

TOPIC : FULL AUDIT

Division A- Multiple Choice Questions

QUESTION 1

(1\* 20 = 20 MARKS)

1. 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.
2. \_\_\_\_\_ refer to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
  - (a) Audit assessment procedures
  - (b) substantive procedures
  - (c.) test of control
  - (d) Risk assessment procedures
3. 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
4. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called-
  - (a) Negative confirmation request
  - (b) Non-response
  - (c.) Exception
  - (d) Positive confirmation request
5. As per section 140(2) the auditor who has resigned from the company shall-
  - (a) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
  - (b) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
  - (c) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.
  - (d) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.
6. It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts :
  - (a) Haphazard sampling
  - (b) Monetary Unit Sampling
  - (c.) Stratified Sampling
  - (d) Interval sampling

7. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
- Discuss the matter with management and, where appropriate, those charged with governance.
  - Determine whether the financial statements need amendment.
  - Inquire how management intends to address the matter in the financial statements.
  - All of the above
8. \_\_\_\_\_ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
- Misstatement
  - Error
  - Fraud
  - Any of the above
9. Audit evidence includes
- information contained in the accounting records underlying the financial statements
  - both information contained in the accounting records underlying the financial statements and other information.
  - other information.
  - information contained in the accounting records underlying the financial statements or other information.
10. Which of the following is correct :
- The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error.
  - The auditor is expected to and can reduce audit risk to zero and can therefore obtain absolute assurance.
  - The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.
  - The auditor is expected to and can reduce audit risk to zero and can therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error.
11. If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:
- the original engagement; or any procedures that may have been performed in the original engagement.
  - the original engagement;
  - any procedures that may have been performed in the original engagement
  - the original engagement and any procedures that may have been performed in the original engagement.
12. Which of the following is not classification of NPA?
- Impaired
  - sub standard
  - doubtful
  - Loss
13. Loan or guarantee to or from the concerned client is an example of -
- Self-review threats
  - Self-interest threats
  - Advocacy threats
  - Intimidation threats

14. 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?
- (a) Nothing.
  - (b) Rs. 30,000.
  - (c) Not less than Rs. 50,000 but which may extend to Rs. 5,00,000.
  - (d) Not less than Rs. 30,000 but which may extend to Rs. 5,00,000.
15. Which of the following statement is correct :
- (a) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time
  - (b) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time
  - (c) Substantive analytical procedures are generally more applicable to small volumes of transactions that tend to be predictable over time
  - (d) None of the above
16. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:
- (a) a disclaimer opinion
  - (b) a qualified opinion
  - (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
  - (d) unmodified opinion
17. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of \_\_\_\_\_
- (a) Independence
  - (b) Professional Judgement
  - (c.) Professional scepticism
  - (d) All of the above
18. Audit documentation provides:
- (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
  - (b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
  - (c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
  - (d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
19. Which of the following is not an example of audit documentation:
- (a) Audit programmes
  - (b) Summaries of significant matters
  - (c.) Audit file
  - (d) Checklists.
20. Audit risk is a function of the
- (a) risks of material misstatement and detection risk.
  - (b) audit risk and detection risk.
  - (c) control risk and detection risk.
  - (d) inherent risk and detection risk.

**QUESTION 2****(1\* 5 = 10 MARKS)**

1. 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-

<b>Particulars</b>	<b>Amount (in Rs.)</b>
<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	<u>10,00,000</u>
<b>Sub-Total</b>	<b>82,00,000</b>
<b>Reserve &amp; Surplus</b>	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
<b>Sub-Total</b>	<b><u>25,00,000</u></b>
<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?

- (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.
2. Which of the following is incorrect :
- (a) Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
  - (b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);

- (c) Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;
- (d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);
3. One of your junior audit team members is confused with the term 'material misstatement'. You explain him that a material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement. Which of the following would constitute material misstatement?
- (1) An error of Rs.5,000 in relation to assets of Rs.20 lakhs.  
(2) A payroll fraud of Rs.100 in a company where profit before tax is Rs.11,000.  
(3) Non-disclosure of a material uncertainty.  
(4) Financial statements have been prepared on a going concern basis when the company is in the process of being liquidated.
- (a) 1 and 2      (b) 3 and 4      (c) 2 and 3      (d) 1 and 4
4. CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?
- (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
5. 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.

### Division B- Descriptive Questions

Question No. 1 is compulsory.

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

#### QUESTION 3

(14 MARKS)

**Examine with reasons** whether the following statements are correct or incorrect. **(Answer any seven out of eight)**

- (A) An audit is an official investigation into alleged wrong doing.
- (B) Inquiry alone provides sufficient audit evidence of the absence of a material misstatement at the assertion level and of the operating effectiveness of controls.
- (C) Bhartiya Gas Ltd. a Government Company, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the end of the financial year, who shall hold office till the end of the next Financial year.
- (D) According to Section 53 of the Companies Act, 2013, a company can issue shares at a discount.
- (E) 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.
- (F) The accounts of every LLP shall be audited in accordance with rule 24 of LLP Rules 2009.
- (G) The SAs ordinarily refer to inherent risk and control risk separately.
- (H) Rule 3 of the Companies (Cost Records and Audit) Rule, 2014 provides the classes of companies, engaged in the production of goods or providing services, having an overall turnover of Rs. 25 crore or more during the immediately preceding financial year, required to include cost records in their books of account.

#### QUESTION 4 (A)

(4 MARKS)

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.**

#### QUESTION 4 (B)

(3 MARKS)

**List out the points** that should be kept in mind by the auditor for the purpose of constructing an audit programme.

**QUESTION 4 (C)****(3 MARKS)**

CA Raj, an engagement partner wants to take decision, regarding acceptance and continuance of an audit engagement. **Which informations**, he should obtain before accepting an engagement?

**QUESTION 4 (D)****(4 MARKS)**

**Describe how** the process of establishing the overall audit strategy assists the auditor in marshalling his human resources.

**QUESTION 5 (A)****(4 MARKS)**

The SAs do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the "risks of material misstatement". **Explain.**

**QUESTION 5 (B)****(4 MARKS)**

**Give some of the points** that an auditor should consider to obtain an understanding of the company's automated environment.

**QUESTION 5 (C)****(3 MARKS)**

**Write a note** on "Self-review threats"

**QUESTION 5 (D)****(3 MARKS)**

"Completion Memorandum" is helpful as part of the audit documentation. **Explain.**

**QUESTION 6 (A)****(4 MARKS)**

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.

**QUESTION 6 (B)****(4 MARKS)**

While auditing purchases **which types** of analytical procedures will be performed by the auditor to obtain audit evidence as to overall reasonableness of purchase quantity and price.

**QUESTION 6 (C)****(3 MARKS)**

While reviewing Employee benefits expenses of a company, **how** you as an auditor **you will evaluate** its hiring, appraisal and retirement process?

**QUESTION 6 (D)****(3 MARKS)**

Verification of liabilities is as important as that of assets, considering if any liability is omitted (or understated) or overstated, the Balance Sheet would not show a true and fair view of the state of affairs of the entity. **Explain stating** also criteria for a liability to be classified as current liability.

**QUESTION 7 (A)****(4 MARKS)**

The auditor shall make a report to the members of the company on the accounts examined by him. **Explain** with reference to relevant provisions of the Companies Act, 2013.

**QUESTION 7 (B)****(4 MARKS)**

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". **Explain what** is included in this "Basis for Opinion" section.

**QUESTION 7 (C)****(6 MARKS)**

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.

**QUESTION 8 (A)****(4 MARKS)**

You are appointed as an auditor of Banking Co., and hold discussions with engagement team. **List out matters** which you would discuss at the planning stage of an audit to gain better understanding of the bank and its environment.

**QUESTION 8 (B)****(4 MARKS)**

**Define the different types** of lease agreements as per Accounting Standard/Ind-AS.

OR

**QUESTION 8 (B)****(4 MARKS)**

Mr. Piyush, the Bank Manager develops controls to aid in managing key business and financial risks. **Discuss the various requirements** for an effective risk management system in a bank.

**QUESTION 8 (C)****(6 MARKS)**

Audit of government expenditure is one of the major components of government audit conducted by the office of C&AG. The basic standards set for audit of expenditure are to ensure that there is provision of funds authorised by competent authority fixing the limits within which expenditure can be incurred. **Explain those standards.**