

TOPIC : FULL COURSE

DIVISION – A MULTIPLE CHOICE QUESTIONS

Time allowed – 3 hours

1. Which of the following is TRUE about Engagement Standards ?
 - (a) Engagement standards ensure proper rights to practitioners in course of performance of their duties.
 - (b) Engagement standards ensure preparation and presentation of financial statements in a standardized manner.
 - (c) Engagement standards ensure uniformity by practitioners in course of performance of their duties.
 - (d) Engagement standards ensure savings in resources of clients.
2. As per SA-200, which is not the part of “Overall objectives of Independent Auditor” in conducting an audit of financial statements:
 - (a) Obtain reasonable assurance
 - (b) Enhance confidence of intended users of Financial Statements
 - (c) Use quality control for audit of Financial Statements
 - (d) Reporting on Financial Statements
3. In relation to materiality, determining a percentage to be applied to a chosen benchmark involves the exercise of
 - (a) Professional Skepticism
 - (b) Professional Competence
 - (c) Professional Judgement
 - (d) All of the above
4. “Law or regulation may require communication of Key Audit Matters for other entities”, including those that may be of significant public interest, examples of such entities is (are):
 - (a) Banking and Insurance Companies
 - (b) Charitable Institutions
 - (c) Pension Funds
 - (d) All of the above
5. An identified and assessed risk of material misstatement that, in auditor’s judgement, require special audit consideration is

- (a) Significant Risk
 - (b) Business Risk
 - (c) Audit Risk
 - (d) Control Risk
6. Out of following which is not a type of controls in automated environment.
- (a) Entity Level Controls
 - (b) General IT Controls
 - (c) Application Controls
 - (d) IT-dependent Controls
7. Which of the following is example of Re-performance (in test of controls) involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control:
- (a) Reconciliation of bank accounts
 - (b) Verifying that a transaction has been authorized
 - (c) Determining who actually performs each function
 - (d) Access or program change controls
8. Which of the following is false regarding communication of misstatements identified during course of an audit ?
- (a) The auditor should request those charged with governance for correction of identified misstatements.
 - (b) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is material.
 - (c) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is immaterial.
 - (d) The auditor should communicate effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.
9. Stratified sampling is (are) used for population.
- (a) Homogeneous
 - (b) Heterogeneous
 - (c) Stratum
 - (d) Both (a) and (b)
10. Predictive analytical procedures using data analytics can be used to address:
- (a) Completeness
 - (b) Valuation/ Measurement
 - (c) Occurrence
 - (d) All of the above

11. Errors, that is (are) considered in determining the sample size for test of control, shall be
- (a) Tolerable Error
 - (b) Expected Error
 - (c) Projected Error
 - (d) Both (a) and (b)
12. Where the company has traded or invested in Virtual Currency during the financial year, which of the following shall not be disclosed in financial statements:
- (a) Amount of currency held at the reporting date
 - (b) Nature of the Virtual Currency
 - (c) Profit and Loss on Virtual Currency transactions
 - (d) Deposits or Advances taken for trading/ investing in Virtual Currency
13. "All Buildings owned and controlled by Company-X are included within carrying amount of Rs.100 Lakh". The assertion involves is:
- (a) Valuation
 - (b) Existence
 - (c) Right and Obligations
 - (d) None of the above
14. Which of the following is not an advantage of statistical sampling ?
- (a) Sample size does not increase in proportion to size of area tested.
 - (b) Sample selection is more objective
 - (c) It provides a means of deriving a calculated risk and corresponding precision.
 - (d) In case of verifying compliance with specific legal requirements, it is suitable.
15. The appointment of first auditor of a multi – state cooperative society is made by :-
- (a) Central Registrar
 - (b) Board of society
 - (c) Members of society
 - (d) Central Government
16. As per SA-570, if auditor concludes that use of going concern basis of accounting by management in preparation of financial statements is inappropriate, auditor shall issue,
- (a) Qualified Opinion.
 - (b) Adverse Opinion.
 - (c) Disclaimer of Opinion.
 - (d) Unmodified opinion with a separate section titled as "Material Uncertainty relating to Going Concern"

17. The reliability of data is influenced by its _____ and ___ is dependent on the circumstances under which it is obtained.
- (a) Quantity and quality
 - (b) Source and nature
 - (c) Size and depth
 - (d) Volume and value
18. Which factors may not be considered in estimating useful life of goodwill arising on amalgamation:
- (a) Foreseeable life of business
 - (b) The effect of product obsolescence
 - (c) The service life of key individuals
 - (d) Not potential competitors
19. Which of the following is not a fundamental principle governing professional ethics ?
- (a) Professional competence and due care
 - (b) Integrity
 - (c) Objectivity
 - (d) Safeguards to independence
20. Identify the most appropriate statement in context of SQC 1.
- (a) Assembly of engagement files should be completed in not more than 60 days after date of auditor's report in case of audit engagements.
 - (b) Engagement files should be completed before date of auditor's report in case of audit engagements.
 - (c) Engagement files should be completed in not more than 60 days after completion of an engagement.
 - (d) Engagement files should be completed on date on which audit report is signed in case of audit engagements.

(1 Mark each x 20 = 20 MARKS)

(Integrated case = 2 marks each)

Integrated Case

CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation :

- (A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- (B) The team has determined materiality for financial statements as a whole.
- (C) The team has assessed risks of material misstatements to be low.

(D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.

(E) During the course of audit, many related party transactions have come to notice

On the basis of above, answer the following questions :

- (1) Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation ?
- (a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.
 - (b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.
 - (c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.
 - (d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter – shuffling of team members is frivolous.
- (2) As regards materiality, which of the following statements is most appropriate in context of audit documentation ?
- (a) Materiality has already been determined. There is no need to put it into working papers.
 - (b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.
 - (c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.
 - (d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.
- (3) As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk ?
- (a) Discussion amongst engagement team members and detail of significant decision reached has to be documented.
 - (b) Details of risk assessment procedures have to be documented.
 - (c) Details about how understanding of each component of internal control was obtained has to be documented.
 - (d) Precise calculation of risk of material misstatements has to be documented
- (4) CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation ?
- (a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.

- (b) Detail of test counting undertaken should form part of audit documentation.
 - (c) Detail of obsolete goods found should form part of audit documentation.
 - (d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation
- (5) As regards related party transactions, which of the following should not be part of audit documentation ?
- (a) Management representation letter in this regard
 - (b) Related party transaction policy of the company
 - (c) Documentation to show that such transactions are at arm's length basis
 - (d) Documentation to show that such transactions are at close length basis.

(10 MARKS)

DIVISION B – DESCRIPTIVE QUESTIONS

Question **No. 1** is compulsory. Attempt any **four** questions from the Rest

(Total 70 Marks)

QUESTION : 1

State with reasons whether following statements are correct or incorrect. (Attempt any seven out of 8)

- (a) The audit plan is more detailed than the overall audit strategy.
- (b) Audit of Government company for expenditure against regularity is of a quasi-judicial type of work performed by the auditor.
- (c) As per the Standard on Auditing (SA) 520 "Analytical Procedures" the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships relationship among financial data only.
- (d) If an entity has a known number of employees at fixed rates of pay throughout the period, there would be more need to perform tests of details on the payroll.
- (e) A Check List is a method where a whole description of internal control operating in an entity is recorded.
- (f) Audit documentation does not help in planning the audit of any company.
- (g) Auditor's bias is involved in choosing sample by use of Statistical sampling.
- (h) While planning an audit, the auditor is necessary to obtain an understanding of all internal controls.

(2 × 7 MARKS = 14 MARKS)

QUESTION : 2(A)

- (A) Mr. R and Mr. V are partners in MN and Associates, a partnership firm of Chartered Accountants. During the financial year 2021-22, MN and Associates were appointed as auditors of Perfect and Best Ltd. The Brother pf Mr. V was involved in the management of

Perfect and Best Ltd. Mention the guiding principles for Mr. R and Mr. V to safeguards available to eliminates the threats of independence of audit and advice.

(4 MARKS)

(B) M/s ONS & Associates appointed as an auditor of a listed company (CNG Ltd.);

- a. What is the auditor's responsibility to communicate "Key Audit Matters"?
- b. Discuss the matters that the auditor should take into account in determining Key Audit Matters.

(4 MARKS)

(C) An auditor of a company is focusing upon revenues of a company. In this regard, besides performing usual detailed checking of sales, he wants to perform substantive analytical procedures in respect of sales. Discuss how he can perform such procedures.

(3 MARKS)

(D) As per Schedule III (part 1) to Companies Act, 2013, How is "Cash and cash equivalents" disclosed in the financial statements?

(3 MARKS)

QUESTION : 3

(A) Having obtained understanding of IT Systems and IT related risks in automated environment of a company, the auditor should understand the impact of IT related risks on controls.

How impact on controls from IT related risks.

(4 MARKS)

(B) Which sampling approach is recommended in a large company having huge purchases and sale transactions? Give characteristics/ features of such sampling approach along with example.

(4 MARKS)

(C) "Independence of mind and Independence of appearance are two interlinked perspectives of independence of auditors." Explain.

(3 MARKS)

(D) You have been appointed as an auditor of PRQ Ltd. to apply various audit procedures which need to be performed to confirm Work-in-progress of inventories have been valued appropriately and as per generally accepted accounting policies and practices. Explain.

(3 MARKS)

QUESTION : 4

(A) During the course of audit of XYZ Ltd, the auditor Mr. Sun, found risks of material misstatement at the financial statement and require to document such risks; what shall the auditor Mr. sun, document for such risks?

(4 MARKS)

(B) "Purported disadvantages of an audit programme can be overcome". Do you agree ?

(4 MARKS)

(C) Internal control over safeguarding of assets against unauthorized acquisition, use, or disposition may include controls relating to both financial reporting and operations objectives. Explain stating clearly the objectives of Internal Control.

(3 MARKS)

(D) Discuss meaning of “Date the financial statements are issued” under SA 560.

(3 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 PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor.

(4 MARKS)

(B) “The reliability of data is influenced by its source and nature and is dependent on the circumstances under which it is obtained”. Explain the points with examples that are relevant when determining whether data is reliable for purposes of designing substantive analytical procedures.

(4 MARKS)

(C) Discuss documentation requirements for an auditor regarding misstatements identified during audit under SA 450.

(3 MARKS)

(D) JOB Ltd. restrains its company auditor from visiting another branch at different location and having access to the inventory records maintained at that branch because the branch is already audited by another auditor and the report has been received. Comment.

(3 MARKS)

QUESTION : 6(A)

(A) State the cases where the Central Govt. has power to direct special audit in Multi- State Co-operative society and also mention the action that may be taken by Central Govt. on receipt of audit report of such special audit.

(4 MARKS)

OR

What is the meaning of “Consortium Advances” by bank? Explain such advances in the context of the prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.

(4 MARKS)

(B) The Bank Manager, Mr. Leo, develops controls to aid in managing key business and financial risks. Discuss the requirements for an effective risk management system in a bank.

(4MARKS)

(C) Boston Ltd. has made loans and advances on the basis of following securities to various borrowers:

(a) Hypothecation of goods

(b) Life Insurance Policy

(c) Shares and Debentures

As an auditor what type of documents can be verified to ensure that the company holds a legally enforceable security?

(3 MARKS)

(D) "The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework." Explain.

(3 MARKS)