

TOPIC : FULL COURSE PAPER

Time allowed – 3 Hours

PART I – Case Scenario based MCQs (30 Marks)

Write the most appropriate answer to each of the following multiple – choice questions by choosing one of the four options given. All MCQs are compulsory and carries 2 Marks each.

MULTIPLE CHOICE QUESTIONS:

Case Scenario 1

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. Mridul & Co, a firm of Chartered Accountants agreed on the Terms of Audit Engagements of a Private Limited Company, Jayshree Private Limited. Jayshree Private Limited has conveyed to Mridul & Co that they want the firm to undertake the statutory audit as well as to examine the life of its plant and machinery at Indore which is in existence for 10 years. While finalizing the scope of the audit, the auditors agreed to cover all the units of the company based at Delhi and Indore. Mridul & Co. has asked Jayshree Private Ltd. to make all the relevant disclosures in the financial statements. The auditors were vigilant to inquire about any audit evidence that contradicts the other audit evidence.

The auditors decided to cover following aspects under audit :

- (i) an examination of the system of accounting and internal control
- (ii) Reviewing the system and procedures.
- (iii) Checking of the arithmetical accuracy of the books of account.
- (iv) Verification of the authenticity and validity of transactions
- (v) Classification between capital and revenue expenditure.
- (vi) Comparison of the balance sheet and profit and loss account or other statements with the underlying record.
- (vii) Verification of the title, existence and value of the assets.
- (viii) Verification of the liabilities stated in the balance sheet.
- (ix) Checking the results shown by the profit and loss and to see whether the results shown are true and fair.
- (x) Reporting to the appropriate person/ body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation.
- (xi) Where audit is of a corporate body, confirming that the statutory requirements have been complied with.

While testing the accounts receivables of Jayshree Private Limited, the auditor decided to divide the accounts receivables by age of receivables in the following manner :

- Below 15 days
- 15 days – 30 days
- 31 – 60 days
- 61 – 90 days
- 91 days and beyond

Based on the above facts, answer the following :

1. According to you, what is the scope of the audit which Mridul & Co should cover in the audit of financial statements of Jayshree Private Limited ?
 - (I) To examine the life of its plant and machinery at Indore which is in existence for 10 years.
 - (II) To cover all the units of the company based at Delhi and Indore.
 - (III) To check whether the relevant disclosures are properly made in the financial statements.
 - (a) I, II, III
 - (b) I, II
 - (c) II, III
 - (d) I, III
2. What is the name of the method used by the auditor for segregation of accounts receivable ?
 - (a) Value weighted selection
 - (b) Stratification
 - (c) Systematic method of Sampling
 - (d) Tests of Control
3. The aspects covered by auditor should be :
 - (a) i, ii, iii, x, vi, vii
 - (b) i,ii, iv, v, vi, vii
 - (c) i, ii, iii, iv, v, vi, vii, viiii, ix, x, xi
 - (d) ii, iii, viii, x, xi
4. The auditor's vigilance to question the audit evidence that contradicts the other audit evidence is called as :
 - (a) Professional Skepticism
 - (b) Vigilant Skepticism
 - (c) Professional Judgement
 - (d) Judgement and Skepticim
5. With respect to the preconditions for an audit, which one of the following is correct :
 - (I) The use by Management of an acceptable financial reporting framework in the preparation of financial statements
 - (II) Management's responsibility for the internal control
 - (III) Giving auditor access to all information and access to the Entity's premises.
 - (a) I,II
 - (b) I, II, III
 - (c) II, III
 - (d) I, III

Case Scenario 2

Rohan is part of an engagement team conducting statutory audit of branch of a nationalized bank. The financial statements to be audited include Balance sheet and Profit & Loss account of the branch drawn up in accordance with Form A and Form B respectively of the Third Schedule to the Banking Regulation Act, 1949. Besides, various advances and other returns are also to be verified as part of audit.

Rohan was part of all audit work pertaining to verification of deposits, advances, income and expenditure of the branch.

While verifying different items of profit and loss account, it was noticed that income included income on account of interest earned and other income.

The team also verified system of branch prior to sanction of advances like verifying creditworthiness of borrower etc. It was also verified whether there exists system for bringing to the notice of higher authorities, accounts which exceed the sanctioned limits or drawing power. Besides, the team also verified whether there exists a system for review of operations in accounts once a year and more frequently in case of large advances.

During the course of audit, it was noticed that one advance, consisting of a term loan, having outstanding balance of Rs. 20 crore as on balance sheet date has been guaranteed by Uttar Pradesh government. The interest of term loan has remained overdue for more than 90 days. The branch has classified advance as non-performing asset and made applicable provision and reversed unrealized income. Rohan is perplexed as to whether classification, provisioning and reversal of unrealized income made by branch is proper.

The auditee branch is a CBS branch and uses **FINACLE** software. The core banking system (CBS) is the set of basic software components that manage the services provided by a bank to its customers through its branches. The bank's customers can execute their transactions from any branch, ATM, Service Outlets, Internet, Phone at their disposal. It helps banks to reduce risk that can result from manual data entry and out of date information. It also helps banks to improve service delivery quality and time to its customer. The software is accessed from different branches of bank via communication lines like telephones, satellite, internet, etc.

The engagement team has kept record of audit documentation in accordance with SA 230.

6. Which of the following does not constitute "Other income" in the profit and loss account of branch of a bank?
 - (a) Discount on Bills purchased
 - (b) Commission on Bills sent for collection
 - (c) Loan processing fees
 - (d) Credit card fees
7. Identify what the engagement team is trying to do in respect to advances of the branch.
 - (a) The engagement team is carrying out analytical procedures in respect of advances.
 - (b) The engagement team is carrying out substantive procedures in respect of advances.
 - (c) The engagement team is evaluating internal control over advances.
 - (d) The engagement team is trying to select samples for verification of advances.
8. Considering state government guaranteed advance of Rs. 20 crore and its NPA classification made by branch, which of the following statements is most appropriate?
 - (a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh

government guarantee has no effect on provisioning and income recognition.

- (b) The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee.
 - (c) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee without having recourse to provisioning and reversal of unrealized income.
 - (d) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee. No provisioning is required. However, for purposes of income recognition, it should be treated as NPA and unrealized income should be reversed.
9. The branch is operating in CBS environment. In view of above, which of the following statements is most appropriate?
- (a) Due to CBS environment, substantive procedures alone are effective to reduce audit risk to an acceptably low level.
 - (b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management.
 - (c) The extensive use of IT systems in CBS environment substantially reduces need to assess inherent and control risks.
 - (d) Low level of branch staff sensitisation to the control expectations of management requires fewer audit procedures.

10. With regards to audit documentation, consider the following: -

- (I) NOC from previous auditor
- (II) Management certified trial balance of branch for year under consideration
- (III) KYC verification details
- (IV) Latest RBI master directions/circulars

Which of the following statements is correct as regards to audit documentation?

- (a) Only documents stated at Q and R form part of audit documentation.
- (b) Only documents stated at Q, R and S form part of audit documentation.
- (c) Only documents stated at Q and S form part of audit documentation.
- (d) All documents stated at P, Q, R and S form part of audit documentation.

Case Scenario 3

Dhanush, a CA student undergoing articles, is part of an engagement team conducting audit of Test Enterprises Private Limited. The company is engaged in business of conducting aptitude and language test every fortnight at centres spread all over major cities of country for Indian students desirous of applying to foreign universities. It also sells books containing model test papers for the benefit of students.

The company has substantial number of computers at each centre to enable seamless experience for students appearing for standardized aptitude and language tests. The company has acquired new identifiable software involving substantial expenditure for conducting tests during the year which is expected to drive company's revenues in coming

years. At the time of taking a test, a CD containing software is run in each system for enabling students to take tests. Cost of CD without software is nominal.

The revenue of the company during the year 2023 – 24 was Rs. 50 crores (Rs. 45 crores from fees charged from students and Rs. 5 crores from sale of books). Besides, company has also received Rs. 10 lacs as interest on certain investments during the year. The company has a history of profitable operations. During the course of audit, it is noticed by Dhanush that computers form significant chunk of PPE items in financial statements of company. The company has taken useful life of computers consisting of desktops for 3 years. However, depreciation charged on computers in financial statements of the company is higher than depreciation allowable under Income tax law. It results in lower accounting income as per books of accounts of company as compared with taxable income under Income tax law. During the course of audit, he notices that cost of CDs along with software cost is treated as an intangible asset by company. It is also part of his responsibility to verify PPE register in accordance with audit programme. On perusing details in PPE register, he finds that some computers have moved from one centre to another centre to meet business requirements. Further, many computers were disposal/ scrapping have not been entered in PPE register. When these items were physically verified by the management during the year, it has resulted in material discrepancies. The management has properly dealt with such discrepancies in books of accounts.

Based on above, answer the following questions :

11. Considering description provided in case scenario regarding accounting income as per books of accounts and taxable income under Income tax law, choose appropriate responsibility of Dhanush :
 - (a) To verify deferred tax liability likely created in financial statements in accordance with AS 22
 - (b) To verify deferred tax asset likely created in financial statement in accordance with AS 22
 - (c) To verify deferred tax asset likely created in financial statements in accordance with AS 29
 - (d) To verify deferred tax liability likely created in financial statements in accordance with AS 29
12. Keeping in view description provided in case scenario, which of following statements is likely to be correct regarding accounting treatment of cost of CDs and software acquired by company to run tests ?
 - (a) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated such costs as revenue expenditure.
 - (b) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is proper.
 - (c) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as intangible asset.
 - (d) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as revenue expenditure.
13. As regards discrepancies noticed in computer systems on physical verification by management as described in case scenario, which of following statements is most appropriate ?

- (a) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it may result in modification of auditor's opinion.
- (b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under Companies Act, 2013.
- (c) The management has properly dealt with such discrepancies. Therefore, Dhanush should not do anything further.
- (d) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it is in nature of misstatement which needs to be communicated and documented by auditor.
14. Which of following statements meets requirements of law in respect of revenue from operations of the company ?
- (a) Revenue from operations of Rs. 50 crores should be shown in Statement of Profit and loss.
- (b) Revenue from operations of Rs. 50.10 crores should be shown in Statement of Profit and Loss. However, revenue from sale of books, fees charged from students and interest on investments should be disclosed separately in notes.
- (c) Revenue from operations of Rs. 50.10 crores should be shown in Statement of profit and loss.
- (d) Revenue from operations of Rs. 50 crores should be shown in Statement of profit and loss However, revenue from sale of books and fees charged from students should be disclosed separately in notes.
15. The company has taken useful life of desktops to be 3 years. Such a requirements is _____.
- (a) prescribed under Schedule III to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule III.
- (b) is not prescribed under Companies Act, 2013. It depends upon manufacturing specifications of desktops.
- (c) Prescribed under Schedule II to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule II.
- (d) Is not prescribed under Companies act, 2013. It needs to be arrived at mandatorily by a management expert.

PART II – Descriptive Questions

Question **No. 1** is compulsory.

Attempt any four questions from the Rest.

QUESTION : 1(A)

Write the audit procedures to be performed as an auditor for valuation (assertion) of following:

- (i) Loans and Advances and other current assets.
- (ii) Finished goods and goods for resale.

(5 MARKS)

QUESTION : 1(B)

CA B is statutory auditor of Boom Payments Bank for year 2023-24. During the year, banking regulator has imposed restrictions on Bank from accepting new deposits due to non-

compliance in conducting KYC in large number of accounts and violation of rules aimed at preventing money laundering. There is material uncertainty regarding probable outcome of such restrictions on ability of Bank to continue as going concern. However, for year 2023-24, auditor has concluded that use of going concern basis of accounting is appropriate. The financial statements of Bank do not make adequate disclosure of material uncertainty due to above events in financial statements. What are implications for auditor's report for year 2023-24 in view of above?

(5 MARKS)

QUESTION: 1(C)

Engagement Partner CA Hitesh Kapur of Kapur and Associates wanted to develop an audit plan of Sampurna Fabrics Ltd. Discuss the matters to be described in such an audit plan.

(4 MARKS)

QUESTION: 2(A)

The auditor of MARUT Ltd. engaged in manufacturing of Smart Motor Bikes, obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether :

- (i) Management has created and maintained a culture of honesty and ethical behaviour ;
and
- (ii) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment.

(5 MARKS)

QUESTION : 2(B)

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgment exercised in performing the work and evaluating the results. Explain stating clearly the examples of significant matters.

(5 MARKS)

QUESTION : 2(C)

Audit testing done through Statistical sampling is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances. Explain and also state advantages of Statistical sampling.

(4 MARKS)

QUESTION : 3(A)

In carrying out an audit of interest expense, the auditor is primarily concerned with assessing the overall reasonableness of the amount of interest expense. Analyse and explain stating the audit approach and procedure in regard to interest expense.

(5 MARKS)

QUESTION : 3(B)

You have been appointed as an auditor of a health care service provider. Briefly discuss the special points that should be kept in mind as an auditor for developing an audit programme.

(5 MARKS)

QUESTION : 3(C)

The auditor shall obtain an understanding of major activities that the entity uses to monitor internal control over financial reporting. Discuss "Monitoring of control" as a component of Internal control.

(4 MARKS)

QUESTION : 4(A)

CA Irfan Zaidi is auditor of a prestigious five-star hotel in Jaipur. He notices that there is a gift shop doing brisk business inside the hotel premises. On further enquiries, he comes to know that stocks in gift shop belong to gift shop owner and hotel receives rent for letting out this space. Discuss, how, auditor can verify payment of common amenities used by gift shop owner to the hotel.

(5 MARKS)

QUESTION : 4(B)

While conducting the audit of Pummy Limited, the statutory auditors collected written representations from the Management. The audit was finalized in addition to other audit procedures but, without making any inquiries, as the statutory auditors were short of time. In the light of this information, state the importance of inquiry as one of the methods of collecting Audit Evidence.

(5 MARKS)

QUESTION : 4(C)

M/s ANS & Associates has been appointed as the statutory auditors of MNO Ltd. The company has been suffering losses due to the emergence of highly successful competitor, thereby leading to negative net worth. Also, the sales head, key management personnel, of the company left the company due to health issues. When CA Amar, the engagement partner discussed the scenario with the management of the company, he did not get any satisfactory reply from the management. What is the responsibility of M/s ANS & Associates with regard to SA 570?

(4 MARKS)

QUESTION : 5(A)

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. Discuss.

(5 MARKS)

QUESTION : 5(B)

Audit evidence is all the information used by the auditor in arriving at the conclusions on which the audit opinion is based. Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. Explain stating clearly objectives of the auditor regarding written representation.

(5 MARKS)

QUESTION : 5(C)

The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements. The Code establishes the fundamental

principles of professional ethics relevant to the auditor when conducting an audit of financial statements. Explain.

(4 MARKS)

QUESTION : 6(A)

Your firm of auditors, SRG & Co., has been appointed as Statutory Central Auditors of Reliable Bank. Explain the reporting requirements of the Statutory Central Auditors (SCAs) in addition to their main audit report.

(5 MARKS)

QUESTION : 6(B)

The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Explain stating clearly specific evaluations made by the auditor.

(5 MARKS)

QUESTION : 6(C)

"While the auditor may choose to analyse the monthly trends for expenses like rent, power and fuel but for other expenses, an auditor generally prefers to verify other attributes." Mention those attributes.

(4 MARKS)