

PART - I

Case Scenario - 1 :

M/s KRISH & Company is a firm of Chartered Accountants based in Punjab. CA K, CA R, CA I, and CA SH are the partners of the firm. The firm is engaged in various audit assignments. The engagement partners, who were handling their respective assignments for the financial year 2023-24, dealt with the following issues raised during the course of their respective audits.

- M/s KRISH & Co. is appointed as the joint auditor along with M/s. PK and Associates and M/s. RS and Associates for the audit of a large manufacturing company for the financial year 2023-24. CA K is in charge of this audit. They have divided their audit areas and have also identified the common audit areas, which will be applicable to all the joint auditors. While forming the opinion, CA K had a different opinion whereas, the other two audit firms shared the same opinion. Both of them contended that as they were forming a majority, M/s KRISH & Co. will have to agree with their opinion.
- CA R is conducting the statutory audit of PAWAN Ltd. He observed that, during the year, the company has issued shares at premium and has transferred the amount received as premium to securities premium account. He wants to ensure that PAWAN Ltd. has utilised the amount available in the securities premium amount for the purposes permitted under the Companies Act, 2013.
- Registrar of Co-operative Societies has appointed M/s KRISH & Co. as the statutory auditor of NAND Co-Operative Society for the financial year 2023-24. CA I is looking after the audit of the said registered society. During the year, in terms of Section 34 of the cooperative societies Act, with the sanction of the Registrar, Society has contributed for charitable purposes as defined in section 2 of the Charitable Endowments Act, 1890. CA I is ensuring whether requirements, as regards contribution made, have been complied with.

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10. M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd. for the first time for the financial year 2024-25. The engagement partner, CA D, is briefing his engagement team about the need of Engagement Standards and quality control standards in the areas of financial statement audits and in other types of assurance services. Out of the following which one point is not correct about why standards are needed ?

- (A) Standards equip professional accountants with professional knowledge & Skill.
- (B) Standards ensure audit quality.
- (C) Standards promote uniformity as audit of financial statements is carried out following these Standards.
- (D) Standards ensure carrying out of audit against established benchmarks at par with local practices.

Case Scenario – 3 :

GHB Ltd., a listed company, having its registered office at New Delhi, is in the business of blending, processing, packing and selling various brands of Tea. BPP & Co. LLP, Chartered Accountants, are appointed as the statutory auditors of the company for the financial year 2023-24. CA B is the engagement partner for the assignment.

The company has a centralised warehouse near the border of Himachal Pradesh. CA B's attendance, on 31st March, 2024, at the physical inventory counting in respect of the said warehouse became impracticable on account of natural calamity in that area. It also became impossible for CA B to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory.

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7. Financial events or conditions that may cast significant doubt on the entity's ability to continue as a going concern does not include 2
- (A) Inability to comply with the terms of loan agreements.
 - (B) Inability to pay creditors on due dates.
 - (C) Shortage of important supplies.
 - (D) Substantial operating losses.

8. RDB & Co. have been appointed as statutory auditors of INA Group of hotels. This is the first time the firm is auditing an industry in food & beverage. The engagement partner, CA R, and other key members of the engagement team have undertaken the activity of development of an audit plan of INA Hotels after thorough understanding the Hotel's business and its environment. As per SA 300, description of which of the following matters is not a part of developing an audit plan ? 2

- (A) The nature, timing and extent of planned risk assessment procedure.
- (B) The nature, timing and extent of planned further audit procedures at assertion level.
- (C) The nature, timing and extent of resources necessary to perform the engagement.
- (D) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.

9. The Board of Directors of a company wanted the auditor to certify Export sales during the year for submitting to the authorities. The auditor also signed the Confirmation letters to be sent to various debtors and creditors for confirming their balances as on 31.03.2024. 2

UDIN is required to be generated by the auditor for:

- (A) Export sales during the year certificate only.
- (B) Confirmation letters only.
- (C) Both Export sales during the year certificate and Confirmation letters.
- (D) No UDIN is required to be generated.

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14. Undue dependence on the fees from GHB Ltd. creates which threat of independence for the auditors ?

- (A) Intimidation threat
- (B) Familiarity threat
- (C) Self-interest threat
- (D) Advocacy threat

15. Since it became impracticable for CA B, on 31st March, 2024, to attend physical inventory counting at the warehouse and also became impossible to perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and conditions of inventory, CA B shall :

- (A) Take Management Representation regarding the existence and valuation of inventory and mention in Emphasis of Matter paragraph.
- (B) Rely on GHB Ltd.'s perpetual inventory records as audit evidence and express unmodified opinion. ✗
- (C) Omit altogether the audit procedure of physical inventory counting from the audit programme because of impracticability. ✗
- (D) Modify the opinion in the auditor's report in accordance with SA 705 as a result of the scope limitation. ✗

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The company had spent huge amount on employee benefits. Hence, CA B instructed his assistants to test the controls that the company had set around the employee benefit expenses. After being satisfied with the controls maintained by the company, he instructed his team to bifurcate the employee benefit expenses into salaries and wages, contribution to PF, expenses on ESOP/ ESPP and staff welfare expenses.

The engagement partner CA B, while evaluating, validating and reporting on the design and efficiency of internal financial controls at GHB Ltd., also impressed upon the directors, independent directors and the audit committee the way in which the Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on the internal controls of a company.

Due to time constraints, CA B is under pressure to issue a clean report in the limited time frame. He has insufficient time to properly perform or complete the relevant duties and issue appropriate audit report.

The Board of Directors want CA B to certify the debtors to be sent to the bank without checking. CA B agrees, as most of the professional income of BPP & Co. LLP comes from GHB Ltd. They have undue dependence on the fees from GHB Ltd. hence; they are concerned about losing the engagement.

Based on the above facts, answer the following Q. Nos. 11 to 15.

11. Which assertion concerning the bifurcation of employee expenses into various heads is being verified by CA B ?
- (A) Occurrence
 - (B) Measurement
 - (C) Completeness
 - (D) Disclosures

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12. With reference to reporting on the internal financial controls system under the Companies Act, 2013, which of the following does not fall within the nature of responsibility of GHB Ltd. ? 2

- (A) In accordance with the terms of reference specified in writing by the Board, act of every audit committee to include evaluation of internal financial controls and risk management systems.
- (B) Directors' responsibility statement to state that the Directors had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
- (C) Board of Directors have to appoint an expert to state that the internal financial controls of the company are commensurate with the size and nature of its business.
- (D) In terms of code for Independent Directors, independent directors to get themselves satisfied that financial controls and systems of risk management are robust and defensible.

13. Due to tight deadlines, CA B has insufficient time to properly perform or complete the relevant duties and he has to sign off clean audit report. Which fundamental principle governing professional ethics is disregarded by him ? 2

- (A) Professional competence and due care
- (B) Professional behaviour
- (C) Integrity
- (D) Objectivity

Handwritten notes:
Independence, Integrity, Objectivity & Professional Behaviour
पाप्यु 4/11/17
Integrity, Objectivity & Independence zero 5/1/17

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The management of the company, however, assures the auditor that this is temporary and the situation will change soon as they are planning to diversify their business. They are ready to provide written representation for the same. The auditor feels that a material uncertainty still exists. The auditor wants the management to make adequate disclosure about this in the financial statements. The auditor wants to include a separate section about this in his audit report. He is also contemplating about the kind of audit report that should be issued.

The auditor has concerns about ethical values and diligence of management. He is concerned about the reliability of the representations made by the management and the audit evidence in general. The auditor is of the opinion that the written representations from management are not reliable.

Based on the above facts, answer the following Q. Nos. 5 to 7.

5. Which kind of audit report will the auditor issue, if the use of going concern basis of accounting is appropriate, but a material uncertainty exists and adequate disclosure of the material uncertainty is made in the financial statements by the management?

- (A) Adverse opinion
- (B) Disclaimer of opinion
- (C) Unmodified opinion
- (D) Qualified opinion

6. If the auditor is of the opinion that the written representations are not reliable, what kind of audit opinion should be issued by him?

- (A) Disclaimer of opinion
- (B) Adverse opinion
- (C) Unmodified opinion and mention the facts in Other Matters Paragraph
- (D) Unmodified opinion and mention the facts in Emphasis of Matter Paragraph

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- All the engagement partners and the audit team of M/s KRISH & Co. have deliberations and discussions every week through google meet to review the progress of their respective assignments. During last such meet, CA SH, the managing partner, briefed to the team about the form, content, and extent of audit documentation in terms of SA 230, while citing examples of records to be excluded as well as to be included as a part of audit documentation.

Based on the above facts, answer the following Q. Nos. 1 to 4.

1. The securities premium account of PAWAN Ltd. cannot be applied for which of the following purposes ?
 - (A) In writing off the debit balance in the Profit & Loss account.
 - (B) In writing off the expenses of, or the commission paid or discount allowed on any issue of equity shares of the company.
 - (C) For the purchase of its own shares or other securities under section 68.
 - (D) In paying up unissued equity shares of the company to be issued to the members of the company as fully paid bonus shares.

2. CA I, who is in charge of audit of NAND Co-Operative Society, wants to ensure that the society has contributed for charitable purposes within the limits prescribed. How much is the society allowed to contribute for charitable purposes ?
 - (A) contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.
 - (B) contribute an amount at the appropriate rate as per class of the society.
 - (C) contribute an amount not exceeding 20% of the net profits remaining after the compulsory transfer to the reserve fund.
 - (D) contribute annually at prescribed percentage of the profits as approved by the General body of the society.

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3. Which of the following need not be included by the audit team as a part of audit documentation during handling of their respective assignments ? 2
- (A) Significant and specific contracts and agreements.
 - (B) Draft audit engagement letter.
 - (C) Summaries of significant matters.
 - (D) Checklists.
4. In case of difference of opinion between the joint auditors, what course of action can M/s. KRISH & Co. take while issuing the audit report ? 2
- (A) They will have to agree with the opinion formed by the majority of auditors.
 - (B) They will have to agree with the opinion formed by the majority auditors, but they can mention their view in the Emphasis of Matter Paragraph.
 - (C) They can add a separate audit opinion paragraph in the common audit report.
 - (D) They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.

Case Scenario - 2 :

Mega Power Ltd. is a manufacturer of solar lanterns, which are used in remote villages where there is no reliable supply of electricity. However, due to power projects undertaken by the government, the demand for their solar lanterns has significantly declined over the past few years. The company was in need of ₹ 2 crores for working capital and other expenses but was not able to fund this amount. Consequently, their suppliers were paid much later than usual and hence some of them withdrew the credit terms, meaning the company had to pay cash on delivery. This created a severe cash crunch and the auditor feels that other than the cash crunch, there are several other financial indicators that cast a significant doubt on the company's ability to continue as a going concern.

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