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Question Paper	
Auditing and Assurance	Duration: 180
Details: Full Test – 1	Marks: 100

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Notes: 1. Question Paper comprises two part, Part I and Part II

2. Part I is having multiple choice Questions which is compulsory

3. Part II Comprise descriptive Questions and in which Question No. 1 is Compulsory and answer any 4 out of remaining 5 questions

4. Answer new Question on new page.

Part I

CASE STUDY 1

ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2019. The Gross turnover of the company is Rs.105 crores, out of which turnover from one of its product namely coffee is of Rs.95 crores during the immediate preceding Financial Year.

During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same need to be reported under the relevant provisions of Companies (Auditors Report) Order 2016.

During the FY 2018-2019, Mrs. X wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act 2013.

Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act 2013.

During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.

I. Based on the above facts, answer the following:-

1. After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-

- (a) 60 days
- (b) 30 days
- (c) 15 days
- (d) 20 days

II. If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ & Associates shall take corrective actions within.....days. What is the prescribed limit:-

- (a) 100 days, Market Value Rs 1, 00,000
- (b) 60 days, Face value Rs 1, 00,000
- (c) 90 days, Face value Rs 1, 00,000
- (d) 15 days, Market Value Rs 1, 00,000

III. Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-

- (a) Section 143(12), 1 crore & above
- (b) Section 139(12), 1 crore & above
- (c) Section 143(12), 2 crore & above
- (d) None of the above

IV. What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-

- (a) Maintenance of cost records is mandatory, in form CRA 1.
- (b) Maintenance of cost records is mandatory, in form CRA 2.

- (c) Maintenance of cost records is mandatory, in any general format
- (d) No requirement of maintenance of cost records

V. Under relevant clause of CARO,2016, XYZ & Associates is required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-

- (a) Exceeding 9 months
- (b) Exceeding 3 months
- (c) Exceeding 6 months
- (d) Exceeding 12 months

(5×2=10 MARKS)

CASE STUDY 2

You are an audit manager at Bomkeysh& Co and are approaching the end of the audit of Santoor Co, which is a large listed retailer. The draft financial statements currently show a profit before tax of Rs.65 lakhs and revenue of Rs.660 lakhs for the financial year ended 31March 20X6. You have been informed that the finance director left Santoor Co on 28Feb 20X6.

As part of the subsequent events audit procedures, you reviewed post year-end board meeting minutes and discovered that a legal case for unfair dismissal has been brought against Santoor Co by the finance director. During a discussion with the Human Resources (HR) director of Santoor Co,

you established that the company received notice of the proposed legal claim on 10 April 20X6. The HR director told you that Santoor Co's lawyers believe that the finance director's claim is likely to be successful, but estimate that Rs. 150,000 is the maximum amount of compensation which would be paid. However, management does not intend to make any adjustments or disclosures in the financial statements.

I. Bomkeysh & Co has a responsibility to perform procedures to obtain sufficient, appropriate evidence that subsequent events are appropriately reflected in the financial statements of Santoor Co. Until which date the auditor should perform subsequent events procedures

- a) The date the subsequent events review is performed
- b) The date of approval of the financial statement
- c) The date of the auditor's report
- d) The date the financial statements are issued

II. If, after the financial statements have been issued, Bomkeysh & Co becomes aware of a fact which may have caused its report to be amended, the firm should consider several possible actions. Which TWO of the following are appropriate actions for Bomkeysh & Co to take?

- i) Discuss the matter with management and, where appropriate, those charged with governance
 - ii) Obtain a written representation from management
 - iii) Consider whether the firm should resign from the engagement
 - iv) Enquire how management intends to address the matter in the financial statements where appropriate
- a) i, ii
 - b) i, ii, iii
 - c) ii, iii, iv
 - d) i, iv

III. Which of the following audit procedures should be performed to form a conclusion as to whether the financial statements require amendment in relation to the unfair dismissal claim?

- (1) Inspect relevant correspondence with Santoor Co's lawyers
- (2) Write to the finance director to confirm the claim and level of damages
- (3) Review the post year-end cash book for evidence of payments to the finance director

(4) Request that management confirm their views in a written representation

- a) 1, 2 and 3
- b) 1, 2 and 4
- c) 1, 3 and 4
- d) 2, 3 and 4

IV. You are drafting the auditor's report for Santoor Co and the audit engagement partner has reminded you that the report will need to reflect the requirements of SA 701.

According to SA 701, which of the following should be included in the 'Key Audit Matters' paragraph in the auditor's report?

- a) Matters which required significant auditor attention
- b) Matters which result in a modification to the audit opinion
- c) All matters which were communicated to those charged with governance
- d) All matters which are considered to be material to the financial statements

V. Which of the following audit opinions will be issued if the unfair dismissal case is NOT adjusted for or disclosed within the financial statements?

- a) A qualified audit opinion as the financial statements are materially misstated
- b) A qualified audit opinion as the auditor is unable to obtain sufficient appropriate evidence
- c) An unmodified opinion with an emphasis of matter paragraph
- d) An unmodified audit opinion

(5×2=10 MARKS)

General MCQs

1. Which of the following is incorrect w.r.t audit programme

- (a) An audit programme consists of a series of verification procedures to be applied.

(b) It is desirable in respect of each audit and more particularly for bigger audits an audit programme should be drawn up.

(c) An audit programme is a summarized plan

(d) There should be periodic review of the audit programme to assess whether the same continues

2. For purposes of the SAs, which of the following meaning attributed to the term “Assertions”

(a) Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

(b) A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity’s ability to achieve its objectives and execute its strategies or from the setting of inappropriate objectives and strategies.

(c) An identified and assesses risk of material misstatements that, in the auditor’s judgement, requires special audit consideration.

(d) 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 risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

3. A Ltd, is in a highly competitive industry with majority of the competition coming from middle east countries. The company’s products have a relatively short life cycle and product development is continuous in order to keep up with competitors.

For the inventory account, the assertion upon which most audit efforts should be concentrated is

(a) Existence

(b) Completeness

(c) Right and Obligation

(d) Valuation and Allocation

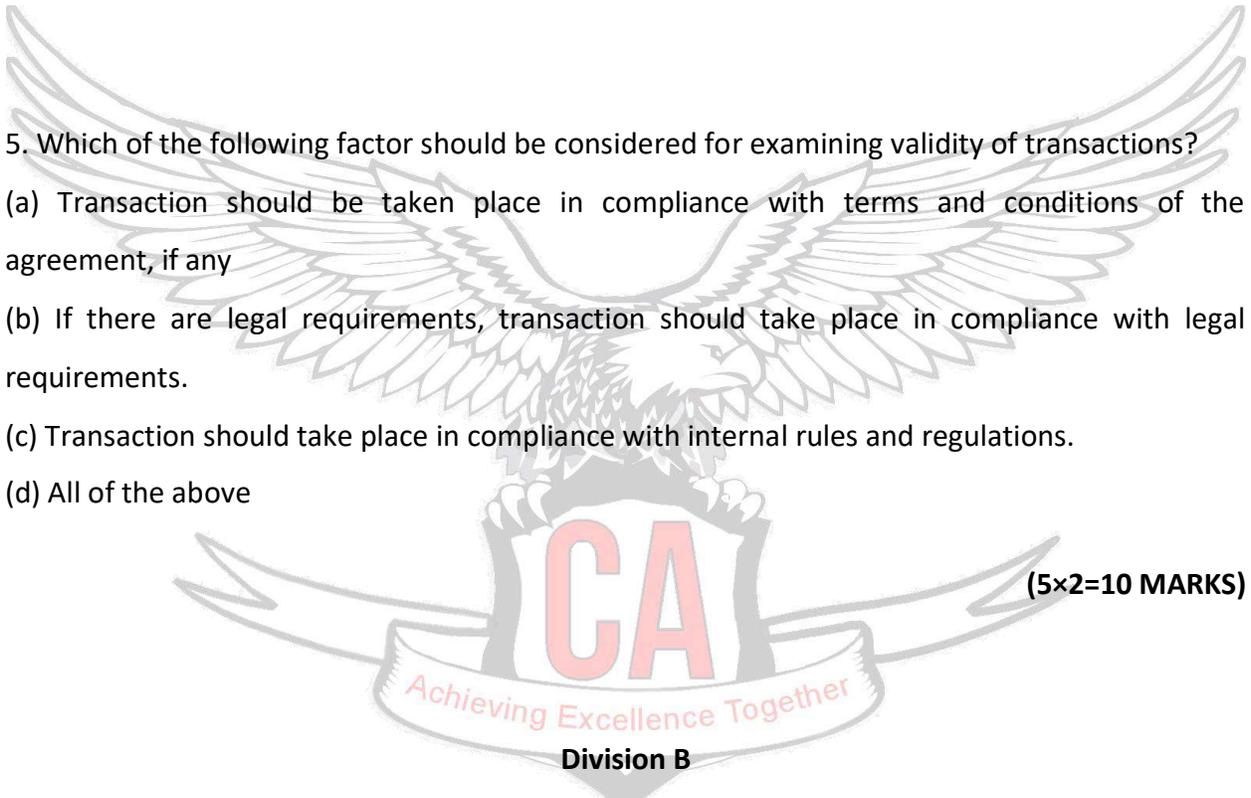
4. Which of the following is the least persuasive type of audit evidence?

- (a) Bank statements obtained from the client
- (b) Documents obtained by auditor from third parties directly
- (c) Carbon copies of sales invoices inspected by the auditor
- (d) Computations made by the auditor.

5. Which of the following factor should be considered for examining validity of transactions?

- (a) Transaction should be taken place in compliance with terms and conditions of the agreement, if any
- (b) If there are legal requirements, transaction should take place in compliance with legal requirements.
- (c) Transaction should take place in compliance with internal rules and regulations.
- (d) All of the above

(5×2=10 MARKS)



Division B

Question No.1 is compulsory.

Attempt any four questions from the remaining five questions

(70 Marks)

Q.1 Examine with reasons whether the following statements are correct or incorrect.

- (a) In Joint Audit, “Each Joint Auditor is responsible only for the work allocated to him”.

(b) Generally, applying inquiry in combination with observation gives the most effective and efficient audit evidence.

(c) Pervasive effects on the financial statements are those that, in the auditor's judgment: Are confined to specific elements, accounts or items of the financial statements;

(d) A provision is recognized when: An entity has a present obligation (legal or constructive) as a result of a past event; It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and A reliable estimate cannot be made of the amount of the obligation.

(e) The higher the auditor's assessment of the risk of material misstatement, the lower the sample size needs to be

(f) The auditor's lien on client's books and records is unconditional

(g) Mr. Aditya, a practicing-chartered accountant is appointed as a "Tax Consultant" of ABC Ltd., in which his father Mr. Sanghvi is the Managing Director, Mr. Aditya believes that his appointment is valid as tax consultant services are not included under section 144.

(h) Registered mortgage is affected by a mere delivery of title deeds or other documents of title with intent to create security thereof.

(2 x 7 = 14 Marks) (Answer any seven out of eight)

Q.2 (a) Mr. X was appointed as the auditor of M/s Easygo Ltd. and intends to apply the concept of materiality for the financial statements as a whole. Please guide him as to the factors that may affect the identification of an appropriate benchmark for this purpose.

(4 Marks)

(b) As per SA 210 "Agreeing the Terms of Audit Engagements", preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where

appropriate, those charged with governance to the premise on which an audit is conducted.
Discuss

(4 Marks)

(c) Discuss the difference between Internal financial control and internal control over financial reporting.

(3 Marks)

(d) In case of certain subject matters, limitations on the auditor's ability to detect material misstatements are particularly significant. Explain such assertions or subject matters.

(3 Marks)

Q.3 (a) A review of the internal control can be done by a process of study, examination and evaluation of the control system installed by the management. Discuss the methods for evaluation of internal control.

(4 Marks)

(b) Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches.

(4 Marks)

(c) Discuss the Analytical Procedures used as Substantive Tests.

(3 Marks)

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

(3 Marks)

Q.4 (a) Companies prepare their financial statements in accordance with the framework of generally accepted accounting principles (Indian GAAP), also commonly referred to as accounting standards (AS). In preparing financial statements, Company's management makes implicit or explicit claims (i.e. assertions) regarding assets, liabilities, equity, income, expenses, and disclosures in accordance with the applicable accounting standards. Explain with example stating the relevant assertions involved in this regard. Also, explain financial statement audit.

(4 Marks)

(b) Mr. Budha, Statutory Auditor of Secret Ltd. was not permitted by the Board of Directors to attend general meeting of the company on the ground that his right to attend general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed.

(4 Marks)

(c) Reserves are amounts appropriated out of profits whereas on the contrary, provisions are amounts charged against revenue. Discuss explaining the difference between the two and also explain clearly revenue reserve and capital reserve.

(3 Marks)

(d) Discuss the Compliance procedure for trade receivable as a part of sales audit.

(3 Marks)

Q.5 (a) As the statutory auditor of B Ltd. to whom CARO, 2016 is applicable, how would you report in the following situation? Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.

(4 Marks)

(b) The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker's certificate in support of fixed deposits whereas management provides only written representation on the matter. Required-Discuss how you would deal as an auditor.

(4 Marks)

(c) Nickson Ltd. is a subsidiary of Ajanta Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Nickson Ltd. appointed Mr. P as statutory auditor for the year

(3 Marks)

(d) Discuss the audit procedure to obtain audit evidence.

(3 Marks)

Q.6 (a) Discuss the matters which should be specially considered in the audit of accounts of a LLP.

(4 Marks)

(b) Describe the audit procedures to be followed by a Statutory Auditor of a bank for audit of contingent liabilities.

(4 Marks)

(c) Write a short note on "Reversal of Income"

(3 Marks)

(d) "Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society." Do you agree?

(4 Marks)