-20) CARRY 1 MARK EACH

- (1) 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
- (2) Which assertion is common among income statement and balance sheet captions:
 - (a) Existence
 - (b) Valuation
 - (c) Completeness
 - (d) Measurement
- (3) Misappropriation of assets may occur because there is-
 - (a) Adequate record keeping with respect to assets.
 - (b) Known history of violations of securities laws.
 - (c) Lack of complete and timely reconciliations of assets.
 - (d) Dispute between shareholders in a closely held entity.
- (4) 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)
- (5) ABC's investee company XYZ declares final dividend for financial year 2019-20 in the meeting of board of directors held on April 10, 2020. In which financial year should ABC account for the dividend income:
 - (a) Proportionately i.e. considering 10 days of financial year 2020-21 and 355 days of financial year 2019-20
 - (b) Financial year 2019-20
 - (c) Financial year 2020-21
 - (d) Equally between financial year 2019-20 and financial year 2020-21
- (6) 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

- (7) (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
- (8) 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
- (9) 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
- (10) 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
- (11) Controls can be _____ related to an assertion.
- (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above
- (12) 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.

- (13) Rotation of auditor is not applicable on
- (a) Dormant Company
 - (b) One Person Company
 - (c) Small Company
 - (d) Both (b) and (c)
- (14) Auditor shall not render prohibited services to the company or its holding company or its subsidiary company.....
- (a) Directly
 - (b) Indirectly
 - (c) Directly or Indirectly
 - (d) None of these
- (15) If auditor is requested by management to change the audit engagement to an engagement that conveys a lower level of assurance, then the auditor shall
- (a) Reject the management's request
 - (b) Accept the management's request
 - (c) Determine that there is a reasonable justification for doing so
 - (d) Shall not entertain any such request
- (16) An auditor who accepts an audit but does not possess the industry expertise of the business entity should
- (a) Engage experts
 - (b) Obtain knowledge of matters that relate to the nature of entity's business
 - (c) Inform management about it.
 - (d) Take help of other auditors
- (17) 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
- (18) A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information is
- (a) Negative Confirmation Request
 - (b) Exception
 - (c) Positive Confirmation Request
 - (d) Non Response
- (19) Which of the following is a not a type of modified opinion
- (a) Qualified opinion
 - (b) Adverse opinion
 - (c) Disclaimer of opinion
 - (d) None of these

- (20) 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

QUESTIONS (21-25) CARRY 2 MARKS EACH

- (21) 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)
- (22) Which of the following is more scientific :
- (a) Statistical
 - (b) Non- statistical
 - (c) both (a) and (b)
 - (d) none of the above
- (23) 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.
- (24) The first standard of field work recognizes that early appointment of the independent auditor has many advantages to the auditor and the client. Which of the following advantages is least likely to occur as a result of early appointment of the auditor?
- (a) The auditor will be able to complete the audit work in less time
 - (b) The auditor will be able to perform the examination more efficiently
 - (c) The auditor will be able to better plan for the observation of the physical inventories
 - (d) The auditor will be able to plan the audit work so that it may be done expeditiously

- (25) Which of the following is incorrect
- (a) Branch office in relation to the company means any establishment described as branch by the company.
 - (b) The provisions of regarding reporting of fraud by the auditor shall not be applicable to the branch auditor
 - (c) The duties and power of the company's auditor with reference to the audit of the branch and branch auditor, if any, shall be as contained u/s 143(1) to 143(4).
 - (d) The branch auditor shall prepare a report on the accounts of the branch examined by him and spent it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.

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) Audit procedures used to gather audit evidence may be effective for detecting an intentional misstatement.
- (ii) An audit is an official investigation into alleged wrongdoing.
- (iii) 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.
- (iv) There is no relation between Audit Plans and knowledge of the client's business.
- (v) Planning is not a discrete phase of an audit, but rather a continual and iterative process.
- (vi) Audit documentation is a substitute for the entity's accounting records.
- (vii) 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.
- (viii) 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.

(2 x 7 = 14 Marks)

Question 2:

- (a) Discuss the principal aspects to be covered in an audit concerning final statements of account.

(3 Marks)
- (b) "Section 139(1) of the Companies Act, 2013 provides that every company shall, at the first annual general meeting appoint an auditor who shall hold office till the conclusion of its sixth annual general meeting" Explain

(4 Marks)
- (c) How would you assess the reliability of internal control system in Computerised Information System (CIS) environment?

(4 Marks)
- (d) "The auditor's report shall also state the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company." Discuss with relevance to Companies Act, 2013.

(3 Marks)

Question 3:

- (a) "Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability". Explain. Also state clearly generalisations about the reliability of audit evidence. **(4 Marks)**
- (b) What are the special steps involved in conducting the audit of an Educational Institution? **(6 Marks)**
- (c) Point out any eight areas where external confirmation are used as an audit procedure. **(4 Marks)**

Question 4:

- (a) 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.
- (6 Marks)**
- (b) 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)**
- (c) 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)**

Question 5:

- (a) The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. Explain. **(4 Marks)**
- (b) "The Code of Ethics for Professional Accountants, prepared by the International Federation of Accountants (IFAC) identifies five types of threats." Explain **(4 Marks)**
- (c) Write short notes on the following:
- (i) Advantages of Statistical sampling in Auditing. **(2 Marks)**
 - (ii) Stratified sampling **(2 Marks)**
- (d) What are the different testing methods used when auditing in an automated environment. Which is the most effective and efficient method of testing? **(2 Marks)**

Question 6:

- (a) In what condition NPA's should be straight-away classified as doubtful or loss asset as appropriate. **(3 Marks)**
- (b) Surya and Chand Ltd is a manufacturing company engaged in the production of miscellaneous electrical goods. Trilochan and Co. has been appointed as the auditors to carry out its audit. Auditor thinks that Planning an audit would involve establishing the overall audit strategy for the engagement and developing an audit plan. Also, Adequate planning benefits the audit of financial statements in several ways. Analyse and Advise explaining the benefits of adequate planning. **(4 Marks)**
- (c) 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)**
- (d) 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)**

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