



# CA INTERMEDIATE M'19

SUBJECT- AUDIT

Test Code – PIN 5074

(Date :)

(Marks - 100)

## Division A- Multiple Choice Questions

Questions (1-18) carry 1 Mark each

Total 30 Marks

Questions 19-24 carry 2 Marks each

1. While auditing the accounts of Thought Co Ltd., CA. Bliss, the auditor of the company came across certain accounts payable balances for which direct confirmation procedure needs to be applied. Thus, for the year ending 31<sup>st</sup> March, 2018, he sent positive confirmation requests wherein the trade payables are requested to respond whether or not they are in agreement with the balance shown. The auditor received all the confirmation replies from the trade payables on time as correct except from five of them. What other option the auditor is left with regard to trade payables from which no reply for confirmation requests received?
  - a. Perform additional testing which may include agreeing the balance to subsequent cash paid.
  - b. Accept the balances as it is assuming other replies against received confirmation requests being correct.
  - c. Accept the balances as it is assuming that the trade payables must have replied in case of any discrepancies.
  - d. None of the above.
  
2. 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.
  
3. SA 320 on “Materiality in Planning and Performing an Audit” requires that an auditor
  - a. should not consider materiality and its relationship with audit risk while conducting an audit.
  - b. should consider materiality and its relationship with audit risk while conducting an audit

- c. should not consider materiality but should consider its relationship with audit risk while conducting an audit.
  - d. should consider materiality but need not consider its relationship with audit risk while conducting an audit
4. 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.
5. SQC 1 “Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services”, requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is
- a. ordinarily not more than 60 days after the date of the auditor’s report.
  - b. ordinarily not more than 30 days after the date of the auditor’s report.
  - c. ordinarily not more than 90 days after the date of the auditor’s report.
  - d. ordinarily not more than 120 days after the date of the auditor’s report.
6. \_\_\_\_\_ refers to an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- (a) Professional skepticism
  - (b) Professional Judgement
  - (c) Integrity
  - (d) Objectivity
7. 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.

8. 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 .
9. 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?
- Attend third party's physical counting of inventory.
  - Arrange for another auditor to attend third party's physical counting of inventory.
  - Inspect warehouse receipts regarding inventory held by third parties.
  - All of the above.
10. The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?
- ICAI
  - SEBI
  - MCA
  - RBI
11. \_\_\_\_\_ are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.
- Self-review threats
  - Familiarity threats
  - Intimidation threats
  - Advocacy threats

12. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -
- at the financial statement levels only.
  - at the assertion levels only.
  - at the financial statement and assertion levels.
  - at the financial statement or assertion levels.
13. The risks of material misstatement at the assertion level consist of two components:
- Inherent risk and detection risk
  - control risk and detection risk
  - audit risk and detection risk
  - Inherent risk and control risk
14. The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2017-18. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?
- Are authorized signatories for purchases limited to elected officials?
  - Are payments approved only on original invoices?
  - Does authorized officials thoroughly review the documents before signing cheques?
  - Are monthly bank reconciliations implemented for each and every bank accounts of the company?
15. In case of a fraud involving less than Rs. 1 crore, the auditor shall
- report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
  - report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.
  - report the matter to the Board within such time and in such manner as prescribed.
  - report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.
16. As per **Section 139(8)**, any casual vacancy in the office of an auditor shall in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India,
- be filled by the Audit committee within 60 days.
  - be filled by the Audit committee within 30 days.
  - be filled by the Board of Directors within 60 days.

d. be filled by the Board of Directors within 30 days.

17. In the case of tests of details

- a. the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population.
- b. the projected misstatement is the auditor's best estimate of misstatement in the population.
- c. the anomalous misstatement is the auditor's best estimate of misstatement in the population.
- d. the projected misstatement plus anomalous misstatement, if any, cannot be the auditor's best estimate of misstatement in the population.

18. The matter of difficulty, time, or cost involved is :

- a. not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
- b. in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.
- c. not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists.
- d. not in itself a valid basis for the auditor to omit an audit procedure.

19. Which of the following is correct :

- a. The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- b. The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- c. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- d. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.

20. Which of the following is correct in case of Banks :

- a. The policy of income recognition should be subjective.
- b. The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations.
- c. The policy of income recognition should be objective.
- d. The policy of income recognition may be objective or subjective.

21. 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

22. 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.

23. The assessment of the risks of material misstatement may be expressed in

- (a) quantitative terms, such as in percentages, or in non-quantitative terms.
- (b) quantitative terms, such as in percentages,
- (c) non-quantitative terms.
- (d) None of the above

24. 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.

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

**Question No. 1 is compulsory.**

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

**Total 70 Marks**

1. Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8) **(7\*2 = 14 MARKS)**
- (i) Stratified Sampling involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
  - (ii) 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.
  - (iii) 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.
  - (iv) As per SA 220, the engagement partner shall be responsible for the overall quality on each audit engagement assigned to him.
  - (v) The assessment of risks is a matter capable of precise measurement.
  - (vi) The matters which the banks require their auditors to deal with in the long form audit report have been specified by the Central Government.
  - (vii) Ratio analysis is a commonly used technique in the comparison of current data with the prior period balance or with a trend in two or more prior period balances.
  - (viii) Teeming and lading is one of the techniques of suppressing cash receipts.

#### **QUESTION NO. 2**

- A. Explain the benefits of planning in the audit of financial statements. **(4 MARKS)**
- B. The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. When circumstances are similar, the effect on sample size of factors will be similar regardless of

whether a statistical or non-statistical approach is chosen.

Explain stating the examples of factors (any four) that the auditor may consider when determining the sample size for tests of controls. **(4 MARKS)**

C. A Flow Chart is a graphic presentation of each part of the company's system of internal control. Explain elaborating each and every aspect about flow chart.

**(3 MARKS)**

D. Any share issued by a company at a discounted price shall be void. Explain stating also the audit procedure in this regard. **(3 MARKS)**

### **QUESTION NO. 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. In today's digital age when companies rely on more and more on IT systems and networks to operate business, the amount of data and information that exists in these systems is enormous. Explain stating uses of Data analytics. **(4 MARKS)**

C. If analytical procedures performed in accordance with SA 520 identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, explain how would the auditor investigate such differences. **(3 MARKS)**

D. The firm's system of quality control should include policies and procedures addressing each element. Explain. **(3 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? **(4 MARKS)**

B. State the matters to be included in the auditor's report as per CARO, 2016 regarding-

a. Default in repayment of loans or borrowing to a financial institution, bank etc.

b. Fraud by the company or on the Company by its officers or employees.

**(2\*2 = 4 MARKS)**

C. The assessment of risks is a matter of professional judgment. Explain stating clearly what is not included in Audit Risk? **(3 MARKS)**

D. ABC Ltd is engaged in manufacturing of different type of yarns. On going through its financial statements for the past years, it is observed that inventory is material to the financial statements. You as an auditor of the company wanted to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory as appearing in the financial statements. Discuss, how would you proceed as an auditor. **(3 MARKS)**



### QUESTION NO. 5

- A. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain

**(4 MARKS)**

- B. Saburi Yarns Ltd is engaged in manufacturing and trading of yarns of different types. Its huge amount is locked up in account receivables. Moreover, Management of Saburi Yarns Ltd is worried about its Internal Control system over receipts from account receivables and other receipts. Management wants to understand from you as an auditor few techniques as to how receipts can be suppressed resulting into frauds and finally incurring losses.

**(4 MARKS)**

- C. Where a company is required to constitute an Audit Committee, all appointments of an auditor under this section shall be made after taking into account the recommendations of such committee. Explain stating also the class of companies required to constitute Audit Committee.

**(3 MARKS)**

- D. The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained. Explain.

**(3 MARKS)**

### QUESTION NO. 6

- A. The engagement team of FRN & Co.- Auditors of Bank of Baroda held discussions to gain better understanding of the bank and its environment, including internal control, and also to assess the potential for material misstatements of the financial statements.

The discussion between the members of the engagement team and the audit engagement partner are being done on the susceptibility of the bank's financial statements to material misstatements. These discussions are ordinarily done at the planning stage of an audit.

Analyse and Advise the matters to be discussed in the engagement team discussion.

**(4 MARKS)**

- B. "Trade receivable are an essential part of any organisation's balance sheet. Often referred to as debtors, these are monies which are owed to an organisation by a customer. The most common form of an account receivable is a sale made on credit, via an invoice, to a customer."

It is important to carry out compliance procedures in the sales audit as part of the debtors' audit procedure.

Verify to ensure that the system for receivables has the necessary features.

**(4 MARKS)**

- C. 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?

**(3 MARKS)**

- D. Arpana Hospitals Ltd having Gross Professional Charges of Rs.50 crores is engaged in providing healthcare services. STP & Co., a firm of auditors is appointed as its auditors.

**(3 MARKS)**