

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

DATE: 01.08.2022

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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

1. 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
2. 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
3. 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
4. _____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
5. The overall audit strategy and the audit plan remain the_____responsibility.
 - (a) Auditor's
 - (b) Management's
 - (c) Those charged with governance
 - (d) All of the above
6. 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

7. In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.
- (a) Reasonable assurance
 - (b) Absolute assurance
 - (c) Limited assurance
 - (d) None of the above
8. Controls can be _____ related to an assertion.
- (a) Directly
 - (b) Indirectly
 - (c) Directly or indirectly
 - (d) None of the above
9. Which assertion is common among income statement and balance sheet captions:
- (a) Existence
 - (b) Valuation
 - (c) Completeness
 - (d) Measurement
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. 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.
12. 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

13. 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.
14. The main advantage of using statistical sampling techniques is that such techniques:
- (a) Mathematically measure risk
 - (b) Eliminate the need for judgmental sampling
 - (c) Defines the values of tolerable error
 - (d) all of the them.
15. 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
16. Which of the following is fund based advance :
- (a) Term loans
 - (b) Cash credits,
 - (c) Demand Loans
 - (d) All of the above
17. 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.
18. 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
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. Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the who shall cause them to be laid before House of Parliament/State Legislature
- (a) President/Governor
 - (b) Prime Minister/ Chief Minister
 - (c) Union Finance Minister/State Finance Minister
 - (d) All of the above

QUESTIONS (21-25) CARRY 2 MARKS EACH

21. When an accountant complies a financial forecast, the accountant's report should include a(an):
- (a) Explanation of the difference between a financial forecast and a financial projection.
 - (b) Caveat that the prospective results of the financial forecast may be achieved.
 - (c) Statement that the accountant's responsibility to update the report is limited to one year.
 - (d) Disclaimer of opinion on the reliability of the entity's internal controls.
22. 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?
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 - (d) None of the above.

Examine with reasons (in short) whether the following statements are correct or incorrect :

23. Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) does not need any revision.
24. Auditor needs to report to Central Government in case of fraud involving 20 lakhs rupees.
25. Fraudulent financial reporting only involves manipulation, falsification or alteration of accounting records or supporting documents from which financial statements are prepared.

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) 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.

- (i) Provide the maximum number of Audits remaining in the name of "ABC & Co."
- (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.
- (iii) 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?
- (iv) 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?

(4 Marks)

(b) Advances generally constitute the major part of the assets of the bank. There are large number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors. In carrying out audit of

advances, the auditor is primarily concerned with obtaining evidence about, among other points, the amounts included in balance sheet in respect of advances are outstanding at the date of the balance sheet. Explain

(4 Marks)

(c) There is a growing realisation that the traditional approach to audit is economically wasteful because all efforts are directed to check all transactions without exception. Explain.

(3 Marks)

(d) 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.

(3 Marks)

Question 3:

(a) Ashu Pvt. Ltd. has fully paid capital and reserves of Rs. 50 lakh. During the year, the company had borrowed Rs. 70 lakh each from a bank and a financial institution independently. It has the turnover of Rs. 900 lakh. Mention whether the Ashu Pvt. Ltd. full fill the condition relating to borrowings under CARO, 2016.

(4 Marks)

(b) 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)

(c) Paramount Exports Ltd is a manufacturer exporter having its own production capacity and also gets the job work done through various job workers. The auditor of Paramount Exports Ltd. Considers that inventory held with job workers is material to the financial statements.

Required

Suggest the audit procedures in the given case.

(3 Marks)

(d) 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)

Question 4:

(a) An auditor purchased goods worth Rs. 501,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers. Comment.

(4 Marks)

(b) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director.

(5 Marks)

(c) Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Explain

(5 Marks)

Question 5:

(a) While conducting the audit of Jay Kay Ltd, the auditor K of KLM and Associates, Chartered Accountants observes that there are large number of Trade payables and receivables standing in the books of accounts as on 31st March. The auditor wanted to send confirmation request to few trade receivables but the management refused the auditor to send confirmation request.

Required

How would the auditor proceed?

(3 Marks)

(b) "An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so." Discuss

(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) 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.

(3 Marks)

Question 6:

(a) The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances.

(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 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)

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