

TOPIC : FULL

DIVISION A – Multiple Choice Questions

Case Scenario 1 carries 10 Marks

Case Scenario 2 carries 10 Marks

Total 30 Marks

General MCQs carry 2 Marks each

Case Scenario 1

1. M/s PQR & Associates are appointed as auditors of Jupiter Ltd. for the Financial Year 2019 – 20.
- The team consisted of Mr. P, Mr. Q, Mr. R all Chartered Accountants and three article assistants.
 - Mr. P, one of the engagement partners, briefed the audit staff about various items of financial statement to be checked in detail in case of Jupiter Ltd. and about various aspects to be covered in the audit of the company.
 - Mr. P told the audit staff about audit documentation, audit evidence, audit file, completion memorandum and many other things along with relevant Standards of Auditing applicable.
 - Mr. P also told the staff about the risk of material misstatement that the financial statements are prone to and how it affects the sufficiency and appropriateness of audit evidence.
 - The audit staff was also apprised about the various audit procedures to be adopted while conducting the audit of Jupiter Ltd.
 - Further discussions were done about various types of risks related to financial statement and audit work, the related audit procedures, and the risk assessment procedures.
 - The engagement partners are also very particular about the application of various Standards on Auditing applicable in case of Jupiter Ltd.

Based on the above facts, answer the following :-

- 1.1 _____ is the summary of significant matters identified during audit and way they are addressed :-
- (a) Audit File
 - (b) Audit Programme
 - (c) Completion memorandum
 - (d) Checklists

- 1.2 The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is _____.
- (a) Control Risk
 - (b) Inherent Risk
 - (c) Audit Risk
 - (d) Significant Risk
- 1.3 Statement 1 : Audit procedures consist of Risk Assessments Procedures and other procedures.
- Statement 2 : Substantive procedures consist of test of details and analytical procedures.
- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both 1 & 2 are correct
 - (d) Both 1 & 2 are incorrect
- 1.4 _____ refers 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) Analytical Procedures
 - (b) Risk Assessment Procedures
 - (c) Audit Procedures
 - (d) Substantive Analytical Procedures
- 1.5 Statement 1 : - Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level.
- Statement 2 : Test of Controls is audit procedure designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.
- (a) Only Statement 1 is correct
 - (b) Only Statement 2 is correct
 - (c) Both 1 & 2 are correct
 - (d) Both 1 & 2 are incorrect

(5 × 2 = 10 Marks)

Case Scenario 2

1. A private company by the name of Very Composed Private Limited was required to be audited for the financial year 2020 – 21. A partnership firm of Chartered Accountants, ST and Associates was appointed as company auditor of Very composed Private Limited. The partnership firm ST and Associates had two partners, Mr. S and Mr. T. During the course of audit, one of the partners of ST and Associates, Mr. S took up one of the important item of financial statements namely tangible fixed assets for the purpose of audit.

While auditing tangible fixed assets Mr. S observed various accounting policies, procedures and principles which management of Very Composed Private Limited had adopted for maintaining books of accounts of the above mentioned company which he was unable to understand. For Example ;

- (1) Expenses incurred on installation of new machinery purchased were treated as revenue expenditure.
- (2) Expenses incurred regarding normal maintenance of old machinery were treated as capital expenditure.
- (3) Depreciation was not charged on building of Very Composed Private Limited on the reason that it was non – depreciating in nature.
- (4) The appropriate authority of Very Composed Private Limited had not taken steps for assessing impairment loss on machinery.

The above mentioned four examples were some of the issues which Mr. S was unable to understand while auditing tangible fixed assets of Very Composed Private Limited.

Keeping the basic concepts and accounting principles regarding tangible fixed assets in mind answer the following multiple choice questions that follow :

- 1.1 Expenses incurred on installation of new machinery by Very Composed Private Limited should be treated as :
 - (a) Revenue Expenditure
 - (b) Capital Expenditure
 - (c) Deferred Revenue Expenditure
 - (d) Partly Revenue Expenditure and Partly Capital Expenditure
- 1.2 Expenses incurred on normal maintenance of old machinery by Very Composed Private Limited should be treated as :
 - (a) Capital Expenditure
 - (b) Deferred Revenue Expenditure
 - (c) Partly Revenue Expenditure and Partly Capital Expenditure
 - (d) Revenue Expenditure

- 1.3 In books of accounts of Very Composed Private Limited, building should be treated as :
- (a) Depreciating Tangible Fixed Asset
 - (b) Non – Depreciating Tangible Fixed Asset
 - (c) Depreciating Intangible Fixed Asset
 - (d) Non – Depreciating Intangible Fixed Asset
- 1.4 In example 4 in integrated case scenario above, Mr. S mentions about appropriate authority of Very Composed Private Limited which has not taken steps for assessing impairment loss on machinery. By appropriate authority Mr. S was referring to :
- (a) Members of Very Composed Private Limited
 - (b) All employees of Very Composed Private Limited
 - (c) Management of Very Composed Private Limited
 - (d) Any one Director of Very Composed Private Limited
- 1.5 The method of depreciation used by Very Composed Private Limited must be such that it allocates amount of depreciation of a tangible fixed asset in a systematic manner over its :
- (a) Complete Life
 - (b) Service life
 - (c) Economic life
 - (d) Useful Life

(5 × 2 = 10 Marks)

General MCQs

1. As the number of transactions of WY Limited for the financial Year 2018 – 19 were in very large number, the auditor of WY Limited decided to use the technique of Audit Sampling. Before selecting the sample from Repair and Maintenance Expenses, the auditor of WY Limited wished that entire data of Repair and Maintenance Expenses of WY Limited for financial year 2018 – 19 should have three characteristics. These three characteristics are :
- (a) Simple, Completeness, Relevant.
 - (b) Appropriateness, Simple Relevant.
 - (c) Reliable, Simple, Relevant.
 - (d) Appropriateness, Completeness, Reliable.
2. The Objective of establishing Security Policies and Procedures is to
- (a) To ensure that production systems are procedures to meet financial reporting objectives.
 - (b) To ensure that modified systems continue to meet financial reporting objectives.

- (c) To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives.
- (d) To ensure that systems are developed, configured and implemented to meet financial reporting objectives.
3. _____ is a logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.
- (a) Data Mining
- (b) Data warehouse
- (c) Database
- (d) Data Analytics
4. Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020
- (a) Clause (xi)
- (b) Clause (xii)
- (c) Clause (xiii)
- (d) Clause (xiv)
5. The assessment of risks is a
- (a) matter capable of precise measurement rather than matter of professional judgment.
- (b) matter of professional judgment, rather than a matter capable of precise measurement.
- (c) matter of professional judgment, as well as capable of precise measurement sometimes.
- (d) None of the above

(5 × 2 = 10 Marks)

Division – B – Descriptive Questions

Question **No. 1** is compulsory.

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

Total 70 Marks

QUESTION : 1

1. Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)
- (i) Mr. Z, a team member of auditor of Grateful and Competent Limited was of the opinion that while conducting an audit of a company no distinction is required to be made between revenue expenditure and capital expenditure.
- (ii) The audit engagement letter is sent by the client to auditor.

- (iii) A detailed Audit Programme once prepared for a business can be used for all business under all circumstances.
- (iv) Assertions refer to the representations by the auditor to consider the different types of the potential misstatements that may occur.
- (v) One of the directors of Very Fresh Fruits Limited was of the opinion that internal auditor to be appointed must be an employee of Very Fresh Fruits Limited.
- (vi) Audit committee is to be constituted by every public company to ensure better standards of corporate governance.
- (vii) The auditor has to report under section 143 of companies Act, 2013 whether company has adequate internal controls in place and overall effectiveness of such internal controls.
- (viii) Tangible assets are depreciated when the asset is actually put to active use.

(7 × 2 = 14 MARKS)

QUESTION : 2

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

(3 MARKS)

- (B)** Much of the information obtained by the auditor's inquiries is obtained from management and those responsible for financial reporting. However, the auditor may also obtain information, or a different perspective in identifying risks of material misstatement, through inquiries of others within the entity and other employees with different levels of authority.

Explain with the help of examples.

(4 MARKS)

- (C)** You have been appointed as an auditor of an NGO, briefly state the points on which you would concentrate while planning the audit of such an organization?

(4 MARKS)

- (D)** 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 section 140(3) for non-compliance of section 140(2) of the Companies Act, 2013?

(3 MARKS)

QUESTION : 3

- (A) "An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so." Discuss.

(6 MARKS)

- (B) There are specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and effects on the financial statements.

Explain in detail stating clearly the auditor's responsibility in the above context.

(4 MARKS)

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

(4 MARKS)

QUESTION : 4

- (A) In most of the assertions much of the evidence be drawn and each one should be considered and weighted to ascertain its weight to prove or disprove the assertion. An auditor picks up evidence from the variety of fields. Analyse and explain with the help of examples.

(6 MARKS)

- (B) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Explain

(4 MARKS)

- (C) When designing and performing substantive analytical procedures, either alone or in combination with tests of details, as substantive procedures in accordance with SA 330, the auditor shall determine the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions. Explain the other relevant points in this context.

(4 MARKS)

QUESTION : 5

- (A) 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)

(B) M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of Enn Ltd. for the Financial Year 2016 -17. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in Enn Ltd. having market value of Rs. 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as auditors of Enn Ltd.? Advise.

(4 MARKS)

(C) There are practical and legal limitations on the auditor's ability to obtain audit evidence. Explain with examples.

(3 MARKS)

(D) Though legally auditor may exercise right of Lien in case of companies, it is mostly impracticable for legal and practicable constraints. Do you agree?

(3 MARKS)

QUESTION : 6

(A) 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)

(B) 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.

(6 MARKS)

(C) As per sub – section (12) of section 143 of the Companies Act, 2013, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

In this regard, Rule 13 of the Companies (Audit and Auditors) Rules, 2014 has been prescribed. Sub –rule (1) of the said rule states that if an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of **Rs. 1 crore or above**, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government.

Explain the manner of reporting the matter to the Central Government in the above context.

(4 MARKS)