

Note:1) Question Paper comprise two parts, Part I & Part II

2) Part I is compulsory.

3) In Part II, Question no. 1 is compulsory and Attempt any four questions out of the remaining five questions.

Part I (Multiple Choice Questions)

(30 Marks)

Question 1

1. Which of the following is not an analytical procedure?

- (a) Tracing of purchases recurred in the purchase book to purchase invoices.
- (b) Comparing aggregate wages paid to number of employees
- (c) Comparing the actual costs with standard costs
- (d) All of them are analytical procedure

(1 Mark)

2. 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

(1 Mark)

3. Tolerable error, is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to

- (a) Sample size
- (b) Audit risk
- (c) Materiality
- (d) Expected error

(1 Mark)

4. 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.

(1 Mark)

M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.

Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.

Based on the above facts, answer the following questions from 5 to 9:-

5. _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
- (a) Audit Programme
 - (b) Overall Audit Strategy
 - (c) Completion Memorandum
 - (d) Audit Plan

(2 Mark)

6. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.
- Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.
- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both Statements 1 & 2 are correct
 - (d) Both Statements 1 & 2 are incorrect

(2 Mark)

7. _____ means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-
- (a) Benchmark Materiality

- (b) Materiality in Planning
- (c) Performance Materiality
- (d) Materiality.

(2 Mark)

8. Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-

- (a) Total Revenue
- (b) Profit before tax
- (c) Net Asset Value
- (d) None of the above

(2 Mark)

9. (i) Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work.
- (ii) Statements are issued by ICAI with a view to secure compliance by members on some matters.
- (iii) Guidance notes are recommendatory in nature.
- (iv) Statements are mandatory in nature.
- (a) All the above statements are correct.
- (b) Statements 1 & 2 are correct
- (c) Statements 1, 2 & 3 are correct
- (d) Statements 1,2 & 4 are correct

(2 Mark)

10. The auditor shall express___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.

- (a) Adverse
- (b) Qualified
- (c) Disclaimer
- (d) None of the above

(1 Mark)

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.

(1 Marks)

12. 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.

(1 Marks)

13. 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.

(1 Marks)

14. 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.

(1 Marks)

15. 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.
- (2 Marks)**

16. The notes to the account statement of ASD Ltd. shows the break-up of accounts payable for the Financial Year 2016-17 as follows:

Accounts Payable	Amount (in Rs.)
Mr. Kraby	1,20,000
Mr. Runny	40,000
Mr. Bluffy	14,56,000
Total	16,16,000

CA. Sandy, the auditor of ASD Ltd., wants to investigate the valuation of accounts payable of Mr. Bluffy amounting to Rs. 14,56,000. Which of the following procedures is best fitted & more reliable to be followed by CA. Sandy to get more reliable evidence for the existence of such balance as on 31st March, 2017?

- a. Inspect each and every journal entry passed in the books of ASD Ltd.
- b. Ask ASD Ltd. to provide the details of payment made during the year 2017-18.
- c. Inspect the invoices issued by Mr. Bluffy and the payments made.
- d. Interrogate the cash manager of ASD Ltd.

(2 Marks)

17. An entity in addition to undertaking purchases and incurring employee benefit expenses also spends on other expenditure that are essential and incidental to running of business operations. One of such expenses is the legal and professional expenses. These are the fees paid for professional advices regarding specific deals.

Iconic Ltd. is having a retainer agreement with a lawyer, Mr. Avi, to whom the company is paying a huge sum as legal and professional expenses on monthly basis. While vouching such expenses, what should be kept in mind by the auditor?

- (a) In case of monthly retainer agreements, only verify if the expenditure for all 12 months has been recorded correctly.
- (b) The auditor should verify that the payments have been only through bank vouchers.
- (c) The auditor should be cautious while vouching for legal expenses as the same may highlight a dispute for which the entity may not have made any provision and the matter may also not have been discussed/ highlighted to the auditor for his specific consideration.
- (d) In case of monthly retainer agreements, only verify that all the payments have been made and there is no outstanding balance to be shown as liability in the Balance Sheet.

(2 Marks)

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.

(1 Marks)

19. 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.

(2 Marks)

20. While auditing TEN Ltd., CA. Porky divided the whole population of trade receivables balances to be tested in a few separate groups called 'strata' and started taking a sample from each of them. He treated each stratum as if it was a separate population. He divided the trade receivables balances of TEN Ltd. for the Financial Year 2017-18 into groups on the basis of personal judgment as follows:

S. No.	Particulars
1	Balances in excess of Rs. 10,00,000;
2	Balances in the range of Rs. 7,75,001 to Rs. 10,00,000;
3	Balances in the range of Rs. 5,50,001 to Rs. 7,75,000;
4	Balances in the range of Rs. 2,25,001 to Rs. 5,50,000;
5	Balances Rs. 2,25,000 and below

From the abovementioned groups, CA. Porky picked up different percentage of items for examination from each of the groups, for example, from the top group i.e. balances in excess of Rs.10,00,000, he selected all the items to be examined; from the second group, he opted for 25 % of the items to be examined; from the lowest group, he selected 2% of the items for examination; and so on from rest of the groups. Which one of the following methods of sample selection is he following?

- a. Systematic sampling.
- b. Stratified sampling.
- c. Section sampling.
- d. Selection sampling.

(2 Marks)

PART II

Question no. 1 is compulsory and Attempt any four questions out of the remaining five questions.

Question No. 1 (Attempt Any seven)

State with reason (in short) whether the following statements are true or false:

- (i) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding hundred crore rupees or more shall constitute an Audit Committee.
- (ii) SA 210 does not require the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.
- (iii) Government audit does not serve as a mechanism or process for public accounting of government funds.
- (iv) An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 180 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.
- (v) An Audit report is an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.
- (vi) In the planning stage, analytical procedures would not in any way assist the auditor.
- (vii) Statistical sampling has narrower application where a population to be tested consists of a large number of similar items.
- (viii) Risk assessment procedures are not performed to obtain an understanding of the entity and its environment.

(2 x 7 = 14 Marks)

Question No. 2

- (A) Explain the objectives of an Audit as per SA 200.
(3 Marks)
- (B) Plans should be further developed and revised as necessary during the course of the audit. Explain.
(3 Marks)
- (C) As per SA 220, "Quality Control for an Audit of Financial Statements" the auditor should obtain information considered necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of a new engagement with an existing client. Explain
(4 Marks)
- (D) It has been suggested that actual operation of the internal control should be tested by the application of procedural tests and examination in depth. Procedural tests simply mean testing of the compliance with the procedures laid down by the management in respect of initiation,

authorisation, recording and documentation of transaction at each stage through which it flows.

(4 Marks)

Question No. 3

(A) Evaluating responses to inquiries is an integral part of the inquiry process. Explain.

(3 Marks)

(B) 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)

(C) Explain with examples the audit procedure to establish the existence of intangible fixed assets as at the period-end.

(4 Marks)

(D) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Explain

(4 Marks)

Question No. 4

(A) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.

Discuss stating the the process of establishing the overall audit strategy that would assist the auditor to determine key matters.

(4 Marks)

(B) Before the commencement of the audit, the joint auditors should discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors should identify division of audit areas and common audit areas. Explain stating the other relevant considerations in this regard.

(3 Marks)

(C) Auditors have right to attend only those general meetings at which the accounts audited by them are to be discussed. Comment.

(4 Marks)

(D) Give examples of Analytical Procedures having consideration of comparisons of the entity's financial information.

(3 Marks)

Question No. 5

(A) The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning.

(3 Marks)

(B) Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO, 2016.

(4 Marks)

(C) Filling of a casual vacancy of auditor in respect of a company audit.

(4 Marks)

(D) Discrepancies in the accounting records, including transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy is one of the example of circumstances that indicate the possibility of fraud. Explain at least four other such examples relating to discrepancies in the accounting records.

(3 Marks)

Question No. 6

(A) The auditor should examine the efficacy of various internal controls over advances in case of Banks to determine the nature, timing and extent of his substantive procedures. Explain what is included in the internal controls over advances.

(4 Marks)

(B) Discuss the matters which should be specially considered in the audit of accounts of a partnership.

(4 Marks)

Or

Explain the powers and duties of auditors under the Multi-State Co-operative Societies Act, 2002.

(C) The fundamental principle of an automated environment is the ability to carry out business with less manual intervention. Explain.

(3 Marks)

(D) Explain the sampling method which involves selection of a block(s) of contiguous items from within the population. Also give example.

(3 Marks)