

Chapter 1: Nature Objective and Scope of Audit



QUESTION- 1

Owing to the limitations of an audit, there is risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

- a) Inherent, unavoidable
- b) Inherent, complete
- c) Management, unavoidable
- d) Regulatory, control

Answer: (a)



QUESTION- 2

No business or institution can effectively carry on its activities without the help of proper

- a) Audit
- b) Record and accounts
- c) neither (a) nor (b)
- d) both (a) and (b)

Answer: (b)



QUESTION- 3

Which of the following is the responsibility of the auditor:

- a) Preparation and presentation of the financial statements in accordance with applicable financial reporting
- b) Design, implementation and maintenance of internal controls
- c) Express an opinion on the Financial Statements
- d) To obtain limited assurance.

Answer: (c)



QUESTION- 4

_____ framework means a framework adopted in the preparation and presentation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

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- a) Financial reporting
- b) Applicable financial reporting
- c) Financial verification
- d) Financial analysis

Answer: (b)

**QUESTION- 5**

Choosing of appropriate accounting policies in relation to various accounting issues like choosing method of charging depreciation on fixed assets or choosing appropriate method for valuation of inventories are responsibilities of:

- a) Statutory Auditor
- b) Internal Auditor
- c) Legal counsel
- d) Management

Answer: (d)

**QUESTION- 6**

Which of following is false about meaning /nature of auditing?

- a) Its basic nature lies in providing assurance to users of financial statements.
- b) It is interdisciplinary in nature.
- c) It is independent examination of financial statements of listed entities alone.
- d) Its nature helps in providing comfort that financial statements are not misleading.

Answer: (c)

**QUESTION- 7**

In order to express an opinion on the financial statements, the auditor needs to satisfy himself that

1. The accounts have been drawn up with reference to entries in the books of account which are adequately supported by sufficient and appropriate evidence.
2. none of the entries in the books of account has been omitted in the process of compilation and nothing which is not in the books of account has found place in the statements

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3. the information conveyed by the statements is clear and unambiguous. The financial statement amounts are properly classified, described and disclosed in conformity with accounting standards
 4. the statement of accounts present a true and fair picture of the operational results and of the assets and liabilities.
- a) I, II
 - b) I, II, III
 - c) II, III, IV
 - d) I, II, III, IV

Answer: (d)



QUESTION- 8

Which of following is not one of objectives of auditor in accordance with SA 200?

- a) To obtain a reasonable assurance whether financial statements as a whole are free from material misstatement
- b) To report on the financial statements
- c) To communicate in accordance with auditor as findings as required by Standards on Auditing.
- d) To obtain an absolute assurance that financial statements are free from any fraudulent transaction

Answer: (d)



QUESTION- 9

The auditor of Delicious Sweets Limited was of the opinion that objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from misstatements. Which type of misstatements are mentioned by auditor of Delicious Sweets Limited:

- a) Simple.
- b) Material.
- c) Easy.
- d) Competent.

Answer: (b)



QUESTION- 10

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An employee of Fruits and Vegetables Limited was of the opinion that auditor of a company is required to express an opinion. On which one of the following the auditor of a company is required to express an opinion:

- a) Only Balance Sheet of the Company.
- b) Financial Statements of the Company.
- c) Only Profit and Loss Account of the Company.
- d) Only Cash Flow Statement of the Company.

Answer: (b)



QUESTION- 11

Which of the following is not included in scope of audit of financial statements?

- a) Proper disclosure of financial information
- b) Expression of opinion
- c) Preparation and presentation of financial statements
- d) Reliability and sufficiency of financial information

Answer: (c)



QUESTION- 12

ZETA Private Limited is a recently established start-up formed with objective for promoting use of polyhouses and offering farmers necessary know-how for setting up such structures. Polyhouses enable farmers to grow good quality crops like vegetables throughout the year. At a meeting, directors discuss about pros and cons of independent audit of financial statements in a start-up like theirs. Which of following statements is false in this regard?

- a) It is mandatory requirement for their start-up. There are no choices.
- b) Audited financial statements may be used by start-up for obtaining funds from prospective investors.
- c) Such an audit can point out deficiencies in internal control system of start-up as business.
- d) Such an audit would necessarily result in reflection of higher profits leading to higher income tax liabilities for start-up.

Answer: (d)



QUESTION- 13

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An auditor of financial statements expresses opinion:

- a) In accordance with managements requirements
- b) In accordance with directions of appointing authority
- c) In accordance with auditors' findings
- d) In accordance with requirements of users

Answer: (c)

**QUESTION- 14**

As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:

- a) To obtain reasonable assurance
- b) To report on the financial statements
- c) Both (a)and (b) above
- d) to obtain absolute assurance.

Answer: (c)

**QUESTION- 15**

Audited financial statements are not a guarantee against probable wrong doings in financial matters of companies. What kind of assurance does audit of financial statements provide?

- a) It provides reasonable assurance meaning a moderate level of assurance.
- b) It provides reasonable assurance meaning a low level of assurance.
- c) It provides reasonable assurance meaning a high level of assurance.
- d) It provides reasonable assurance meaning an absolute level of assurance.

Answer: (c)

**QUESTION- 16**

Along with other disciplines such as accounting and law, equips you with all the knowledge that is required to enter into auditing as a profession.

- a) Auditing
- b) Taxation
- c) Finance
- d) Law

Answer: (a)



QUESTION- 17

Which of the following is not correct?

- a) SA 230- Audit Documentation
- b) SA 500- Audit Evidence
- c) SA 505- Written Representation
- d) SA 560- Subsequent Events

Answer: (c)



QUESTION- 18

Inherent limitations of an audit of financial statements arise due to a number of factors. Which of the following is not such a factor?

- a) Practical limitations on ability of auditor to obtain audit evidence
- b) Legal limitations on ability of auditor to obtain audit evidence
- c) Involvement of subjective judgments in preparation of financial statements
- d) Ability of auditor to accept valid evidence due to high professional knowledge

Answer: (d)



QUESTION- 19

As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", obtained when the auditor has obtained sufficient is appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

- a) absolute assurance
- b) limited assurance
- c) reasonable assurance
- d) reasonable or absolute assurance

Answer: (c)



QUESTION- 20

Identify the most appropriate statement: -

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- a) Prospective financial information relates to future events. Since no evidence is available to support the assumptions on which prospective financial information is based, auditor is not in a position to express an opinion whether results shown in prospective information will be achieved.
- b) In assurance reports involving prospective financial information, Standards on Auditing apply.
- c) In assurance engagements involving prospective financial information, practitioner provides a report assuring that nothing has come to practitioners' attention to suggest that assumptions do not provide a reasonable basis for the projection.
- d) In assurance engagements involving prospective financial information, practitioner provides a report assuring that nothing has come to practitioners' attention to suggest that assumptions provide a reasonable basis for the projection.

Answer: (c)

**QUESTION- 1**

Which of the following is not addressed by the overall audit strategy:

- a) scope of the audit
- b) timing of the audit
- c) direction of the audit
- d) monitoring of the audit

Answer: (d)

**QUESTION- 2**

Once the overall audit strategy has been established, --can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

- a) audit strategy
- b) audit plan
- c) audit plan and audit strategy
- d) audit note book

Answer: (b)

**QUESTION- 3**

Which of following is false regarding nature of audit planning?

- a) Planning is not a distinct phase of audit.
- b) Engagement team members are not Involved in audit planning.
- c) Elements of planning may be discussed by auditor with company's management.
- d) Planning includes need to consider determination of materiality.

Answer: (b)

**QUESTION- 4**

Which of following is not an element of planning by an auditor?

- a) Preliminary engagement activities
- b) Establishing overall audit strategy

- c) Developing an audit plan
- d) Issuing a written audit report

Answer: (d)



QUESTION- 5

Planning is process of an audit that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement:

- a) continuous
- b) discrete
- c) neither continuous nor discreet
- d) strategic

Answer: (a)



QUESTION- 6

The overall audit strategy and the audit plan remain the responsibility

- a) auditor's
- b) management's
- c) those charged with governance.
- d) both management and those charged with governance.

Answer: (a)



QUESTION- 7

An consists of a series of verification procedures to be applied to the financial statements and accounts of a given entity for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on financial statements.

- a) audit programme
- b) audit plan
- c) assertion
- d) audit paper

Answer: (a)



QUESTION- 8

_____ means materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole: -

- a) Benchmark Materiality
- b) Materiality in Planning
- c) Performance Materiality
- d) Materiality.

Answer: (c)



QUESTION- 9

Planning an audit involves

- a) establishing the overall audit strategy for the engagement and developing an audit plan.
- b) establishing the overall audit plan for the engagement and developing an audit strategy.
- c) establishing the overall audit plan for the engagement
- d) developing an audit strategy.

Answer: (a)



QUESTION- 10

Audit programme is prepared for use of: -

- a) Only engagement partner conducting the audit
- b) Only Chartered Accountant employees of team conducting the audit
- c) Only articled clerks of team conducting the audit
- d) All engagement team members conducting the audit

Answer: (d)

**QUESTION- 11**

Sets the scope, timing & direction of the audit and guides the development of the more detailed plan.

- a) Audit Programme
- b) Overall Audit Strategy
- c) Completion Memorandum
- d) Audit Plan

Answer: (b)

**QUESTION- 12**

CA X is in the process of establishing audit strategy for a company engaged in the business of trading of Fast-moving consumer goods (FMCG). Which of following is not a factor to be considered by CA X while establishing audit strategy for the company?

- a) Expected AGM timeline of the company
- b) Volume of transactions
- c) Reporting requirements under Schedule III of Companies Act, 2013
- d) Deciding about appropriateness of type of audit procedures to be used in conducting the audit

Answer: (d)

**QUESTION- 13**

The auditor shall develop an audit plan that shall include a description of:

- a) The nature, timing and extent of planned risk assessment procedures
- b) The nature, timing and extent of planned further audit procedures at the assertion level.
- c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
- d) All of the above

Answer: (d)

**QUESTION- 14**

Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.

Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.

- a) only Statement 1 is correct
- b) Only Statement 2 is correct
- c) Both Statements 1 & 2 are correct
- d) Both Statements 1 & 2 are incorrect

Answer: (c)



QUESTION- 15

Which of the following is correct:

- a) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that guides the development of the overall audit strategy.
- b) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and there is no need to guide the development of the audit plan.
- c) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
- d) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that there is no need to guide the development of the overall audit strategy.

Answer: (c)



QUESTION- 16

CA Manoj Kapadia is auditor of a hospital owned by an eye surgeon. His annual professional receipts are about Rs.3 crores. All eye surgeries are being performed by him and two hours are devoted in evening OPD. Employee strength in hospital is 10. Mr. Kapadia is also auditor of a multi-speciality hospital located in the same city having annual receipts of Rs.75 crores. It has employee strength of 200. Which of the statements is most appropriate regarding internal controls?

- a) Internal controls are likely to be more structured in eye surgeons' hospital whereas these are likely to be less structured in multi- speciality hospital.
- b) Eye surgeon cannot easily override controls in hospital.

- c) Internal controls are likely to be less structured in eye surgeons' hospital whereas these are likely to be more structured in multi- speciality hospital.
- d) Internal controls at multi-speciality hospital can be easily overridden without catching attention of auditor.

Answer: (c)



QUESTION- 17

CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?

- a) Verification of turnover of company
- b) Verification of cost of raw material consumed
- c) Examination of company's accounting policy for revenue recognition
- d) Verification of contract notes with brokers

Answer: (b)



QUESTION- 18

Advsh & Co, Chartered Accountants firm got an assignment of statutory audit for 3 years of Vinesh LLP. The first year of audit was FY 2021- 22. During the first and second year of audit, Advsh & Co devised an audit plan for Vinesh LLP and did not prepare an audit plan for FY 2023- 24. Kindly state which of the following statement is true in the above context.

- a) Advsh & Co need not prepare the audit plan for FY 2023-24 because the audit plan is already prepared in the first year of audit.
- b) Advsh & Co need not prepare the audit plan for FY 2023-24 since it is recurring audit.
- c) Advsh & Co should prepare the audit plan for FY 2023-24 because planning is not a discrete phase of an audit, but rather a continual and iterative process.
- d) Advsh & Co need not prepare the audit plan for FY 2023-24 because the audit plan is prepared for two years of audit.

Answer: (c)



QUESTION- 1

Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of

- a) Independence
- b) Professional judgement
- c) Professional scepticism
- d) Professional behaviour.

Answer: (b)



QUESTION- 2

_____ means the risk that the auditor gives an inappropriate audit opinion when the financial statement are materially misstated.

- a) Auditors Business Risk
- b) Detection Risk
- c) Misstatement Risk
- d) Audit risk

Answer: (d)



QUESTION- 3

_____ Refers to 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.

- a) Risk Assessment procedures
- b) Test of controls
- c) Substantive Analytical Procedures
- d) Observation

Answer: (a)



QUESTION- 4

In WH Limited every business activity was being carried out manually. The top management of WH Limited decided to change the business environment of WH

Limited by using computer systems and computer systems related technology to carry out all the major business activities of WH Limited.

This business environment of WH Limited, where all the major business activities are done using computer systems and computers related technology is an example of:

- a) Operational Environment.
- b) Computational Environment.
- c) Control Environment.
- d) Automated Environment.

Answer: (d)



QUESTION- 5

Components of risk of material misstatement at the assertion level are:

- a) Inherent risk and detection risk
- b) Inherent risk and control risk
- c) control risk and detection risk
- d) inherent risk, control risk and detection risk

Answer: (b)



QUESTION- 6

Control risk is a function of the effectiveness of the design, implementation and maintenance of by management.

- a) Internal Audit
- b) Internal Control
- c) Reliance control
- d) Operating effectiveness of controls

Answer: (b)



QUESTION- 7

Which of the following is a General IT control?

- a) IT Environment
- b) Application Control
- c) Access Security

d) IT Dependent Control

Answer: (c)



QUESTION- 8

Audit risk is a function of the risks of material misstatement and

- a) detection risk.
- b) inherent risk
- c) control risk
- d) business risk

Answer: (a)



QUESTION- 9

_____ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

- a) Misstatement
- b) Fraud
- c) Error
- d) Fraudulent financial reporting.

Answer: (a)



QUESTION- 10

Risk of material misstatement has components

- a) one
- b) two
- c) three
- d) four

Answer: (b)



QUESTION- 11

_____ Means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the statements as a whole: - financial

- a) Benchmark Materiality
- b) Materiality in Planning
- c) Performance Materiality
- d) Materiality.

Answer: (c)



QUESTION- 12

_____ Are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.

- a) Application controls
- b) General IT controls
- c) Process controls
- d) All of these

Answer: (a)



QUESTION- 13

For a given level of audit risk, the acceptable level of detection risk bears relationship to the assessed risks of material misstatement at the assertion level.

- a) direct.
- b) Inverse
- c) no relationship
- d) either (a) or (c)

Answer: (b)



QUESTION- 14

_____ Are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.

- a) Application
- b) IT dependent Controls
- c) Automated Controls
- d) General IT Controls

Answer: (b)



QUESTION- 15

Statement 1: - Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level.

Statement 2: -Test of Controls are audit procedures designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.

- a) Only Statement 1 is correct
- b) Only Statement 2 is correct
- c) Both 1 & 2 are correct
- d) Both 1 & 2 are incorrect

Answer: (b)



QUESTION- 16

Risk of material misstatement may be defined as the risk

- a) that the financial statements are materially misstated after audit.
- b) that the financial statements are materially misstated during audit.
- c) that the financial statements are materially misstated prior to audit.
- d) All of the above

Answer: (c)



QUESTION- 17

SA 320 on “Materiality in Planning and Performing an Audit” requires that an auditor

- a) should not consider materiality and its relationship with audit risk while conducting an audit.
- b) should consider materiality and its relationship with audit risk while conducting an audit.
- c) should not consider materiality but should consider its relationship with audit risk while conducting an audit.

- d) should consider materiality but need not consider its relationship with audit risk while conducting an audit.

Answer: (b)



QUESTION- 18

The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is-

- a) Control Risk
- b) Inherent Risk
- c) Detection Risk
- d) Audit Risk

Answer: (b)



QUESTION- 19

Which of the following is an automated control?

- a) Program change
- b) System generated report
- c) Application control
- d) Configurations

Answer: (d)



QUESTION- 20

The tools and techniques that auditors use in applying the principles of data analytics are known as:

- a) Data analytics tools
- b) Computer Assisted Auditing Techniques or CAATs in short
- c) Analytics tools and techniques
- d) System generated tools

Answer: (b)



QUESTION- 21

_____ is a logical sub system with in a larger information system where electronic data is stored in a predefined form and retrieved for use.

- a) Data Mining
- b) Data warehouse
- c) Database
- d) Data Analytics

Answer: (c)



QUESTION- 22

Control scan be _____ related to an assertion.

- a) directly
- b) indirectly
- c) directly or indirectly
- d) no relationship between controls and assertion.

Answer: (c)



QUESTION- 23

The assessment of risks is a

- a) matter capable of precise measurement rather than matter of professional judgment
- b) matter of professional judgment, rather than a matter capable of precise measurement.
- c) matter of professional judgement as well as capable of precise measurement sometimes.
- d) None of the above

Answer: (b)



QUESTION- 24

Who is mainly responsible for implementation of internal financial controls in a company?

- a) Auditors
- b) Directors
- c) Employees
- d) Regulators

Answer: (b)



QUESTION- 25

Which of the following Audit testing methods is most effective as an audit test and gives the best audit evidence?

- a) Inquiry
- b) Observation
- c) Inspection
- d) Reperformance

Answer: (d)



QUESTION- 26

_____ are also known as pervasive or indirect controls: -

- a) General IT Controls
- b) Application Controls
- c) IT dependent Controls
- d) None of the above

Answer: (a)



QUESTION- 27

Which of the following is not an example of benchmarks in determining materiality for the Financial Statements as whole:

- a) Profit before tax
- b) total revenue
- c) audit programme
- d) total equity

Answer: (c)



QUESTION- 28

Is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information: -

- a) Computer Assisted Audit Techniques

- b) Automated Controls
- c) Data Analytics
- d) Combination Controls

Answer: (c)



QUESTION- 29

Because the assessment of the risk of material misstatement takes account of internal control,

- a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.
- b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
- c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.
- d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.

Answer: (d)



QUESTION- 30

_____ **Exists when an internal control is either missing or not operating effectively to prevent or detect a misstatement in a timely manner by management**

- a) Significant Deficiency
- b) Operating Deficiency
- c) Management Control Deficiency
- d) Control Deficiency

Answer: (d)



QUESTION- 31

_____ **Is a control deficiency or a combination of deficiencies in internal controls that is important enough to merit the attention of those charged with governance since there is a reasonable possibility that a material misstatement will not be prevented or detected in a timely manner by management.**

- a) Material Weakness

- b) Material deficiency
- c) Control Risk
- d) Significant Deficiency

Answer: (a)



QUESTION- 32

The assessment of the risks of material misstatement may be expressed in

- a) quantitative terms, such as in percentages, or in non-quantitative terms.
- b) quantitative terms, such as in percentages,
- c) non-quantitative terms.
- d) None of the above

Answer: (a)



QUESTION- 33

As per Section 134 (5)(e) of Companies Act, 2013 in case of listed Companies, the _____ shall 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.

- a) Directors' responsibility statement
- b) Auditors' responsibility statement
- c) SEBI responsibility statement
- d) Government responsibility statement

Answer: (a)



QUESTION- 34

The Objective of establishing Security Policies and Procedures is to

- a) To ensure that production systems are processed to meet financial reporting objectives.
- b) To ensure that modii-ed systems continue to meet financial reporting objectives
- c) To ensure that access to program sand data is authenticated a deauthorized to meet 1-nancial reporting objectives.
- d) To ensure that systems are developed, configured and implemented to meet financial reporting objectives.

Answer: (c)



QUESTION- 35

User Training is an activity related to which of the following General IT Controls?

- a) Data centre and network operations
- b) Program change
- c) Access security
- d) Application system acquisition, development, and maintenance (Business Applications)

Answer: (b)



QUESTION- 36

Which of the following is incorrect-

For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall:

- a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
- b) Assess the identified risks, and evaluate whether they relate the financial statements as a whole and potentially -
- c) Relate the identified risks to what can go wrong at the asset account of relevant controls that the auditor intends to test; and
- d) Not consider the likelihood of misstatement, including the possible misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.

Answer: (d)



QUESTION- 37

SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement –

- a) at the financial statement levels only.
- b) at the assertion levels only.
- c) at the financial statement and assertion levels.
- d) at the financial statement or assertion levels.

Answer: (c)



QUESTION- 38

When deviations from controls upon which the auditor intends to rely are detected,

- a) the auditor shall not make any inquiries to understand these matters and their potential consequences
- b) the auditor shall make specific inquiries to understand these matters and their potential consequences
- c) the auditor shall make general inquiries to understand these matters and their potential consequences
- d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences

Answer: (b)



QUESTION- 39

To evaluate the Internal Control of Kingsway Limited, a team member of the auditors used a method according to which, number of questions relating to internal control of the company were required to be answered by the employees of the company. After obtaining the answers there was a discussion relating to those answers between team member of the auditor and employees of the company for a clear picture. State the method of evaluation of internal control as discussed above.

- a) Narrative record
- b) Check List
- c) Internal Control questionnaire
- d) Flow chart

Answer: (c)



QUESTION- 1

Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.

Statement 2: Substantive procedures consist of test of details and analytical procedures.

- a) Only Statement 1 is correct
- b) Only Statement 2 is correct
- c) Both 1 & 2 are correct
- d) Both 1 & 2 are incorrect

Answer: (c)



QUESTION- 2

_____ **Is the comparison of current data with the prior period balance.**

- a) Ratio Analysis
- b) Trend analysis
- c) Reasonableness test
- d) Structural Modelling

Answer: (b)



QUESTION- 3

If the management of a Company, XYZ Ltd., refuses to allow the auditor to send the confirmation request to the debtors, the auditor should: -

- a) Withdraw from the engagement.
- b) Not listen at all to any requests of the management.
- c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.
- d) Agree to management request and proceed with audit of other items of the financial statements.

Answer: (c)



QUESTION- 4

Audit evidence includes

- a) information contained in the accounting records underlying the financial statements
- b) both information contained in the accounting records underlying the financial statements and other information.
- c) other information.
- d) information contained in the accounting records underlying the financial statements or other information.

Answer: (b)



QUESTION- 5

In some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes

- a) An Audit documentation
- b) An Audit Check list
- c) Audit evidence
- d) Audit procedures

Answer: (c)



QUESTION- 6

SA 520 deals with the auditor's use of analytical procedures as --, and as procedures near the end of the audit that assist the auditor when forming an overall conclusion on the financial statements.

- a) Substantive Procedures
- b) Audit evidence
- c) Audit procedures
- d) Tests of Control

Answer: (a)



QUESTION- 7

John and Associates is a Partnership Firm of Chartered Accountants. Mr. Jo, one of the partners of Jo John and Associates, while explaining his audit team members about the importance of audit evidence informed them about sufficiency and appropriateness of audit evidence. Sufficiency and appropriateness of audit evidence means:

- a) Simplicity
- b) Quantity
- c) Quality
- d) Quantity and Quality both

Answer: (d)



QUESTION- 8

Auditor Compares Gross Profit Ratio with that of previous year and it is discovered that there has been a fall in the ratio. This is an example of:

- a) Analytical Procedure
- b) Test of Controls
- c) Walk through Test
- d) Audit Sampling

Answer: (a)



QUESTION- 9

Which of the following is more scientific:

- a) Statistical
- b) Non- statistical
- c) both (a) and (b)
- d) none of the above

Answer: (a)



QUESTION- 10

Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client

Statement 2: When no reply is received w.r.t external confirmations, the auditor should perform alternate procedures regarding the balances.

- a) Only statement 1 is correct
- b) Only statement 2 is correct
- c) Both 1 & 2 are correct

d) Both 1 & 2 are incorrect

Answer: (c)



QUESTION- 11

_____ may be denied as the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. It includes both information contained in the accounting records underlying the financial statements and other information.

- a) Audit procedure
- b) Audit evidence
- c) Audit plan
- d) Audit programme

Answer: (b)



QUESTION- 12

If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:

- a) a disclaimer opinion
- b) a qualified opinion
- c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
- d) unmodified opinion

Answer: (c)



QUESTION- 13

What is the primary objective of analytical procedures used in the overall review stage of an audit?

- a) To help to collaborate the conclusions drawn from individual components of financial statements
- b) reduce specific detection risk
- c) To direct attention to potential risk areas
- d) To satisfy doubts when questions arise about a client as ability to continue.

Answer: (a)

**QUESTION- 14**

Which of the following is not an Audit procedure to obtain audit evidence:

- a) Inspection
- b) Observation
- c) External Confirmation
- d) Internal Control

Answer: (d)

**QUESTION- 15**

A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in there Quest.

- a) Positive confirmation request
- b) Non-Response
- c) Negative Confirmation request
- d) Exception

Answer: (c)

**QUESTION- 16**

Audit evidence is necessary to support the auditor's opinion and report. It is in nature and is primarily obtained from audit procedures performed during the course of the audit.

- a) cumulative
- b) non-cumulative
- c) degressive
- d) decrescent

Answer: (a)

**QUESTION- 17**

Which of the following Audit Testing methods give the least audit evidence?

- a) Inquiry

- b) Inspection
- c) Observation
- d) Reperformance

Answer: (a)



QUESTION- 18

In random Sample, each item of population has

- a) equal chance of selection
- b) has varying chance of selection depending upon placing of items.
- c) may have a chance of selection based on auditors' professional judgement
- d) All of these

Answer: (a)



QUESTION- 19

The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:

- a) Inquiry of management and, where applicable, others within the entity, including in- house legal counsel.
- b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel.
- c) Reviewing legal expense accounts.
- d) All of the above

Answer: (d)



QUESTION- 20

When significant risk had been identified by the auditor, then:

- a) Audit evidence obtained solely from substantive analytical procedures is sufficient.
- b) Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.
- c) Auditor will perform test of details also.
- d) Both b and c

Answer: (d)



QUESTION- 21

Tolerable error is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to

- a) Sample size
- b) Audit risk
- c) Materiality
- d) Expected error

Answer: (c)



QUESTION- 22

Which of the following is not an analytical procedure?

- a) Tracing of purchases recurred in the purchase book to purchase invoices.
- b) Comparing aggregate wages paid to number of employees
- c) Comparing the actual costs with standard costs
- d) All of them are analytical procedures

Answer: (a)



QUESTION- 23

What are analytical procedures?

- a) Substantive tests designed to assess control risk
- b) Substantive tests designed to evaluate the validity of management as representation letter
- c) Substantive tests designed to study relationships between financial and non-financial data
- d) All of the above

Answer: (c)



QUESTION- 24

Statement 1: A response that indicates a difference between information requested to be confirmed and information provided by confirming party is Negative Confirmation.

Statement 2: A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is exception.

- a) Statement 1 is correct
- b) Statement 2 is correct
- c) Both 1 & 2 are incorrect
- d) Both 1 & 2 are correct

Answer: (c)



QUESTION- 25

The basic assumption underlying the use of analytical procedures is:

- a) It helps the auditor to study relationship among elements of financial information
- b) Relationship among data exist and continue in the absence of known condition to the contrary
- c) Analytical procedures will not be able to detect unusual relationships
- d) None of the above

Answer: (b)



QUESTION- 26

Statistical sampling has the following characteristics

- a) Random selection
- b) Use of Probability theory
- c) both (a) and (b)
- d) Judgmental approach

Answer: (c)



QUESTION- 27

Which of the following factors is (are) considered in determining the sample size for tests of control?

- a) Projected error
- b) tolerable error
- c) Expected error
- d) Both (b) and (c)

Answer: (d)



QUESTION- 28

As the number of transactions of WY Limited for the financial year 2018-19 were in very large number, the auditor of WY Limited decided to use the technique of Audit Sampling. Before selecting the sample from Repair and Maintenance Expenses, the auditor of WY Limited wished that entire data of Repair and Maintenance Expenses of WY Limited for financial year 2021-22 should have three characteristics. These three characteristics are:

- a) Simple, Completeness, Relevant.
- b) Appropriateness, Simple, Relevant.
- c) Reliable, Simple, Relevant.
- d) Appropriateness, Completeness, Reliable.

Answer: (d)



QUESTION- 29

_____ Applying gives the most directive and deficient audit evidence while using Audit testing methods.

- a) Inquiry in combination with Inspection.
- b) Inspection in combination with Observation
- c) Observation in combination with reperformance
- d) Reperformance in combination with Inquiry

Answer: (a)



QUESTION- 30

Substantive Analytical Procedures are generally more applicable to:

- a) Large volumes of transactions.
- b) Transactions predictable over time.
- c) Both a and b
- d) None of a and b

Answer: (c)



QUESTION- 31

The relationship between tolerable error and sample size is

- a) Inverse
- b) Direct
- c) Close
- d) There is no relationship.

Answer: (a)



QUESTION- 32

Statement 1: Analytical procedures are more useful while conducting the audit and at the completion phase and are of no use at the planning stage.

Statement 2: In the planning stage, audit procedures assist the auditor in understanding the client's business and identifying the areas of potential risks.

- a) Statement 1 & 2 are correct
- b) Statement 1 & 2 are incorrect
- c) Only Statement 1 is correct
- d) Only Statement 2 is correct

Answer: (d)



QUESTION- 1

_____are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy

- a) Contingent Liabilities
- b) Provision
- c) Securities Premium Reserve.
- d) Liabilities

Answer: (b)



QUESTION- 2

Which of the following is not an example of revenue expenditure –

- a) Salaries and wages of employees engaged directly or in-directly in production
- b) Repairs, maintenance and renewals of fixed assets
- c) Legal and professional expenses
- d) development expenditure on land

Answer: (d)



QUESTION- 3

Which of the following is not correct: -

- a) AS 18 a Related Party Disclosures
- b) AS 10 a Property, Plant & Equipment
- c) AS 28 an Impairment of Assets
- d) AS 16 an Intangible Assets

Answer: (d)



QUESTION- 4

_____ is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non-occurrence of one or more uncertain future events not wholly within the control of the entity: -

- a) Provision

- b) Reserve
- c) Contingent Liability
- d) Liability

Answer: (c)



QUESTION- 5

Cut-of- testing is performed during audit of sales to address the following assertion:

- a) Occurrence
- b) Measurement
- c) Cut-off
- d) All of the above

Answer: (c)



QUESTION- 6

Which of the following is not correct: -

- a) AS 18 a Related Party Disclosures
- b) AS 10 a Property, Plant & Equipment
- c) AS 28 an Impairment of Assets
- d) AS 16 an Intangible Assets

Answer: (d)



QUESTION- 7

Which of the following is not correct with respect to the inventory held by a Company, ABC Limited, in its Balance Sheet: -

- a) All inventory units held by the company should have been recorded and recognized in the financial statements.
- b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.
- c) Inventory should be recognized at cost or net realizable value whichever is lower.
- d) Inventory balance as at the yearend does not include any element of next year

Answer: (b)



QUESTION- 8

Observing inventory being counted and personally performing test counts to verify counts is performed during audit of inventory balances to address the following balance sheet assertion:

- a) Rights and obligations
- b) Valuation
- c) Completeness
- d) Existence

Answer: (d)



QUESTION- 9

Sec. 52 of the Companies Act states that Security Premium Account can be applied by the Company for one of the purpose mentioned below. Which of the following is a **CORRECT** option?

- a) To adjust loss on revaluation of Assets
- b) To pay dividend to equity shareholders
- c) Providing for the premium payable on redemption of Preference shares
- d) To use it as working capital for its business.

Answer: (c)



QUESTION- 10

Wages paid to workers would qualify as:

- a) Revenue expenditure
- b) Capital expenditure
- c) Revenue or capital expenditure depending upon facts and circumstances.
- d) None of the above

Answer: (c)



QUESTION- 11

All inventory units held by the audit entity and that should have been recorded, have been recognized in the financial statements. The assertion involved is:

- a) Existence

- b) Completeness
- c) s and Rights and obligations
- d) Valuation

Answer: (b)



QUESTION- 12

Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion:

- a) Rights and obligations
- b) Existence
- c) Valuation
- d) Completeness

Answer: (b)



QUESTION- 13

During the audit of sales, the auditor found that recorded sales represent goods which were ordered by valid customers and were dispatched and invoiced in the period. The auditor is addressing which of the following assertion:

- a) Occurrence
- b) Measurement
- c) Cut-off
- d) Accuracy

Answer: (a)



QUESTION- 14

In preparing financial statements, Company's management makes implicit or explicit claims (i.e. assertions) regarding completeness, cut-off, existence/ occurrence, valuation/ measurement, s and Rights and obligations and-_____ of Assets, Liabilities, Equity, Income, Expenses and Disclosures in accordance with the applicable accounting standards

- a) presentation and disclosure
- b) presentation
- c) disclosure

d) duties and responsibilities

Answer: (a)



QUESTION- 15

Useful life of assets is given in Schedule_____ of Companies Act 2013.

- a) II
- b) IV
- c) V
- d) VII

Answer: (a)



QUESTION- 16

Which of the following item should not be treated as an asset, as per provisions of Accounting Standard 26:

- a) Computer software
- b) Internally generated goodwill
- c) Fishing License
- d) Brand Names

Answer: (b)



QUESTION- 17

KK Ltd is declared wilful defaulter by State Bank of India. "Wilful defaulter" here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on wilful defaulters issued by:

- a) the Reserve Bank of India
- b) State Bank of India
- c) SEBI
- d) Punjab National Bank

Answer: (a)



QUESTION- 18

The securities premium account may be applied by the Company for the following purposes:

- a) payment to creditors for material
- b) purchase of fixed assets
- c) repayment of loans
- d) writing of the preliminary expenses

Answer: (d)



QUESTION- 19

Statement I: A capital reserve can never be utilised for writing down fictitious assets or losses.

Statement II: The amount of securities premium or capital redemption reserve account can be utilised only for the purposes specified in Sections 52 and 55 of the Companies Act, 2013, respectively.

- a) only Statement I is correct
- b) only Statement II is correct
- c) both the statements are correct
- d) both the statements are incorrect.

Answer: (b)



QUESTION- 20

Which assertion is common among the statement of profit and loss and balance sheet captions:

- a) Existence
- b) Valuation
- c) Completeness
- d) Measurement

Answer: (c)



QUESTION- 21

CA Muskan Mishra is auditor of two concerns viz. Well Star Homes and Well Star Stores. The partners in both the firms are common. While auditing financial statements of Well

Chapter 5: Audit Of Items of Financial Statements

Star Homes, she has noticed that few expenditure bills pertaining to Well Star Stores have been entered in its books. Which assertion of Well Star Homes is disproved in above situation?

- a) Completeness
- b) Accuracy
- c) Occurrence
- d) Classification

Answer: (c)



QUESTION- 22

During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised:

- a) Development phase
- b) Research phase
- c) None of the above
- d) Both (a) and (b)

Answer: (b)



QUESTION- 23

Financial statements of a company have been put up for audit before the auditor. On going through financial statements, he wants to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.

As regards verification of bills debited in "Machinery repair" account, identify what he intends to perform?

- a) Tests of Controls
- b) Tests of transactions
- c) Tests of balances
- d) Risk assessment procedures

Answer: (b)



QUESTION- 24

Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform:

- a) No additional testing
- b) Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the customers remittance advice.
- c) Additional testing including preparing a detailed analysis of the balance, ensuring it consists of identic-able transactions and confirming that these revenue transactions actually occurred.
- d) Both (b) and (c)

Answer: (b)



QUESTION- 25

Obtaining trade receivables ageing report and analysis and identification of doubtful debts is performed during audit of accounts receivable balances to address the following balance sheet assertion:

- a) Valuation
- b) Rights and obligations
- c) Existence
- d) Completeness

Answer: (a)



QUESTION- 26

Jainam Industries Ltd share capital as on 31st March, 2023 and 31st March, 2024 is Rs. 50,00,000. The same was seen from the balance sheet presented by the Management. The auditor should seek a written confirmation /representation from that there were no changes to entity's capital structure during the year.

- a) Management of Jainam Industries Ltd.
- b) Company Secretary of Jainam Industries Ltd.
- c) Chief Financial Officer of Jainam Industries Ltd.
- d) Chief Executive Officer of Jainam Industries Ltd.

Answer: (b)



QUESTION- 27

Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion:

- a) Valuation
- b) Rights and obligations
- c) Existence
- d) Completeness

Answer: (d)



QUESTION- 1

Maybe denied as one or more folders or other storage or electronic form. Containing there cords that comprise the audited for a specific engagement.

- a) Audit File
- b) Audit evidence
- c) Completion Memorandum
- d) Audit Folder

Answer: (a)



QUESTION- 2

Which of the following is not a likely purpose of audit documentation?

- a) It helps to show that audit was conducted in accordance with requirements of SQC 1.
- b) It serves as a record of matters of continuing significance to future audits.
- c) It assists engagement team to plan and perform the audit.
- d) It can directly help auditor in expanding client base.

Answer: (d)



QUESTION- 3

An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of _____-exercised in performing the work and evaluating the results.

- a) professional judgment
- b) professional skepticism
- c) professional competence
- d) professional integrity

Answer: (a)



QUESTION- 4

Which of following is not a purpose of audit documentation?

- a) To enable the engagement partner to get Rid of his responsibility
- b) To enable the engagement team to be accountable to its work
- c) To enable conduct of quality control reviews

- d) To enable conduct of external inspections in accordance with legal and regulatory requirements

Answer: (a)



QUESTION- 5

A company has started its manufacturing operations from a newly constructed building. CA Z is statutory Auditor of company. Which of following is not likely to be an example of audit documentation?

- a) E-mail correspondence with CFO of company concerning significant matters
- b) Audit programme
- c) Response to external confirmation requests
- d) Structural engineer ask report on strength of building

Answer: (d)



QUESTION- 6

CA Vijay is the statutory auditor of XYZ Ltd. For the FY 2021-22. During the process of assembling the audit file, CA Vijay briefed his team as to what all changes can be made to the audit documentation at that stage. Which of the following changes cannot be made to the audit documentation during the final assembly process?

- a) Sorting, collating & cross referencing of working papers.
- b) Signing off completion checklists relating to the file assembly process.
- c) Deleting or discarding superseded documents.
- d) Recalculation of Depreciation.

Answer: (d)



QUESTION- 7

CA P has completed audit of a company and final audit file has been assembled. After about two years, in connection with some regulatory proceedings, he is asked to produce copy of audit file. He again takes a fresh look at audit documentation and discards some papers. Which of following statements is correct in this regard?

- a) He can discard papers before end of retention period of file.
- b) He can discard papers before sharing copy with regulator.
- c) He can't discard papers before end of retention period of file.

d) He can discard papers in certain circumstances according to his judgment.

Answer: (c)



QUESTION- 8

_____ Refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.

- a) Audit Techniques
- b) Audit evidence
- c) Audit Documentation
- d) Audit Procedures record

Answer: (c)



QUESTION- 9

_____ is the summary of significant matters identified during audit and way they are addressed: -

- a) An Audit File
- b) An Audit Programme
- c) A Completion memorandum
- d) A Checklists

Answer: (c)



QUESTION- 10

Which of following does not fall within meaning of "Audit Documentation"?

- a) Oral discussions not put into writing
- b) Record of audit procedures performed
- c) Relevant audit evidence obtained
- d) Conclusions reached by auditor

Answer: (a)



QUESTION- 11

"Form, content and extent" of audit documentation is not dependent upon?

- a) Size and complexity of audit
- b) Nature of audit procedures to be performed
- c) Seniority of person performing audit
- d) Audit methodology and tools used

Answer: (c)



QUESTION- 12

Which of the following is correct:

- a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor as report.
- b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
- c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor as report.
- d) The auditor shall not assemble the audit documentation in an audit file.

Answer: (a)



QUESTION- 1

Going concern is one of the

- a) fundamental auditing responsibilities
- b) fundamental accounting assumptions
- c) fundamental auditing assumptions
- d) fundamental accounting reporting frameworks

Answer: (b)



QUESTION- 2

Which of the following falls within meaning of "Written representations" in accordance with relevant SA?

- a) Books of accounts
- b) Financial statements
- c) Written statements by management
- d) Assertions contained in financial statements

Answer: (c)



QUESTION- 3

Following are examples of events or conditions that may cast significant doubt on an entity's ability to continue as a going concern. Which of following is an example of operating event/conditions?

- a) Adverse key financial ratios
- b) Inability to pay creditors on due dates
- c) Indications of withdrawal of financial support by creditors
- d) Shortages of important supplies

Answer: (d)



QUESTION- 4

Which of following statements is true about "Written representations"?

- a) Written representations constitute sufficient appropriate audit evidence.
- b) Written representations should be after date of financial statements but near reporting date of financial statements.
- c) Auditor as report cannot be dated before date of written representations.

d) Qualifying language cannot be used in written representations.

Answer: (c)



QUESTION- 5

Which of the following is not an example of an event or condition that may cast significant doubt on entity's ability to continue as a going concern:

- a) Loss of key management without replacement
- b) Adverse key financial ratios
- c) Inability to pay creditors on due date
- d) Current year profit turns to loss after providing depreciation

Answer: (d)



QUESTION- 6

Auditor has a responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements on financial statements. Which Standard on Auditing deals with this responsibility?

- a) SA 580
- b) SA 560
- c) SA 450
- d) SA 260

Answer: (c)



QUESTION- 7

What is proper meaning of term "Date the financial statements are issued" with respect to SA 560?

- a) It reflects the date that auditor as report and audited financial statements are signed by auditor.
- b) It reflects the date that auditor as report and audited financial statements are provided to the entity.
- c) It reflects the date that audit is completed and sufficient appropriate audit evidence is obtained.
- d) It reflects the date that auditor as report and audited financial statements are made available to third parties.

Answer: (d)



QUESTION- 8

“Significant deficiencies” in internal control -?

- a) may exist even though auditor has not identified misstatements during the audit.
- b) cannot exist when auditor has identified any misstatement during the audit.
- c) are only dependent on actual occurrence of misstatements.
- d) are only dependent on likelihood that a misstatement could occur and the potential magnitude of misstatement.

Answer: (a)



QUESTION- 9

Which of following is not an objective of auditor in accordance with SA 570?

- a) To conclude on appropriateness of management as use of going concern basis of accounting in preparation of financial statements
- b) To conclude whether entity would be able to pay its bank loans on due dates
- c) To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on an entity as ability to continue as a going concern.
- d) To report in accordance with SA 570.

Answer: (b)



QUESTION- 10

Whose primary responsibility is to assess an entity’s ability to continue as a going concern?

- a) Management
- b) Auditors
- c) Both management and auditors
- d) Regulator

Answer: (a)



QUESTION- 11

An entity is not viewed as a going concern. What is its likely impact on recording of inventories in financial statements?

Chapter 7: Completion and Review

- a) Inventories may need to be written down.
- b) Inventories may need to be written up.
- c) Inventories would, in all likelihood, continue to be recorded at their historical costs.
- d) The going concern issue doesn't affect recording of inventories in any case.

Answer: (a)**QUESTION- 12****SA 265 deals with: -**

- a) auditor as responsibility to communicate with those charged with governance in an audit of financial statements
- b) auditor as responsibility to communicate to those charged with governance deficiencies in internal control identified by auditor in an audit of financial statements
- c) auditor as responsibility to communicate to those charged with governance deficiencies in internal audit identified by auditor in an audit of financial statements
- d) auditor as responsibility to communicate with those charged with governance significant matters raised by auditor in an audit of financial statements

Answer: (b)**QUESTION- 13**

Potential effects of inherent limitations on an auditor's ability to detect material misstatements are for conditions that may cause an entity to cease to continue as a going concern.

- a) lower
- b) greater
- c) unchanged
- d) undeterminable

Answer: (b)**QUESTION- 14**

Which of the following is not a likely purpose of audit documentation?

- a) It helps to show that audit was conducted in accordance with requirements of SQC 1.
- b) It serves as a record of matters of continuing significance to future audits.
- c) It assists engagement team to plan and perform the audit.

- d) It can directly help auditor in expanding client base.

Answer: (d)



QUESTION- 15

CA X is nearing completion of audit procedures during course of audit of a company. He has found nothing unusual till now. The company is earning handsome profits since last many years and there is little debt burden on it. It is also in process of expanding its business by taking loan from a bank. The bank has also granted "in-principle" approval for lending money to the company. Which of the following statements is most appropriate in evaluation of going concern assumption being followed by management?

- a) Appropriateness of management as assessment may be made by auditor without performing detailed evaluation procedures.
- b) Appropriateness of management as assessment would be made by auditor by performing detailed evaluation procedures.
- c) Appropriateness of going concern assumption would be made by auditor directly by skipping management's assessment.
- d) Appropriateness of going concern assumption would be made by auditor by necessarily examining cash flow forecast.

Answer: (a)



QUESTION- 16

If the auditor of a company concludes that the written representations are not reliable, what should be appropriate for him?

- a) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of disclaimer of opinion.
- b) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of adverse opinion.
- c) The auditor shall take appropriate actions including determining the possible effect on the opinion in the auditor's report in accordance with SA 705 having regard to the requirement of qualified opinion.
- d) The auditor shall report the matter to MCA directly.

Answer: (a)



QUESTION- 17

Read the situations below carefully from perspective of an auditor. Identify one which is not a "Subsequent Event".

- a) A pharma company is in business of manufacturing and export of cough syrups. Its Profit before tax for year 2022-23 is Rs. 10 crores. Few Children have died in an African nation by consumption of spurious cough syrup in September, 2022. The company is trying to settle with foreign government a lumpsum settlement of Rs.20 crore as on 30.6.23 when audit is nearing completion.
- b) The draft financial statements of a wholesaler engaged in business of trading of TVs, washing machines and air-conditioners for year 2022- 23 are ready showing a profit before tax of Rs.50 lakhs. A burglary of Rs.1 crore took place in showroom on 15.7.23 before audit report was signed.
- c) Audit report dated 1.7.23 was issued in respect of an entity engaged in extraction of certain minerals. By legislation, government has banned extraction of such minerals on 10.7.23.
- d) An incident of fire took place in a company on 13th August, 2022 resulting in damages to inventories amounting to Rs.5 crore. The Inventories are Insured and company has shown this amount as receivable from insurance company as on 31st March,2023 in its financial statements. No further information is available as on date of signing audit report on 16.7.23.

Answer: (d)



QUESTION- 18

Which of following statements is false?

- a) Written representations are an important source of audit evidence.
- b) If management does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist.
- c) A request for written representations in many cases may prompt management to consider such matters more rigorously, thereby, enhancing the quality of the representations.
- d) The fact that management has provided reliable written representations affects the nature or extent of other audit evidence that the auditor obtains about specific assertions.

Answer: (d)

Chapter 8: Audit Report



QUESTION- 1

Which is a reporting requirement for a company auditor under section 143(3) of Companies Act, 2013?

- a) Whether transactions of the company which are represented merely by book entries are Prejudicial to the interests of the company
- b) Whether any director is disqualified from being appointed as a director under section 164(2)
- c) Whether personal expenses have been charged to revenue account
- d) Whether loans and advances made by the company have been shown as deposits

Answer: (b)



QUESTION- 2

Which of the following statements is in accordance with SA 700?

- a) Basis for opinion is provided in audit report when modification in opinion is made.
- b) Basis for opinion is provided in audit report when qualified or adverse opinion is made.
- c) Basis for opinion is provided in audit report when disclaimer of opinion is made.
- d) Basis for opinion is provided in audit report irrespective of type of opinion made.

Answer: (d)



QUESTION- 3

Under relevant clause of CARO,2020, auditors are required to report the extent of arrears of outstanding Provident Fund as on the last day of the financial year for a period of: -

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

Answer: (c)



QUESTION- 4

Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020

Chapter 8: Audit Report

- a) Clause (xi)
- b) Clause (xii)
- c) Clause (xiii)
- d) Clause (xiv)

Answer: (a)



QUESTION- 5

Which of the following is not a type of modified opinion:

- a) qualified opinion
- b) adverse opinion
- c) disclaimer of opinion
- d) negative opinion.

Answer: (d)



QUESTION- 6

For which of following company, provisions of CARO,2020 would be applicable?

- a) Boost Up Training (OPC) Private Limited
- b) RCI Bank Limited
- c) PST Industries Limited
- d) Moon Insurance Limited

Answer: (c)



QUESTION- 7

CARO, 2020 requires a company auditor to report on certain specified matters. Where you are likely to locate such reporting in independent auditor's report of a company?

- a) Key audit matters
- b) Opinion section
- c) Section containing report on other legal and regulatory requirements
- d) Other Matter paragraph

Answer: (c)



QUESTION- 8

Chapter 8: Audit Report

UDIN (Unique Document Identification Number) is required to be stated by practising Chartered Accountant on: -

- a) Each audit report only
- b) Each audit report and each certificate
- c) Each audit report issued under Companies Act, 2013 only
- d) A Each audit report issued under Companies Act, 2013 only and each certificate

Answer: (b)

**QUESTION- 9**

CAP is auditor of a manufacturing company. It is also required to maintain cost records and get its cost audit conducted as per legal requirements. In this respect, which of the following is correct description of reporting under CARO, 2020?

- a) Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law
- b) Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law. Whether cost audit has been conducted? If so, date of cost audit report
- c) Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and whether such accounts and records have been so made and maintained
- d) Whether maintenance of cost records is specified under Section 148(1) of Companies Act by Central government and cost audit is required under relevant provisions of law. Whether cost audit has been conducted? If so, date of cost audit report along with details of adverse remarks, if any in cost audit report

Answer: (c)

**QUESTION- 10**

Which one is a disadvantage of joint audit?

- a) Lower staff development costs
- b) Lower workload
- c) Improved service to client
- d) Lower attention to common work areas

Answer: (d)



QUESTION- 11

Which of following is not an element of audit report in accordance with SA 700?

- a) Title
- b) Addressee
- c) Audit strategy
- d) Auditor's opinion

Answer: (c)



QUESTION- 12

Which is false regarding communication of "Key Audit Matters"?

- a) It is not a substitute for disclosures in financial statements.
- b) It is not a substitute where modified opinion is required.
- c) It is a separate opinion on individual identified matters.
- d) It is not a substitute for reporting under SA 570 when a material uncertainty exists casting significant doubt on an entity's ability to continue as going concern.

Answer: (c)



QUESTION- 13

While reporting under CARO, 2020, it is duty of statutory auditor of company to report:

- a) Fraud of less than 1 crore committed by officers or employees of company during the year
- b) Fraud of less than 1 crore committed by officers or employees of company during the year
- c) Fraud of 5 crore or more committed by officers or employees of company during the year
- d) Any fraud by the company or on the company noticed or reported during the year

Answer: (d)



QUESTION- 14

Chapter 8: Audit Report

The auditor shall express opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

- a) Adverse
- b) Qualified
- c) Disclaimer
- d) unmodified opinion with key audit matter paragraph.

Answer: (a)



QUESTION- 15

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, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from _____ whether due to fraud or error.

- a) Material misstatement
- b) Material uncertainty
- c) Material errors
- d) Material ambiguity

Answer: (a)



QUESTION- 16

When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve _____

- a) Reasonable Presentation
- b) Fair Presentation
- c) Absolute Presentation
- d) Presentation

Answer: (b)



QUESTION- 17

An Auditor Disclaims Opinion When _____?

Chapter 8: Audit Report

- a) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be material.
- b) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and adverse.
- c) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and pervasive.
- d) He is unable to obtain audit evidence and concludes that possible effects on financial statements of undetected misstatements could be both material and perverse.

Answer: (c)



QUESTION- 18

The auditor's report includes a section with a heading "Responsibilities of Management for the Financial Statements." This section of the auditor's report shall describe management's responsibility for:

- I. Preparing the financial statements in accordance with the applicable financial reporting framework.
- II. such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- III. Assessing the entity's ability to continue as going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

- a) I, II
- b) II, III
- c) I, II, III
- d) I, III

Answer: (c)



QUESTION- 19

Chapter 8: Audit Report

As per CARO, 2020, physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;

- a) 5%
- b) 10%
- c) 1%
- d) 20%

Answer: (b)



QUESTION- 20

In which of the following circumstances, auditor is not likely to express a modified opinion?

- a) Profit before tax of a company is Rs.10 lakhs. The company has charged Rs.15.00 lakhs in machinery repair account which, in fact, pertains to cost of a machinery.
- b) Profit before tax of accompany is Rs.20 lakhs. The company has overstated its inventories by Rs.10000 due to valuation issues.
- c) Profit before tax of a company is Rs.10 lakhs. The company has not made a provision for irrecoverable debts amounting to Rs.7 lakhs.
- d) A company as accounting records including data on systems, bills, vouchers have all been destroyed during a devastating fire in its premises on 31.12.22. The company did not have a proper back-up strategy. Therefore, company rebuilt its account books for first 9 months from information available from bank statements, GST portal and third parties. The draft financial statements show profit before tax of Rs.50 lakhs.

Answer: (b)



QUESTION- 21

CA X, during course of audit of accompany, has faced non-cooperation by management with respect to certain significant matters. As a result, sufficient appropriate evidence could not be obtained by him in many areas of financial statements. He has decided to disclaim opinion. While drafting audit report, he should take care?

- a) To include key audit matters in audit report

Chapter 8: Audit Report

- b) To include management as view point in audit report
- c) To provide a detailed statement on auditor as responsibilities required by SA 700
- d) To amend the description of the auditor as responsibilities required by SA 700 to Include some specific references

Answer: (d)



QUESTION- 22

Vishram & Co are the auditors of Jinesh Ltd. While auditing the fixed assets of Jinesh Ltd, Vishram & Co verified the following and made following observations:

Maintenance of proper records showing full particulars of tangible assets, including quantitative details and situation. Physical verification of the fixed assets All the title deeds of the immovable properties are held in the name of Jinesh Ltd.

Did the auditor missed to undertake any verification of fixed assets as per CARO, 2020?

- I. Revaluation of fixed assets is undertaken or not.
- II. property Jinesh Ltd is holding any benami
- III. Maintenance of proper records showing full particulars of intangible assets.

- a) I, II
- b) I, II, III
- c) II, III
- d) I, III

Answer: (b)



QUESTION- 23

The description of the auditor's responsibilities for the audit of the financial statements shall be included:

- I. Report. Within the body of the auditor's
- II. Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix.

Chapter 8: Audit Report

III. By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or the auditing standards expressly permit the auditor to do so.

- a) I, II
- b) I, III
- c) I, II or III
- d) II or III

Answer: (c)



QUESTION- 24

If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "" or otherwise as appropriate to the content of the section.

- a) A Report on Other Legal Requirements
- b) Report on Other Legal and Regulatory Requirements.
- c) A Report on Other Regulatory Requirements.
- d) Report on Regulatory Requirements.

Answer: (b)



QUESTION- 1

BIDS Limited is a government company. Who has the power to conduct supplementary audit of such a company under provisions of Companies Act, 2013?

- a) ROC
- b) Auditor appointed by ROC
- c) C& AG of India
- d) Statutory auditor of BIDS Limited

Answer: (c)



QUESTION- 2

While conducting the audit of a local body, the auditor's areas of audit do not include

- a) Budgetary Procedure
- b) Expenditure Control
- c) Accounting System
- d) Dispute Resolution

Answer: (d)



QUESTION- 3

_____ **Aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.**

- a) Audit against provision of funds
- b) Propriety audit
- c) Audit of sanctions
- d) Audit against rules and orders

Answer: (a)



QUESTION- 4

As part of conducting audit of a partnership firm, you are inspecting its partnership deed. Which of the following clauses is not likely to appear in a partnership deed?

- a) Profit sharing ratio
- b) Nature of partnership business
- c) Authorized capital
- d) Interest on capital

Answer: (c)



QUESTION- 5

In addition to the audit certificate in the prescribed form and various schedules, the auditor of a Co-operative society in the applicable State has to answer two sets of questionnaires called as

- a) Internal Control Questionnaires
- b) Audit Supplements
- c) Audit Memos
- d) Memorandum reports

Answer: (c)



QUESTION- 6

Which of following is hallmark of "propriety audit"?

- a) Compliance with rules and regulations
- b) Verification of incurred expenditure for purpose of grant
- c) Verification of authorization of competent authority itself to sanction expedite
- d) Bringing out improper expenditure although incurred in accordance with rules

Answer: (d)



QUESTION- 7

After a government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the

- a) CAG
- b) President
- c) Public Accounts Committee
- d) Parliament

Answer: (c)



QUESTION- 8

The Auditor of a Sole Proprietor Concern is appointed by

- a) CAG
- b) Bank
- c) Sole Proprietor himself
- d) District Administration

Answer: (c)



QUESTION- 9

Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the ____ who shall cause them to be laid before House of Parliament/State Legislature

- a) President/Governor
- b) Prime Minister/ Chief Minister
- c) Union Finance Minister/State Finance Minister
- d) Union Cabinet

Answer: (a)



QUESTION- 10

Public enterprises are required to maintain commercial accounts and are generally classified under three categories. Which of the following is not a category relating to above:

- a) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulation departments and agencies;
- b) statutory bodies, corporations, created by specific statutes mostly financed by government in the. Form of loans, grants, etc.; and
- c) government companies set up under the Companies Act, 2013.
- d) Charitable Trusts.

Answer: (d)



QUESTION- 11

Which of following falls within meaning of "Small LLP"?

- a) LLP whose contribution is Rs.20 lacs. Its turnover in immediately preceding financial year is Rs. 1 crore
- b) LLP whose contribution is Rs.50 lacs. Its turnover in immediately preceding financial year is Rs. 1 crore.
- c) LLP whose contribution is Rs.20 lacs. Its turnover in immediately preceding financial year is Rs. 35 lacs.
- d) LLP whose contribution is Rs.1 crore. Its turnover in immediately preceding financial year is Rs. 2 crores.

Answer: (c)



QUESTION- 1

Regulating body in case of banks is:

- a) SEBI
- b) IRDA
- c) RBI
- d) ICAI

Answer: (c)



QUESTION- 2

The LFAR is to be submitted before every year

- a) 30th April
- b) 31st May
- c) 30th June
- d) 30th September

Answer: (c)



QUESTION- 3

A Ltd. Has been assigned a Cash Credit limit of INR 20 lacs as against its Book Debts furnished as security. What kind of Security creation is it?

- a) Pledge
- b) Mortgage
- c) Assignment
- d) Set-off

Answer: (c)



QUESTION- 4

Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Activa Scooter for INR 60,000. She is regular in depositing EMI of the Activa Loan but has not made any payments towards the Personal Loan due to low business during the year. In this case, which of the following facilities should be categorized as NPA?

- a) Activa Loan
- b) Personal Loan
- c) Higher of the two
- d) Both the Activa Loan & the Personal Loan

Answer: (d)



QUESTION- 5

The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank: -

- a) Letter of Credit
- b) Term Loan
- c) Staff Advances
- d) Cash Credit Limit

Answer: (d)



QUESTION- 6

Which of the following is not classification of NPA-

- a) Impaired
- b) sub standard
- c) doubtful
- d) Loss

Answer: (a)



QUESTION- 7

CA M has been conducting bank audits for last more than 5 years. Which of the following statements is true in context of audit of banks?

- a) The transactions observed in course of bank audit are likely to be less complex due to well laid out systems and procedures.
- b) Banks make extensive use of technology and automation leading to complex business environment.
- c) Banks make extensive use of technology and automation leading to simplified business environment.

Chapter 10: Audit of Banks

- d) Strict vigilance by banking regulator denotes lack of effective internal control system in banks.

Answer: (b)

**QUESTION- 8**

Drawing Power in case of a Consortium advance is computed and allocated to member banks by the

- a) Bank members proportionately
- b) Lead bank
- c) Borrower
- d) Reserve Bank of India

Answer: (b)

**QUESTION- 9**

Engagement Team Discussions are usually done at which stage of Bank audit?

- a) Appointment
- b) Developing an Audit Plan
- c) Framing an Audit Programme
- d) Issuing Audit Report

Answer: (b)

**QUESTION- 10**

Which of the following statements is true regarding financial statements of a bank?

- a) Financial statements of a bank are to be prepared in accordance with Third Schedule to Banking Regulation Act, 1949.
- b) Financial statements of a bank are to be prepared in accordance with Schedule III of Companies Act, 2013.
- c) Financial statements of a bank are to be prepared in accordance with Schedule II of Reserve Bank of India Act, 1934.
- d) Financial statements of a bank are to be prepared in accordance with format prescribed by Comptroller and Auditor General of India.

Answer: (a)



QUESTION- 11

Which of following is not a legal disclosure Requirement relating to classification of advances in financial statements of a bank?

- a) Term loans
- b) Bills purchased and discounted
- c) Cash credits, overdrafts and loans repayable on demand
- d) Agricultural loans

Answer: (d)



QUESTION- 12

Which of the following is a non-funded facility as sanctioned by any bank: -

- a) Bank Guarantee
- b) Term Loan
- c) Staff Advances
- d) Bank Overdraft

Answer: (a)



QUESTION- 1

The Firm RK & Associates has an extensive understanding of Code of Ethics that underlies the fundamental principles relevant to the Auditor when conducting an Audit of Financial Statements and provides a conceptual framework for applying these principles. Which of the following does not form part of the fundamental principle?

- a) Integrity
- b) Professional Competence and due care
- c) Professional Skepticism
- d) Professional behaviour

Answer: (c)



QUESTION- 2

CA Piyush is offered appointment as statutory auditor of branch of a bank. He has also taken housing loan of Rs.75 lakhs from same bank. Identify threat to independence involved.

- a) Advocacy threat
- b) Self-interest threat
- c) Self-review threat
- d) Familiarity threat

Answer: (b)



QUESTION- 3

The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.

- a) Objectivity
- b) Independence
- c) Confidentiality
- d) Integrity

Answer: (b)



QUESTION- 4

Which of the following is normally not included in engagement letter sent by auditor to client?

- a) Responsibilities of auditor
- b) Responsibilities of management
- c) Auditor as fees
- d) Tangible benefits of audit

Answer: (d)



QUESTION- 5

A request from the client for the auditor to change the engagement may result from-

- 1) A change in circumstances affecting the need for the service,
 - 2) A misunderstanding as to the nature of an audit or related service originally requested
 - 3) A restriction on the scope of the engagement, whether imposed by management or caused by circumstances.
- a) (1) only
 - b) (1) and (2)
 - c) (1), (2) and (3)
 - d) (1) or (2) or (3)

Answer: (c)



QUESTION- 6

As per SQC-1 "An appropriate time limit within which to complete the assembly of the final audit -file is ordinarily not more than days after the date of the auditor's report".

- a) 30
- b) 60
- c) 90
- d) 45

Answer: (b)



QUESTION- 7

Which of following is not independence of auditor? A threat to

- a) Self-interest threats
- b) Self- review threats
- c) Advocacy threats
- d) Fear group threats

Answer: (d)



QUESTION- 8

Code of ethics is applicable to: -

- a) Only Chartered accountants in practice
- b) Only Chartered accountants in practice who perform assurance engagements
- c) Only Chartered accountants in practice who act as auditors
- d) Chartered accountants in practice as well as Chartered accountants in service

Answer: (d)



QUESTION- 9

_____ Requires firms to establish policies and procedures for the retention of _____. The retention period for audit engagements ordinarily is no shorter than _____ from the date of the auditor's report, or, if later, the date of the group auditor's report

- a) SA 220, audit evidence, six years
- b) SA 200, audit documentation, seven years
- c) SQC 1, engagement documentation, seven years
- d) SA 230, documentation, six years

Answer: (c)



QUESTION- 10

Standard on Quality Control (SQC) 1 provides that,

- a) unless otherwise specified by law or regulation, audit documentation is the property of the management.
- b) unless otherwise specified by law or regulation, audit documentation is the property of Those charged with governance.

Chapter 11: Ethics and Terms of Audit Engagements

- c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.
- d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

Answer: (d)

CASE STUDY - 1

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 tests 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 cache 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 50 crores (45 crores from fees charged from students and 5 crores from sale of books). Besides, company has also received 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 disposed or scrapped in earlier years. However, proper details in relation to movement and 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.



QUESTION- 1

The company has taken useful life of desktops to be 3 years. Such a requirement 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.

Answer: (c)



QUESTION- 2

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 statements 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

Answer: (b)



QUESTION- 3

Which of following statements meets requirements of law in respect of revenue from operations of the company?

- a) Revenue from operations of `50 crores should be shown in Statement of Profit and loss.
- b) Revenue from operations of 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 50.10 crores should be shown in Statement of Profit and loss.

- d) Revenue from operations of 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.

Answer: (d)



QUESTION- 4

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.

Answer: (b)



QUESTION- 5

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.

Answer: (b)

CASE STUDY - 2

CDL Limited, a company dealing in FMCG goods, is having 50 branches in India. SKC & Associates (referred to as company's auditor) are appointed as statutory auditors of the company for year 2023-24. Further, company has also appointed Mr. D as branch auditor for 5 of its branches.

Since Mr. D is conducting audit of only 5 branches of company, he has not arrived at materiality level in respect of auditee branches. On the same lines, identification and assessment of risk of material misstatement has not been performed. He is of the view that determination of materiality and identifying & assessing risks of material misstatement is done for financial statements of company as a whole. He has mainly performed substantive audit procedures in respect of financial statements of auditee branches like verification of PPE items, inventories, trade receivables, cash, bank balances and trade payables at auditee branches and maintained documentation of the same.

During the course of audit at two branches dealing in same kind of goods, Mr. D has performed analytical procedures pertaining to inventories. He has arrived at and compared inventory turnover ratio (Cost of goods sold/Average inventory) over a period of years of two branches. The results of analytical procedures are summarized in Table I below:

Particulars	Branch	Year 2021-22	Year 2022-23	Year 2023-24
Inventory turnover ratio	I	15	14	12
Inventory turnover ratio	II	4	6	10

The company's auditor has also decided to use work of Mr. D with respect to financial information of 5 branches included in financial information of the company. During the course of audit, company's auditor has advised Mr. D by way of email certain significant



accounting, auditing and reporting requirements and has asked him to provide representation as to compliance with them. Irritated and surprised, Mr. D is of the view that such an email is beyond the rights of the company's auditor.

QUESTION- 1

After reading methodology for carrying out branch audits by Mr. D, which of following statements is likely to be most appropriate?

- a) Separate determination of materiality and identifying & assessing risk of material misstatement is not required in respect of each of the branches. He is required to perform only substantive procedures as described in the case scenario in respect of auditee branches and maintain documentation of the same.
- b) Separate determination of materiality and identifying & assessing risk of material misstatement is required in respect of each of branches. However, documentation for these matters regarding branches is not required. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.
- c) Separate determination of materiality and identifying & assessing risk of material misstatement is required along with documentation thereof in respect of each of branches. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.
- d) Identifying & assessing risk of material misstatement is required along with documentation in respect of each of branches. However, materiality is required to be arrived at for financial statements of company as a whole. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.

Answer: (c)



QUESTION- 2

Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.

- a) During year 2023-24, Inventories of Branch I have moved faster in comparison to Branch II.
- b) During year 2023-24, inventories of Branch II have moved faster in comparison to Branch I.

- c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.
- d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.

Answer: (a)



QUESTION- 3

Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.

- a) During year 2023-24, Inventories of Branch I have moved faster in comparison to Branch II.
- b) During year 2023-24, inventories of Branch II have moved faster in comparison to Branch 1.
- c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.
- d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.

Answer: (a)



QUESTION- 4

Considering contents of email sent by company's auditor to Mr. D, which of following statements is likely to be in accordance with Standards on Auditing?

- a) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements and ask him to provide representation as to compliance with them.
- b) Company's auditor can advise Mr. D certain significant accounting, auditing and reporting requirements. However, asking him to provide representation as to compliance with them is breach of Mr. D's independence.
- c) Company's auditor cannot advise Mr. D certain significant accounting, auditing and reporting requirements. It is breach of Mr. D's independence.
- d) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements only when Mr. D makes such a request.

Answer: (a)



QUESTION- 5

As regards audit of a branch of CDL Limited as referred to in case scenario is concerned, which of following statements is most appropriate?

- a) The accounts of a branch shall be audited Either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor.
- b) The accounts of a branch shall only be Audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to members of company.
- c) The accounts of a branch shall only be Audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to company's auditor.
- d) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to members of company.

Answer: (a)

CASE STUDY - 3

CA B is conducting statutory audit of branch of a nationalized bank. Saurabh, a CA student, is also part of engagement team conducting statutory branch audit. The field of bank branch audit is new to him and he is following instructions as required by engagement partner.

The engagement partner has asked him to prepare a summary of non-funded credit facilities outstanding as on balance sheet date. The following information is appearing in branch's CBS data/records as on 31st March, 2023:

S. No	Particulars in CBS (Core Banking solution)/records	Amount in crores
1.	Agricultural term loans	15.00
2.	Staff housing loans	3.50
3.	Staff vehicle loans	0.20
4.	Housing loans-General public	10.00
5.	Letters of credit issued	2.50
6.	Education loans	1.50
7.	Guarantees issued (Fully secured by 100% margin)	1.00
8.	Bills purchased and discounted	2.00
9.	Bills for collection	0.10

On going through listing of housing loans to general public, CA B notices that branch has sanctioned many housing loans of small ticket size ranging between 10.00 to 20 lakhs. Therefore, he has assessed risk of material misstatements to be high. As a consequence, he has designed procedures to perform tests of controls as well as substantive tests.

Saurabh has been further asked to go through SMA (Special Mention Accounts) jotting as on 30th November, 2022. Such reports are available from system on monthly frequency. Being new to such type of assignment, he is unable to understand relevance of above audit procedure mandated by engagement partner.

QUESTION- 1



CA B's decision to perform both tests of controls as well as substantive tests was taken after he had assessed risk of material misstatement in financial statements to be high due to large number of small ticket size loans. Which Standard on Auditing deals with auditor's responsibility to design such tests?

- a) SA 500
- b) SA 330
- c) SA 300
- d) SA 315

Answer: (b)

QUESTION- 2



Considering table given in the case scenario, which of the following combinations is appropriate example of non-funded credit facilities provided by branch to its customers?

- a) Bills purchased and discounted; bills for collection
- b) Bills for collection; staff housing loans; letters of credit issued
- c) Bills purchased and discounted; letters of credit issued; guarantees issued (fully secured by 100% margin)
- d) Letters of credit issued, guarantees issued (fully secured by 100% margin)

Answer: (d)



QUESTION- 3

Saurabh is unable to understand relevance of going through SMA jotting as on 30th November, 2022. Which of following statements is most appropriate in this context?

- a) It would necessarily help auditor in identifying accounts with significant lending exposure.
- b) It would help auditor in identifying accounts which may involve downgrading from Sub-standard asset category to doubtful category.
- c) It would help auditor in identifying accounts where substantial recoveries have been received during the year.
- d) It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.

Answer: (d)

CASE STUDY - 4

Pluto Limited is engaged in manufacturing and distribution of ergonomic furniture. Such kind of customisable range home office furniture has gained lot of importance in past few years. The company was able to perform well over the years and the same is reflected in their financials.

During year 2023-24, audit firm of S.J. and Associates was reappointed as their auditor. The engagement team consisted of CA Sinha (partner) and five articled assistants. One of the assistants was new to this engagement. Considering huge volume of transactions, the partner asked him to go through files of last year and auditor's report to gain an understanding of issues which arose in last year le.

2022-23.

While going through summary page of file of last year, he noticed that below points were under discussion with the partner before audit finalisation:

CASE-STUDY BASED QUESTIONS

Point 1: For employee benefit expenses, following points were verified by the

Team:

The employee benefit expenses shown in the books were actually incurred during the relevant period.

The expenses in respect of all personnel were accounted for.

-The expense recognised during year 2022-23 related to this year only.

Point 2: It was noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023. As the dividend related to the year 2022-23, the same was recognised as liability in the same year.

Point 3: Debtors constitute one of the major components of company's financials.

As part of audit procedures, verification was made whether company had made allowance for those debtors which were doubtful. In this regard, list of debtors under litigation was also obtained and scrutinized.

Point 4: Asset additions during the year amounted to 50 lakhs. The payment. In respect of these assets were made through bank account of the company. However, on scrutiny, it was found that some of invoices were not in the name of the company but in name of one of directors.

Point 5: The company was maintaining few bank accounts including one foreign currency account. There was included in previous year file a paper converting foreign currency amount held in a bank account to Indian Rupees at closing exchange rate.

QUESTION- 1



In point 1 relating to Employee benefits, which among the following assertions are discussed respectively (in same order as described in point 1)?

- i. Valuation**
 - ii. Occurrence**
 - iii. Cut-off**
 - iv. Completeness**
- a) (i), (ii) and (iv)**
 - b) (ii), (iv) and (iii)**
 - c) (ii), (iii) and (iv)**

d) (i), (ii) and (iii)

Answer: (b)



QUESTION- 2

Do you think the amount of dividend recognised as liability in the year 2022-23 as given in point 2 appropriate?

- a) Yes. As the amount of dividend related to year 2022-23, it should be recognised in the same year irrespective of the year of declaration.
- b) No. The amount should be recognised equally between two financial years.
- c) No. The amount should not be recognised as liability in year 2022-23. But it needed to be disclosed in the notes to accounts of that year.
- d) No. The amount should not be recognised as liability. Further, no disclosure was needed in the financials of that year.

Answer: (c)



QUESTION- 3

Choose the correct statement from below pertaining to matter described in Point 5.

- a) The company was required to restate said amount in accordance with requirements of AS 1. By verifying it, auditor had verified existence assertion.
- b) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified completeness assertion.
- c) There was no responsibility of company to restate said amount. It was auditor's responsibility to restate said amount in accordance with requirements of AS 11. No assertion was, therefore, verified by auditor.
- d) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified valuation assertion.

Answer: (d)



QUESTION- 4

Read Point 4 and choose which assertion is not proved in this case.

- a) Existence
- b) Rights and obligation
- c) Completeness

d) Measurement/Valuation

Answer: (b)



QUESTION - 5

In relation to matter described in para 3 pertaining to debtors, which of the following assertions was verified by auditors?

- a) Valuation
- b) Rights and obligations
- c) Existence
- d) Completeness

Answer: (a)

CASE STUDY - 5

Watch IT India Private Limited is a company engaged in business of manufacturing smart watches. The company had a slow start in the beginning as company's products were gaining traction with customers. However, momentum has picked up during the year. The company wants to appoint M/s Tripathi & Associates, a CA firm as their auditor for year 2023-24 by replacing their existing auditor's M/s Sreepath and Co. M/s Tripathi & Associates are willing to accept the engagement. They communicated with previous auditors before accepting the engagement.

However, M/s Sreepath and Co. Have failed to respond. CA Kishan, partner of M/s Tripathi & Associates explained to his team members about Importance of Engagement letter. He also arranged a team discussion on matters relating to acceptance of terms of engagement.

First point of consideration was concerning preconditions for an audit. Mr. Arun, a team member could recollect few of them. Those included determining whether financial reporting framework used in the preparation of financial statement is acceptable, management providing auditor with access to all relevant information and additional information upon auditor's request. It was further elaborated by Arun that management has to provide unrestricted access to employees within entity as may be required by auditor for obtaining audit evidence. Team members were asked to list factors that may necessitate revision of Engagement letter in case of recurring audits. Mr. Kumar, another team member replied that revision may be required in cases involving significant change in ownership, recent changes in senior management, change in financial reporting framework adopted in

preparation of financial Statements, modest change in nature or size of the entity's business, change in legal and regulatory requirements etc.

Mr. Ram, one of the team members raised a doubt. He enquired regarding recourse available to incoming auditor in case management makes it clear before acceptance of engagement by auditor regarding its inability in providing support to him in respect of certain procedures expected to be performed during course of audit. In this respect, specific question was raised relating to sending of confirmation requests to material trade payables reflecting in financial statements of a company. Trade payables pertain to material input and input services acquired and utilised by company during the year. Lack of support by management in such a case would, in effect, signify management's refusal to allow auditor to send confirmation requests at the outset before engagement is accepted by auditor.

QUESTION- 1



As regards doubt of Mr. Ram described in last para of case scenario, which of the following statements is likely to be in accordance with Standards on Auditing?

- a) The auditor needs to inquire into management's reasons for the refusal and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- b) The auditor needs to evaluate implications of management's refusal on auditor's assessment of risk of material misstatement and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- c) The auditor should not accept such an engagement.
- d) The auditor needs to evaluate implications of management's refusal on risk of fraud and perform alternative audit procedures to obtain relevant and reliable audit evidence.

Answer: (c)



QUESTION- 2

When CA Kishan, the partner, asked about preconditions for an audit, Mr. Arun could recollect only few of them. Read the passage and find out which among the following points were missed.

- i. Obtaining management responsibility on specific legal aspects governing the organisation.
- ii. Obtaining management responsibility on Standards on Auditing applicable to the organisation.

- iii. **Obtaining management responsibility for the preparation of financial statements as per applicable financial reporting framework.**
 - iv. **Obtaining management responsibility on necessary Internal controls to enable preparation of financial statements which are free from material misstatement whether due to error or fraud.**
- a) (i), (ii) and (iii)
 - b) (ii), (iii) and (iv)
 - c) (iii) and (iv)
 - d) (i) and (iv)

Answer: (c)



QUESTION- 3

Read Point 4 and choose which assertion is not proved in this case.

- a) Existence
- b) Rights and obligation
- c) Completeness
- d) Measurement/Valuation

Answer: (b)



QUESTION- 4

In relation to matter described in para 3 pertaining to debtors, which of the following assertions was verified by auditors?

- a) Valuation
- b) Rights and obligations
- c) Existence
- d) Completeness

Answer: (a)



QUESTION- 5

From what Mr. Kumar replied about the factors requiring a revision of Engagement letter one point was incorrect. Read the passage and find that incorrect factor.

- a) A significant change in ownership
- b) A recent change in management

- c) A change in financial reporting framework adopted in preparation of Financial Statements
- d) A modest change in nature or size of the entity's business

Answer: (d)

CASE STUDY - 6

In accordance with requirements of Standards on Auditing, CA Tina (a freshly qualified professional) wants to obtain sufficient appropriate audit evidence in an audit engagement pertaining to financial statements of a partnership firm for year 2022-23. The firm is trading in FMCG goods. Appointed in May, 2023, she needs evidence to obtain information for arriving at her judgment. Clearly remembering fundamentals that an auditor has to obtain sufficient appropriate audit evidence to draw reasonable conclusions on financial statements, she proceeded in accordance with audit plan prepared by her.

During the year 2022-23, firm was maintaining a current account with a branch of a public sector bank. Her audit plan had included procedure of confirming balance of current account directly from bank. As at 28th March, 2023, the firm had an urgent need to pay its utility bill amounting to 1.00 lacs. However, due to insufficiency of funds, it had requested branch manager to get cheque drawn on utility company cleared. Therefore, balance in current account of firm in books of bank branch stood at 0.92 lacs (Debit). The firm had also issued cheques in evening of 31st March, 2023 in anticipation of funds on next working day i.e. 3rd April, 2023. It had also certain cheques dated 27th March, 2023 from its debtors lying with it which were deposited in afternoon of 31st March, 2023 in bank branch at request of debtors.

Her plan also included performance of certain procedures pertaining to verification of inventories. Inventories of FMCG goods were material to financial statements. Her assistant, Tisha, had her own notion about understanding of sufficient appropriate audit evidence. She further feels that when audit evidence is obtained from available records of an entity, it is known as internal evidence like purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged cartier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law. She is also of the view that audit evidence obtained by auditor is final and conclusive.



QUESTION- 1

Considering matter of verification of inventories, which of following statements is based on facts described in the situation and also in essence of Standards on Auditing?

- a) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. Such evidence may constitute sufficient appropriate audit evidence.
- b) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.
- c) She should verify purchase invoices of Inventory items lying in stocks as at year end. Stock records are not required to be verified. Such evidence is likely to constitute sufficient appropriate audit evidence.
- d) She should verify purchase invoices of Inventory items lying in stocks as at year end. She should attend physical inventory count at year end in above situation Such evidence may constitute sufficient appropriate audit evidence.

Answer: (a)



QUESTION- 2

Identify correct statement on the basis of description provided in case scenario: -

- a) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is final and conclusive.
- b) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is persuasive.
- c) Only debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST Law are examples of internal evidence. Audit evidence obtained by auditor is persuasive.
- d) Only debit notes issued by firm on debtors for GST short charged earlier during the year is an example of internal evidence. Audit evidence obtained by auditor is persuasive

Answer: (c)



QUESTION- 3

As regards matter of balance in current account and related issues is concerned, which of following statements is likely to be most appropriate?

- a) Amount of 0.92 lac is required to be Classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
- b) Amount of 0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.
- c) Amount of 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
- d) Amount of 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.

Answer: (d)

CASE STUDY - 7

DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd. A company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS & Co. Have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them. While formulating audit plan for the

company, CA 1) (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas. The following is extract of financial information of the company:
- (figures in rupees crores)

S. No.	Particulars	Year 2022-23	Year 2021-22
1.	Turnover	30.00	15.00
2.	Inventories	5.00	2.00
3.	Property, plant and equipment (Gross block)	1.25	1.25
4.	Property, plant and equipment (Net block)	1.00	1.25
5.	Gross profit	6.00	3.75
6.	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PFE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.



QUESTION- 1

CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of?

- a) Ratio analysis forming part of substantive analytical procedures
- b) Trend analysis forming part of substantive analytical procedures
- c) Reasonable test forming part of substantive analytical procedures
- d) Structural modelling forming part of substantive analytical procedures

Answer: (b)



QUESTION- 2

CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?

- a) Inspecting and reviewing company's plan for physical verification of PPE
- b) Assessing depreciation method used
- c) Verifying cost of PPE items acquired during the year with purchase bills
- d) Recalculation of depreciation charged in statement of profit and loss

Answer: (c)



QUESTION- 3

Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?

- a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
- b) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.
- c) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.
- d) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.

Answer: (a)



QUESTION- 4

CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of ____?

- a) Ratio analysis forming part of substantive analytical procedures
- b) Trend analysis forming part of substantive analytical procedures
- c) Reasonable test forming part of substantive analytical procedures
- d) Structural modelling forming part of substantive analytical procedures

Answer: (b)



QUESTION- 5

Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?

- a) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
- b) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
- c) The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is low.
- d) The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is high.

Answer: (d)



QUESTION- 6

Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?

- a) SQC 1, SA 220, SA 501, SA 505
- b) SA 550, SA 510, SA 220, SA 610
- c) SA 700, SA 510, SA 220, SA 500
- d) SQC 1, SA 700

Answer: (b)

CASE STUDY - 8

CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is now to him, he wants to gain an understanding about the entity and its

environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard.

He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded. Further, during the course of audit, he has noticed as under: -

As required by the management, bank reconciliation is required to be performed monthly. However, the same is not carried out as stipulated due to time constraints faced by accountant.

The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.

Wage sheets are not verified by a responsible official as required by management.

Staff of the entity is responsible for bringing cash from centres in nearby areas to entity's premises from where it is deposited into entity's bank account. However, concerned officer has not renewed insurance for cash in transit.



QUESTION- 1

Examination and evaluation of internal control is indispensable for CA M. Raja. It provides him necessary comfort relating to completeness of accounting information. However, review of internal controls of the entity will not enable him to know-

- a) whether errors or frauds are likely to be located in ordinary course of operations of business
- b) whether an effective internal audit department is operating
- c) whether his opinion needs modification
- d) whether any administrative control has bearing on his work

Answer: (c)



QUESTION- 2

As regards weaknesses identified by the auditor in control system, which of the following represent(s) significant deficiencies in internal control?

- a) Not performing bank reconciliation timely and not verifying wage sheets by responsible official only

- b) Not performing bank reconciliation timely and lack of proper sequence in purchase orders only
- c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit
- d) Lack of insurance for cash in transit only

Answer: (c)



QUESTION- 3

Which of the following is most appropriate regarding auditor's accordance with SA 265?

- a) To communicate significant deficiencies in internal control to management
- b) To communicate significant deficiencies in internal control along with explanation of their potential effects to management
- c) To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control
- d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management

Answer: (d)



QUESTION- 4

The auditor has performed procedures to obtain audit evidence about design and implementation of controls. Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?

- a) Observing application of control
- b) Inspecting documentation pertaining to control
- c) Inquiry about application of control
- d) Studying design of control

Answer: (a)

CASE STUDY - 9

M/s JJ & associates having office in Chennai are statutory auditors under Companies Act, 2013 of a company viz. Sweet Aroma Private Limited engaged in business of obtaining and manufacturing rice from paddy catering to both domestic as well as international market mainly in Gulf nations. The company has a huge plant capacity for rice extraction in one of the states in Northern India. Needless to state that inventories are in huge quantity in such type of business consisting of raw material, work in progress and finished goods. The auditors want to obtain sufficient. Appropriate audit evidence regarding inventories.

QUESTION- 1



Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit regarding and evidence existence condition inventory?

- a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.
- b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.
- c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis—vis company's plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.
- d) The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis—vis company's plant location is not a valid basis for skipping physical inventory counting.

Answer: (d)



QUESTION- 2

Below certain matters are cluster which given of are relevant in planning attendance of auditor at physical inventory counting. Which of the following consists of an inappropriate combination?

- a) Nature of inventory, timing of physical inventory counting and stages of completion of work in Progress.
- b) Nature of inventory, timing of physical inventory counting and valuation method of inventory.

- c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system.
- d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system.

Answer: (b)



QUESTION- 3

Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?

- a) Observance of performance of managements count procedures, inspection of inventory, performing test counts and evaluation of managements procedures for recording and controlling results of physical inventory counting
- b) Observance of performance of managements count procedures, performing test counts, inspection of inventory and evaluation of managements procedures for recording and controlling results of physical inventory counting
- c) Performing test counts, inspection of inventory, Observance of performance of managements count procedures and evaluation of managements procedures for recording and controlling results of physical inventory counting
- d) Evaluation of managements procedures for recording and controlling results of physical inventory counting, Observance of performance of managements count procedures, inspection of inventory and performing test counts

Answer: (d)



QUESTION- 4

During attendance at physical inventory counting, the auditor inspects inventory. Following outcomes stated as I, II & III are given below of this inspection procedure: -

Outcome I: Existence inventory

Outcome II: Ownership inventory

Outcome III: Condition inventory

Which following statements of is most likely true?

- a) Outcomes I, II and III are all necessarily established after inspection.
- b) Only Outcomes I and III are established after inspection and Outcome II is never established.

- c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.
- d) Outcome II and III are established after inspection. However, outcome I may not be necessarily established.

Answer: (c)



QUESTION- 5

It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/s PQR, a proprietary concern which had sent paddy to this company's plant for extraction of rice. What would be treatment of this item in financial statements of company?

- a) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.
- b) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern.
- c) The value of 67 quintals rice would not be reflected in company's financial statements.
- d) The value of 67 quintals rice would be reflected in proprietary concerns financial statements as per method of valuation adopted by the company

Answer: (c)

CASE STUDY - 10

A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditors of company UV Private Limited. The financial year for which YZ and Associates were to audit books of accounts of UV Private Limited began on 1 April,

2022 and ended on 31 March, 2023. YZ and Associates consisted of four partners namely Mr. Y. Mr. Z, Mr. G and Mr. H.

While auditing books of accounts of UV Private Limited for the period ending on 31 March, 2023, one of the assistant of YZ and Associates namely Mr. A took up

The expenditure part for the purpose of audit. The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. A was unable to understand.

Some of the issues which Mr. A did not understand are mentioned as follows:

- (1) Machinery Insurance expense paid for one year ending on 31.05.2023 has been included in the Insurance Expense for the financial year 2022-23.
- (2) Personal Rent Expense of the son of one of the directors, Mr. T of UV Private Limited has been shown as Rent Expense of business of UV Private Limited.
- (3) Repair and Maintenance Expenses for the months of February 2023 and March 2023 were still outstanding and were not shown in Balance Sheet of UV Private Limited.
- (4) Repair and Maintenance Expenses for the financial year 1 April, 2022 to 31 March, 2023 were very high as compared to financial year 1 April, 2021 to 31 March, 2022. Mr. A asked the appropriate authority about the reasons for such huge differences in amounts of two financial years.



QUESTION- 1

As per point number (1) mentioned in the above case, the Machinery Insurance Expense paid for the months of April 2023 and May, 2023 must be shown in the balance sheet of UV Private Limited as on 31st March, 2023 as:

- a) Outstanding Insurance Expense
- b) Prepaid Insurance Expense
- c) Insurance Expense
- d) Insurance Expense Payable

Answer: (b)



QUESTION- 2

As per point number (2) mentioned above in the case, the Personal Rent Expense of the son of one of the directors Mr. T was added to Rent Expense of business of UV Private Limited. The amount of personal rent expense of the son of the director Mr. T must:

- a) be subtracted from Rent Expense of business of UV Private Limited
- b) remain added to Rent Expense of business of UV Private Limited
- c) be added to Rent Expense of business of UV Private Limited
- d) Subtracted twice from Rent Expense of business of UV Private Limited

Answer: (a)



QUESTION- 3

As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2023 and March 2023 must be shown in the balance sheet of UV Private Limited as on 31 March, 2023 as:

- a) be subtracted from Rent Expense of business of UV Private Limited
- b) remain added to Rent Expense of business of UV Private Limited
- c) be added to Rent Expense of business of UV Private Limited
- d) Subtracted twice from Rent Expense of business of UV Private Limited

Answer: (d)



QUESTION- 4

As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2023 and March 2023 must be shown in the balance sheet of UV Private Limited as on 31 March, 2023 as:

- a) All employees of UV Private Limited
- b) Management of UV Private Limited
- c) Members of UV Private Limited
- d) Any one director of UV Private Limited

Answer: (b)

CASE STUDY - 11

Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2021-22. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India.

Sumant & Co. Is appointed as the principal auditor for the entire group. Companies Act 2013 prescribes in detail the terms of this audit engagement. Further, there are many branch auditors appointed for the outlets in the other cities. The company also has an internal audit function conducted on quarterly basis by Ram & Co. Following are the observations during the course of the statutory audit:

- a) **One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.**
- b) **One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around**

1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share.

- c) The gratuity valuation of the employees of the retail chain is done by an external valuer. The auditor, considering the quantum involved appoints an external auditor's expert for the verification of the actuarial calculation of gratuity.

From the above facts, answer the following questions by choosing the Correct answer:



QUESTION- 1

As per SA 210 Agreeing the Terms of Audit Engagement, which of the following statement is correct?

- a) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.
- b) Since law prescribes in Sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.
- c) The auditor has to take an extract of the law prescribing the details of the terms of the audit engagement and obtain the counter signature of the management in it.
- d) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement, however it need not seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.

Answer: (b)



QUESTION- 2

With respect to the treatment of discount on redemption of points in payback card, what should be the action of the external auditor?

- a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts.
- b) The auditor can place reliance on the managements accounting policy as prima facie they are only responsible for preparation of financial statements.

- c) The external auditor Has sole responsibility for the audit Opinion expressed and hence he Should perform procedures to Satisfy himself on the correct Treatment and issue opinion Accordingly.
- d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditors' opinion has higher authority than external auditors' opinion.

Answer: (c)



QUESTION- 3

What is the main objective of the external auditor, when he uses the work of the internal audit function of Ram & Co.?

- a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.
- b) To appropriately direct, supervise and review the work of the internal audit function
- c) Review the internal audit report and audit the areas not covered by the internal audit function
- d) Enquire from management on the special points that arose during internal audit and follow up on the course of action on those points.

Answer: (a)



QUESTION- 4

The external auditor finds that the branch auditor of the outlet in the Chennai region, which is in the verge of closing down, is audited by an auditor who is not a member of the Institute of Chartered accountants of India. What should the do?

- a) Since the professional competence of the auditor is in question, the external auditor should himself visit the premise and audit the accounts.
- b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.
- c) The auditor can rely on the financial statements of that component by obtaining written representation from management that the branch auditor is otherwise well qualified.
- d) Since the professional competence of the auditor is in question, the external auditor should co-ordinate with the branch auditor and call for the books of accounts and other explanations.

Answer: (b)



QUESTION- 5

Which of these is not a factor affecting the external evaluation objectivity auditors of the internal audit function?

- a) Whether the organizational status of the internal audit function supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgment.
- b) Whether the internal audit function is free of any conflicting responsibilities.
- c) Whether the internal auditors have adequate technical training and proficiency in auditing.
- d) Whether those charged with governance oversee employment decisions related to internal audit function.

Answer: (c)

CASE STUDY - 12

Roop & Co. Are the auditors of Onda group of hotels. This is the first time the firm is auditing an industry in food and beverage and it is day one of the audit. The engagement partner along with his team wants to make a thorough understanding of the entity and its environment in order to identify and assess the risks of material misstatements, whether due to fraud or error. The following are some of the points identified by them on Day 1.

- 1. The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system.**
- 2. The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods receipt note is automatically prepared and approved in the system once the quantity and price of goods is entered against specific vendor. This entry is on real-time basis and system does not allow back dated entries.**
- 3. The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and error. The auditor finds there is no documented risk assessment process.**

With the help of the above facts, answer the following questions by choosing the correct option.



QUESTION- 1

What kind of a risk is portrayed in the booking of revenue with respect Banquet halls?

- a) Inherent risk in the class of transaction
- b) Control risk in the class of transaction
- c) Detection risk in the audit procedures
- d) Audit risk in the opinion on the financial statements.

Answer: (b)



QUESTION- 2

What kind of a risk is portrayed in the booking of revenue with respect Banquet halls?

- a) Inherent risk in the class of transaction
- b) Control risk in the class of transaction
- c) Detection risk in the audit procedures
- d) Audit risk in the opinion on the financial

Answer: (b)



QUESTION- 3

Which among the following statement is incorrect in the context of Audit Risk?

- a) The more extensive the audit procedures performed, the lower is the detection risk
- b) Greater the risk of material misstatement the auditor believes exist, less is the detection risk that can be accepted and accordingly more persuasive evidence is required by the auditor.
- c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.
- d) Risk of material misstatement at the assertion level is of two kinds control risk and inherent risk.

Answer: (c)



QUESTION- 4

In the case of procurement of stores, the auditor has tested more than one control for the same assertion. In that given case, what should be his reliance control?

- a) Since compensating Controls are identified, if tested and evaluated to be effective, the Auditor can rely on the control.
- b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures.
- c) Documentation in electronic medium cannot be accepted, hence, he cannot rely only on system control.
- d) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion as well as associated assertions.

Answer: (a)



QUESTION- 5

In the context of SA 315, which among the following is not a risk assessment procedure?

- a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity
- b) Analytical Procedures
- c) Observation and Inspection
- d) External Confirmation

Answer: (d)



QUESTION- 6

What should be the course of action of the auditor for the entity not having documented a risk assessment process?

- a) The auditor should obtain management written representations on how risks are identified
- b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.
- c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.
- d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial

Answer: (b)