

**Question 1 & 2 are compulsory and attempt any three out of remaining four questions**

**Question 1: Objective questions**

**(1 mark x 30 = 30 marks)**

- 1) Which of the following factor you will consider while evaluating adequacy of the period of time for prospective financial information
  - (a) Operating Cycle
  - (b) Needs of the users of report
  - (c) Reliability of assumptions
  - (d) All of these
- 2) Which of the following is a category of public sector undertaking?
  - (a) Departmentally Managed undertakings
  - (b) Government companies under companies act, 2013
  - (c) Statutory Corporations
  - (d) all of the above
- 3) As per Clause 1 of the First Schedule Part I A chartered accountant in practice shall be deemed to be guilty of professional misconduct if he/she allows a \_\_\_\_\_ as chartered in his name.
  - (a) member to practice
  - (b) member in service to practice
  - (c) non-member to practice
  - (d) non-member to Service
- 4) Which of the following is an example of Direct Entity level control
  - a. Ethics policy
  - b. Human resource policy
  - c. Business performance reviews
  - d. Job roles & responsibilities of employees
- 5) Which paragraph is written after Opinion Paragraph
  - (a) Key audit Matters
  - (b) Going concern Para
  - (c) Basis for Opinion
  - (d) Auditor's Responsibility Para
- 6) ICAI is a member of
  - (a) Parliament
  - (b) IAASB
  - (c) IFAC
  - (d) SAARC

- 7) Minimum Solvency margin (excess of assets over liabilities) prescribed in case of insurance business is \_\_\_\_\_ % of minimum capital
- (a) 50                      (b) 60                      (c) 70                      (d) 30
- 8) KJA Ltd is in the business of manufacturing of tiles and sanitaryware. The company has a large inventory every year. Annual turnover of the company is INR 3000 crores. The company has 7 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2018, it was found by the management that the inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Management has included this inventory in the valuation of inventory as of 31 March 2018. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2018.
- a. Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
- b. Management should restate the financials to adjust the error. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
- c. Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
- d. Include an emphasis of matter because of the effects or possible effects of the error in the auditors report for the year ended 31 March 2018.
- 9) Quick books is an example of \_\_\_\_\_ software
- (a) Packaged software                      (b) Small ERPs
- (c) ERP applications                      (d) None of these
- 10) In order that the lending bank may be able to ascertain the correct financial position of no corporate entity, auditor should state following ratio
- (a) Current Ratio                      (b) Acid Test Ratio
- (c) Net Margin Ratio                      (d) All of these
- 11) Report of AUDIT OF STOCK AND DEBTORS / UNIT INSPECTION (AUDIT OF BORROWAL ACCOUNTS) has to be given in the format prescribed by
- (a) RBI                      (b) Bank                      (c) ICAI                      (d) None of these

- 12) In terms of section 28A of the Chartered Accountants Act, 1949, the Quality Review Board comprises of a Chairperson and \_\_\_ other members
- (a) 10                      (b) 9                      (c) 8                      (d) 7
- 13) In case company failed to transfer unclaimed dividend amount to unpaid dividend account after expiry of 7 days from the end of 30 days of issue, how much % interest to be charged?
- a) 15%                      b) 12%                      c) 10%                      d) 20%
- 14) \_\_\_\_\_ consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated
- (a) Permanent                      (b) Temporary                      (c) Semi-permanent                      (d) Current
- 15) If the auditor assesses control risk as high....
- a) Document the conclusions
- b) Documents the reasons along with conclusions
- c) Perform tests of control
- d) Perform walk through tests
- 16) Systemically important Core investment company should have total assets of at least.
- (a) 500 CRORES                      (b) 5 CRORES
- (c) 50 CRORES                      (d) 100 CRORES
- 17) Which of the following statements is not correct?
- a) Intern risk and control risk cannot be controlled by the management i.e are uncontrollable
- b) Detection risk is related directly to the effectiveness of the auditor prosecutor
- c) Detection risk related inversely to control risk
- d) Internet risk and control risk are highly interrelated
- 18) Auditor is concerned with \_\_\_\_\_ economics
- (a) Micro                      (b) Macro
- (c) Micro and Macro                      (d) Not concerned with economics

- 19) COSO framework stands for Committee of Sponsoring Organisation of the \_\_\_\_\_ Commission
- (a) USA (b) Treadway (c) Trainway (d) United
- 20) General criteria for classifying loan/advance as NPA is..
- (a) Amount remains overdue for more than 90 days  
(b) Amount remains overdue for 90 days or more  
(c) Amount remains overdue for more than 6 months  
(d) None of the above
- 21) As per Clause 4 of the First Schedule Part I A chartered accountant in practice shall be deemed to be guilty of professional misconduct if he/she Enters into -----, in or outside India, with any person other than Chartered Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed.
- (a) Agreement (b) Engagement (c) Partnership (d) Contract
- 22) An auditor assesses control risk because it
- a) affects the audit risk  
b) affects the level of detection risk that auditor may accept  
c) helps him to fix materiality level for each financial assertion  
d) is directly related to inherent risk
- 23) \_\_\_\_\_ are such Insurance plans where the value of the policy changes as per the underlying Investment Assets
- (a) Endowment (b) Money Back  
(c) Whole Life Insurance Product (d) Unit Link Insurance Plan
- 24) Which of the following is not the auditor's responsibility with relating to SA 540- Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures?
- a) Perform risk assessment procedure and related activities  
b) Making appropriate accounting estimates to be used In preparation of financial statement.  
c) Response to the assessed risk of material misstatements  
d) Evaluate the reasonableness of accounting estimates

- 25) The Following statement is not under the umbrella of power of Audit committee.
- a) To obtain outside legal or other professional advice.
  - b) To secure attendance of outsiders with relevant expertise, if it is necessary
  - c) To remove any director in case of there is a conflict of interest in organization
  - d) To seek information from any employee
- 26) For inventory lying with 3rd part auditor can
- (a) Obtain confirmation
  - (b) Conduct physical verification
  - (c) Either both or any one of a & b
  - (d) None of these
- 27) Knowledge of the entity's business does not help the auditor to
- a) Reduce inherent risk
  - b) Identify problem areas
  - c) Evaluate reasonableness of estimates
  - d) Evaluate appropriates of GAAP.
- 28) Overdraft/Cash Credit (OD/CC) is classified as NPA when..
- (a) Account remains out of order
  - (b) Amount overdue for 90 days or more
  - (c) Amount overdue for 6 months or more
  - (d) Security is inadequate
- 29) As per Clause 3 of the First Schedule Part I A chartered accountant in practice shall be deemed to be guilty of professional misconduct \_\_\_\_\_ any part of the profits of the professional work of a person who is not a member of the Institute.
- (a) Accepts or agrees to accept
  - (b) Accepts
  - (c) agrees to accept
  - (d) Does not Accepts
- 30) SA 810 deals with report on
- (a) Single Purpose Financial Statements
  - (b) General Purpose Financial Statements
  - (c) Summary financial Statements
  - (d) None of these

**Question 2:****(A)**

BSS & Associates is a partnership firm of Chartered Accountants which was established five years back. The firm was offering only advisory services at the beginning, however, after audit rotation and advent of GST, firm sees lot of potential in these areas also and started looking for opportunities in these areas also. These services being assurance in nature, the firm required some internal restructuring and set up some policies and procedures for compliance year on year.

The firm started getting new clients for these new services and is now looking to obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client. Where issues have been identified, and the firm decides to accept or continue the client relationship or a specific engagement, it has been setting up a process to document how the issues were resolved.

The firm is now looking to work with only select clients which are in line with the policies of the firm. The firm understands that the extent of knowledge it will have regarding the integrity of a client will grow within the context of an ongoing relationship with that client. With regard to the integrity of a client, you are required to give some examples of the matters to be considered by the firm as per the requirements of SQC 1. **(5 marks)**

**(B)**

B & Co. is in process to issue a prospectus, to provide potential investors with information about future expectations of the Company. You are hired by B & Co. to examine the projected financial statements and give report thereon. Briefly explain the things you will consider before accepting the audit engagement. **(5 marks)**

**Question 3:****(A)**

X Ltd had a net worth of INR 1300 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e. they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(4 marks)**

**(B)**

State the Stepwise approach adopted by the Peer reviewer. **(5 marks)**

**(C)**

Relevant Notes given by the management in the financial statements of India Branch Office of ABC Limited are :

- Income tax authorities have raised demands (including interest upto the date of demand) aggregating to Rs. 100 crores and Rs. 40 crores respectively for assessment

year 2013 – 14 based on report by auditors consequent to conduct of special audit as directed under section 142(2A) of the Income tax Act, 1961 and in addition, have also initiated penalty proceedings against the Company. The Company has contested these demands before the Commissioner of Income tax (Appeals) and has also filed applications for stay of penalty proceedings and the same are currently pending disposal.

Based on review of underlying documents and legal inputs, the management has assessed that there is probability of likely outflow to the extent of Rs. 50 crores (including interest liability till date of stay of payment of Rs. 15 crores) in relation to the above demands and has accounted for the same in these financial statements. With respect to further liability of Rs. 50 crores, the management believes that it has the necessary documents to furnish to the tax authorities and basis the expert's inputs believes that Company has good chances of success of receiving the judgments in its favour. Further, the management believes that the likelihood of penalties being imposed against the Company is not probable and accordingly, no adjustments are considered necessary in these financial statements.

- As at March 31, 2017, the Company has accumulated losses of Rs. 150 crores against equity of Rs. 100 crores and also net current liabilities of Rs. 35 crores. The management is of the view that the current year losses are primarily attributable to income tax liabilities devolving on the Company, as discussed under paragraph XX. As per the management assessment, it is likely to generate Rs. \_\_\_\_\_ and Rs. \_\_\_\_\_

from the operations during the financial years ending March 31, 2018 and March 31, 2019 respectively. Further, the Company's key shareholders have confirmed that they shall provide continuing financial support to the Company's day to day operations so as to enable the Company to pay off its debts, as and when they fall due. Accordingly, these financial statements have been prepared on a going concern basis.

As an auditor of ABC Limited, you are required to draft emphasis of matter para in the given situation on the basis of analysis of above notes (when there is material tax litigation that casts significant doubt on the entity being regarded as going concern).

**(6 marks)**

**(D)**

ST Ltd is a growing company and currently engaged in the business of manufacturing of tiles. The company is planning to expand and diversify its operations. The management has increased the focus on the internal controls to ensure better governance. The management had a discussion with the statutory auditors to ensure the steps required to be taken so that the statutory audit is risk based and focused on areas of greatest risk to the achievement of the company's objectives. Please advise the management and the auditor on the steps that should be taken for the same.

**(5 marks)**

**Question 4:**

**(A)**

ABC Ltd. is engaged in manufacturing of Yarns and Towels. It sells its product in both domestic as well as in International Market. It has achieved turnover of 200 crores in the F.Y. 2016 -17. Directors of the company realized that they are not managing the company professionally and thereby request your firm of Internal Auditors for appraisal of its organizational structure to ascertain whether it is in harmony with the objectives of ABC (P) Ltd. Comment. **(4 marks)**

**(B)**

Alora Pvt. Ltd. approached CA. Neha, a practicing Chartered Accountant since 1998, for recovery of debts amounting Rs. 20 crore. CA Neha accepted the work and requested to charge fees @ 1.5% of the debt recovered. Later, on she raised a bill for debts recovered and charged Rs. 27 lacs for recovering 90% of the debts. Comment with reference to the Chartered Accountants Act, 1949. **(4 marks)**

**(C)**

Based upon the legal opinion of a leading advocate, X Ltd. made a provision of Rs. 3.5 crores towards Income Tax liability. The assessing authority has worked out the liability at Rs. 5 crores. It is observed that the opinion of the advocate was inconsistent with legal position with regard to certain revenue items.

Indicate the precise nature of auditor's liability in this situation and support your views with authority, if any. **(6 marks)**

**(D)**

You are appointed as the auditor of a NBFC which is an Investment company registered with RBI. What shall be the special points to be covered for the audit of NBFC in case of Investment companies? **(Any SIX points) (6 marks)**

**Question 5:**

**(A)**

Mr. M, a Chartered Accountant in practice, has printed visiting cards which besides other details also carries a Quick Response (QR) code. The visiting card as well the QR code contains his name, office and residential address, contact details, e-mail id and name of the firm's website. Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto. **(4 marks)**

**(B)**

The manager of ZedEx (P) Ltd. approached CA. Vineet in the need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), CA. Vineet issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute. **(4 marks)**

**(C)**

Advances generally constitute the major part of the assets of the bank. There are substantial number of borrowers to whom variety of advances are granted. The audit of advances requires the major attention from the auditors.



As an expert in bank audit, you are required to briefly discuss the area of focus and suggested audit procedures regarding evaluation of internal controls over advances, substantive audit procedures and recoverability of advances. **(6 marks)**

**(D)**

XYZ Hospital Private Ltd. is engaged in running a hospital of 200 Beds since last 20 years. Revenue Track of the hospital for last 3 years is as under:

2015-16	20 Crores
2016-17	25 Crores
2017-18	35 Crores

Hospital has its own Pharmacy, Laboratory, Blood Bank, Radiology & General Stores. Its management suspects that leakages/theft is happening in Pharmacy, Radiology, Laboratory and General Stores departments. It seeks advice of RST & Co., Internal Auditors of the Company, as to how it can Institute/Improve its Internal Control. In this context, Management wants to understand the concept of components of Internal Control Structure in detail. Advise. **(6 marks)**

**Question 6:**

**(A)**

In terms of Sl. No. 5G of Form GSTR 9C, the turnovers included in the audited financial statement for the period April 2017 to June 2017 shall be declared and deducted from the annual turnover to arrive at the turnover as per the GST Laws.

Please specify which of the following supplies would form part of reporting under turnover for the period April 2017 to June 2017

- (a) Goods were manufactured and cleared from a factory on 1.6.2017 on sale or approval basis. The goods were not approved by the recipient and returned back on 25.12.2017.
- (b) Goods were manufactured and cleared from a factory located in Bangalore on 30.4.2017. The goods were cleared to its showroom located in Hyderabad and eventually been sold from there on 30.8.2017. The audit under the GST Law will be conducted for Bangalore GSTIN.
- (c) Continuous supply of service in the nature of telecommunication service has been provided for the period 1.6.2017 to 30.6.2017. The bill is raised on 3.7.2017. The bill is payable by the customer only on 21.7.2017. Should the revenue be recognised in the month of June 2017 and reduced from total turnover or should it form part of turnover for the period July 2017 to March 2018 since the due date for payment of consideration is 21.7.2017. The entity recognised the revenue in the month of June 2017. **(6 marks)**

**(B)**

**Write a short Note :** Key features of the Qualified and Independent Audit Committee set up under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. **(5 marks)**

**(C)**

M/s LMN, a firm of Chartered Accountants responded to a tender from a State Government for computerization of land revenue records. For this purpose, the firm also paid Rs. 50,000 as earnest deposit as part of the terms of the tender. Comment with reference to the Chartered Accountants Act, 1949. **(4 marks)**

**(D)**

While auditing Secure Insurance Ltd., you observed that the major proportion of expense of the company is the remuneration/commission paid to its insurance agents. As the auditor of the company, what audit procedure would you adopt for verification of such expense? **(5 marks)**