



# CA INTERMEDIATE

SUBJECT- AUDIT

Test Code – PIN 5066

(Date :)

(Marks - 100)

## Division A- Descriptive Questions

### Question 1: Objective Questions

Q-1 to Q-10 Carries 1 Mark each.

Q-11 to Q-20 Carries 2 Marks each.

1. SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading :
  - (a) Key audit matters
  - (b) Basis of opinion
  - (c) Date
  - (d) All of the above
  
2. The completion of the assembly of the final audit file after the date of the auditor's report is
  - (a) an administrative process that does not involve the performance of new audit procedures but certainly involves the drawing of new conclusions.
  - (b) an administrative process that involves the performance of new audit procedures or the drawing of new conclusions.
  - (c) an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
  - (d) a statutory process.
  
3. If law or regulation prescribes in sufficient detail the terms of the audit engagement ,
  - (a) the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.
  - (b) the auditor need not record them in a written agreement
  - (c) the auditor needs to record them in a written agreement
  - (d) None of the above
  
4. The auditor shall assemble the audit documentation in and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
  - (a) audit note book
  - (b) completion memorandum
  - (c) audit file
  - (d) any of the above

5. Audit evidence is necessary to support the auditor's opinion and report. It is \_\_\_\_\_ in nature and is primarily obtained from audit procedures performed during the course of the audit.
- (a) cumulative
  - (b) regressive
  - (c) selective
  - (d) objective
6. When deviations from controls upon which the auditor intends to rely are detected,
- (a) the auditor shall not make any inquiries to understand these matters and their potential consequences
  - (b) the auditor shall make specific inquiries to understand these matters and their potential consequences
  - (c) the auditor shall make general inquiries to understand these matters and their potential consequences
  - (d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences
7. \_\_\_\_\_ are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.
- (a) Familiarity threats
  - (b) Self-interest threats
  - (c) Advocacy threats
  - (d) Intimidation threats
8. Statement I As per the Standard on Auditing (SA) 520 "Analytical Procedures", the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data.
- Statement II Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
- a) Only Statement I is correct
  - b) Only Statement II is correct
  - c) Both statements are correct
  - d) Both Statements are incorrect
9. Which of the following is not an example of Analytical Procedures having consideration of comparisons of the entity's financial information:
- a) Comparable information for prior periods.
  - b) Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation.
  - c) Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry.

- d) Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.

10. Statement I : A firm whereof majority of partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.

Statement II : Where a firm including a limited liability partnership is appointed as an auditor of a company, all the partners shall be authorised to act and sign on behalf of the firm.

- a) Only Statement I is correct
- b) Only Statement II is correct
- c) Both statements are correct
- d) Both Statements are incorrect

11. Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company

i.e. rent expense of Rs. 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario?

- (a) CA. Felix would inspect every single rent invoice per month of Rs. 1,20,000 and verify other elements appropriately.
- (b) CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.
- (c) CA. Felix would select the first month rent invoice of Rs. 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be Rs. 14,40,000 (i.e. Rs. 1,20,000 \* 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation.
- (d) (a) and (b), both.

12. 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.

13. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31<sup>st</sup> 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.)
<b>Paid-up Capital</b>	
- 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	10,00,000
Sub-Total	82,00,000
<b>Reserve &amp; Surplus</b>	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
<b>GRAND TOTAL</b>	<b>1,07,00,000</b>

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?

- 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.
- 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.
- 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.
- 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.

14. 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 31<sup>st</sup> 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?
- 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.
  - CA. Daffy shall continue to hold the office of the auditor and ask the Board to re-appoint her in a private meeting.
  - CA. Daffy shall continue to hold the office of the auditor as no such ratification provisions for appointment by members at every AGM exist.
  - 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.
15. Misstatements in the financial statements can arise either from fraud or error. The auditor is concerned with fraud that causes a material misstatement in the financial statements which may further be classified as fraudulent financial reporting or misappropriation of assets.

There are certain events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud which may be termed as fraud risk factors. Which of the following is an example of fraud risk factor relating to misstatements arising from misappropriation of assets?

- Known history of violations of laws and regulations.
  - Management failing to remedy known significant deficiencies in internal control on a timely basis.
  - Inventory items that are small in size, but of high value or in high demand.
  - An interest by management in employing inappropriate means to minimize reported earnings for tax- motivated reasons.
16. Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario?
- Unmodified opinion.
  - Qualified opinion.
  - Adverse opinion.
  - Disclaimer of opinion.

17. Miss Betty, relative of CA. Tweety (one of the partners of M/s AB & Co.), owed Rs. 1,50,000 to Satyan Ltd. for goods purchased in the normal course of business. Later on, M/s AB & Co. was appointed as statutory auditors of Prakash Ltd. (which holds 51% shares in Satyan Ltd.). On discovering the said fact, Miss Betty cleared the dues to Satyan Ltd. on 59th day following the date of appointment of M/s AB & Co. as statutory auditors of Prakash Ltd. Which of the following statement is true in the given scenario with respect to validity of appointment of M/s AB & Co.?

- a. Miss Betty, relative of CA. Tweety (one of the partners of M/s AB & Co.) is indebted to the subsidiary of Prakash Ltd. but not to the company itself. Thus, the appointment of M/s AB & Co. as the statutory auditors of Prakash Ltd. is valid
- b. M/s AB & Co. is not eligible for appointment as an auditor of Prakash Ltd. as Miss Betty, relative of CA. Tweety (one of the partners of M/s AB & Co.) is indebted to Satyan Ltd. (subsidiary of Prakash Ltd.) Thus, the appointment made is not valid.
- c. As the corrective action has been taken regarding indebtedness to Satyan Ltd. (subsidiary of Prakash Ltd.) within 60 days of such appointment, the appointment of M/s AB & Co. is valid.
- d. There is no such contravention of the provisions of the Companies Act, 2013 in the given scenario. Thus, the appointment of M/s AB & Co. as the statutory auditors of Prakash Ltd. is valid.

18. The management of BOB Ltd. could not differentiate between any obligation for which either provisions need to be made or the contingent liability to be shown. The auditor of the company clarifies the management that the provisions are the amounts charged against revenue to provide for a known liability, the amount whereof cannot be determined with substantial accuracy. On the other hand, a contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The auditor further explains the concept with the help of examples. State which of the following examples the auditor must have provided in respect of contingent liability?

- a. Depreciation.
- b. Clean-up costs for unlawful environmental damage.
- c. Product warranties.
- d. Lawsuit against the company where it is more likely that no present obligation exists.

19. MeLeredian is a renowned hotel operating in the city. The charge for room sales is posted to guest bills by Mr. Charlie, the night auditor. He has the responsibility for balancing the revenue and expense transactions, occurring during the day. He is also required to respond to guests' complaints and handling emergencies that may arise. While vouching the room sales, what special points may be considered by you as an auditor of the hotel?
- Audit tests to be carried out to ensure that the correct numbers of guests are charged for the correct period.
  - Any deviation between the charged rates used on the guests' bills and the standard room rate should be investigated to ensure that they have been properly authorised.
  - Testing of reports, containing details of the rooms which were occupied the previous night and the number of beds kept in each room, with the guests' register and with the individual guest's bill.
  - All of the above.
20. CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs. 30,000. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation. How much fine may he be punishable with under Companies Act, 2013?
- Nothing.
  - Rs. 30,000.
  - Not less than Rs. 50,000 but which may extend to Rs. 5,00,000.
  - Not less than Rs. 30,000 but which may extend to Rs. 5,00,000

### **Division B- Descriptive Questions**

***Question No. 1 is compulsory.***

***Attempt any four questions from the Rest.***

#### **QUESTION NO.1**

**Examine with reasons (in short) whether the following statements are correct or incorrect :  
(Attempt any 7 out of 8) (2 Marks for each question) (14 Marks)**

- The auditor's reporting on internal financial control will be applicable with respect to interim financial statements.
- Under a properly framed audit programme by the auditor, the danger is significantly less and audit can proceed systematically.
- All entities that are under common control by a state (i.e., national, regional or local government) are considered related party.
- Provision of CARO, 2016 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves & Surplus of Rs. 50 lakhs, Secured loan from bank of Rs. 90 Lakhs and Turnover of Rs. 5 Crore, for the financial year 2018-19.

- (e) CA K has resigned as an auditor after 2 months of his appointment in NML Ltd. He needs to file ADT-3 with the Registrar within 60 days from the date of resignation.
- (f) The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific.
- (g) The auditor's substantive procedure at the assertion level means substantive analytical procedures only.
- (h) For an auditor, the Risk assessment procedure provides sufficient appropriate audit evidence to base the audit opinion.

## **QUESTION NO.2**

**(A)**

The engagement partner of SKC & Co., firm of Chartered Accountants appointed as auditor of Fabric India Ltd is considering as to management of key resources to be employed to conduct audit. Discuss how overall audit strategy would assist the auditor.

**(4 marks)**

**(B)**

Having obtained an understanding of the IT systems and the automated environment of a company, the auditor should consider the risks that arise from the use of IT systems. Explain.

**(4 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.

**(Any Six)**

**(6 marks)**

## **QUESTION NO.3**

**(A)**

While performing analytical procedures on financial statements of ABC Ltd., auditor identifies fluctuations or relationships that are inconsistent with other relevant information and also that differs from expected values by a significant amount, the auditor seeks your advice as to how should he proceed?

**(4 marks)**

**(B)**

Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term?

**(4 marks)**

**(C)**

The person conducting audit should take care to ensure that financial statements would not mislead anybody. Explain stating clearly the meaning of Auditing.

**(6 marks)**



#### QUESTION NO.4

(A)

The general transactions of a hospital include patient treatment, collection of receipts, donations, capital expenditures. You are required to mention special points of consideration while auditing such transactions of a hospital? **(5 marks)**

(B)

The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in opinion section.

**(4 marks)**

(C)

Ongoing through the financial statements of ABC Ltd, its auditors Deepa Raj and Associates observed that company has taken Loans from banks and financial institutions. Further, the audit team discusses the following about Liabilities:

"Liabilities are the financial obligations of an enterprise other than owners' funds. Liabilities include loans/ borrowings, trade payables and other current liabilities, deferred payment credits and provisions.

Verification of liabilities is as important as that of assets, for, if any liability is omitted (or understated) or over stated, the Balance Sheet would not show a true and fair view of the state of affairs of the company."

Advise stating clearly the audit procedures generally required to be undertaken for verification of existence of Borrowings. **(5 marks)**

#### QUESTION NO.5

(A)

Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. Analyze and explain. **(6 marks)**

(B)

Rano Pvt. Ltd. is a private limited Company, having paid up share capital of Rs. 45 crore but having public borrowing from nationalized banks and financial institutions of Rs. 40 crore. Advise the company on the applicability of rotation of auditors. **(4 marks)**

(C)

In view of the significant uncertainty regarding ultimate collection of income arising in respect of non-performing assets, the guidelines require that banks should not recognize income on non-performing assets until it is actually realised. When a credit facility is classified as non-performing for the first time, interest accrued and credited to the income account in the corresponding previous year which has not been realized should be reversed or provided for. This will apply to Government guaranteed accounts also. Analyze and Explain. **(4 marks)**

## QUESTION NO.6

**(A)**

XYZ Ltd is engaged in trading of electronic goods and having huge accounts receivables. For analyzing the whole accounts receivables, auditor wanted to use sampling technique.

In considering the characteristics of the population from which the sample will be drawn, the auditor determines that stratification or value-weighted selection technique is appropriate. SA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques. Advise the auditor in accordance with SA 530.

**(6 marks)**

**(B)**

Explain the disclosure requirements of IND AS compliant Schedule III to Companies Act, 2013 for each component of "Other Equity."

**(4 marks)**

**(C)**

The auditor A of ABC & Co.- firm of auditors is conducting the audit of XYZ Ltd and while performing testing of additions wanted to verify that all PPE (Property Plant and Equipment) purchase invoices are in the name of the entity he is auditing. For all additions to land, building in particular, the auditor desires to have concrete evidence about ownership. The auditor is worried about whether the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor.

**(4 marks)**