

PART A MULTIPLE CHOICE QUESTIONS (30 MARKS)

QUESTION 1

(1* 10 = 10 MARKS)

1. SQC 1 requires firms to establish policies and procedures for the retention of
 - (a) Audit File
 - (b) Engagement documentation
 - (c) Final Audit File
 - (d) Audit Documentation
2. Performance Audit of C & AG shall also be called as
 - (a) Financial Audit
 - (b) Statutory Audit
 - (c) Full Scope Audit
 - (d) None of the above
3. Determination of the amount of Equity attributable to Minorities at the date on which investment in Subsidiary is made is forming part of _____ adjustments
 - (a) Permanent Consolidation Adjustments
 - (b) Current Period Consolidation Adjustments
 - (c) Either (a) or (b)
 - (d) None of the above
4. The Quality Review Board shall perform the functions except –
 - (a) Reviewing the quality of services provided by the chartered accountants
 - (b) Guiding the chartered accounts to improve the quality of services
 - (c) Making recommendations to Auditing and Assurance Standard Board
 - (d) None of these
5. All Insurers are required to file a Report on status of Compliance with the Corporate Governance Guidelines on an annual basis, within _____ from the end of the Financial Year.
 - (a) 60 days
 - (b) 90 days
 - (c) 120 days
 - (d) 30 days
6. _____ is the example of Protective purpose of cost Audit.
 - (a) to ascertain true cost of wastages
 - (b) to make the work more efficient
 - (c) to re – organize sales or inventory systems
 - (d) to monitor the functioning of internal control system
7. The report of forensic audit needs to be presented to
 - (a) Fraudster
 - (b) Client
 - (c) Regulatory authorities
 - (d) All of them
8. In performing _____, the auditor follows a transaction from origination through the company's processes, including information system until it is reflected in the company's financial records
 - (a) Test of detail
 - (b) test of controls
 - (c) A walkthrough
 - (d) Review of internal controls
9. A registered Non – Banking Financial Company shall have a minimum Net owned fund of _____
 - (a) Rs. 3 Crores
 - (b) Rs. 2 Crores
 - (c) Rs. 4 Crores
 - (d) Rs. 5 Crores
10. The person carrying out investigation –
 - (i) is required to adopt doubtful approach.
 - (ii) is required to obtain persuasive evidences.
 - (iii) is required to conduct detailed and critical examinations.
 - (a) (i) & (ii)
 - (b) (ii) & (iii)
 - (c) (i) & (iii)
 - (d) All of the above

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

1. BDJ Private Ltd was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur. The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crores. During the audit of the financial statements of the company for the year ended 31 March 2019, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years.

On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc. The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years.

The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree.

Now there is a situation of deadlock and you are requested to provide your guidance to resolve this matter.

- (a) The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.
 - (b) The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing.
 - (c) In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem.
 - (d) The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.
2. PFS Bank was engaged in the business of providing Portfolio Management Services to its customers, for which it took prior approval from RBI. Your firm has been appointed as the statutory auditors of the Bank's financial statements for the year 2018-19. Your senior has instructed you to verify the transactions of Portfolio Management Services (PMS). While verifying the transactions you noticed that the bank has not prepared separate record for PMS transactions from the Bank's own investments. As a statutory auditor what will be your decision for verification of PMS transactions?
- (a) It is not necessary to maintain separate records for PMS clients from Bank's own investments, so the auditor can verify the PMS transactions as part of investment verification for Bank's financial statements and submit the audit report accordingly.
 - (b) As per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions till the Bank segregates the transactions from its own investments.
 - (c) The auditor can give a qualified opinion in his audit report on the financial statements of the Bank and report the matter in special purpose certificate.
 - (d) Auditor should verify that PMS funds are not utilised for lending, inter-bank deposits or deposits to corporate bodies and bills re-discounting only. So, whether the PMS transactions are recorded separately or not will not matter for the auditor

3. Vimal Kumar, a Chartered Accountant by profession, has been into practice for the over 6 years. He developed a specialization in respect of matters related to Income Tax and hence got various clients to whom he was advising. Other than the taxation work, Vimal was also good in accounting matters but he could not develop his business/ clientele the accounting services over the period. He used to represent his clients in respect of income tax returns. For one of his clients, he, as an authorised representative, prepared the return of income and furnished the same and other required documents (the particulars of accounts, statements and other documents supplied to him by the assessee for the preparation of the return) to the Assessing Officer. He had also conducted an examination of those records and submitted a report on the scope and results of his examination. The assessee in this case was a very old client of Vimal and also used to pay him very good remuneration. In order to provide some benefits to the assessee, Vimal provided certain information to the assessing officer which was found to be false later on. In the given case, which of the following options should apply?
- (a) Since Vimal only acted as a representative of the assessee, he cannot be held liable. The assessee is the primary person responsible and accordingly the assessee would be liable to rigorous imprisonment which may extend to seven years and to a fine.
 - (b) The given matter does not only relate to submission of the return of income but also covers an examination of those records and a report on the scope and results of examination by a Chartered Accountant. Because of the professional responsibilities placed on a CA, it becomes his duty to carry out all the tasks in an objective manner free from any bias. Hence Vimal would be liable to a penalty of Rs. seven crores and imprisonment of seven years.
 - (c) Vimal would be liable to rigorous imprisonment which may extend to seven years and to a fine.
 - (d) Vimal and his assessee would be liable to a penalty which may extend to Rs. 1 crore. Further because of the fact that the particulars submitted with the assessing officer belong to the assessee, hence the assessee would also be liable to imprisonment for three years under the Indian Penal Code.
4. SKJ Private Ltd has an annual turnover of INR 200 crores and profits of INR 25 crores. The company is engaged in the business of textiles and has fairly stable operations over the years. There has not been much growth in the company in the last few years despite the attempts of the management. Currently the management is more focused towards cost cutting and has been considering all the options to achieve that objective. The statutory auditors of the company have been auditing the financial statements for the last 3 years and have issued clean reports over these years. During the financial year ended 31 March 2019, management got a large project from a new customer which resulted in significant increase in the turnover of the company. However, the profitability of the company did not improve much because the margins in the contract were not high. The statutory auditors during the course of their audit of financial statements for the year ended 31 March 2019 (their fourth year of audit) did not agree with the revenue recognition criteria followed by the company. Since the matter was significant, lot of discussions/ debates happened between the auditor and the management. But it was finally agreed that the auditors would qualify their audit report. Auditors wanted that the management should explain this matter in detail in the notes to accounts to the financial statement over which the auditors are qualifying the audit report. However, the management had a different view. Management said that if the auditor is qualifying his report then why should the management also highlight that matter in the financial statement and hence refused to include any note for the same. Because of this conflict, audit is not getting concluded.

You are requested to give your view in respect of this matter so that the matter gets concluded.

- (a) In the given situation, if the management does not agree to give a note in the financial statements then the auditor should not hold the audit report. However, in such a case, the auditor would need to give disclaimer of opinion in his report instead of qualification.
 - (b) The argument of the management seems correct. Auditor cannot do both the things
i.e. to qualify and then also get that highlighted in the financial statements. That note would not be beneficial for the users of the financial statements.
 - (c) In case of such matters related to revenue recognition, it is always better to give detailed explanation in the notes to accounts to the financial statements. If the explanation is satisfactory then the auditor should also consider giving emphasis of matter instead of qualification.
 - (d) The requirement of the auditor is beneficial for the company because by giving an explanation of the matter, on which auditor has given a qualification, in the notes to accounts, the management would be able to explain their perspective/ point of view to the users of the financial statements. In that case, auditor while giving the qualification can give reference to the notes to accounts otherwise the entire matter would form part of the audit report. However, the auditor should not hold his report if the management does not want to give any explanation in the notes to accounts.
5. Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simony Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?
- (a) Internal audit, as it relates to examine the operational efficiency of the organisation.
 - (b) Management audit, as it is an audit desired by the management.
 - (c) Performance audit so as to assess the performance of the Simony travels appointed by the organisation.
 - (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simony travels for the organisation

QUESTION 3 Integrated Case Scenario

PQR Ltd., is one of the leading companies in the cement manufacturing industry. Right from its incorporation, it has been a subsidiary of GDP Ltd. The total shareholding of GDP Ltd includes the following:

- The Government of Puducherry and Government of Delhi each hold 19% of the paid-up share capital,
- The Government Gujarat's share is 13.5%.

On 27th August 2019, Mr. JJ, the auditor of PQR Ltd. had resigned from his post, citing personal reasons. He had forgotten to inform about his resignation to the concerned authorities. The casual vacancy which was created by the outgoing auditor was filled up with the appointment of FDI & Co. Chartered Accountants as statutory auditors of PQR Ltd. However, few shareholders of the company raised certain objections, which was later settled without any problems. As a part of the terms and conditions of appointment as auditors, FDI & Co. agreed to do the following:

- Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company (however Mr. JJ had agreed to charge only Rs. 45,000/-),
- Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd. The company was having an annual turnover of Rs. 200 crores, and hence it was also liable to tax audit under section 44 AB of Income Tax Act, 1961. During the current financial year 2019-20, PQR Ltd. had changed its method of accounting compared to the previous financial year (2018-19) and had reported a closing stock of raw material amounting to Rs. 2 lakhs only as on 31st March 2020. Also, the company had borrowed a sum of Rs. 10 crores equally from two public sector banks and two Non-Banking Financial Companies. It had also repaid few deposits amounting to Rs. 75 lakhs to the deposit holders.

As far as FDI & Co. Chartered accountants are concerned, Mr. F, who is one of the partners of the firm (*NOTE*- Mr. F does not sign the financials of PQR Ltd.) had borrowed a sum of Rs. 3.89 lakhs from GDP Ltd. He had also purchased goods worth Rs. 1.09 lakhs from the company. Both the sum borrowed and the cost of the goods bought are not yet paid by Mr. F. Another partner of the firm, Mr. I, who is also responsible for signing the financials statements of PQR Ltd. was also engaged in the teaching profession during his free time.

Upon hearing about the efficient services provided by FDI & Co. Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer and had the following options in mind with respect to the fees to be charged from them:

- To charge fees as percentage of Net Profits, or
- To charge fees of Rs. 101/-.

Question No.: (1-5)

(2* 5 = 10 MARKS)

- To whom should have Mr. JJ informed about his resignation? What could be the possible consequence for his non-compliance?
 - He should have informed the registrar and PQR Ltd. As a consequence of his failure, he is liable to a penalty not exceeding Rs. 5 lakhs.
 - He should have informed the registrar alone. As a consequence of his failure, he is liable to a penalty not less than Rs.50,000/-.
 - He should have informed the registrar and FDI & Co. As a consequence of his failure, he is liable to a fine of Rs. 500 per day for each day of failure.
 - He should have informed the registrar & comptroller and auditor general. As a consequence of his failure, he is liable to a fine of Rs. 45,000/-.
- With respect to the acts carried out by Mr. F, the partner of the audit firm, what can you infer about the appointment of FDI & Co. as auditors of PQR Ltd.?
 - It is valid since the indebtedness is within prescribed limits.
 - It is not valid since the indebtedness exceeds prescribed limit of Rs. 1 lakhs.
 - It is valid since Mr. F is not signing the financials of PQR Ltd.
 - It is valid since the indebtedness is not with PQR Ltd.
- Which among the below are permitted as per Chartered Accounts Act, 1949?
 - Charge fees at 5% of the paid-up capital plus 0.1% of net profit of the company.
 - Select and recruit personnel, conduct training programmes for and on behalf of PQR Ltd.
 - Mr. I, one of the partners who is responsible to sign the financials of PQR Ltd. was into teaching profession.
 - (i) & (ii)
 - (iii) only
 - (ii) & (iii)
 - (i), (ii) & (iii)

4. With respect to the fees to be charged for its new assignment, which option can be opted by FDI & Co.?
- (i) To charge fees as percentage of Net Profits, or
 - (ii) To charge fees of Rs. 101/-.
- (a) (i) Only.
 - (b) (ii) Only.
 - (c) Either (i) or (ii).
 - (d) Neither (i) nor (ii).
5. Among the below transactions which were undertaken by PQR Ltd., which needs to be reported by the auditors under fiscal laws?
- (i) Rs. 10 crores loan taken, which is exceeding the limit specified u/s 269 SS of Income Tax Act.
 - (ii) Changed its method of accounting from the previous financial year.
 - (iii) Repayment of deposits of Rs. 75 lakhs, which is exceeding limit specified u/s 269 T of Income Tax Act.
 - (iv) Reporting of Closing stock of raw material worth Rs. 2 lakhs only.
- (a) (i), (iii) & (iv).
 - (b) (ii) & (iv).
 - (c) (i) & (iii).
 - (d) (i), (ii), (iii) & (iv).

PART B DESCRIPTIVE QUESTIONS (70 MARKS)

QUES. 4 IS COMPULSORY. AND ATTEMPT ANY FOUR OUT OF REMAINING FIVE QUESTIONS.

QUESTION 4(A)

(5 MARKS)

DH Limited, a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slow down in other activities of the company. Therefore, it was expected that there would not be significant work for members of the Audit Committee. Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet once in a year only on March 31, 2018. They reviewed monthly information system of the Company and found no errors. As an auditor of DH Limited **would you consider the decision taken by the Audit Committee is in line with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015?**

QUESTION 4(B)

(5 MARKS)

M/s Airlift Ltd., carrying on the business of Passenger Transportation by air is running into continuous financial losses as well as reduction in Sales due to stiff competition and frequent break down of its own aircrafts. The Financial Statements for the Year ended on 31/03/2018 are to be now finalized. The Management is quite uncertain as to its ability to continue in near future and has informed the Auditors that having seized of this matter, it had constituted a committee to study this aspect and to give suggestions for recovery, if any, from this bad situation. Till the study is completed, according to the Management, the issue involves uncertainty as to its ability to continue its business and it informs the Auditor that the fact of uncertainty clamping on the "Going Concern" would suitably be disclosed in notes to accounts. **State the reporting requirement** if any, in the Independent Auditor's Report in respect of this matter.

QUESTION 4(C)

(4 MARKS)

Mr. PM, a practising Chartered Accountant, has been appointed as an auditor of Truth Pvt. Ltd. **What factors would influence the amount of working papers required** to be maintained for the purpose of his audit?

QUESTION 5(A)**(6 MARKS)**

Certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor who in turn brought the same to the knowledge of the Managing Director of the company. In the subsequent year huge defalcation came to the notice of the management. The origin of the same was traced to the earlier year. The management wants to sue the auditor for negligence and also plans to file a complaint with the Institute.

Indicate the precise nature of auditor's liability in the following situation and support your views with authority, if any ;

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

H Co. Ltd., is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd. The H Co. Ltd., adopts straight line method of depreciation for its assets whereas S Co. Ltd., follows written down value or diminishing value method. Though R Co. Ltd., follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. **While consolidating** the financials of the R Co. Ltd., and S Co. Ltd., with those of H Co. Ltd., **determine the possible issues that you have to ensure for compliance in the light of above facts.**

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

Agarwal Pvt Ltd. approached CA. Prem, a Chartered Accountant in practice, for debt recovery services. CA Prem accepted the work and insisted for fees to be based on 2% of the debt recovered. **Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto.**

QUESTION 6(A)**(5 MARKS)**

You have been appointed as an auditor of ABC Insurance Co. Ltd. and found that M/s PQR Ltd. got their Plant & Machinery insured on 01-10-2018 but the amount of premium has been paid by them on 15-10-2018. In the meanwhile, on 10-10-2018 a fire has broken out in the factory and the company filed a claim for damages of plant & machinery with the Insurance company. **Advise the insurance company** in this regard.

QUESTION 6(B)**(5 MARKS)**

X Loud, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc. located in the complex. Its 'other income' includes advertisements exhibited within / outside the premises such as hoarding, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

X Loud appointed your firm as the auditor of the entity. Being the head of the audit team, you are therefore required to **draw an audit programme** initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points **related to a complex.**

QUESTION 6(C)**(4 MARKS)**

What are the areas excluded from the scope of peer reviewer ?

QUESTION 7(A)**(6 MARKS)**

While commencing the statutory audit of Alex Co. Ltd., what would you consider as an auditor to **assess risk of material misstatement and responses to such risks** ?

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

J Ltd. is interested in acquiring S Ltd. The valuation of S Ltd. is dependent on future maintainable sales. As the person entrusted to value S Ltd., **what factors would you consider in assessing the future maintainable turnover?**

QUESTION 7(C)**(4 MARKS)**

Differences between Division II (Ind- AS- Other than NBFCs) and Division III (Ind- AS- NBFCs) of Schedule III

QUESTION 8(A)**(5 MARKS)**

Director (Finance) of Alpha Ltd. is of the opinion that total trade payables mentioned in the financial statement is sufficient disclosure in the Balance Sheet as per Part I of Schedule III to the Companies Act, 2013. They did not mention details regarding Micro, Small and Medium Enterprises (MSME). Give your view as statutory auditor of the Company and **state the details required to be disclosed in notes regarding MSME.**

QUESTION 8(B)**(5 MARKS)**

Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co.

- (i) He issued the audit queries to client which were raised during the course of audit.
- (ii) He attended the Income tax proceedings for a client as authorized representative before Income Tax Authorities.

Comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and **liability of Mr. 'A'** under the Chartered Accountants Act, 1949.

QUESTION 8(C)**(4 MARKS)**

"The C&AG may direct the appointed auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India." **What are the relevant sections** of the Companies Act, 2013 **and steps involved in auditor of Government Companies?**

QUESTION 9(A)**(6 MARKS)**

(i) While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility?

(ii) While writing the audit program for tax audit in respect of A Ltd., you wish to include possible instances of capital receipt if not credited to Profit & Loss Account which needs to be reported under clause 16(e) of form 3CD. **Please elucidate possible instances.**

QUESTION 9(B)**(4 MARKS)**

In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of management information system (MIS) reports and electronic dashboards that give a high – level snapshot of business performance. In view of above you are required to briefly discuss the meaning of data analytics and example of circumstances when auditing in an automated environment, auditors can apply the concepts of data analytics.

QUESTION 9(C)**(4 MARKS)**

Mr. Anand is appointed as statutory auditor of Xerox Ltd. Xerox Ltd. is required to appoint internal auditor as per statutory provisions given in the Companies Act, 2013 and appointed Mr. Bhanu as its internal auditor. The external auditor Mr. Anand asked internal auditor to provide direct assistance to him regarding evaluating significant accounting estimates by the management and assessing the risk of material misstatements.

Discuss whether Mr. Anand, statutory auditor, can ask direct assistance from Mr. Bhanu, internal auditor as stated above in view of auditing standards.