

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

DATE: 07.10.2023

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

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 believes there is substantial doubt about the ability of an entity to continue as a going concern, all of the following should be included in the audit documentation.
 - (a) The conditions that gave rise to the substantial doubt.
 - (b) The auditor's conclusion about whether substantial doubt remains or is alleviated.
 - (c) Management's conclusion regarding whether substantial doubt remains or is alleviated.
The effect of the auditor's conclusion on the auditor's report.

3. 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.

4. Which of the following events occurring after the issuance of an auditor's report most likely would cause the auditor to make further inquiries about the previously issued financial statement?
 - (a) An uninsured natural disaster occurs that may affect the entity's ability to continue as a going concern.
 - (b) A contingency is resolved that had been disclosed in the audited financial statements.
 - (c) New information is discovered concerning undisclosed lease transactions of the audited period.
 - (d) A subsidiary is sold that accounts for 25% of the entity's consolidated net income.

5. Auditor shall obtain sufficient and appropriate evidences with respect to _____ of inventory as per SA-501.
 - (a) Existence
 - (b) Condition
 - (c) Existence and condition both
 - (d) None of these
6. Auditor obtains a written representation with respect to stock lying with transporter. It can be regarded-
 - (a) As sufficient evidence
 - (b) As jus an additional evidence
 - (c) Having no significance at all
 - (d) None of these
7. Stratification should be adopted in case of-
 - (a) Homogenous population
 - (b) Heterogeneous population
 - (c) All kinds of population
 - (d) It is not a good approach while adopting sampling
8. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as-
 - (a) Self-revealing errors
 - (b) Intentional errors
 - (c) Concealed errors
 - (d) Unconcealed errors
9. An auditor should disclose the substantive reasons for expressing an adverse opinion in an explanatory paragraph.
 - (a) Preceding the scope paragraph.
 - (b) Preceding the opinion paragraph.
 - (c) Following the opinion paragraph.
 - (d) Within the notes to the financial statements.
10. What is the primary objective of analytical procedures used in the overall review stage of an audit?
 - (a) To help to corroborate the conclusions drawn from individual components of financial statements
 - (b) To reduce specific detection risk
 - (c) To direct attention to potential risk areas
 - (d) To satisfy doubts when questions arise about a client's ability to continue
11. _____ 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
12. 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

13. Under Section 141(3), a person who or his relative or his partner is holding any security in _____ is not qualified to be appointed as auditor of the company-
- (a) The company
 - (b) Its associate company
 - (c) Its holding company
 - (d) All of these
14. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
- (a) Independence
 - (b) Professional Judgment
 - (c) Professional skepticism
 - (d) All of the above
15. 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
16. 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
17. If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional 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
18. 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.

19. 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	<u>10,00,000</u>
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	<u>25,00,000</u>
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?

- (a) 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.
- (b) 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.
- (c) 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.
20. CA. Daffy is the auditor of xBose Ltd. for the previous 2 years. However, due to certain unavoidable circumstances, no Annual General Meeting (AGM) was held for the current Financial Year ending on 31st March, 2018 within every possible time limit and thus, the ratification procedure for her appointment in the AGM could not be performed. Whether she may continue to hold the office of the auditor?

- (a) CA. Daffy may continue to hold the office of the auditor for the current Financial Year only and thereafter shall resign herself as the ratification procedure could not be completed.
- (b) CA. Daffy shall continue to hold the office of the auditor and ask the Board to re-appoint her in a private meeting.
- (c) CA. Daffy shall continue to hold the office of the auditor as no such ratification provisions for appointment by members at every AGM exist.
- (d) CA. Daffy shall not continue to hold office of the auditor as the ratification procedure could not be completed as per proviso to section 139(1) of the Companies Act, 2013.

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. Before accepting an audit engagement, a successor auditor should make specific inquiries of the predecessor auditor regarding the predecessor's:
- (a) Opinion of any subsequent events occurring since the predecessor's audit report was issued.
 - (b) Understanding as to the reasons for the change of auditors.
 - (c) Awareness of the consistency in the application of GAAP between periods.
 - (d) Evaluation of all matters of continuing accounting significance.
23. 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.
24. CA. Bobby is a recently qualified Chartered Accountant. He is appointed as an auditor of Droopy Ltd. for the current Financial Year 2017-18. He is quite conservative in nature which is also replicated in his professional work. CA. Bobby is of the view that he shall record all the matters related to audit, audit procedures to be performed, audit evidence obtained and conclusions reached. Thus, he maintained a file and recorded each and every of his findings during the audit. His audit file, besides other

- thing, includes audit programmes, notes reflecting preliminary thinking, letters of confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?
- (a) Audit programmes.
 - (b) Notes reflecting preliminary thinking.
 - (c) Letters of confirmation.
 - (d) E-mails concerning significant matters.
25. Which of the following transaction is not covered within the meaning of business relationship for the purpose of disqualification of auditor
- (a) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor under the Co Act, 2013 and Chartered Accountants Act, 1949 and rules or regulations made under those Acts
 - (b) Commercial transaction which are in the ordinary course of business of the company at arm's length price – like sale of product or services to the auditor, as customer, in the ordinary course of business.
 - (c) Both (a) and (b)
 - (d) None of these

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)**

__ ** __