

(GI-2, GI-6, GI-7, VI-1, VDI-1, DRIVE & FMT)

DATE: 27.08.2023

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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.
- Adverse
 - Qualified
 - Disclaimer
 - None of the above
- (2) Which assertion is common among income statement and balance sheet captions:
- Existence
 - Valuation
 - Completeness
 - Measurement
- (3) Misappropriation of assets may occur because there is-
- Adequate record keeping with respect to assets.
 - Known history of violations of securities laws.
 - Lack of complete and timely reconciliations of assets.
 - 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:
- Development phase
 - Research phase
 - None of the above
 - 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:
- Proportionately i.e. considering 10 days of financial year 2020-21 and 355 days of financial year 2019-20
 - Financial year 2019-20
 - Financial year 2020-21
 - Equally between financial year 2019-20 and financial year 2020-21
- (6) Which of the following is not an example of revenue expenditure -
- Salaries and wages of employees engaged directly or in-directly in production
 - Repairs, maintenance and renewals of fixed assets
 - Legal and professional expenses
 - 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) The auditor can assume that the system generated information is correct and relied upon without evidence that demonstrates that the system driven information is based on validation of the required parameters for the time being in force and applicable.
- (ii) Auditor should not communicate weakness in internal control system to the management as he checks only financial statement.
- (iii) Statistical sampling has narrower application where a population to be tested consists of a large number of similar items.
- (iv) In the planning stage, analytical procedures would not in any way assist the auditor.
- (v) Audited financial statements help the lenders.
- (vi) RBI has been entrusted with the responsibility of regulating the activities of commercial banks only.
- (vii) 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.
- (viii) 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) Although fraud is a broad legal concept, for the purposes of the SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Explain.

(4 Marks)
- (b) 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)
- (c) GST & Co., a firm of Chartered Accountants has been appointed to audit the accounts of XYZ Ltd. The partner wanted to cover principal aspects while conducting its audit of financial statements. Advise those principal aspects.

(4 Marks)

- (d) "Independence of mind and independence in appearance are interlinked perspectives of Independence of auditors." Explain.
(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) Explain the significant points auditor would consider while developing an audit programme.
(4 Marks)
- (b) List any five points that an auditor should consider to obtain an understanding of the Company's automated environment.
(4 Marks)
- (c) Satisfactory Control environment is not an absolute deterrent to fraud.
(3 Marks)
- (d) Discuss the techniques available as Substantive Analytical Procedures.
(3 Marks)

Question 5:

- (a) The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement. Auditor's judgment as to sufficiency may be affected by few factors. Explain.
(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 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)
- (d) The first auditor of Bhartiya Petrol Ltd., a Government company, was appointed by the Board of Directors. Analyse and Explain
(3 Marks)

Question 6:

- (a) 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)
- (b) Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit.
(3 Marks)
- (c) The auditor shall evaluate the results of the sample and whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. Explain
(3 Marks)
- (d) Mention any five attributes to be considered by an auditor while verifying for a depreciation and amortisation expenses.
(4 Marks)

— ** —