

Division A- Descriptive Questions

Question 1: Objective Questions

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. 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:
- (a) the original engagement; or any procedures that may have been performed in the original engagement.
 - (b) the original engagement ;
 - (c) any procedures that may have been performed in the original engagement
 - (d) the original engagement and any procedures that may have been performed in the original engagement.

9. Which of the following is correct :

(a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

(b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.

(c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.

(d) The auditor shall not assemble the audit documentation in an audit file.

10. The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is-

(a) Control Risk

(b) Inherent Risk

(c) Detection Risk

(d) Audit Risk

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 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	10,00,000
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
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.
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 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.
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?
- (a) Known history of violations of laws and regulations.
- (b) Management failing to remedy known significant deficiencies in internal control on a timely basis.
- (c) Inventory items that are small in size, but of high value or in high demand.
- (d) 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?

- (a) Unmodified opinion.
- (b) Qualified opinion.
- (c) Adverse opinion.
- (d) 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?
- (a) Audit tests to be carried out to ensure that the correct numbers of guests are charged for the correct period.
 - (b) 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.
 - (c) 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.
 - (d) 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?
- (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

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)

- (i) A modelling tool constructs a statistical model from financial data only of prior accounting periods to predict current account balances.
- (ii) When we are designing audit procedures to address an inherent risk or "what can go wrong", we consider the nature of the risk of material misstatement in order to determine if a substantive analytical procedure can be used to obtain audit evidence.
- (iii) Few members of the Board of Directors oppose the appointment of Mr. N, an employee of the company, as an Internal Auditor, stating that Mr. N is not a chartered accountant and further he is an employee of the company.

- (iv) PQR & Co., Chartered Accountants, resigned from the audit of a Government Company and filed the resignation with the company and the registrar within 30 days. Comment, whether PQR & Co. has complied with the provisions of the Companies Act, 2013.
- (v) The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements.
- (vi) Sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.
- (vii) The objective of audit is to obtain absolute assurance about whether the financial statements as a whole are free from material misstatement.
- (viii) Engagement partner refers to the partner or other person in the firm who is responsible for the audit engagement.

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)

Describe the Scope of Audit.

(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)

What do you mean by Fraud Risk Factor? Give its examples. **(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)

Mr. M, has served as an auditor in the Co-Operative Department of a Government, is appointed as a statutory auditor by a Co-Operative Society that has receipts over Rs. 3 crores during the financial year. He is not a Chartered Accountant. Mr. D, Chartered Accountant is appointed to conduct tax audit of the society under section 44AB of the Income Tax Act, 1961. Comment. **(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)

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. **(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)**