

CA INTER AUDIT

MCQ

BOOK



- ∞ Applicable for May 24 & Onwards.
- ∞ Covered ALL MCQs from New ICAI Study Material
- ∞ All MCQ's from ICAI MCQ book, MTP, RTP are covered
- ∞ Includes 950+ Questions.

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Ravi Sir hai toh
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PREFACE

It gives me immense pleasure in presenting our **CA Inter MCQ Book**.

CA Inter exam paper on “**Auditing and Assurance**” will contain 30 marks of objective based questions.

We have included all MCQs from **New ICAI Study Material, RTPs, MTPs** and systematically arranged it chapter wise and part wise.

This book has the following salient features:

- More than **950** MCQ's issued by ICAI has been included and have been rearranged chapter wise.
- Answers of some of the MCQs by ICAI were not appropriate so we have given author's note explaining correct answer and controversy involve.

From inception to consummation, this project requires dedicated work, deep thinking, and hours of continuous desktop work. My immense gratitude to my parents and family for their continuous support, which encourages me to accomplish my work. We also extend our heartfelt gratitude to the efforts of people for bringing this project into reality. **CA Vaishnavi, CS Rajni, Vaibhav, Kunal, Shivani, Gayatri, Tejashree, Shubhangi** for their support and sincere efforts in publishing this Edition of MCQ Book.

I hope that the students will be immensely benefitted with this book. However, there is always scope for improvement. I will be grateful to the students for their valuable feedback for improvement of this book.

Happy Studying!!!!

CA RAVI TAORI

Special Thanks to Snehal Taori Ma'am for her important contribution in making this book.

For technical & other admin queries contact 9322011915 between 11am to 6pm

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Meaning of different terms used in “MCQ Book”

- **MCQ Numbers**

Numbers are specific to question and will remain as it is in future also. Use these numbers to ask doubts at auditguru.in/discussion point. Examples of numbers used in different sections of the book are as follows:

- ICAI MCQ's – 200.1, 210.1, AAE.1, ICS .1
- Case Study based MCQ's – Incs.1, Incs.2, Incs.3

- **Source of Question**

- **Study Material**

- SM21- Study Material 21
- SM23- Study Material 23

- **For RTP, Mock (Few examples)**

RTP

- M23R - May 23 RTP
- N23R - Nov 23 RTP

Mock

- M23M - May 23 Mock
- N23M - Nov 23 Mock

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CHAPTER 1 NATURE, OBJECTIVE AND SCOPE OF AUDIT**Part 1-Introduction to Audit**

Intro.1	SM23
Which of the following is not an advantage of audit?	
<ul style="list-style-type: none"> a) It provides high quality financial information. b) It acts as a moral check on employees. c) It enhances risk of management bias. d) It helps in safeguarding interests of shareholders. 	

Part 2-Core Audit Process

No Individual MCQ

Part 3-SA Introduction

SAIntro.1	SM23
Which of the following is NOT TRUE about an assurance engagement?	
<ul style="list-style-type: none"> a) It relates to providing assurance about historical financial information only. b) The practitioner obtains sufficient appropriate evidence. c) There is some information to be examined by practitioner. d) A written assurance report in appropriate form is issued by practitioner. 	

SAIntro.2	SM23
Which of the following is TRUE about Engagement Standards?	
<ul style="list-style-type: none"> a) Engagement standards ensure proper rights to practitioners in course of performance of their duties. b) Engagement standards ensure preparation and presentation of financial statements in a standardized manner. c) Engagement standards ensure uniformity by practitioners in course of performance of their duties. d) Engagement standards ensure savings in resources of clients. 	

SAIntro.3	SM23
Consider following statements in relation to "Limited assurance engagement":-	
Statement I - It involves obtaining sufficient appropriate evidence to draw reasonable conclusions.	
Statement II - Review of interim financial information of a company is an example of limited assurance engagement.	
<ul style="list-style-type: none"> a) Statement I is correct. Statement II is incorrect. b) Both Statements I and II are correct. c) Both Statements I and II are incorrect. d) Statement I is incorrect. Statement II is correct. 	

SAIntro.4	SM23
Which of the following is TRUE about Standards on auditing?	
<ul style="list-style-type: none"> a) These deal mainly with voluntary responsibilities of auditors. b) These deal mainly with mandatory responsibilities of auditors. c) Their sole purpose is to help government authorities in augmenting revenues. d) These deal mainly in carrying out audit according to legal provisions. 	

Part 4-SA 200

200.1	M19M
	The matter of difficulty, time, or cost involved is:
	<ul style="list-style-type: none"> a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative. b) in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative. c) not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists. d) not in itself a valid basis for the auditor to omit an audit procedure.
200.2	SM21
	As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", _____ is obtained when the auditor has obtained sufficient 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.
	<ul style="list-style-type: none"> a) absolute assurance b) limited assurance c) reasonable assurance d) reasonable or absolute assurance
200.4	SM21
	As per SA-200 "Overall Objectives of the Independent Auditor", in conducting an audit of financial statements, the overall objectives of the auditor are:
	<ul style="list-style-type: none"> a) To obtain reasonable assurance b) To report on the financial statements c) Both (a) and (b) above d) none of the above
200.5	N19M
	Professional skepticism is necessary to the critical assessment of
	<ul style="list-style-type: none"> a) audit documentation b) audit evidence. c) audit procedures d) All of the above
200.6	SM21
	In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.
	<ul style="list-style-type: none"> a) reasonable assurance b) absolute assurance c) Limited assurance d) None of the above
200.7	SM21
	(IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements:
	<ul style="list-style-type: none"> a) Integrity; b) Objectivity; c) Professional competence and due care;

	d) All of the above
200.9	SM21
	The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.
	<ul style="list-style-type: none"> a) Objectivity b) Independence c) Confidentiality d) Integrity
200.11	SM21
	(IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principle of professional ethics relevant to the auditor when conducting an audit of financial statements:
	<ul style="list-style-type: none"> a) professional judgement; b) professional scepticism; c) professional intelligence d) Professional competence and due care.
200.12	SM21
	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:
	<ul style="list-style-type: none"> 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.
200.14	SM21
	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:
	<ul style="list-style-type: none"> a) Simple. b) Material. c) Easy. d) Competent.
200.16	SM21/M23M
	Which of the following is Incorrect:
	<ul style="list-style-type: none"> a) An auditor conducting an audit in accordance with SAs is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. b) As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable 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. c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud

200.17	SM21/M22M
	Which of the following is the responsibility of the auditor:
	<ul style="list-style-type: none"> 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.
200.18	N21M
	The Firm R K & 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?
	<ul style="list-style-type: none"> a) Integrity b) Professional Competence and due care c) Professional Skepticism d) Professional behaviour
200.19	N22R
	An auditor signs a false audit report knowingly. Which of the following fundamental principles of professional ethics is violated in such a case?
	<ul style="list-style-type: none"> a) Objectivity b) Integrity c) Professional Competence and due care d) Professional behaviour
200.20	M22M/N22M
	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.
	<ul style="list-style-type: none"> a) Inherent, unavoidable b) Inherent, complete c) Management, unavoidable d) Regulatory, control
200.21	M23M
	With respect to auditing, which of the following statement is correct:
	<ul style="list-style-type: none"> a) Audited financial statements are absolutely free from all material misstatement due to fraud or error. b) An audit is an official investigation into alleged wrongdoing and auditor has specific legal powers to conduct investigation. c) The auditor can obtain only a reasonable assurance about whether the financial statement as a whole are free from material misstatement and report on it. d) An auditor's opinion is an assurance as the future viability of the enterprise or the efficiency or effectiveness of the management.
200.22	SM23
	Professional skepticism includes-
	<ul style="list-style-type: none"> a) Overlooking unusual circumstances. b) Using inappropriate assumptions in determining extent of audit procedures.

- c) Over generalising when drawing conclusions from audit observations.
d) Being vigilant to conditions that might indicate possibilities of fraud.

Part 5-Other Concepts

CIA.1	SM21
	_____ 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.
	<ul style="list-style-type: none"> a) Auditing b) Taxation c) Finance d) Taxation and Finance both
CIA.2	M19M/N23R
	_____ are self-evident and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.
	<ul style="list-style-type: none"> a) Familiarity threats b) Self-interest threats c) Advocacy threats d) Intimidation threats
CIA.4	SM21
	#Unique
	No business or institution can effectively carry on its activities without the help of proper _____
	<ul style="list-style-type: none"> a) Audit b) Records and accounts c) neither (a) nor (b) d) both (a) and (b)
CIA.6	M20M
	Direct financial interest or materially significant indirect financial interest in a client is an example of
	<ul style="list-style-type: none"> a) Self-review threats b) Self-interest threats c) Advocacy threats d) Intimidation threats
CIA.9	SM21
	#Unique
	The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as:
	<ul style="list-style-type: none"> a) Self-revealing errors. b) Intentional errors c) Concealed errors d) Unconcealed errors.
CIA.10	SM21
	#Unique
	When credit purchases of ` 5,100 is recorded on credit side and credit sales of ` 5,100 is recorded on debit side, this kind of error is called_____.
	<ul style="list-style-type: none"> a) Error of omission b) Compensating error

	c) Error of principle d) Error of commission
CIA.11	N21R/M21M
 is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism.
	a) Familiarity threat b) Advocacy threat c) Self Review threat d) Intimidation threat
CIA.12	M22R
 is the threat which occurs when the auditor promotes, or is perceived to promote, a client's opinion to a point where people may believe that objectivity is getting compromised
	a) Familiarity threat b) Advocacy threat c) Self Review threat d) Intimidation threat
CIA.13	N22M/M23M/N23R
	Mr. A, auditor and Mr. B, Finance Manager of XYZ Pvt Ltd are friends. Mr. A prepares the audit report according to the wishes and directions of Mr. B. In this situation which essential quality of the auditor has been compromised:
	a) Professional Competence b) Independence c) Professional Skepticism d) Due care
CIA.14	N23M
	Which of following is not a threat to independence of auditor?
	a) Self-interest threats b) Self- review threats c) Advocacy threats d) Peer group threats

**Part 1-
Introduction to
Audit**

CIA.12	b
CIA.13	b
CIA.14	d

Intro.1	c
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**Part 3-SA
Introduction**

SAIntro.1	a
SAIntro.2	c
SAIntro.3	d
SAIntro.4	B

SA 200 Series

200.1	a
200.2	c
200.4	c
200.5	b
200.6	a
200.7	d
200.9	b
200.11	d
200.12	b
200.14	b
200.16	a
200.17	c
200.18	C
200.19	B
200.20	A
200.21	c
200.22	d

Other Concepts

CIA.1	a
CIA.2	a
CIA.4	b
CIA.6	b
CIA.9	a
CIA.10	b
CIA.11	d

CHAPTER 2 AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME**Part 1-SA 300**

300.1	SM21
	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.
	<ul style="list-style-type: none"> a) audit strategy b) audit plan c) audit plan and audit strategy d) audit note book
300.2	M19M/SM21
	When planning the audit,
	<ul style="list-style-type: none"> a) the auditor considers what would make the financial information materially misstated. b) the auditor need not consider what would make the financial information materially misstated. c) the auditor need not consider what would make the financial information materially misstated at planning stage d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only
300.4	N19M
	According to SA 300,
	<ul style="list-style-type: none"> a) planning is not a continual and iterative phase of an audit, but rather a discrete process b) planning is not a discrete phase of an audit, but rather a continual and iterative process c) planning is not continual and iterative process d) planning is not a discrete phase of an audit
300.5	N19M/SM21
	Planning an audit involves
	<ul style="list-style-type: none"> 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.
300.6	SM21
	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:
	<ul style="list-style-type: none"> a) continuous b) discreet c) neither continuous nor discreet
300.7	SM21
	The audit plan is _____ detailed than the overall audit strategy
	<ul style="list-style-type: none"> a) Less b) More c) Equal

300.8	SM21
	<p>a) the nature, timing, and extent of planned risk assessment procedure</p> <p>b) The nature, timing, and extent of planned further audit procedures at the assertion level.</p> <p>c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.</p> <p>d) All of the above.</p>
300.9	SM21/M23M
	<p>The overall audit strategy and the audit plan remain the _____ responsibility.</p> <p>a) auditor's</p> <p>b) management's</p> <p>c) those charge with governance's</p> <p>d) All of the above</p>
300.10	M19M/SM21
	<p>With reference to SA 300, the auditor shall document:</p> <p>a) The overall audit strategy</p> <p>b) The audit plan</p> <p>c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.</p> <p>d) All of the above</p>
300.11	M20M
	<p>The auditor shall update and change _____ as necessary during the course of the audit.</p> <p>a) overall strategy</p> <p>b) the overall audit strategy and the audit plan</p> <p>c) audit plan</p> <p>d) audit program</p>
300.12	SM21
	<p>. sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p> <p>a) Audit Programme</p> <p>b) Overall Audit Strategy</p> <p>c) Completion Memorandum</p> <p>d) Audit Plan</p>
300.14	SM21
	<p>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.</p> <p>Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.</p> <p>a) only Statement 1 is correct</p> <p>b) Only Statement 2 is correct</p> <p>c) Both Statements 1 & 2 are correct</p> <p>d) Both Statements 1 & 2 are incorrect</p>

300.15	SM21
	Which of the following is correct :
	<ul style="list-style-type: none"> 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.
300.16	SM21
	which of the following is not addressed by the overall audit strategy :
	<ul style="list-style-type: none"> a) scope of the audit b) timing of the audit c) direction of the audit d) monitoring of the audit
300.17	SM23
	Which of the following is not considered in planning an audit generally?
	<ul style="list-style-type: none"> a) Understanding of legal and regulatory framework of an entity b) Need to consider determination of materiality c) Evaluating audit evidence d) Need to consider involvement of expert
300.18	SM23
	Which of the following is true about audit plan?
	<ul style="list-style-type: none"> a) Once an audit plan has been finalized for an engagement, changes cannot be made to it. b) Audit plan includes scope, timing and direction of planned risk assessment procedures. c) Changes in audit plan cannot lead to change in audit strategy. d) Audit plan has to be documented by auditor.
300.19	SM23
	Which of the following is most important principle for formulating an audit plan?
	<ul style="list-style-type: none"> a) Gaining knowledge of client's workforce b) Gaining knowledge of client's business c) Gaining knowledge of client's vendors d) Gaining knowledge of tax laws applicable to client

Part 2- Other Concepts

C2OC.1	N21M
	CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here?
	<ul style="list-style-type: none"> a) Static Review b) Mechanical Review c) Periodic Review d) Obsolete Review

C2OC.2	N22R
	Which of the following statements is MOST APPROPRIATE?
	e) Audit programme is a detailed plan of audit strategy. f) Audit programme cannot be reviewed. g) Audit programme is a detailed plan of applying audit procedures. h) Audit programme is relevant for year for which it is prepared, it is useless for subsequent years.
C2OC.3	SM23
	Which of the following is not included in an audit programme normally?
	a) Extent of checking b) Date of checking c) Nature or type of procedure d) Planning of risk assessment process
C2OC.4	SM23
	Which of the following is not an advantage of an audit programme?
	a) It acts as a guide for audit of coming years. b) It fixes responsibility of assistants. c) It serves as a shelter for assistants. d) It serves a proof of work done by auditor.

**Part - SA 300
Series**

300.1	b
300.2	a
300.4	b
300.5	a
300.6	a
300.7	b
300.8	d
300.9	a
300.10	d
300.11	b
300.12	b
300.14	c
300.15	c
300.16	d
300.17	c
300.18	d
300.19	b

Part 2- Other Concepts

C2OC.1	c
C2OC.2	c
C2OC.3	d
C2OC.4	c

CHAPTER 3. RISK ASSESSMENT AND INTERNAL CONTROL**Part 1 - SA 315 Risk**

315.1	SM21 /M19M
	Audit risk is a function of the
	<ul style="list-style-type: none"> a) risks of material misstatement and detection risk. b) audit risk and detection risk. c) control risk and detection risk. d) inherent risk and detection risk.
315.2	M19M/SM21
	Components of risk of material misstatement at the assertion level are:
	<ul style="list-style-type: none"> 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
315.3	M19M/N19M/M21M/N21M/SM21
	Risk of material misstatement may be defined as the risk
	<ul style="list-style-type: none"> 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
315.4	SM21
	The assessment of risks is a
	<ul style="list-style-type: none"> a) matter capable of precise measurement rather than matter of professional judgment b) matter of professional judgement, 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
315.5	N19M/SM21
	The assessment of the risks of material misstatement may be expressed in
	<ul style="list-style-type: none"> 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
315.7	N19R/SM21
	_____ refer 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 risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
	<ul style="list-style-type: none"> a) Audit assessment procedures b) substantive procedures c) test of control d) Risk assessment procedures

315.8	#Unique	M19M / N19M
	_____ 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.	
	<ul style="list-style-type: none"> a) Misstatement b) Error c) Fraud d) Any of the above 	
315.10		SM21
	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.	
	<ul style="list-style-type: none"> a) direct b) Inverse c) no d) none of the above 	
315.12	#Unique	M19M
	One of your junior audit team members is confused with the term 'material misstatement'. You explain him that a material misstatement is untrue information in a financial statement that could affect the financial decisions of one who relies on the statement. Which of the following would constitute material misstatement?	
	<ul style="list-style-type: none"> (1) An error of Rs. 5,000 in relation to assets of Rs.20 lakhs. (2) A payroll fraud of Rs.100 in a company where profit before tax is Rs. 11,000. (3) Non-disclosure of a material uncertainty. (4) Financial statements have been prepared on a going concern basis when the company is in the process of being liquidated. 	
	<ul style="list-style-type: none"> a) 1 and 2 b) 3 and 4 c) 2 and 3 d) 1 and 4 	
315.13		SM21
	Risk of material misstatement has _____ components	
	<ul style="list-style-type: none"> a) one b) two c) three d) four 	
315.15		M19M/N19M/SM21
	SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -	
	<ul style="list-style-type: none"> 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. 	

315.18	M19M
Which of the following is correct:	
<ul style="list-style-type: none"> a) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. b) The auditor is expected to and can reduce audit risk to zero and can therefore obtain absolute assurance. c) The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error. d) The auditor is expected to and can reduce audit risk to zero and can therefore obtain reasonable assurance that the financial statements are free from material misstatement due to fraud or error. 	
315.19	SM21
Which of the following is not an assertion about presentation and disclosure?	
<ul style="list-style-type: none"> a) Occurrence and rights and obligations b) Completeness c) Classification and understandability d) Existence 	
315.20	SM21
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-	
<ul style="list-style-type: none"> a) Control Risk b) Inherent Risk c) Detection Risk d) Audit Risk 	
315.24	SM21
Which assertion is common among the statement of profit and loss and balance sheet captions:	
<ul style="list-style-type: none"> a) Existence b) Valuation c) Completeness d) Measurement 	
315.25	SM21/M23M
Which of the following is incorrect- For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall :	
<ul style="list-style-type: none"> 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 more pervasively to the financial statements as a whole and potentially affect many assertions; c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and d) Not consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement. 	

315.26	M21M															
	The risk that the financial statements are materially misstated prior to audit is called-															
	<ul style="list-style-type: none"> a) Risk of material misstatement b) detection risk c) audit risk d) significant risk 															
315.27	M21M															
 refer to representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.															
	<ul style="list-style-type: none"> a) Assertions b) Positive Confirmation c) Written representation d) Audit Evidence. 															
315.28	M21M															
	Reasonable assurance is a _____ level of assurance															
	<ul style="list-style-type: none"> a) low b) limited c) absolute d) high 															
315.29	N22M															
	<p>Consider the following data appearing in financial statements of a firm: -</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Particulars</th> <th style="text-align: left;">Amount in `</th> <th style="text-align: left;">Amount in `</th> </tr> </thead> <tbody> <tr> <td>Machinery (at cost)</td> <td>XXX 10,00,000</td> <td></td> </tr> <tr> <td>Less: Depreciation of earlier years</td> <td>6,00,000</td> <td>XXX</td> </tr> <tr> <td>Less: Depreciation of year</td> <td>60,000</td> <td>6,60,000</td> </tr> <tr> <td>WDV at end of year</td> <td>XXX 3,40,000</td> <td></td> </tr> </tbody> </table> <p>Read the following statements on basis of above: -</p> <ul style="list-style-type: none"> (i) The firm owns machinery. (ii) The machinery is being utilized in business of firm productively. (iii) The machinery physically exists. <p>Which of following would be obvious assertions on the basis of above data?</p>	Particulars	Amount in `	Amount in `	Machinery (at cost)	XXX 10,00,000		Less: Depreciation of earlier years	6,00,000	XXX	Less: Depreciation of year	60,000	6,60,000	WDV at end of year	XXX 3,40,000	
Particulars	Amount in `	Amount in `														
Machinery (at cost)	XXX 10,00,000															
Less: Depreciation of earlier years	6,00,000	XXX														
Less: Depreciation of year	60,000	6,60,000														
WDV at end of year	XXX 3,40,000															
	<ul style="list-style-type: none"> a) Only assertions (i) and (ii) can be inferred. b) Only assertions (ii) and (iii) can be inferred. c) Only assertions (i) and (iii) can be inferred. d) All assertions (i), (ii) and (iii) can be inferred. 															
315.30	M22M															
	<p>Consider the following statements pertaining to nature and meaning of “assertions”:-</p> <p>Statement I—Assertions are representations by the management which are present in financial statements.</p> <p>Statement II —-The assertions have to be necessarily explicit.</p> <p>Which of the following is correct?</p>															
	<ul style="list-style-type: none"> a) Only Statement I is true. b) Only Statement II is true. c) Both statements I and II are true. d) Both statements I and II are false. 															

315.31	N23M
<p>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 assertions:</p>	
<ul style="list-style-type: none"> a) Occurrence b) Measurement c) Cut-off d) Accuracy 	
315.32	N23M
<p>ABC Ltd is engaged in manufacturing of fabrics from yarn purchased from different suppliers. Occasionally, it also manufactures fabrics tailor made in accordance with requirements of certain mills from yarn received from these mills. ABC Ltd raises bills of its labour charges only on mills for converting yarn into fabrics. The auditor of ABC Ltd tries to ensure that stocks of the company as at year end do not include stocks pertaining to these mills. Which assertion auditor tries to verify in above situation:</p>	
<ul style="list-style-type: none"> a) completeness b) Occurrence c) rights and obligations d) cut -off 	

Part 2 - ICS

INTERNAL CONTROL SYSTEM

ICS.1	M19R
<p>The management of Magoo Ltd. has developed a strong internal control in its accounting system in such a way that the work of one person is reviewed by another. Since no individual employee is allowed to handle a task alone from the beginning to the end, the chances of early detection of frauds and errors are high. CA. Olive has been appointed as an auditor of the company for current Financial Year 2017-18. Before starting the audit, she wants to evaluate the internal control system of Magoo Ltd. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, CA. Olive decided to use internal control questionnaire to know and assimilate the system and evaluate the same. Which of the following questions need not be framed under internal control questionnaire relating to purchases?</p>	
<ul style="list-style-type: none"> a) Are authorized signatories for purchases limited to elected officials? b) Are payments approved only on original invoices? c) Does authorized officials thoroughly review the documents before signing cheques? d) Are monthly bank reconciliations implemented for each and every bank accounts of the company? 	
ICS.2	SM21
<p>#Unique</p> <p>Controls can be related to an assertion _____</p>	
<ul style="list-style-type: none"> a) directly b) indirectly c) directly or indirectly d) none of the above 	
ICS.3	SM21
<p>Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities?</p>	
<ul style="list-style-type: none"> a) Authorization 	

	<ul style="list-style-type: none"> b) Performance reviews. c) Information processing. d) All of the above
ICS.4	N22M
	<p>A company is engaged in manufacturing of wooden furniture. The auditor of company notes that company has identified emerging risks pertaining to probable reduction in demand of company's products due to procurement of imported furniture from South East Asian nations. It has also estimated how significant are those risks and their possibility of happening. Besides, it has also formulated an action plan to deal with the situation, in case these risks materialize. Which of the following options would be most appropriate to describe above situation?</p> <ul style="list-style-type: none"> a) An example of audit risk for auditor b) An example of component of internal control of company c) An example of control risk of company d) An example of inherent risk for auditor
ICS.5	N23M
	<p>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.</p> <ul style="list-style-type: none"> a) Narrative record b) Check List c) Internal Control questionnaire d) Flow chart
ICS.6	N23M
	<p>The term Internal Financial Controls (IFC) basically refers to the policies and procedures put in place by companies for ensuring:</p> <ul style="list-style-type: none"> (i) Reliability of financial reporting (ii) Compliance with applicable laws and regulations (iii) Safeguarding of assets. (iv) Effectiveness and efficiency of operations (v) Prevention and detection of frauds <p>Which statement is correct?</p> <ul style="list-style-type: none"> a) (i), (ii) and (iv) b) (i), (iii) (v) and (ii) c) (i), (ii), (iii) and (iv) d) (i), (ii), (iii), (iv) and (v)
ICS.7	SM23
	<p>Who is responsible for maintaining effective internal financial controls?</p> <ul style="list-style-type: none"> a) Statutory auditor b) Audit Committee c) Management d) Shareholders
ICS.8	SM23
	<p>Which of the following is not a risk to a company's internal control due to its IT environment?</p> <ul style="list-style-type: none"> a) Potential loss of data b) Inability to access data when required c) Unauthorized access to data

	d) Processing of large volumes of data
ICS.9	SM23
	Which of the following is not an objective of a company's policies for ensuring "internal financial controls"?
	<ul style="list-style-type: none"> a) Efficient conduct of business b) Safeguarding of assets c) Prevention and detection of frauds and errors d) Assessing audit risk

Part 3 - SA 320

320.1	M19M/SM21
	Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
	<ul style="list-style-type: none"> a) Independence b) Professional Judgement c) Professional skepticism d) All of the above
320.2	M19M/M21M/SM21
	SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor
	<ul style="list-style-type: none"> 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.
320.3	SM21
	Which of the following is not an example of benchmarks in determining materiality for the Financial Statements as whole:
	<ul style="list-style-type: none"> a) Profit before tax b) total revenue c) audit programme d) total equity
320.4	SM21
	#Unique
	Which of the following is true:
	<ul style="list-style-type: none"> a) The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit. b) The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation. c) In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement. d) All the above

320.5	M21R/N22M
	The concept of materiality is applied by the auditor :
	<ul style="list-style-type: none"> a) in planning and performing the audit b) in evaluating the effect of identified misstatements on the audit c) both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit d) none of the above is correct

320.6	SM23
	Which of the following is true regarding materiality?
	<ul style="list-style-type: none"> a) It is unaffected by nature of an item. b) It is unaffected by requirements of law or regulations. c) It is not a matter of professional judgment. d) It is not always a matter of relative size.

Part 4 - SA 330

330.1	N19R/SM21
	When deviations from controls upon which the auditor intends to rely are detected,
	<ul style="list-style-type: none"> 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

330.2	N19R
	When more persuasive audit evidence is needed regarding the effectiveness of a control,
	<ul style="list-style-type: none"> a) it may be appropriate to increase the extent of testing of the control and reduce the extent of the degree of reliance on controls. b) it may be appropriate to decrease the extent of testing of the control as well as the degree of reliance on controls. c) it may be appropriate to decrease the extent of testing of the control and increase the extent of the degree of reliance on controls. d) it may be appropriate to increase the extent of testing of the control as well as the degree of reliance on controls.

330.3	M20R
	Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures.
	Statement 2: Substantive procedures consist of test of details and analytical procedures.
	<ul style="list-style-type: none"> a) Only Statement 1 is correct b) Only Statement 2 is correct c) Both 1 & 2 are correct d) Both 1 & 2 are incorrect

330.4	SM21
	Because the assessment of the risk of material misstatement takes account of internal control,
	<ul style="list-style-type: none"> 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.
330.5	SM21
	Controls can be related to an assertion.
	<ul style="list-style-type: none"> a) directly b) indirectly c) directly or indirectly d) no relationship between controls and assertion.
330.6	M22M
	In designing and performing test of controls, the auditor shall perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:
	(i) How the controls were applied at relevant times during the period under audit.
	(ii) The consistency with which they were applied.
	(iii) By whom or by what means they were applied.
	Which of the following is correct?
	<ul style="list-style-type: none"> a) (i) and (ii) b) (ii) and (iii) c) (i), (ii) and (iii) d) (i) and (iii)

Part 5 - AUDIT IN AN AUTOMATED ENVIRONMENT

AAE.1	SM21
	#Unique
	Who is mainly responsible for implementation of internal financial controls in a company?
	<ul style="list-style-type: none"> a) Auditors b) Directors c) Employees d) Regulators
AAE.2	SM21
	Which of the following is a General IT control?
	<ul style="list-style-type: none"> a) IT Environment b) Application Control c) Access Security d) IT Dependent Control

AAE.3	SM21
	Which of the following is an automated control?
	<ul style="list-style-type: none"> a) Program change b) System generated report c) Application control d) Configurations
	Author's Note : This question was asked twice, first in Study material 2020 (Answer- Application control) and then in ICAI MCQ book 2021 (Answer-Configurations). There are three types of automated control 1. General IT controls, 2. Application controls, 3. IT Dependent Controls, so correct answer is application controls. Other options are sub parts or examples of automated controls.
AAE.4	M19M/SM21
	#Unique The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?
	<ul style="list-style-type: none"> a) ICAI b) SEBI c) MCA d) RBI
AAE.5	SM21
	_____ are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.
	<ul style="list-style-type: none"> a) Application controls b) General IT controls c) Process controls d) (d) All of these
AAE.6	SM21
	#Unique _____ is a logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.
	<ul style="list-style-type: none"> a) Data Mining b) Data warehouse c) Database d) Data Analytics
AAE.7	SM21
	_____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information:-
	<ul style="list-style-type: none"> a) Computer Assisted Audit Techniques (b) Automated Controls (c) Data Analytics (d) Combination Controls
AAE.8	SM21
	_____ are also known as pervasive or indirect controls :-
	<ul style="list-style-type: none"> a) General IT Controls b) Application Controls c) IT dependent Controls d) None of the above

AAE.9	SM21
	_____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.
	<ul style="list-style-type: none"> a) Application b) IT dependent Controls c) Automated Controls d) General IT Controls
AAE.10	SM21
	Applying _____ gives the most effective and efficient audit evidence while using Audit testing methods.
	<ul style="list-style-type: none"> a) Inquiry in combination with Inspection. b) Inspection in combination with Observation c) Observation in combination with reperformance d) Reperformance in combination with Inquiry
AAE.11	SM21/M23M
	_____ are needed to support the functioning of _____ and both are needed to ensure complete and accurate information processing through IT systems.
	<ul style="list-style-type: none"> a) General IT Controls ; Application Controls b) Application Controls ; General IT Controls c) IT Dependent Controls ; General IT Controls d) Application Controls ; IT Dependent Controls
AAE.12	SM21
	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:
	<ul style="list-style-type: none"> a) Operational Environment. b) Computational Environment. c) Control Environment. d) Automated Environment
AAE.13	SM21
	IT related risks, if not mitigated, may put an impact on
	<ul style="list-style-type: none"> a) Substantive Audit b) Controls c) Reporting d) All of above
AAE.14	SM21
	The Objective of establishing Security Policies and Procedures is to
	<ul style="list-style-type: none"> a) To ensure that production systems are processed to meet financial reporting objectives. b) To ensure that modified systems continue to meet financial reporting objectives c) To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives. d) To ensure that systems are developed, configured, and implemented to meet financial reporting objectives.

AAE.15	SM21
	User Training is an activity related to which of the following General IT Controls ?
	<ul style="list-style-type: none"> a) Data centre and network operations b) Program change c) Access security d) Application system acquisition, development, and maintenance (Business Applications)
AAE.16	SM21
	Which of the following Audit Testing methods give the least audit evidence?
	<ul style="list-style-type: none"> a) Inquiry b) Inspection c) Observation d) Reperformance
AAE.17	SM21
	Which of the following Audit testing methods is most effective as an audit test and gives the best audit evidence?
	<ul style="list-style-type: none"> a) Inquiry b) Observation c) Inspection d) Reperformance
AAE.18	M22R
	A type of super user access to information systems that enforces less or no limits on using that system is known as:
	<ul style="list-style-type: none"> a) Super access. b) Super user access. c) Unlimited access. d) Privileged access
AAE.19	M23R
	Tools and techniques that auditors use in applying the principles of data analytics are known as-
	<ul style="list-style-type: none"> (a) Computer Aided Audit Technique (b) Computer Aided Audit Tools (c) Computer Accounting and Auditing Technique (d) Computer Assisted Audit Technique
AAE.20	N23R
	Which of the following is a risk that arises from the use of IT systems?
	<ul style="list-style-type: none"> (a) Direct data changes (backend changes). (b) Limited/Monitored access. (c) Adequate segregation of duties. (d) Authorized access to data.
AAE.21	SM23
	The operations of a company are automated substantially. Which of the following statements is most appropriate in this respect?
	<ul style="list-style-type: none"> a) It results in complex business environment. b) It results in simple business environment and easier audit. c) Automation has no relationship with complexity of business environment.

	d) It results in simple business environment. However, it increases complexity of audit.
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AAE.22	SM23
Which of the following is not an example of "General IT controls"?	
a) Controls pertaining to Disaster recovery plan	
b) Controls pertaining to batch preparation	
c) Controls pertaining to data security	
d) Controls pertaining to validation of input data in an application	

**Part 1 -
SA 315**

Risk

315.1	a
315.2	b
315.3	c
315.4	b
315.5	a
315.7	d
315.8	a
315.10	b
315.12	b
315.13	b
315.15	c
315.18	a
315.19	d
315.20	b
315.24	c
315.25	d
315.26	a
315.27	a
315.28	d
315.29	d
315.30	a
315.31	a
315.32	c

Part 2 - ICS

ICS.1	d
ICS.2	c
ICS.3	d
ICS.4	b
ICS.5	c
ICS.6	d
ICS.7	c
ICS.8	d
ICS.9	d

SA 320 Series

320.1	b
320.2	b
320.3	c
320.4	d
320.5	C
320.6	d

SA 330 Series

330.1	b
330.2	d
330.3	c
330.4	d
330.5	c
330.6	c

AAE

AAE.1	b
AAE.2	c
AAE.3	c
AAE.4	a
AAE.5	a
AAE.6	c
AAE.7	c
AAE.8	a
AAE.9	b
AAE.10	a
AAE.11	a
AAE.12	d
AAE.13	d
AAE.14	c
AAE.15	b
AAE.16	a
AAE.17	d
AAE.18	D
AAE.19	d
AAE.20	a
AAE.21	a
AAE.22	d

CHAPTER 4- AUDIT EVIDENCE

Part 01-SA 500

500.1	N19M/M19M/SM21/M21M/N21M/M23M/N23M
	Audit evidence includes
	<ul style="list-style-type: none"> 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.
500.2	#Unique N19R/N19M/M22M
	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.
	<ul style="list-style-type: none"> a) cumulative b) regressive c) selective d) objective
500.4	SM21
	Auditor's judgement as to sufficiency may be affected by which factor
	<ul style="list-style-type: none"> a) Materiality b) Risk of material misstatement c) Size and characteristics of the population. d) All of the above
500.5	#Unique M19M/N19M
	Most of the auditor's work in forming the auditor's opinion consists of:
	<ul style="list-style-type: none"> a) obtaining audit evidence. b) evaluating audit evidence. c) obtaining or evaluating audit evidence. d) obtaining and evaluating audit evidence.
500.7	SM21
	Which of the following is not an audit procedure to obtain audit evidence:
	<ul style="list-style-type: none"> a) Inspection b) Observation c) External Confirmation d) None of the above
500.8	M19M
	Which of the following is incorrect:
	<ul style="list-style-type: none"> a) Inquiry consists of seeking information of unknown persons, both financial and non- financial, within the entity or outside the entity b) Inquiry is used extensively throughout the audit in addition to other audit procedures. c) Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process

	d) Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence.
500.11	SM21
	Auditor's judgment as to sufficiency may be affected by the factors such as:
	<ul style="list-style-type: none"> a) Materiality b) Risk of material misstatement c) Size and characteristics of the population. d) All of the above
500.12	M21R/M21M/N21R
	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :
	<ul style="list-style-type: none"> a) management b) Those charged with governance – c) audit committee d) board of directors
500.13	N21R/N22M
	Mr. H and his team members carefully watched the whole process of counting of finished wooden doors by employees of Bottom Limited. This is an example of which audit procedure:
	<ul style="list-style-type: none"> a) External Confirmation. b) Observation. c) Inquiry. d) Inspection.
500.14	M22R
	_____refer 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 risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
	<ul style="list-style-type: none"> a) Internal control assessment procedures b) Risk assessment procedures c) substantive procedures d) analytical procedures
500.15	N22M
	Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures. Statement 2: Substantive procedures consist of test of details and analytical procedures.
	<ul style="list-style-type: none"> a) Only Statement 1 is correct b) Only Statement 2 is correct c) Both 1 & 2 are correct d) Both 1 & 2 are incorrect
500.16	N22M
	CA X, auditor of Green Shoots Private Ltd. is going through financial statements of the company. On perusing notes to accounts, he finds ageing of trade payables reflecting in accordance with requirements of Schedule III of Companies Act, 2013. He wants to be sure that ageing of trade payables forming part of notes of accounts is proper and carries out ageing independently to confirm its veracity. Identify audit procedure(s) being performed by CA X.
	<ul style="list-style-type: none"> a) Analytical procedures

	<ul style="list-style-type: none"> b) Recalculation c) Re-performance d) Observation
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500.17	N23M
<p>While auditing the books of accounts of Mehra Limited for the financial year 2022-23, the auditor of the company used an audit procedure according to which complete documents and records of the company were checked in detail in order to obtain audit evidence. Explain the audit procedure used by the auditor of company.</p>	
<ul style="list-style-type: none"> a) Recalculation b) Analytical Procedures c) Inquiry d) Inspection 	

Part 02-SA 501

501.1	M19R
<p>Coyote Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under the custody of third party). CA. Star, the auditor of the company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Star to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party?</p>	
<ul style="list-style-type: none"> a) Attend third party's physical counting of inventory. b) Arrange for another auditor to attend third party's physical counting of inventory. c) Inspect warehouse receipts regarding inventory held by third parties. d) All of the above. 	

501.2	M19M/SM21
<p>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:</p>	
<ul style="list-style-type: none"> 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 	

Part 03 - SA 505

505.1	M19R
#Unique	
<p>While auditing the accounts of Thought Co. Ltd., CA. Bliss, the auditor of the company came across certain account's payable balances for which direct confirmation procedure needs to be applied. Thus, for the year ending 31st March 2018, he sent positive confirmation requests wherein the trade payables are requested to respond whether or not they are in agreement with the balance shown. The auditor received all the confirmation replies from the trade payables on time as correct except from five of them. What other option the auditor is left with regard to trade payables from which no reply for confirmation requests received?</p>	
<ul style="list-style-type: none"> a) Perform additional testing which may include agreeing the balance to subsequent cash paid 	

	<ul style="list-style-type: none"> b) Accept the balances as it is assuming other replies against received confirmation requests being correct. c) Accept the balances as it is assuming that the trade payables must have replied in case of any discrepancies. d) None of the above.
505.2	<p style="text-align: right;">#Unique N19R</p> <p>A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called-</p> <ul style="list-style-type: none"> a) Negative confirmation request b) Non-response c) Exception d) Positive confirmation request
505.3	<p style="text-align: right;">M19M /M20M/SM21</p> <p>A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request is-</p> <ul style="list-style-type: none"> a) Positive confirmation request b) Non-response c) Exception d) Negative confirmation request
505.4	<p style="text-align: right;">#Unique SM21</p> <p>Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform:</p> <ul style="list-style-type: none"> a) No additional testing b) Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the customer's remittance advice. c) Additional testing including preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these revenue transactions actually occurred. d) Both (b) and (c) <p>Author's Note: Answer given by ICAI is "b" but correct is "d" . In option "c" they want to say that we should trace credit sales transaction which contributed to debtor balance.</p>
505.5	<p style="text-align: right;">SM21</p> <p>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.</p> <ul style="list-style-type: none"> a) Statement 1 is correct b) Statement 2 is correct c) Both 1 & 2 are incorrect d) Both 1 & 2 are correct
505.6	<p style="text-align: right;">SM21</p> <p>Which of the following is not correct?</p> <ul style="list-style-type: none"> a) SA 230- Audit Documentation b) SA 500- Audit Evidence c) SA 505- Written Representation d) SA 560- Subsequent Events

Part 04-SA 510

510.1	M19M/N19R/M20M/SM21
	If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express :
	<ul style="list-style-type: none"> 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
510.2	N19M
	If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,
	<ul style="list-style-type: none"> a) the auditor shall express a qualified opinion in accordance with SA 705. b) the auditor shall express a disclaimer of opinion in accordance with SA 705. c) the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705. d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.

Part 05-SA 520

520.1	SM21
	Analytical procedures issued in the planning stage of an audit, generally:
	<ul style="list-style-type: none"> a) helps to determine the nature, timing and extent of other audit procedures b) directs attention to potential risk areas c) indicates important aspects of business d) All of the above
520.2	M19R
	#Unique
	Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company i.e. rent expense of Rs. 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario?
	<ul style="list-style-type: none"> a) CA. Felix would inspect every single rent invoice per month of Rs. 1,20,000 and verify other elements appropriately. b) CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy. c) CA. Felix would select the first month rent invoice of Rs. 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be Rs. 14,40,000 (i.e., Rs. 1,20,000 * 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation. d) (a) and (b), both.
520.3	N19M/SM21
	#Unique
	Which of the following is not an analytical procedure
	<ul style="list-style-type: none"> 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 procedure

520.4	N19R
Which of the following statement is correct:	
<ul style="list-style-type: none"> a) Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time b) Substantive analytical procedures are generally less applicable to large volumes of transactions that tend to be predictable over time c) Substantive analytical procedures are generally more applicable to small volumes of transactions that tend to be predictable over time d) None of the above 	
520.5	SM21
The basic assumption underlying the use of analytical procedures is:	
<ul style="list-style-type: none"> 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 	
520.6	SM21
What are analytical procedures?	
<ul style="list-style-type: none"> a) Substantive tests designed to assess control risk b) Substantive tests designed to evaluate the validity of management's representation letter c) Substantive tests designed to study relationships between financial and non-financial data d) All of the above 	
520.7	SM21
What is the primary objective of analytical procedures used in the overall review stage of an audit?	
<ul style="list-style-type: none"> a) To help to corroborate the conclusions drawn from individual components of financial statements b) To reduce specific detection risk c) To direct attention to potential risk areas d) To satisfy doubts when questions arise about a client's ability to continue 	
520.8	N19M
Which of the following is correct:	
<ul style="list-style-type: none"> a) Different types of analytical procedures provide different levels of assurance. b) Different types of analytical procedures provide similar levels of assurance. c) Similar type of analytical procedures provide different levels of assurance. d) All are correct 	
520.9	M19M
Which of the following is correct:	
<ul style="list-style-type: none"> a) As per the Standard on Auditing (SA) 520 "Analytical Procedure" 'the term "analytical procedures" means evaluations of financial information through analysis of financial data. b) As per the Standard on Auditing (SA) 520 "Analytical Procedure" 'the term "analytical procedures" means evaluations of financial information through analysis of non-financial data. c) As per the Standard on Auditing (SA) 520 "Analytical Procedure" 'the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. 	

	d) As per the Standard on Auditing (SA) 520 "Analytical Procedure" the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
520.10	(M20R/M22M/N22M)
	Statement I As per the Standard on Auditing (SA) 520 "Analytical Procedures", the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among financial data. Statement II Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.
	a) Only Statement I is correct b) Only Statement II is correct c) Both statements are correct d) Both Statements are incorrect
520.11	(M20R)
	Which of the following is not an example of Analytical Procedures having consideration of comparisons of the entity's financial information?
	a) Comparable information for prior periods. b) Anticipated results of the entity, such as budgets or forecasts, or expectations of the auditor, such as an estimation of depreciation. c) Similar industry information, such as a comparison of the entity's ratio of sales to accounts receivable with industry averages or with other entities of comparable size in the same industry. d) Among elements of financial information that would be expected to conform to a predictable pattern based on the entity's experience, such as gross margin percentages.
520.12	SM21
is the comparison of current data with the prior period balance.
	a) Ratio Analysis b) Trend analysis c) Reasonableness test d) Structural Modelling
520.13	SM21/M22M/M23M
	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
520.14	SM21
	Statement1: 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

520.15	SM21
Substantive Analytical Procedures are generally more applicable to:	
<ul style="list-style-type: none"> a) Large volumes of transactions. b) Transactions predictable over time. c) Both a and b d) None of a and b 	
520.16	SM21
When significant risk had been identified by the auditor, then:	
<ul style="list-style-type: none"> 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 	
520.17	M22M
_____ implies analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.	
<ul style="list-style-type: none"> a) Trend analysis b) Ratio analysis c) Structural modelling d) Account fluctuations analysis 	
520.18	N22M
The auditor of Vishwas Ltd wants to know from you which of the following methods are analytical procedures	
I. Comparison of client and industry data II. Comparison of client data with similar prior period data III. Comparison of client data with client-determined expected results IV. Comparison of client data with auditor-determined expected results	
<ul style="list-style-type: none"> a) I, II and III only b) I &, II only c) III &, IV only d) I, II, III and IV 	

Part 06-SA 530

530.1	SM21
Which of the following is source of Non Sampling risk:	
<ul style="list-style-type: none"> a) Human Mistakes b) Applying audit procedures not appropriate to the objectives of audit c) Misinterpreting the sample results d) All of the above 	
530.3	M19M
It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts:	
<ul style="list-style-type: none"> a) Haphazard sampling b) Monetary Unit Sampling c) Stratified Sampling d) Interval sampling 	

530.4	SM21
	The main advantage of using statistical sampling techniques is that such techniques:
	<ul style="list-style-type: none"> a) Mathematically measure risk b) Eliminate the need for judgmental sampling c) Defines the values of tolerable error d) All of them.
530.5	SM21
	Tolerable error is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit achieved, is directly related to
	<ul style="list-style-type: none"> a) Sample size b) Audit risk c) Materiality d) Expected error
530.6	SM21
	Which of the following factors is (are) considered in determining the sample size for tests of control?
	<ul style="list-style-type: none"> a) Projected error b) Tolerable error c) Expected error d) Both (b) and (c)
530.7	SM21
	Which of the following is more scientific:
	<ul style="list-style-type: none"> a) Statistical b) Non- statistical c) both (a) and (b) d) none of the above
530.8	M19M
	In the case of tests of details
	<ul style="list-style-type: none"> a) the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. b) the projected misstatement is the auditor's best estimate of misstatement in the population c) the anomalous misstatement is the auditor's best estimate of misstatement in the population. d) the projected misstatement plus anomalous misstatement, if any, cannot be the auditor's best estimate of misstatement in the population.
530.9	M19M
	Which of the following is correct:
	<ul style="list-style-type: none"> a) When the projected misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested b) When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested c) When the anomalous misstatement exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested. d) When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample provides a reasonable basis for conclusions about the population that has been tested

530.10	SM21
	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 2018-19 should have three characteristics. These three characteristics are:
	<ul style="list-style-type: none"> a) Simple, Completeness, Relevant. b) Appropriateness, Simple, Relevant. c) Reliable, Simple, Relevant. d) Appropriateness, Completeness, Reliable.
530.11	SM21
	In random Sample, each item of population has
	<ul style="list-style-type: none"> 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 auditor's professional judgement d) All of these
530.12	SM21
	Statistical sampling has the following characteristics
	<ul style="list-style-type: none"> a) Random selection b) Use of Probability theory c) both (a) and (b) d) Judgmental approach.
530.14	SM21/M23M
	The relationship between tolerable error and sample size is
	<ul style="list-style-type: none"> a) Inverse b) Direct c) Close d) There is no relationship.
530.15	M21R
	_____ in which the auditor selects the sample without following a structured technique.
	<ul style="list-style-type: none"> a) Haphazard selection, b) Monetary Unit Sampling c) Block Sampling d) Structured Sampling
530.16	SM23
	Which of the following is not an advantage of statistical sampling?
	<ul style="list-style-type: none"> a) Sample size does not increase in proportion to size of area tested. b) Sample selection is more objective. c) It provides a means of deriving a calculated risk and corresponding precision. d) In case of verifying compliance with specific legal requirements, it is suitable.

Part 07-SA 550

550.1	SM23
An auditor finds during course of an audit that the entity has entered into many related party transactions. Which of the following statements is true?	
<ul style="list-style-type: none"> a) The risk that management may override controls in respect of related party transactions is lower. b) The risk that management may override controls in respect of related party transactions is higher. c) There is no effect on the risk that management may override controls in respect of related party transactions. d) Risk of overriding of controls by management has no relationship at all with related party transactions. 	

Part 08-SA 610

610.1	N22M
CA M is internal auditor of Crayon Products Limited. Which of the following is not TRUE about scope of internal audit?	
<ul style="list-style-type: none"> a) Internal audit is an independent assurance activity. b) Internal audit helps in improving internal control of the company. c) Internal audit cannot review non-financial activities of company. d) Internal audit can review compliance of company with various laws and regulations. 	

610.2	SM23
Which of the following is not one of functions of internal auditor of an organization?	
<ul style="list-style-type: none"> a) Performing assurance activities b) Performing consulting activities to improve governance of organization. c) Performing risk management activities d) Expressing independent opinion on financial statements of organization 	

610.3	SM23
Which of the following is false in relation to audit documentation when an external auditor relies upon work of internal auditor?	
<ul style="list-style-type: none"> a) Evaluation of objectivity and competence of internal auditor has to be documented. b) Nature of work used and reason for relying upon work used forms part of documentation. c) Documentation on whether quality control is exercised in internal audit work forms part of audit documentation. d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation. 	

**Part 1- SA 500
Series**

500.1	b
500.2	a
500.4	d
500.5	d
500.7	d
500.8	a
500.11	d
500.12	b
500.13	b
500.14	b
500.15	c
500.16	c
500.17	d

520.4	a
520.5	b
520.6	c
520.7	a
520.8	a
520.9	c
520.10	b
520.11	d
520.12	b
520.13	a
520.14	d
520.15	c
520.16	d
520.17	a
520.18	d

**Part 2-SA 501
Series**

501.1	d
501.2	d

Part 6 - SA 530

530.1	d
530.3	b
530.4	a
530.5	c
530.6	d
530.7	a
530.8	a
530.9	b
530.10	d
530.11	a
530.12	c
530.14	a
530.15	a
530.16	d

**Part 3 - SA 505
Series**

505.1	a
505.2	b
505.3	d
505.4	b
505.5	c
505.6	c

**Part 4 - SA 510
Series**

510.1	c
510.2	d

Part 7 - SA 550

550.1	b
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Part 5 - SA 520

520.1	d
520.2	c
520.3	a

Part 8- SA 610

610.1	C
610.2	d
610.3	d

CHAPTER 5. AUDIT OF ITEMS OF FINANCIAL STATEMENTS**PART 1 to 5**

AIFS.3	M19R
	<p>While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management?</p> <p>a) If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation. b) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings. c) Goodwill is recognized only when there is a contractual or other legal right for a physical asset which shall not be amortized over the period. d) All of the above.</p>
AIFS.4	SM21
	<p>ABC's investee company-XYZ declares final dividend for financial year 2016-17 in the meeting of board of directors held on April 10, 2017. In which financial year should ABC account for the dividend income:</p> <p>a) Proportionately i.e. considering 10 days of financial year 2017-18 and 355 days of financial year 2016-17 b) Financial year 2016-17 c) Financial year 2017-18 d) Equally between financial year 2016-17 and financial year 2017-18</p>
AIFS.5	SM21
	<p>Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion:</p> <p>a) Rights and obligations b) Existence c) Valuation d) Completeness</p>
AIFS.6	SM21
	<p>During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised:</p> <p>a) Development phase b) Research phase c) None of the above d) Both (a) and (b)</p>
AIFS.7	SM21
	<p>Wages paid to workers would qualify as:</p> <p>a) Revenue expenditure b) Capital expenditure</p>

	c) Revenue or capital expenditure depending upon facts and circumstances. d) None of the above	
AIFS.8	#Unique	SM21
	Which assertion is common among the statement of profit and loss and balance sheet captions:	
	a) Existence b) Valuation c) Completeness d) Measurement	
AIFS.9	#Unique	SM21
	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	
AIFS.10		SM21
	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	
AIFS.11		SM21
	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	
AIFS.12		SM21/M23M
	Cut-off testing is performed during audit of sales to address the following assertion:	
	a) Occurrence b) Measurement c) Cut-off d) All of the above	
AIFS.13		SM21
	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	

AIFS.14	SM21
	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:
	<ul style="list-style-type: none"> a) Existence b) Completeness c) Rights and Obligations d) Valuation
AIFS.15	SM21/M23M
	_____ are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy
	<ul style="list-style-type: none"> a) Contingent Liabilities b) Provision c) Securities Premium Reserve. d) Liabilities
AIFS.18	SM21/M22M/M23R
	Which of the following is not correct:-
	<ul style="list-style-type: none"> a) AS 18 – Related Party Disclosures b) AS 10 – Property, Plant & Equipment c) AS 28 – Impairment of Assets d) AS 16 – Intangible Assets
AIFS.19	SM21
	Which of the following item should not be treated as an asset, as per provisions of Accounting Standard 26 :
	<ul style="list-style-type: none"> a) Computer software b) Internally generated goodwill c) Fishing License d) Brand Names
AIFS.20	M21R
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:-
	<ul style="list-style-type: none"> a) Provisions b) Reserves c) Contingent Liabilities d) Liability
AIFS.21	N21M
	Statement I : A capital reserve cannot be utilised for writing down fictitious assets or losses or (subject to provisions in the Articles) for issuing bonus shares if it is realized.
	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.
	<ul style="list-style-type: none"> a) only Statement I is correct b) only Statement II is correct c) both the statements are correct d) both the statements are incorrect.

AIFS.22	N21M
	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?
	<ul style="list-style-type: none"> 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.
AIFS.23	M21M
	Which of the following is an example of revenue expenditure-
	<ul style="list-style-type: none"> a) Wages on installation of Machinery b) Regular repairs incurred on PPE c) Legal expenses in purchase of land and building d) Freight inwards on purchase of PPE
AIFS.24	M22M
	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:
	<ul style="list-style-type: none"> a) Valuation b) Rights and obligations c) Existence d) Completeness
AIFS.25	N23R
	ABC Limited is engaged in manufacturing of electric two-wheelers. During the year, a customer has gone to court due to incident of fire in battery-operated vehicle. The damages claimed are to tune of ₹ 5 lakhs. The company insists that this incident was due to improper charging of battery and has nothing to do with manufacturing design of vehicle. The company's lawyers advise that it is probable that company is not likely to be held liable. It is likely to be reflected in financial statements of company under _____?
	<ul style="list-style-type: none"> a) Provisions b) Reserves c) Contingent liabilities d) Other current Liabilities
AIFS.26	N23M
	The securities premium account may be applied by the Company for which of the following purpose:
	<ul style="list-style-type: none"> a) payment to creditors for material b) purchase of fixed assets c) repayment of loans d) writing off the preliminary expenses
AIFS.27	SM23
	Sweat Equity shares are issued by a company at a discount or for consideration other than cash to its:-
	<ul style="list-style-type: none"> a) Directors only b) Clients only c) Directors or employees d) Auditors only

AIFS.28	N23M
	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 the following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?
	<ul style="list-style-type: none"> 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
AIFS.29	SM23
	A company auditor receives external confirmation from an entity to whom company has sold goods. The said amount is properly classified in financial statements of company. Which of the following statements is not true in this regard?
	<ul style="list-style-type: none"> a) It shows that said trade receivable exists. b) It shows that said trade receivable is properly valued. c) It shows that company has a right to said trade receivable. d) It shows that amount of said trade receivable has been recorded in proper account.
AIFS.30	SM23
	Which of the following statement is most appropriate as regards to disclosure of goods in transit in financial statements of a company?
	<ul style="list-style-type: none"> a) No separate disclosure of goods in transit is required. b) Disclosure of total goods in transit under head of inventories is required. c) Disclosure of goods in transit under each sub-head of inventories is required. d) Disclosure of goods in transit for raw material and finished goods is required.
AIFS.31	SM23
	Which of the following is not an element of cost of an item of machinery included under head "Property, Plant and Equipment"?
	<ul style="list-style-type: none"> a) Installation costs b) Freight cost of bringing the item to its location c) Inaugural costs d) Employee benefit cost for making such an item suitable for production
AIFS.32	SM23
	Which of the classification is not required by a company in respect of its "Cash and cash equivalents?"
	<ul style="list-style-type: none"> a) Balance with Banks b) Balance with scheduled banks c) Cash on hand d) Cheques on hand
AIFS.33	N23M
	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?

	<ul style="list-style-type: none">a) Tests of Controlsb) Tests of transactionsc) Tests of balancesd) Risk assessment procedures
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AIFS.34	SM23
	<p>An auditor is verifying purchases to ensure their genuineness. Consequently, he is also trying to verify that no fake “trade payables” are present in financial statements. Which assertions concerning purchase transactions and trade payables respectively are being verified by auditor?</p> <ul style="list-style-type: none">a) Occurrence; Existenceb) Occurrence; Completenessc) Existence; Occurrenced) Completeness; Occurrence

AIFS

AIFS.3	a
AIFS.4	c
AIFS.5	b
AIFS.6	b
AIFS.7	c
AIFS.8	c
AIFS.9	d
AIFS.10	d
AIFS.11	a
AIFS.12	c
AIFS.13	d
AIFS.14	b
AIFS.15	b
AIFS.18	d
AIFS.19	b
AIFS.20	c
AIFS.21	b
AIFS.22	c
AIFS.23	b
AIFS.24	a
AIFS.25	c
AIFS.26	d
AIFS.27	c
AIFS.28	b
AIFS.29	b
AIFS.30	c
AIFS.31	c
AIFS.32	b
AIFS.33	b
AIFS.34	a

CH 06. AUDIT DOCUMENTATION**Part 01-SA 230**

230.1	N19M
	_____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
	<ul style="list-style-type: none"> a) Audit documentation b) Audit File c) Audit Notebook d) Completion Memorandum
230.2	SM21/M23M
	_____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
	<ul style="list-style-type: none"> a) Audit Techniques b) Audit evidence. c) Audit Documentation d) None of the above
230.4	M19M/SM21/M21M
	Audit documentation provides:
	<ul style="list-style-type: none"> a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
230.5	M19R
	CA. Bobby is a recently qualified Chartered Accountant. He is appointed as an auditor of Droopy Ltd. for the current Financial Year 2017-18. He is quite conservative in nature which is also replicated in his professional work. CA. Bobby is of the view that he shall record all the matters related to audit, audit procedures to be performed, audit evidence obtained, and conclusions reached. Thus, he maintained a file and recorded each and every of his findings during the audit. His audit file, besides other thing, includes audit programmes, notes reflecting preliminary thinking, letters of confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?
	<ul style="list-style-type: none"> a) Audit programmes. b) Notes reflecting preliminary thinking. c) Letters of confirmation. d) E-mails concerning significant matters.
230.6	N19R
	Judging the significance of a matter require _____ of the facts and circumstances
	<ul style="list-style-type: none"> a) objective analysis b) subjective analysis

	c) Both subjective and objective analysis d) qualitative analysis	
230.9		N19M / M19M/SM21
	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's 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's report. d) The auditor shall not assemble the audit documentation in an audit file	
230.10	#Unique	SM21
	_____ may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.	
	a) Audit File b) Audit evidence c) Completion Memorandum d) both (a) and (b) above	
230.12		N19R
	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 skepticism b) professional integrity c) professional judgment d) Professional sincerity	
230.13		M19M
	Which of the following is not an example of audit documentation:	
	a) Audit programmes b) Summaries of significant matters c) Audit file d) Checklists	
230.14		SM21
	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	
230.15	#Unique	N19M/SM21
	Standard on Quality Control (SQC) 1 provides that,	
	a) unless otherwise specified by law or regulation, audit documentation is the property of the management.	

	<p>b) unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.</p> <p>c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.</p> <p>d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.</p>
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230.20	SM21
	_____ may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
	<p>a) Audit File</p> <p>b) Audit evidence</p> <p>c) Completion Memorandum</p> <p>d) Audit Folder</p>

230.21	SM21/M23M
	CA Vijay is the statutory auditor of XYZ Ltd. for the FY 2020-21. 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?
	<p>a) Sorting, collating & cross referencing of working papers.</p> <p>b) Signing off completion checklists relating to the file assembly process.</p> <p>c) Deleting or discarding superseded documents.</p> <p>d) Recalculation of Depreciation.</p>

230.22	M21M
	As per SQC 1 the retention period for audit engagements ordinarily is no shorter than from the date of the auditor's report.
	<p>a) ten years</p> <p>b) five years</p> <p>c) seven years</p> <p>d) four years</p>

230.23	M22R
	_____ 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
	<p>a) SA 220, audit evidence, six years</p> <p>b) SA 200, audit documentation, seven years</p> <p>c) SQC 1, engagement documentation, seven years</p> <p>d) SA 230, documentation, six years</p>

230.24	M22M
	Judging the significance of a matter requires _____ of the facts and circumstances.
	<p>a) objective analysis</p> <p>b) subjective analysis</p> <p>c) Both subjective and objective analysis</p> <p>d) qualitative analysis</p>

230.25	M23M
	The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-
	<ul style="list-style-type: none"> a) evidence identified during the audit b) the significant matters identified during the audit and how they were addressed c) the significant evidence identified during the audit d) the significant matters identified during the audit
230.26	N23M
	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?
	<ul style="list-style-type: none"> a) E-mail correspondence with CFO of company concerning significant matters b) Audit programme. c) Response to external confirmation requests d) Structural engineer's report on strength of building
230.27	SM23
	Which of the following statement is appropriately suited to preparation of audit documentation?
	<ul style="list-style-type: none"> a) Audit documentation has to be prepared simultaneously as audit progresses. b) Audit documentation has to be prepared 60 days after date of audit report. c) Audit documentation has to be prepared when information is required by regulator. d) Audit documentation has to be prepared 60 days after completion of audit work.
230.28	SM23
	Audit documentation is owned by: -
	<ul style="list-style-type: none"> a) Client b) Auditor c) Team member responsible for documentation d) Regulator
230.29	SM23
	Which of the following is least likely to be included in audit documentation of a company engaged in manufacturing and export of goods?
	<ul style="list-style-type: none"> a) Previous years audited financial statements. b) Projected cash flow statement for next twelve months provided by management in support of going concern assumption. c) Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers. d) Statement showing verification of ageing of trade receivables as on date of balance sheet
230.30	N23M
	Which of the following is not a likely purpose of audit documentation?
	<ul style="list-style-type: none"> 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.

SA 230 Series

230.1	a
230.2	c
230.4	b
230.5	b
230.6	a
230.9	a
230.10	a
230.12	c
230.13	c
230.14	b
230.15	d
230.20	a
230.21	d
230.22	c
230.23	c
230.24	a
230.25	b
230.26	d
230.27	a
230.28	b
230.29	c
230.30	d

CHAPTER 7 COMPLETION & REVIEW**Part 1 - SA 260 -- New Addition**

260.1	N23R/N23M
	The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are:
	<ul style="list-style-type: none"> a) management b) those charged with governance. c) audit committee. d) board of directors

260.2	SM23
	An auditor of a company communicates significant findings from audit with those charged with governance in the company. Which of the statements is false in regard to communication made?
	<ul style="list-style-type: none"> a) Evaluation of adequacy of communication process is required on part of the auditor. b) Planned scope and timing of audit has also to be communicated. c) Communication of rationale behind audit procedures is necessary. d) Significant difficulties encountered during audit, if any, have to be communicated.

Part 2 - SA 265-- New Addition**No Individual MCQ****Part 3 - SA 450-- New Addition**

450.1	SM23
	Which of the following is false regarding communication of misstatements identified during course of an audit?
	<ul style="list-style-type: none"> a) The auditor should request those charged with governance for correction of identified misstatements. b) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is material. c) The auditor should obtain written representation acknowledging management belief that the effect of uncorrected misstatements is immaterial. d) The auditor should communicate effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Part 4 - SA 560

560.1	M19M/SM21/M23M
	The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
	<ul style="list-style-type: none"> a) Discuss the matter with management and, where appropriate, those charged with governance. b) Determine whether the financial statements need amendment. c) Inquire how management intends to address the matter in the financial statements. d) All of the above

560.2	SM23
Which of the following is not an example of subsequent event?	
<ul style="list-style-type: none"> a) Event occurring between date of financial statements and date of auditor's report. b) Event occurring on date of financial statements. c) Event occurring after filing audit report with tax authorities. Had such an event been known earlier, auditor would have amended report. d) Event occurring during course of performing audit procedures after date of financial statements. 	

Part 05-SA 570

570.2	N21M/M22M
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:	
<ul style="list-style-type: none"> 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 	

570.3	N22R
A company is engaged in business of obtaining eggs from one day old chicks. Which of the following is NOT an example of an event or condition that may cast significant doubt on the ability of the company to continue as a going concern?	
<ul style="list-style-type: none"> a) Mortality of 90% of livestock of the company b) Decision by govt to ban commercial rearing of birds amidst protests by activists or preventing cruelty to animals c) Shifting of farm labour to respective villages due to MGNREGA scheme of Govt causing acute scarcity throughout the year d) Increase in cost of feed of chicks by 20% during the year 	

570.4	N23M
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?	
<ul style="list-style-type: none"> 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 	

570.5	SM23
Which of the following is not an example of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?	
<ul style="list-style-type: none"> a) Adverse key financial ratios b) Inability to invest in modernization of plant c) Inability to pay creditors on time d) Inability to pay salary of staff 	

Part 06-SA 580

580.2	M19M
	Which of the following is Incorrect:
	<ul style="list-style-type: none">a) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statementsb) Similar to responses to inquiries, written representations are audit evidencec) Written representations are requested from those responsible for the preparation and presentation of the financial statementsd) Written representations provide necessary audit evidence and also, they provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
580.3	SM23
	Written representations are: -
	<ul style="list-style-type: none">a) Necessary audit evidenceb) Sufficient appropriate audit evidencec) Not audit evidenced) Audit evidence depending upon auditor's professional judgment

**Part 1 - SA
260**

260.1	b
260.2	c

**Part 3 - SA
450**

450.1	b
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**Part 4 - SA 560
series**

560.1	d
560.2	b

**Part 5 - SA 570
series**

570.2	d
570.3	d
570.4	d
570.5	b

**Part 6 - SA 580
series**

580.2	d
580.3	a

CHAPTER 08. AUDIT REPORT**Part 1 - SA 700**

700.1	M19R
	<p>CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidence obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?</p> <p>a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p> <p>d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.</p>
700.3	SM21
	<p>SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading:</p> <p>a) Key audit matters</p> <p>b) Basis of opinion</p> <p>c) Date</p> <p>d) All of the above</p>
700.4	N19M
	<p>An Audit report is:</p> <p>a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.</p> <p>b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent.</p> <p>c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.</p> <p>d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent.</p>

700.7	SM21
	The opinion section of the auditor's report shall:
	<ul style="list-style-type: none"> a) Identify the entity whose financial statements have been audited; b) State that the financial statements have been audited; c) Identify the title of each statement comprising the financial statements; d) All of the above
700.8	N19M
	Which of the following is not a Specific Evaluation by the Auditor:
	<ul style="list-style-type: none"> a) The financial statements adequately disclose the significant accounting policies selected and applied; b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate; c) The accounting estimates made by management are reasonable; d) The sufficient appropriate audit evidence has been obtained;
700.9	N22M
	Which of the following is FALSE regarding UDIN? (Unique document identification number)
	<ul style="list-style-type: none"> a) It is to be generated on UDIN portal. b) Its basic objective is to help ICAI in keeping and maintaining an online registry of different services provided by all of its members. c) It has to be generated and stated for each audit report signed by a Chartered Accountant. d) It has to be generated and stated for each certificate signed by a Chartered Accountant.
700.10	N23M
	Which of following is not an element of audit report in accordance with SA 700?
	<ul style="list-style-type: none"> a) Title b) Addressee c) Audit strategy d) Auditor's opinion
700.11	N23M
	UDIN (Unique Document Identification Number) is required to be stated by practising Chartered Accountant on: -
	<ul style="list-style-type: none"> a) Each audit report only b) Each audit report and each certificate c) Each audit report issued under Companies Act, 2013 only d) Each audit report issued under Companies Act, 2013 only and each certificate
700.12	SM23
	While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?
	<ul style="list-style-type: none"> a) present fairly in all material respects b) give a true and fair view c) with the foregoing explanation d) All of the above

Part 2 - SA 701

701.1	#Unique	M19M
	Which of the following is incorrect:	
	<ul style="list-style-type: none"> a) Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised); c) Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised) 	
701.2		SM23
	<p>Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.</p> <p>Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.</p>	
	<ul style="list-style-type: none"> a) Only Statement 1 is correct b) Only Statement 2 is correct c) Both the statements are correct d) None of the statement is correct 	

Part 3 - SA 705

705.2		N19M
	A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue–	
	<ul style="list-style-type: none"> a) a qualified opinion b) an adverse opinion c) a disclaimer of opinion d) emphasis of matter paragraph. 	
705.5		SM21
	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.	
	<ul style="list-style-type: none"> a) Adverse b) Qualified c) Disclaimer d) None of the above 	
705.6		SM21
	Which of the following is not a type of modified opinion:	
	<ul style="list-style-type: none"> a) qualified opinion b) adverse opinion c) disclaimer of opinion 	

	d) None of the above
705.7	M19M
	Which of the following is correct:
	<ul style="list-style-type: none"> a) The auditor shall express a qualified 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. b) The auditor shall express a disclaimer 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. c) The auditor shall express an adverse 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. d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements
705.8	N23M
	An auditor disclaims opinion when _____?
	<ul style="list-style-type: none"> 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.
705.9	SM23
	Which of the following is not correct?
	<ul style="list-style-type: none"> a) SA 700 - Forming an Opinion and Reporting on the Financial Statements b) SA 701- Key Audit Matters in the Independent Auditor's Report c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

[Part 4 - SA 706](#)

706.1	M19M
	Which of the following is correct:
	<ul style="list-style-type: none"> a) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor need not disclose the substantive reasons for the different opinion. b) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706. c) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion

	<p>the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an emphasis of Matter paragraph in accordance with SA 706.</p> <p>d) When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph or emphasis of matter paragraph in accordance with SA 706.</p>
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706.2	SM23
	<p>..... is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.</p> <p>a) Emphasis of Matter Paragraph b) Other Matter Paragraph c) Key Audit Matter d) Management Responsibility Paragraph.</p>

Part 5 - SA 710

No MCQ's in SA 710

Part 6 - Provisions of Companies Act

CA1.9	M19M
	<p>In case of a fraud involving less than Rs. 1 crore, the auditor shall</p> <p>a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed. b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed. c) report the matter to the Board within such time and in such manner as prescribed. d) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.</p>

CA1.18	N19M
	<p>Which of the following is not a duty of auditor to report under section 143 (1)</p> <p>a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members; b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company; c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company; d) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;</p>

CA 1.27	SM21
	<p>Reporting on fraud is made by auditor to Central Government in statement in the form</p> <p>a) ADT – 1 b) ADT – 2 c) ADT – 3</p>

	d) ADT - 4	
CA 1.28		SM21
	Reporting on fraud is to be made by an auditor to Central Government when fraud amount is	
	a) Exceeding ` 10 lakh b) Exceeding ` 50 lakh c) Exceeding ` 1 crore d) ` 1 crore or above	
CA 1.32	#Unique	SM21
	The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?	
	a) ICAI b) SEBI c) MCA d) RBI	
CA 1.35		SM21
	Who is mainly responsible for implementation of internal financial controls in a company?	
	a) Auditors b) Directors c) Employees d) Regulators	
CA 1.36		N21M
	M/s PQR & Associates is appointed as the new auditors of M/s Prince Ltd. On conducting the audit, the firm found that the accountant has entered fake invoices of credit purchases in the books of accounts aggregated of ₹ 75 Lakhs and cleared all the payments to the fake creditor.	
	The auditor M/s PQR & Associates should report such fraud to :	
	a) Central Government b) Reserve Bank of India c) Board of Directors/Audit Committee d) Comptroller & Auditor General	

Part 7 – CARO

CARO.1		M19R												
	Eeyore Pvt. Ltd. is incorporated on 1st July 2017. During the Financial Year ending on 31st March 2018, the company did not opt for any borrowing at any point of time and have a total revenue of Rs. 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus-													
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Particulars</th> <th style="text-align: center;">Amount (in Rs)</th> </tr> </thead> <tbody> <tr> <td colspan="2">Paid-up Capital</td> </tr> <tr> <td>-Consideration received in cash for equity shares (Including unpaid calls of Rs. 5,00,000)</td> <td style="text-align: right;">40,00,000</td> </tr> <tr> <td>-Consideration received in cash for preference shares</td> <td style="text-align: right;">25,00,000</td> </tr> <tr> <td>-Bonus shares allotted</td> <td style="text-align: right;">7,00,000</td> </tr> <tr> <td>-Share application money received pending allotment</td> <td style="text-align: right;">10,00,000</td> </tr> </tbody> </table>		Particulars	Amount (in Rs)	Paid-up Capital		-Consideration received in cash for equity shares (Including unpaid calls of Rs. 5,00,000)	40,00,000	-Consideration received in cash for preference shares	25,00,000	-Bonus shares allotted	7,00,000	-Share application money received pending allotment	10,00,000
Particulars	Amount (in Rs)													
Paid-up Capital														
-Consideration received in cash for equity shares (Including unpaid calls of Rs. 5,00,000)	40,00,000													
-Consideration received in cash for preference shares	25,00,000													
-Bonus shares allotted	7,00,000													
-Share application money received pending allotment	10,00,000													

Sub-Total	82,00,000
Reserves & Surplus	
-Balance in Statement of Profit & Loss	15,00,000
-Capital Reserve	10,00,000
Sub-Total	25,00,000
Grand Total	1,07,00,000

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2020, (CARO, 2020) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding Rs. 10 crore during the financial year.

Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2020?

- Reporting under CARO, 2020 shall be applicable as the company is having a paid-up capital and reserves and surplus of Rs. 1.07 crore i.e., more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2020 shall be applicable as the company is having a paid-up capital and reserves and surplus of Rs. 1.02 crore i.e., more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2020 shall not be applicable as the company is having a paid-up capital and reserves and surplus of Rs. 0.92 crore i.e., not more than Rs. 1 crore as on the Balance Sheet date.
- Reporting under CARO, 2020 shall not be applicable as the company is having a paid-up capital and reserves and surplus of Rs. 0.82 crore i.e., not more than Rs. 1 crore as on the Balance Sheet date.

CARO.2	SM21
	Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020
	<ol style="list-style-type: none"> Clause (xi) Clause (xii) Clause (xiii) Clause (xiv)

CARO.3	N22R
	"Letters of credit" and "Foreign bills purchased and discounted" are examples of respectively:
	<ol style="list-style-type: none"> Funded facility and non-funded facility Non-funded facility and funded facility Funded facility and funded facility Non-funded facility and Non-funded facility

CARO.4	N22M
	During the course of audit of a listed company, CA P finds that solar power generating plant capitalized in books for `5.00 crore during the year does not exist. It became known that only bills were arranged and no assets were actually procured. Besides, financial statements also reflect depreciation of `1.50 core on above. The bills of capitalized asset were approved by procurement head. The matter was reported to audit committee by CA P. However, no response was received. Considering above, choose the most appropriate option: -
	<ol style="list-style-type: none"> The matter needs to be reported to MCA in ADT-4. It also requires reporting under CARO,2020. The matter needs to be reported to MCA in ADT-4. It does not require reporting under CARO,2020. The matter need not be reported to MCA. However, it requires reporting under CARO,2020. The matter needs neither reporting to MCA nor under CARO,2020

CARO.5	N23M
	For which of following company, provisions of CARO,2020 would be applicable?
	<ul style="list-style-type: none"> a) Boost Up Training (OPC) Private Limited b) RCI Bank Limited c) PST Industries Limited d) Moon Insurance Limited

CARO.6	N23M
	While reporting under CARO, 2020, it is duty of statutory auditor of company to report: -
	<ul style="list-style-type: none"> a) Fraud of less than ₹ 1 crore committed by officers or employees of company during the year b) Fraud of ₹ 1 crore or more 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

Part 8 - Branch Accounts & SA 600

No Individual MCQ

Part 9 - SA 299

299.1	N19M
	Which of the following is not an advantage Joint Audit:
	<ul style="list-style-type: none"> a) Sharing of expertise. b) General superiority complexes of some auditors. c) Lower workload. d) Displacement of the auditor of the company taken over in a take - over often obviated.

299.2	N21R
	To jointly audit books of accounts of WZ Limited for the financial year 2020-21 two different firms of Chartered Accountants namely MH and Associates and NR and Associates were appointed. MH and Associates and NR and Associates can together be called as:
	<ul style="list-style-type: none"> a) Principal Auditors of WZ Limited. b) Branch Auditors of WZ Limited. c) Individual Auditors of WZ Limited. d) Joint Auditors of WZ Limited.

299.3	M21M
	Which of the following is correct, in case of joint audit, where there is disagreement with regard to the opinion or any matters to be covered by the audit report.
	<ul style="list-style-type: none"> a) The auditors shall express their opinion in separate audit report. b) The audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s). c) Both (a) and (b) are correct d) The auditor who is having a separate opinion is bound by the opinion of the majority of the auditors and needs to issue a common audit report.

299.4	M22M
	. _____ sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
	<ul style="list-style-type: none"> a) Audit Programme

	b) Overall Audit Strategy c) Completion Memorandum d) Audit Plan
299.5	SM23
	Responsibilities of Joint Auditors are governed by:
	a) SA 200 b) SA 229 c) SA 299 d) SA 230

**Part 1 - SA 700
Series**

700.1	a
700.3	d
700.4	c
700.7	d
700.8	d
700.9	b
700.10	c
700.11	b
700.12	c

**Part 6 -
Company
Audit-I**

CA1.9	a
CA1.18	d
CA1.27	d
CA1.28	d
CA1.32	a
CA1.35	b
CA1.36	c

Part 7 -CARO

CARO.1	c
CARO.2	a
CARO.3	b
CARO.4	a
CARO.5	c
CARO.6	d

**Part 2 - SA 701
Series**

701.1	d
701.2	d

**Part 3 - SA 705
Series**

705.2	a
705.5	a
705.6	d
705.7	c
705.8	c
705.9	c

**Part-8
Branch Accounts
& SA 600****Part 9 - SA 299**

299.1	b
299.2	d
299.3	c
299.4	B
299.5	c

**Part 4 - SA 706
Series**

706.1	B
706.2	a

**Part 5 - SA 710
No MCQ's in SA
710**

CHAPTER 09 AUDIT OF DIFFERENT TYPES OF ENTITIES**Part 1 - CO-OPERATIVE SOCIETY**

COP.1	SM21
	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
	<ul style="list-style-type: none"> a) Internal Control Questionnaires b) Audit Supplements c) Audit Memos d) Memorandum reports
COP.2	N21R
	Under section 43(h) of the Central Act, who can frame rules prescribing the books and accounts to be kept by a co-operative society?
	<ul style="list-style-type: none"> a) Central Government b) State Government c) Management Committee of the Society d) Secretary of the Co-operative Society
COP.3	SM23
	The appointment of first auditor of a multi-state cooperative society is made by:-
	<ul style="list-style-type: none"> a) Central Registrar b) Board of society c) Members of society d) Central Government

Part 2 - GOVERNMENT AUDIT

GA.1	SM21/M23R
	_____ 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.
	<ul style="list-style-type: none"> a) Audit against provision of funds b) Propriety audit c) Audit of sanctions d) Audit against rules and orders
GA.2	SM21/M22M
	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
	<ul style="list-style-type: none"> a) President/Governor b) Prime Minister/ Chief Minister c) Union Finance Minister/State Finance Minister d) All of the above

GA.3	SM21
	The C&AG Act gives which of the following power to the C&AG in connection with the performance of his duties-
	<ul style="list-style-type: none"> a) To inspect any office of accounts under the control of the Union or a State Government including office responsible for the creation of the initial or subsidiary accounts. b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places. c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which is his duty to prepare. d) All of the above
GA.4	SM21/M23M
	After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the
	<ul style="list-style-type: none"> a) CAG b) President c) Public Accounts Committee d) Parliament
GA.5	SM21/M23M
	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:
	<ul style="list-style-type: none"> a) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government 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
GA.6	SM21
	While conducting the audit of a local body , the auditor's areas of audit do not include
	<ul style="list-style-type: none"> a) Budgetary Procedure b) Expenditure Control c) Accounting System d) Dispute Resolution
GA.7	N22M
	The office of C&AG conducted audit in state of Gujarat to assess whether system for enforcement of the provisions of the Air (Prevention and Control of Pollution) Act,1981 was efficient and effective. It also evaluated whether various schemes and initiatives taken by state government for abatement for a ir pollution were adequate. Besides, it also assessed adequacy of human resources in State pollution control Board to regulate and monitor air pollution. Which of the following terms best exemplifies such audit carried out by C&AG?
	<ul style="list-style-type: none"> a) Propriety audit b) Audit of sanctions c) Audit against rules and orders d) Performance audit

GA.8	SM23
	The audit of municipal corporation of a large metro city is in progress. Which of the following is not likely an objective of such as audit?
	<ul style="list-style-type: none"> a) To report on the adherence to legal and administrative requirements b) To report on whether value is being fully received for money spent c) To report on the weakness of systems of financial control d) To provide better civic amenities to residents of metro city
GA.9	SM23
	Consider following revenue sources of Union Government.
	(P) Revenues from direct taxes
	(Q) Revenues from Goods and Services Tax
	(R) Revenue from Custom Duties
	(S) Revenue from Excise Duties
	Out of P, Q, R and S, which of the following flow to "Consolidated Fund of India"?
	<ul style="list-style-type: none"> a) P, Q and R b) P, Q and S c) P and Q d) P, Q, R and S

Part 3 - AUDIT OF DIFFERENT TYPES OF ENTITIES

ADE.1	SM21
	While auditing a cinema hall, the auditor needs to verify that-
	<ul style="list-style-type: none"> a) entrance to the cinema-hall during show is only through printed tickets b) tickets are serially numbered and bound into books c) that for advance booking a separate series of tickets is issued d) All of the above
ADE.2	SM21/M22M
	The Auditor of a Sole Proprietor Concern is appointed by
	<ul style="list-style-type: none"> a) CAG b) Bank c) Sole Proprietor himself d) District Administration
ADE.3	SM21
	Every LLP would be required to file annual return in Form with ROC within 60 days of closer of financial year :-
	<ul style="list-style-type: none"> a) Form 11 b) Form 8 c) Form 9 d) Form DPIN
ADE.5	SM23
	"Save Democracy" is an NGO working in cause of promoting democracy and democratic institutions in many countries including India. Its Indian counterpart has received funds from a renowned "Flower Trust" of US. As auditor of NGO, which of the following laws/orders would be relevant to you in context of above information?
	<ul style="list-style-type: none"> a) Income Tax Act, 1961 b) Foreign Contribution Regulation Act, 2010

	c) Companies Act, 2013 d) Orders issued by Ministry of Social Justice and Empowerment
ADE.6	SM23
	An LLP files compliance returns with:-
	a) Registrar of firms & societies b) Central Registrar c) Registrar of Companies d) Local fund audit wing

Part 1 – Co-Operative Society

COP.1	c
COP.2	b
COP.3	b

Part 2 - Govt. Audit

GA.1	a
GA.2	a
GA.3	d
GA.4	c
GA.5	d
GA.6	d
GA.7	d
GA.8	d
GA.9	b

Part 3-ADE

ADE.1	d
ADE.2	c
ADE.3	a
ADE.5	b
ADE.6	c

CHAPTER 10 AUDIT OF BANKS**Part 1 - BANK AUDIT**

BA.1	#Unique	SM21
	Which of the following is fund based advance?	
	<ul style="list-style-type: none"> a) Term loans b) Cash credits, c) Demand Loans d) All of the above 	
BA.2		SM21
	Which of the following is not classification of NPA?	
	<ul style="list-style-type: none"> a) Impaired b) sub standard c) doubtful d) Loss 	
BA.3		SM21
	Regulating body in case of banks is:	
	<ul style="list-style-type: none"> a) SEBI b) IRDA c) RBI d) ICAI 	
BA.4	#Unique	N19M
	Which of the following is correct:	
	<ul style="list-style-type: none"> a) Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a Firm of Chartered Accountants only. b) Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies. c) Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a CAG Auditor only. d) Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a by a person duly qualified under Banking Law. 	
BA.5	#Unique	M19M
	Which of the following is correct in case of Banks:	
	<ul style="list-style-type: none"> a) The policy of income recognition should be subjective. b) The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. c) The policy of income recognition should be objective. d) The policy of income recognition may be objective or subjective. 	

BA.6	M19M
	You are at the planning stage for one of your firm's client XYZ Bank for the year ended 31 March 2018. The bank is a commercial bank that provides a number of products and services to the general public and other segments of the economy in the area of South Mumbai. You are assigned the audit of one of the branches of XYZ Bank. The audit engagement team was called to have a detailed discussion on the following matters. Which one of the following should not be included in the discussion for the audit of banks?
	<ul style="list-style-type: none"> a) Discuss on the error of last year in the application of accounting policies of the bank. b) Discuss on the method of fraud if any perpetrated by the bank employee within particular balances and/or disclosures c) Discuss with the team the appointment and remuneration to be received on this bank audit. d) Discuss the effect of the results of the risk assessment procedures on other aspects to decide the nature, timing and extent of further audit procedures.
BA.7	SM21
	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?
	<ul style="list-style-type: none"> a) Pledge b) Mortgage c) Assignment d) Set-off
BA.8	SM21
	Drawing Power in case of a Consortium advance is computed and allocated to member banks by the
	<ul style="list-style-type: none"> a) Bank members proportionately b) Lead bank c) Borrower d) Reserve Bank of India
BA.9	SM21
	Engagement Team Discussions are usually done at which stage of Bank audit ?
	<ul style="list-style-type: none"> a) Appointment b) Developing an Audit Plan c) Framing an Audit Programme d) Issuing Audit Report
BA.10	SM21/M23M
	In case of Frauds involving amount less than INR 1 crores , the auditor should report to the :-
	<ul style="list-style-type: none"> a) Central Government b) Reserve Bank of India c) Bank's Board/Audit Committee d) Comptroller & Audit General
BA.11	SM21/M23M
	#Unique
	Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Active Scooter for INR 60,000. She is regular in depositing EMI of the Active 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 ?
	<ul style="list-style-type: none"> a) Active Loan b) Personal Loan

	c) Higher of the two d) Both the Active Loan & the Personal Loan	
BA.12		SM21
	The auditor of a nationalised bank is to be appointed by:-	
	a) The Bank concerned through its Board of Directors b) Shareholders in Annual General Meeting c) Comptroller & Auditor General of India d) Ministry of Corporate Affairs	
BA.13		SM21/M23M
	The LFAR is to be submitted before _____ every year	
	a) 30th April b) 31st May c) 30th June d) 30th September	
BA.14		SM21/M23R
	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	
BA.15	#Unique	SM21
	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	
BA.16		M22M
	The auditors should classify Credit card accounts as NPA, if _____ amount due, as mentioned in the credit card statement is not paid fully within _____ days from next statement date.	
	a) Total, 90 b) Minimum, 90 c) Minimum, 30 d) Minimum, 60	
BA.17		M22M
	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)	

BA.18	N22M
	The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank:
	<ul style="list-style-type: none"> a) Letter of Credit b) Term Loan c) Staff Advances d) Cash Credit Limit
BA.19	N22M
	<p>You are part of an engagement team conducting statutory audit of branch of a nationalized bank. It is noticed that branch has sanctioned a cash credit limit for meeting working capital requirements to a proprietary firm. The proprietor has also mortgaged his residential house in the city by depositing title deed with branch. Keeping in view above, consider the following table: -</p> <p>Column X Column Y</p> <p>(1) Stocks of firm (A) Primary Security (2) Residential house (B) Secondary security (3) Mode of security creation for residential house (C) Registered Mortgage (4) Debtors of firm (D) Equitable Mortgage (5) Mode of security creation for stocks and debtors (E) Collateral security (F) Hypothecation</p> <p>Identify the most appropriate combination by matching Column X with Column Y: -</p>
	<ul style="list-style-type: none"> a) 1-A, 2-B,3-D,4-A,5-C b) 1-A,2-E,3-D,4-A,5-F c) 1-A,2-B,3-C,4-B,5-D d) 1-A,2-E,3-D,4-B,5-D
BA.20	N23M
	Which of the following statements is true regarding financial statements of a bank?
	<ul style="list-style-type: none"> (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.
BA.21	SM23
	Which of the following is included in "Interest Earned" in Profit & loss A/c of a bank?
	<ul style="list-style-type: none"> a) Discount on Bills b) Loan Processing fees c) Commission on bills for collection d) Credit Card Fees
BA.22	SM23
	While auditing advances of a bank as statutory auditor, which of the following is not a likely concern of auditor?
	<ul style="list-style-type: none"> a) Appropriate documentation of advances b) Ensuring budgeted targets of advances given by bank management c) Compliance of sanctioned terms and conditions d) Operations in advance accounts

BA.23	SM23
	Any amount due to the bank under any credit facility is 'overdue' if: -
	<ul style="list-style-type: none"> a) it is not paid on the due date fixed by the bank b) it is not paid within 30 days of due date fixed by the bank c) it is not paid within 60 days of due date fixed by the bank d) it is not paid within 90 days of due date fixed by the bank
BA.24	SM23
	Which of the following statement is true regarding appointment of statutory branch auditor of a nationalized bank?
	<ul style="list-style-type: none"> a) The appointment is made by bank acting through its board of directors with prior approval of Central govt. b) The appointment is made by bank acting through its board of directors with prior approval of RBI. c) The appointment is made by bank acting through its board of directors with prior approval of ICAI. d) The appointment is made by shareholders in AGM.
BA.25	SM23
	Identify the correct statement:
	<ul style="list-style-type: none"> a) Income from non-performing assets is recognized on accrual basis b) Income from non-performing assets is never recognized. c) Income from non-performing assets is recognized on basis of actual recovery d) Income from non-performing assets is recognized only when such assets are upgraded to standard assets

**Part 1 –
Bank Audit**

BA.1	d
BA.2	a
BA.3	c
BA.4	b
BA.5	b
BA.6	c
BA.7	c
BA.8	b
BA.9	b
BA.10	c
BA.11	d
BA.12	a
BA.13	c
BA.14	d
BA.15	a
BA.16	b
BA.17	c
BA.18	d
BA.19	b
BA.20	a
BA.21	a
BA.22	b
BA.23	a
BA.24	b
BA.25	c

CHAPTER 11 - Ethics and Terms of Audit Engagements**Part 1-Ethics**

ETH.1	SM23
	Which of the following is not a fundamental principle governing professional ethics?
	<ul style="list-style-type: none"> a) Professional competence and due care b) Integrity c) Objectivity d) Safeguards to independence

Part 2 - SA 210

210.1	N19M
	According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement with:
	<ul style="list-style-type: none"> a) management b) those charged with governance c) management or those charged with governance, as appropriate. d) Audit committee

210.4	N19M
	If law or regulation prescribes in sufficient detail the terms of the audit engagement,
	<ul style="list-style-type: none"> a) the auditor need not record them in a written agreement, except for the fact that such law or regulation applies, and that management acknowledges and understands its responsibilities. b) the auditor need not record them in a written agreement c) the auditor needs to record them in a written agreement d) None of the above

210.6	SM21
	A request from the client for the auditor to change the engagement may result from-
	<ol style="list-style-type: none"> 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 circumstance
	<ul style="list-style-type: none"> a) (1) only b) (1) and (2) c) (1), (2) and (3) d) (1) or (2) or (3)
	Author's Note : ICAI has asked this question twice Once they gave "c" and then "d" as answer. Correct answer "d" as any of the three point can become reason for revision of engagement letter.

210.7	M19M/SM21/M23M
	If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:
	<ul style="list-style-type: none"> a) The original engagement; or any procedures that may have been performed in the original engagement. b) the original engagement; c) any procedures that may have been performed in the original engagement

	d) The original engagement and any procedures that may have been performed in the original engagement.
210.8	SM21/M21M/N21M
	If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
	<ul style="list-style-type: none"> a) Withdraw from the audit engagement where possible under applicable law or regulation; b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators. c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators. d) Withdraw from the audit engagement where possible under applicable law or regulation or determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
210.9	M22M
	The agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:
	<ul style="list-style-type: none"> (i) The objective and scope of the audit of the financial statements; (ii) The responsibilities of the auditor; (iii) The responsibilities of management; (iv) Identification of the applicable financial reporting framework for the preparation of the financial statements; and (v) Reference to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content. <p>Which of the following is correct?</p>
	<ul style="list-style-type: none"> a) (a) (i),(ii),(iii) b) (b) (i),(ii),(iii), (iv), (v) c) (c) (i),(ii), (iv), (v) d) (d) (i),(ii),(iii), (iv)
210.10	N22R
	As per SA-210, preconditions for an audit do not include which of the following?
	<ul style="list-style-type: none"> a) Acceptability of financial reporting framework. b) Responsibility of management regarding preparation of financial statements. c) Making available records to the auditor. d) Integrity of key management personnel.
210.11	SM23
	Which of the following is not necessary to establish preconditions for an audit?
	<ul style="list-style-type: none"> a) Acceptability of financial reporting framework. b) Acknowledgment of cooperation from management in designing audit procedures. c) Acknowledgment from management of providing access to persons within company. d) Acknowledgment of management in understanding its responsibility for preparation of financial statements.

Part 3- SQC-1

SQC.1	SM23
Identify the most appropriate statement in context of SQC 1	
<ul style="list-style-type: none"> a) Assembly of engagement files should be completed in not more than 60 days after date of auditor's report in case of audit engagements. b) Engagement files should be completed before date of auditor's report in case of audit engagements. c) Engagement files should be completed in not more than 60 days after completion of an engagement. d) Engagement files should be completed on date on which audit report is signed in case of audit engagements. 	

Part 4-SA 220

220.9	M21M/M21R/N22M
In relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures is known as :	
<ul style="list-style-type: none"> (a) Monitoring (b) Inspection (c) Subsequent Audit procedures (d) Compliance procedures 	
220.10	SM23
Identify the most appropriate statement: -	
<ul style="list-style-type: none"> a) SA 220 applies at the level of firm. b) SQC 1 is premised on the basis that firm is subject to SA 220. c) SA 220 is premised on the basis that firm is subject to SQC 1. d) SA 220 applies to all engagements. 	

Part 1 - ETHICS

ETH.1	d
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Part 2 - SA 210**Series**

210.1	c
210.4	a
210.6	d
210.7	a
210.8	c
210.9	b
210.10	d
210.11	b

Part 3 - SQC-1

SQC.1	a
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Part 4 - SA 220**Series**

220.9	b
220.10	c

CHAPTER 12 INTEGRATED CASE STUDY MCQ

CASE STUDY MCQs :- Issued by ICAI

1	(M20R)
<p>M/s NSG & Associates have been appointed as auditors of Viaan Ltd. for the financial year 2019-20. The processes, operations, accounting and decisions are carried out by using computers in Viaan Ltd. The auditors understand that there are several aspects that they should consider to determine the level of automation and complexity in the business environment of Viaan Ltd. While planning the audit work, the engagement partners discussed with the audit staff about the various types of controls in the automated environment.</p> <p>The different types of audit tests that can be used in audit of an automated business environment were also discussed within the engagement team. The responsibility regarding the Internal Financial Controls was also discussed in detail. Further the tools and techniques that can be used to deal with the enormous data and information of Viaan Ltd. were briefed to the audit staff by the engagement partners.</p>	
<p>I. Based on the above facts, answer the following: - are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.</p>	
<p>(a) Application Controls (b) IT dependent Controls (c) Automated Controls (d) General IT Controls</p>	
<p>II. Statement 1: Application controls include both manual and automated controls that operate at a business process level. Statement 2: General IT Controls apply to mainframe, miniframe as well as end user environment.</p>	
<p>(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</p>	
<p>III. are also known as pervasive or indirect controls :-</p>	
<p>(a) General IT Controls (b) Application Controls (c) IT dependent Controls (d) None of the above</p>	
<p>IV. Which of the following are not the types of audit tests that can be used in the audit in an automated environment? #Unique</p>	
<p>(a) Observation (b) Inspection (c) Re performance (d) None of the above</p>	
<p>V. is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information: -</p>	
<p>(a) Computer Assisted Audit Techniques (b) Automated Controls (c) Data Analytics (d) None of the above</p>	

2	(M20R)
	<p>M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.</p> <p>Various topics like audit planning, overall audit strategy, audit programme was discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.</p>
	<p>I. Based on the above facts, answer the following:- 1. sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p>
	<p>(a) Audit Programme (b) Overall Audit Strategy (c) Completion Memorandum (d) Audit Plan</p>
	<p>II. 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.</p>
	<p>(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</p>
	<p>III. 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 financial statements as a whole :-</p>
	<p>(a) Benchmark Materiality (b) Materiality in Planning (c) Performance Materiality (d) Materiality.</p>
	<p>IV. Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-</p>
	<p>(a) Total Revenue (b) Profit before tax (c) Net Asset Value (d) None of the above</p>
	<p>V. (i) Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work (ii) Statements are issued by ICAI with a view to secure compliance by members on some matters. (iii) Guidance notes are recommendatory in nature. (iv) Statements are mandatory in nature.</p>
	<p>(a) All the above statements are correct. (b) Statements 1 & 2 are correct (c) Statements 1, 2 & 3 are correct (d) Statements 1,2 & 4 are correct</p>

3	(M20M)
	<ul style="list-style-type: none"> • M/s TPR & Associates have been appointed as the auditors of Octopus Ltd. for the Financial Year 2019-20. • During the course of audit, the auditor notices that there is significant change in the number of debtors of the company. The auditor decided to check the debtors account in detail. • Further the company has made various provisions like the provisions for taxation, provision for bad & doubtful debts. • Also during the current Financial Year, the auditor attended the physical verification of the inventory being carried out by the management. • The auditor notices that there is no substantial change in the bifurcation of amount of items representing the liabilities side of the balance sheet of Octopus Ltd. Still the auditor understands that he needs to check the liability side in detail. • Further the company has also recognised various income like interest income and dividend income which auditor understands need to be checked in detail. • The auditor is of the understanding that certain matters need to be reported under Companies Auditors Report Order (CARO).
	<p>I. Based on the above facts, answer the following:-</p> <p>1.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:-</p>
	<p>(a) Provision (b) Reserve (c) Contingent Liability (d) Liability</p>
	<p>II. Which of the following is not correct with respect to the inventory held by Octopus Limited:-</p> <p>(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 year-end does not include any element of next year</p>
	<p>III. If the management of Octopus Ltd. refuses to allow the auditor, to send the confirmation request to the debtors, the auditor should:-</p> <p>(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.</p>
	<p>IV. Which of the following statements is not true so far as the liabilities of a company are concerned:-</p> <p>(a) Liabilities are the financial obligations of a company including owner's funds. (b) Liabilities include borrowing, trade payable and other current liabilities and provisions. (c) Verification of liabilities is an important as that of assets. (d) All of the above.</p>
	<p>V. 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, the auditor should perform alternate procedures regarding the balances:-</p> <p>(a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect</p>

4	(M20M)
<p>ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2019. The Gross turnover of the company is Rs.105 crores, out of which turnover from one of its product namely coffee is of Rs.95 crores during the immediately preceding Financial Year.</p> <p>During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same need to be reported under the relevant provisions of Companies (Auditors Report) Order 2016.</p> <p>During the FY 2018-2019, Mrs. X wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act 2013.</p> <p>Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act 2013.</p> <p>During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.</p>	
<p>I. Based on the above facts, answer the following:- 1. After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-</p>	
<p>(a) 60 days (b) 30 days (c) 15 days (d) 20 days</p>	
<p>II. If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ & Associates shall take corrective actions within.....days. What is the prescribed limit:-</p>	
<p>(a) 100 days, Market Value Rs 1,00,000 (b) 60 days, Face value Rs 1,00,000 (c) 90 days, Face value Rs 1,00,000 (d) 15 days, Market Value Rs 1,00,000</p>	
<p>III. Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-</p>	
<p>(a) Section 143(12), 1 crore & above (b) Section 139(12), 1 crore & above (c) Section 143(12), 2 crore & above (d) None of the above</p>	
<p>IV. What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-</p>	
<p>(a) Maintenance of cost records is mandatory, in form CRA 1. (b) Maintenance of cost records is mandatory, in form CRA 2. (c) Maintenance of cost records is mandatory, in any general format. (d) No requirement of maintenance of cost records</p>	
<p>V. Under relevant clause of CARO,2016, XYZ & Associates are required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-</p>	
<p>(a) Exceeding 9 months (b) Exceeding 3 months (c) Exceeding 6 months (d) Exceeding 12 months</p>	

5	(N20R)
<p>"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. In above context, answer the following questions: -"</p>	
<p>I. " Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit evidence regarding existence and condition of inventory?</p>	
<p>(a). It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.</p> <p>(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.</p> <p>(c). The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-à-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.</p> <p>(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-à-vis company's plant location is not a valid basis for skipping physical inventory counting."</p>	
<p>II. " Below are given certain cluster of matters which are relevant in planning attendance of auditor at physical inventory counting. Which of the following clusters consists of a likely inappropriate combination?</p>	
<p>(a). Nature of inventory, timing of physical inventory counting and stages of completion of work in progress</p> <p>(b). Nature of inventory, timing of physical inventory counting and valuation method of inventory</p> <p>(c). Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system</p> <p>(d). Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system"</p>	
<p>III. " Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?</p>	
<p>(a). Observance of performance of management's count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting</p> <p>(b). Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting</p> <p>(c). Performing test counts, inspection of inventory, Observance of performance of management's count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting.</p> <p>(d). Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts.</p>	
<p>IV. "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 of inventory Outcome II ---- Ownership of inventory Outcome III ----- Condition of inventory</p> <p>Which of following statements is most likely true?</p>	
<p>(a). Outcomes I, II and III are all necessarily established after inspection.</p> <p>(b). Only Outcomes I and III are established after inspection and Outcome II is never established.</p>	

	<p>(c). Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.</p> <p>(d). Outcome II and III are established after inspection. However, outcome I may not be necessarily established."</p>
	<p>V. " It was observed by auditors that, out of total rice physically counted on 31st March 2020 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?</p> <p>(a). The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.</p> <p>(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.</p> <p>(c). The value of 67 quintals rice would not be reflected in company's financial statements.</p> <p>(d). The value of 67 quintals rice would be reflected in proprietary concern's financial statements as per method of valuation adopted by the company."</p>
6	(N2OR)
	<p>"A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditor 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 2018 and ended on 31 March 2019.</p> <p>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 beginning on 1 April 2018 and ending on 31 March 2019, one of the partners of YZ and Associates namely Mr. H took up the expenses part for the purpose of audit.</p> <p>The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. H as auditor of UV Private Limited was unable to understand. Some of the issues which Mr. H was unable to understand are mentioned as follows:</p> <p>(1) Power and Fuel expenses paid for the months of April 2019 and May 2019 have been included and shown as Power and Fuel expenses for the period beginning 1 April 2018 and ending 31 March 2019.</p> <p>(2) Personal Rent Expenses of the son of one of the director, Mr. T of UV Private Limited have been shown as Rent Expenses of business of UV Private Limited.</p> <p>(3) Repair and Maintenance Expenses for the months of February 2019 and March 2019 were still outstanding and were not shown in Balance Sheet of UV Private Limited.</p> <p>(4) Repair and Maintenance Expenses for the financial year 1 April 2018 to 31 March 2019 were very high as compared to financial year 1 April 2017 to 31 March 2018. The auditor Mr. H asked the appropriate authority about the reasons for such huge differences in amounts of two financial years.</p> <p>(5) While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H.</p> <p>The above mentioned five points were some of the issues which Mr. H was unable to understand. Answer the following questions:"</p>
	<p>I. " As per the point number (1) mentioned in the above case, the Power and Fuel Expenses paid for the months of April 2019 and May 2019 must be shown under asset side of balance sheet of UV Private Limited as on 31 March 2019 as:</p> <p>(a). Outstanding Power and Fuel Expenses</p> <p>(b). Prepaid Power and Fuel Expenses</p> <p>(c). Power and Fuel Expenses</p> <p>(d). Power and Fuel Expenses Payable"</p>
	<p>II. " As per point number (2) mentioned above in the case, the Personal Rent Expenses of the son of one of the director Mr. T were added to Rent Expenses of business of UV Private Limited. The amount of personal rent expenses of the son of the director Mr. T must be:</p>

	<p>(a). Subtracted from Rent Expenses of business of UV Private Limited</p> <p>(b). Remain Added to Rent Expenses of business of UV Private Limited</p> <p>(c). Again Added to Rent Expenses of business of UV Private Limited</p> <p>(d). Subtracted twice from Rent Expenses of business of UV Private Limited"</p>
	<p>III. "As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2019 and March 2019 must be shown under liability side of balance sheet of UV Private Limited as on 31 March 2019 as:</p>
	<p>(a). Prepaid Repair and Maintenance Expenses</p> <p>(b). Repair and Maintenance Expenses</p> <p>(c). Repair and Maintenance Expenses paid in advance</p> <p>(d). Repair and Maintenance Expenses Payable"</p>
	<p>IV. "As per point number (4) mentioned in the case above, the auditor Mr. H asked the appropriate authority for reasons of huge differences in the amount of two financial years of repair and maintenance expenses. By appropriate authority Mr. H was referring to:</p>
	<p>(a). All employees of UV Private Limited</p> <p>(b). Management of UV Private Limited</p> <p>(c). Members of UV Private Limited</p> <p>(d). Any one director of UV Private Limited"</p>
	<p>V. " As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H as:</p>
	<p>(a). Invalid Supporting</p> <p>(b). No Supporting</p> <p>(c). Lack of proper Supporting</p> <p>(d). Valid Supporting"</p>

7	(N20M)
	<p>"Mr Laxman is appointed as statutory auditor of Best Limited for the Financial Year ended 31st March 2020. During the course of audit, it was found that few doubtful transactions had been committed by finance manager who retired in March 2020.</p> <p>The fraud was going on since last 4-5 years and the total amount misappropriated is approximately ₹ 75 lacs. Balance sheet of Best Ltd. reflected a cash balance of ` 7 crores. The company has taken a loan of ` 2 crores from the bank despite of the huge cash balance with the company. Also, Companies Act bestows some duties on auditors to report matters to Central Government in case of fraud.</p> <p>On the basis of above facts answer below questions in relation to Mr Laxman's role and duties while conducting statutory audit of Best Limited."</p>
	<p>I. " Mr Laxman shall obtain _____ that the financial statements are free from fraud and misstatement.</p>
	<p>(a). Absolute assurance</p> <p>(b). Reasonable assurance</p> <p>(c). Management's assurance</p> <p>(d). Chief Financial Officer assurance"</p>
	<p>II. " Mr Laxman suspects that cash payments were inflated. Out of the below which could be probable reason for such inflated cash payments.</p>
	<p>(a). Not accounting for cash sales completely</p> <p>(b). Making payments against purchase vouchers</p> <p>(c). Making payments against inflated vouchers</p> <p>(d). Teeming and Lading"</p>
	<p>III. " As per Section 143 (12) of Companies Act, 2013 & Rule 13 of CAAR, 2014; Mr Laxman shall</p>
	<p>(a). report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.</p>

	<p>(b). report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.</p> <p>(c). report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.</p> <p>(d). report the matter to the Board within such time and in such manner as prescribed."</p>
	<p>IV. " 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.</p>
	<p>(a). Inherent, unavoidable</p> <p>(b). Inherent, complete</p> <p>(c). Management, unavoidable</p> <p>(d). Regulatory, control"</p>
	<p>V. " As an auditor what conclusion can Mr Laxman draw looking at the huge cash reserve of the company and corresponding bank loan? #Unique</p>
	<p>(a). Report this matter to the Central Government u/s 143(12) as there is a possibility of fraud</p> <p>(b). Obtain sufficient and appropriate audit evidence of existence of fraud</p> <p>(c). Report the matter under CARO, 2020</p> <p>(d). There is nothing to report as it's a normal financial decision"</p>

8	<p>"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 2019-20. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India.</p> <p>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:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>From the above facts, answer the following questions by choosing the correct answer:"</p>
	<p>I. " As per SA 210 – Agreeing the Terms of Audit Engagement, which of the following statement is correct?</p>
	<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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</p>

<p>management that it acknowledges and understands that it has responsibility for the preparation of financial statements."</p>
<p>Author's Note : Answer given by ICAI is "d" but correct is "b", As per SA 210 Para 11 of SA 210 "If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies, and that management acknowledges and understands its responsibilities as set out in paragraph 6(b)".</p>
<p>II. " With respect to the treatment of discount on redemption of points in payback card, what should be the action of the external auditor?</p>
<p>(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 management's 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 issue opinion accordingly. (d). The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditor's opinion has higher authority than external auditor's opinion."</p>
<p>Author's Note: Answer given by ICAI is "b", but correct answer is "c". As auditor cannot just blindly rely on management's accounting policy. As per AS 29 & IND AS 115 provision should be made for such reward points.</p>
<p>III. " What is the main objective of the external auditor, when he uses the work of the internal audit function of Ram & Co.?</p>
<p>(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."</p>
<p>Author's Note: Answer given by ICAI is "d", but correct answer is "a" as per SA 610. Option "b" is relevant for taking direct assistance from internal auditor further option "c" and "d" cannot be considered as objective.</p>
<p>IV. " 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 external auditor do? #Unique</p>
<p>(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."</p>
<p>Author's Note: ICAI answer is "c" but correct answer seems "d". Option "c" is incorrect because it talks of using only written representation, further option "a" is the last step if not satisfied with option "d".</p>
<p>V. " Which of these is not a factor affecting the external auditor's evaluation of the objectivity of the internal audit function? #Unique</p>
<p>(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.</p>

	<p>(d). Whether those charged with governance oversee employment decisions related to internal audit function."</p>
<p>9</p>	<p>(M20R)</p>
	<p>"M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.</p> <p>Various topics like audit planning, overall audit strategy, audit programme was discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd. Based on the above facts, answer the following:-"</p>
	<p>I. "sets the scope, timing & direction of the audit and guides the development of the more detailed plan.</p>
	<p>(a). Audit Programme (b). Overall Audit Strategy (c). Completion Memorandum (d). Audit Plan"</p>
	<p>II. " 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.</p>
	<p>(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"</p>
	<p>Author's Note : ICAI answer is "a" but correct answer is "c".</p>
	<p>III. " 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 financial statements as a whole :-</p>
	<p>(a). Benchmark Materiality (b). Materiality in Planning (c). Performance Materiality (d). Materiality."</p>
	<p>Author's Note : ICAI answer is "d" but correct answer is "c" as per SA 320.</p>
	<p>IV. " Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-</p>
	<p>(a). Total Revenue (b). Profit before tax (c). Net Asset Value (d). None of the above"</p>
	<p>Author's Note : All the three options a, b & c are examples of benchmark for materiality as per SA 320. So correct answer is "d" but ICAI has given "b".</p>
	<p>V. (i)Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work. (ii)Statements are issued by ICAI with a view to secure compliance by members on some matters.</p>

	(iii) Guidance notes are recommendatory in nature. (iv) Statements are mandatory in nature.
	(a). All the above statements are correct. (b). Statements 1 & 2 are correct (c). Statements 1, 2 & 3 are correct (d). Statements 1,2 & 4 are correct
	Author's Note: ICAI says "d" is the correct answer, as per this point (iii) will be an incorrect statement but point (iii) is a correct statement. So correct answer is "a".

10	(N20M)
<p>"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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>With the help of the above facts, answer the following questions by choosing the correct option."</p>	
<p>I. " What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?</p> <p>(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."</p>	
<p>II. " Which among the following statement is incorrect in the context of Audit Risk?</p> <p>(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."</p>	
<p>III. " 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 on the control? #Unique</p> <p>(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."</p>	

IV. " In the context of SA 315, which among the following is NOT a risk assessment procedure?
<p>(a). Inquiries of management, of appropriate individuals within internal audit function and of others within the entity</p> <p>(b). Analytical Procedures</p> <p>(c). Observation and Inspection</p> <p>(d). External Confirmation"</p>
V. " What should be the course of action of the auditor for the entity not having a documented risk assessment process? #Unique
<p>(a). The auditor should obtain management written representations on how risks are identified</p> <p>(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.</p> <p>(c). The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.</p> <p>(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."</p>

INCS – 11 & 12 are deleted as they are not relevant, ignore their reference

13	<p>"XYZ Ltd. is a company engaged in the development of computer hardware. The company has purchased a software namely Zenith X in the current financial year i.e. FY 2019-20. This software will be used by XYZ Ltd. for the production of various hardware.</p> <p>M/s. ABC & Associates are working as the auditors of XYZ Ltd. since Financial Year 2017-2018. Since XYZ Ltd. has purchased the software during the current Financial Year, the auditors are of the understanding that there are certain requirements that the company should follow as per relevant provisions applicable in this case. Also, the auditors had advised their audit staff to give special consideration to the expenditure being capitalized during the year and those which are charged to revenue during the current financial year.</p> <p>The auditors, M/s ABC & Associated have directed their audit staff to check the following in detail:</p> <ul style="list-style-type: none"> • the provisions relating to the depreciation and amortisation of assets and intangible assets and • the applicability of various Accounting Standards applicable to the entity. <p>Based on the above facts, answer the following:-"</p>
I. " Which of the following expenses should not be charged to revenue by XYZ Ltd.:-	<p>(a). Printing & Stationary</p> <p>(b). Power & Fuel</p> <p>(c). Salary & Wages of employees engaged directly or indirectly in production.</p> <p>(d). Major repairs of fixed assets that increases its productivity."</p>
II. " XYZ Ltd. should recognize Zenith X software as intangible, if such software.....:-	<p>(a). Is held for use in production or supply of goods or services</p> <p>(b). Is held for administrative purpose</p> <p>(c). Is held for rental to others</p> <p>(d). All of the above"</p>
III. " In case any intangible asset is not in active use by the entity , the auditor should check whether:-	<p>(a). The deletion with respect to the intangible asset has been recorded in the books of accounts post approval by the entity's management.</p> <p>(b). The amortisation charge has ceased beyond the date of deletion.</p> <p>(c). Both a & b</p> <p>(d). None of a & b"</p>
IV. " With respect to the provisions of impairment of computer software, the following Accounting Standard is applicable:-	

	<p>(a). AS 18 (b). AS 28 (c). AS 26 (d). AS 10"</p>
	<p>V. " The following expenditure should not be capitalized with respect to the intangible assets:-</p> <p>(a). Expenditure during Development Phase. (b). Expenditure during Research Phase. (c). None of the above. (d). Both a & b."</p>
14	<p>"M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr A and Mr B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The Partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the Audit Report to the clients. You are requested to go through the following and answer the questions that follow:</p> <ul style="list-style-type: none"> • During the Audit of M/s Persistent & Co, Mr A found out that the Firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr A has calculated the Difference of Depreciation, but M/s Persistent & Co has stated that they don't want to change the Financial Statements and if Auditor persists they may give the effect in the next Financial Year. • During the Audit of M/s Dubious Brothers, Mr B observed that the Firm had a very large amount of Cash Sales and there were no details of the Customers to whom the sale was made. Further, Cash generated was not even deposited into bank regularly. When Mr B asked the Firm to give him an opportunity to count Cash, the Manager of the Firm said that the Cash is with the Owner and it cannot be made available to the Auditor for the checking purpose. The Manager also declined to give an opportunity for stock verification to Mr B. • During the Audit of M/s Honest & Associates, Mr A came to know that the Firm has changed its method of Valuation of Stock. This change has a material impact on the Financial Statement of the Firm. The Firm has made relevant disclosures in the Financial Statements and has given proper accounting treatment to this exercise." <p>I. " In case of M/s Persistent & Company, what would be an ideal Audit Opinion?</p> <p>(a). Unmodified (b). Qualified (c). Adverse (d). Disclaimer"</p> <p>II. " In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?</p> <p>(a). Qualified (b). Adverse (c). Disclaimer (d). Unmodified"</p> <p>III. " According to you, what would be appropriate course to take in case of M/s Honest & Associates?</p> <p>(a). Issue Qualified Opinion (b). Issue Adverse Opinion (c). Mention the fact of change in method in Emphasis of Matter Paragraph (d). Issue Disclaimer of Opinion"</p> <p>IV. " When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do?</p> <p>(a). Issue Unmodified Opinion (b). Issue Qualified Opinion (c). Issue Disclaimer of Opinion</p>

	(d). Mention it in Emphasis of Matter Paragraph"
	V. " When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:
	(a). Modified Opinion (b). Qualified Opinion (c). Disclaimer of Opinion (d). Unmodified Opinion"
15	(M21M/N22M)
	"Sun Private Limited is a newly formed private limited company, engaged in the manufacturing of solar panels. Company has appointed M/s M&S Associates, a Partnership Firm of Mr Meticulous and Mr Sincere - as their First Auditors. M/s M&S Associates accepted the assignment and Mr Meticulous being the engagement Partner, started their Audit. During the course of Audit, Mr Meticulous asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, Mr Meticulous found that the Gross Margin of the Company is lower than the Industry Standard / Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. Mr Meticulous advised them that he can provide working but cannot give them the working papers as they are the property of the Firm. Management agreed to that and asked Mr Meticulous to go into detail and tell him the reasons for lower Gross Margin to which he agreed. During the detailed audit, Mr Meticulous came to know about the fact that the company dispatched its solar panels to its Distributors on Delivery Challans and once the goods were accepted, Sales bills were raised. Checking each Challan against Sales Invoices, Mr Meticulous found that there were many challans for which no Invoices were raised and thus Sales was grossly understated and there was no mechanism where unbilled Challans were recorded or tracked. Company employed a person to reconcile all the Challans and prepared a list where Bills are yet to be sent to the Customers. In addition, Company was also asked to seek Confirmation of Balances from all its Customers. The Management assured Mr Meticulous that Inventories are physically verified and hence there will be no impact on them."
	I. " Mr Meticulous asked about other Companies, he was intending to perform which audit procedure?
	(a). Analytical Procedures (b). Substantive Procedures (c). Random Sampling (d). Statistical Sampling"
	II. " What was the initial procedure carried on by Mr Meticulous?
	(a). Trend Analysis (b). Ratio Analysis (c). Statistical Modelling (d). Random Sampling"
	III. " Who has the right to retain the audit working papers of the Company in current case?
	(a). Audit Committee (b). Board of Directors (c). Auditor (d). Chairman of the Audit Committee"
	IV. " When Mr Meticulous decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence? #Unique
	(a). Test of Transactions (b). Test of Balances (c). Both (a) and (b) (d). Analytical Procedures"

	<p>V. " The impact of the exercise carried on by the Company for unbilled challans will have an impact on</p> <p>(a). Gross Receipts and Debtors (b). Gross Receipts and Inventory (c). Debtors (d). Inventory"</p>
16	<p>"M/s KDR & associates, Chartered accountants have been appointed auditors of a company having operations spread in three states in India for the first time. The nature of business of company is such that that there are about 50000 monthly entries in its books of accounts accompanied with commensurate records. The company has also robust internal control system. The auditors want reliable evidence. However, they are desirous of curtailing non-consequential routine checking. Hence, while formulating strategy and plan for conducting audit, auditors desire to rely upon good audit samples both for tests of controls and tests of details. In above context, answer the following questions: -"</p> <p>I. " Consider the following statements for determining sample size for tests of control: - Statement I--- An Increase in the tolerable rate of deviation leads to decrease in sample size. Statement II--- An increase in the expected rate of deviation of the population to be tested leads to increase in sample size. Statement III—An increase in the number of sampling units in the population leads to substantial increase in sample size. Which of the following is most likely correct option?</p> <p>(a). All Statements I, II and III are true. (b). Statements I and II are true. However, Statement III is false. (c). Statements I and III are true. However, Statement II is false. (d). Statements II and III are true. However, Statement I is false."</p> <p>II. " Consider the following statements for determining sample size for tests of details: - Statement I--- An increase in tolerable misstatement leads to increase in sample size. Statement II--- An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population leads to decrease in sample size. Statement III—An increase in the amount of misstatement auditor expects to find in the population leads to increase in sample size. Which of the following is most likely correct option?</p> <p>(a). All Statements I, II and III are true. (b). Statements I and II are false. However, Statement III is true. (c). Statements I and III are true. However, Statement II is false. (d). Statements II and III are true. However, Statement I is false."</p> <p>III. " Which of the following is not likely to be correct in evaluating results of audit sampling in case of tests of details?</p> <p>(a). The projected misstatement combined with anomalous misstatement is auditor's best estimate of misstatement in population. (b). In case projected misstatement combined with anomalous misstatement exceeds tolerable misstatement, the sample provides a reasonable basis for conclusions about population. (c). The closer the projected misstatement combined with anomalous statement is to tolerable misstatement, it is more likely that actual misstatement in the population may exceed tolerable misstatement. (d). In case the projected misstatement is greater than auditor's expectation of misstatement used to determine sample size, the auditor may conclude that there is unacceptable sampling risk of actual misstatement in the population exceeding tolerable misstatement."</p> <p>IV. " Which of the following is not likely to be correct in relation to Block Sampling and audit samples drawn upon using this technique?</p> <p>(a). Block selection involves selection of a block/blocks of contiguous items within the population.</p>

	<p>(b). Most populations from which audit samples are drawn are structured in such a way that items in a sequence can be expected to have similar characteristics to each other but different characteristics from items elsewhere in population. Hence, it is not used ordinarily in audit sampling.</p> <p>(c). Block sampling has characteristics of simplicity and economy.</p> <p>(d). It is generally an appropriate sample selection technique when auditor intends to draw valid inferences about the entire population based upon sample."</p>
	<p>V. " Consider the below stated steps in relation to audit sampling. What is the most likely logical order of these steps to be followed by auditors of this company? Step I—Performing audit procedures Step II ---- Projecting Misstatements Step III---- Sample design and selection of items for testing Step IV-- Investigating Nature and cause of deviations Step V--- Evaluating results of audit Sampling</p> <p>(a). Step I, Step II, Step III, Step IV and Step V (b). Step II, Step I, Step III, Step V and Step IV (c). Step III, Step I, Step IV, Step II and Step V (d). Step I, Step II, Step III, Step V and Step IV"</p>
<p>17</p>	<p>"One audit team is conducting statutory audit of Delta Robotics Limited for financial year ending 31st March 2020 under Companies Act,2013. The revenue from operations of company during year 2019-20 is ` 89,40,60,300. Certain observations and information stated as under have been noted during the course of audit-by-audit team: -</p> <p>(A) The said company is availing working capital credit facility to meet its normal operating cycle requirements amounting to ` 7.50 crores from a scheduled bank and outstanding balance as on 31st March 2020 is ` 6,49,20,120. The financial statements disclose this outstanding balance in financial statements under the head "Long-term borrowings". Further, the said credit facility is secured against equitable mortgage of an immovable property located at NOIDA. The said facility is guaranteed by all directors of the company, some of relatives of directors and two persons viz. Mr. Krishnamurthy and Mr. Ramalingam who are not related to directors in any manner.</p> <p>(B) The company has made current investments in Ceekay Limited to the tune of ` 1,10,00,000 by way of equity instruments. Further, the company has also made investment in a partnership firm to the tune of ` 25,00,000. The said partnership concern is in an upcoming and promising line of business activity.</p> <p>(C) It was observed that company had received some export orders during the year under audit and these orders had resulted in fructifying export turnover of ` 3,88,25,000. During the year under consideration, the company has reflected net loss in respect of foreign currency transactions amounting to ` 5,50,000. Further, the company has also imported components and spare parts having FOB value of ` 10.00 lacs (CIF ` 11.25 lacs) during the year.</p> <p>(D) The trade payables of the company include dues to micro and small enterprises amounting to ` 1,40,36,740.</p> <p>(E) Printing and stationery expenses, travelling expenses and fair participation expenses are ` 74,320, ` 88,38,250 and 1,63,26,260 respectively.</p> <p>Based upon above, answer following questions keeping in view classification and disclosure requirements of Schedule III of Companies Act, 2013: -"</p> <p>I. " Consider the following statements: - Statement I--- The company has correctly classified and disclosed outstanding balance of working capital credit facility under the head "Long- term borrowings." Statement-II--- Nature of security for availing working capital credit facility needs to be disclosed. Which of the following is correct?</p>

	<p>(a). Both statements I and II are true. (b). Statement I is true. However, statement II is false. (c). Statement I is false. However, statement II is true. (d). Both statements I and II are false."</p>
	<p>II. " Which of the following is most correct as regards to disclosure of fact of guarantee of working capital credit facility?</p> <p>(a). Disclosure regarding guarantee of loan by directors is in accordance with law. (b). Disclosure regarding guarantee of loan by directors and relatives only is in accordance with law. (c). Disclosure regarding guarantee of loan by directors, relatives and non-related persons i.e. Mr. Krishnamurthy and Mr. Ramalingam is in accordance with law. (d). No disclosure is required regarding guarantee of loan."</p>
	<p>III. " As regards current investments made by company in Ceekay Limited, which of following groups contain most valid requirements mandated by law?</p> <p>(a). Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments and their market value (b). Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments (c). Basis of valuation of individual investment, aggregate amount of quoted investments and their market value (d). Name of body corporate in which investment is made, aggregate amount of quoted investments and their market value."</p>
	<p>IV. " As regards current investments made by company in partnership firm, which of following classification and disclosure requirements include requirements mandated by law?</p> <p>(a). Name of firm in which investment is made, names of all the partners, total capital and shares of each partner (b). Name of firm in which investment is made, names of all the partners, nature of business of firm and total capital (c). Name of firm in which investment is made, names of all the partners, nature of business of firm and shares of each partner (d). Names of all the partners, nature of business of firm, total capital and shares of each partner."</p>
	<p>V. " As regards foreign currency transactions, consider the following statements: - Statement I Earnings in foreign exchange regarding export of goods on CIF basis needs to be disclosed in notes to accounts. Statement II Net loss of foreign currency transactions is required to be disclosed separately in statement of profit and loss. Which of the following statements is correct?</p> <p>(a). Both statements I and II are true. (b). Both statement I and II are false. (c). Statement I is true. Statement II is false. (d). Statement I is false. Statement II is true."</p>

18	<p>"One Mr. K. Narhari, senior faculty at Board of studies of The Institute of Chartered Accountants of India had prepared a lecture for some of the novice students who had just enrolled for Chartered accountancy course to be hosted on online platform. The lecture pertained to basic theme of overall objectives of independent auditor and conduct of audit in accordance with Standards on auditing mainly revolving around SA-200. As it was first lecture of the session, an inexperienced apprentice operator in office of Mr. Narhari made some mistakes in certain key words including some blunders, modifications and omissions. The text typed by operator read as under: - "The purpose of audit is to embrace the level of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether financial statements are prepared, in all critical respects, in accordance with an applicable financial reporting framework. In conducting audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether financial statements as a whole are free from material misstatement, whether</p>
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due to fraud, mistake and errors, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all critical respects, in accordance with financial reporting framework and to report on the financial statements and corroborate as required by the SAs, in accordance with auditor’s findings.” (Para 1)

SAs require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained complete and correct audit evidence to reduce audit risk i.e. (the risk that the auditor expresses an appropriate opinion when the financial statements are critically misstated) to an acceptable level. (Para 2)

Audit risk is a function of risks of material misstatements and detection risk. Detection risk relates to nature, timing and extent of audit plans to reduce audit risks. The assessment of risk is a matter of professional judgment. Risk of material misstatement may exist at level of overall financial statement level and assertion level for transactions, account balances and disclosures. Further, risk of material misstatement at assertion level consists of inherent risk and control risks. These are dependent upon audit of financial statements. In case auditor believes that risk of material misstatements is less, the less would-be detection risk that can be accepted. (Para 3)

The auditor can eliminate audit risk and most of the audit evidence on which auditor draws conclusions and bases the auditor’s opinion are conclusive in nature. Further, the matter of difficulty, time or cost involved is not in itself a valid basis for the auditor to be satisfied with evidence that is less than conclusive. (Para 4)

The SAs, taken together, provide the standards for the auditor’s work in fulfilling the overall objectives of the auditor. The SAs deal with general rights of the auditor as well as further considerations relevant to application of those rights to specific topics. The SAs are paramount and these are to be strictly followed irrespective of laws and regulations that govern audit of financial statements. The SAs are not relevant for certain government entities like agencies, boards and commissions. (Para 5)"

I. " On perusal of para 1, given below is combination of options which would rectify errors, if any. Which is of the combinations is most appropriate?
 Option
 Probable errors
 Appropriate combination #Unique

- (a). Embrace, level of confidence, in all critical aspects, whether due to fraud, mistake and errors, corroborate Enhance, degree of confidence, in all material respects, whether due to fraud, mistake or error, satisfy
- (b). Embrace, level of confidence, in all critical aspects, whether due to fraud, mistake and errors, corroborate Enhance, degree of confidence, in all material respects, whether due to fraud and error, satisfy
- (c). Embrace, level of confidence, in all critical aspects, whether due to fraud, mistake and errors, corroborate Enhance, degree of confidence, in all material respects, whether due to fraud or error, communicate
- (d). Embrace, level of confidence, in all critical aspects, whether due to fraud, mistake and errors, corroborate Enhance, degree of confidence, in all material respects, whether due to fraud or mistake, communicate"

II. " Identify the meaningful and correct statement as per SA-200 in place of underlined subject matter in para 2.

- (a). It is obtained when the auditor has obtained complete and meaningful audit evidence to reduce audit risk i.e. (the risk that the auditor expresses an appropriate opinion when the financial statements are materially misstated) to an acceptable level.
- (b). It is obtained when the auditor has obtained complete and exact audit evidence to reduce audit risk i.e. (the risk that the auditor expresses an appropriate opinion when the financial statements are materially misstated) to an acceptable level.
- (c). It is obtained when the auditor has obtained sufficient and necessary 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 acceptable low level.

	<p>(d). It is obtained when the auditor has obtained sufficient and 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."</p> <p>III. " Consider the following statements which may or may not be erroneous. Statement I--- Detection risk relates to nature, timing and extent of audit plans to reduce audit risks. Statement II--- Inherent risk and control risk are dependent upon audit of financial statements. Statement III--- The acceptable level of detection risk varies in direct proportion to the assessed risk of material misstatement at assertion level. Which of the following options is correct?</p> <p>(a). Statement I is true. Statements II and III are false. (b). Statement I and II are true. Statement III is false. (c). Statement I and II are false. Statement III is true. (d). Statements I, II and III are false."</p> <p>IV. " Identify correct group of meaningful words to replace underlined erroneous words in para 4 in the same order in which these are underlined: -</p> <p>(a). Prevent, binding and conclusive (b). Prevent, conclusive and binding (c). Forego, conclusive and persuasive (d). Reduce, persuasive and persuasive"</p> <p>V. " Consider accompanying underlined statement: The SAs deal with general rights of the auditor as well as further considerations relevant to application of those rights to specific topics. Which of the following is likely to be true? #Unique</p> <p>(a). The above underlined statement is completely correct. (b). The above underlined statement is completely incorrect. (c). The above statement is partly correct. (d). No inference about correctness of statement can be drawn."</p>
<p>19</p>	<p>"M/s Arun Karun & Associates have been appointed as the statutory auditors of HKM Ltd. for the FY 2019-20. HKM Ltd. is a company engaged in the manufacture of computer hardware's. CA Arun is the engagement partner, and his team consists of two article assistants, namely Mr. Ram & Mr. Shyam.</p> <p>While performing the audit procedures, Mr. Ram did production analysis and calculated the expenditure per unit and compared the same with the previous year and the present year industry trends. When Mr. Ram asked the management about the reasons for variations, he was told that such reasons have already been explained to the cost auditors and the statutory audit team need not spend their time on matters which are of concern for the cost auditor. Mr. Ram was convinced and agreed to the suggestions of the management of HKM Ltd.</p> <p>Further, during the course of audit, CA Arun found that there has been an increase in the paid-up share capital of the company. CA Arun obtained a written representation from the management with respect to such increase in the share capital. Also, CA Arun found that in the company there is a cashier, a petty cashier and in addition there are imprest balances with the employees. Further, the audit team verified all the travelling expenses recognised during the period to confirm whether they relate to the current accounting period only.</p> <p>CA Arun directed Mr. Ram to verify whether the employee benefit expense has been fairly allocated between the operating expenses incurred in production activities and the general expenses. CA Arun also directed his team to check in detail the particulars of Revenue reserve and share premium account of the company. Based on the above facts, answer the following:-"</p> <p>I. " With respect to the contention of the management of HKM Ltd. regarding the production analysis and the related variances, which of the following is correct?</p>

	<p>(a). M/s Arun Karun & Associates need not waste its time in production analysis as the same is the responsibility of the cost auditor of the company.</p> <p>(b). M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.</p> <p>(c). M/s Arun Karun & Associates should mention in its audit report regarding the fact of noticed variation in the production analysis. Also they need to mention separately that the management along with the cost auditor is responsible for such analysis.</p> <p>(d). M/s Arun Karun & Associates should ensure that the cost auditor of HKM Ltd. mentions the fact regarding the production analysis in their cost audit report which is to be filed with the Board of Directors and the Central Government."</p>
	<p>II. " With respect to the audit of cash balance of HKM Ltd. which is the correct course of action for M/s Arun Karun & Associates?</p> <p>1. The cash balance with the cashier, petty cashier, and imprest balances with the employees should be checked simultaneously.</p> <p>2. The cashier should be present while cash is being counted and he should sign the statement prepared containing the details of the cash balance so counted.</p> <p>3. Since the company is having more than one cash balances i.e. with cashier, petty cashier, and imprest balances with employees, CA Arun should ask the management to get the cash balance verified by the main cashier and furnish cashier's report to him.</p> <p>4. CA Arun should ask any of the cashiers to verify the cash balances and provide him with a report on the same.</p>
	<p>(a). Statement 1 & 2</p> <p>(b). Statement 1 & 4</p> <p>(c). Statement 1,3 & 4</p> <p>(d). Statement 1 & 3</p>
	<p>III. " Verification of all the travelling expenses of HKM Ltd. by the audit team addresses the following assertion related to the Income Expense account:</p>
	<p>(a). Valuation</p> <p>(b). Completeness</p> <p>(c). Measurement</p> <p>(d). Existence"</p>
	<p>IV. " Verifying whether employee benefit expense of HKM Ltd. has been fairly allocated between the operating expense incurred in production activities and general expense addresses which of the following assertions?</p>
	<p>(a). Completeness</p> <p>(b). Presentation and Disclosure</p> <p>(c). Measurement</p> <p>(d). Occurrence"</p>
	<p>V. " Which of the following is correct with respect to the provisions relating to revenue reserves of HKM Ltd?</p> <p>i. Revenue Reserves of HKM Ltd. can be used to supplement divisible profits in lean years.</p> <p>ii. Revenue Reserve cannot be used to augment the working capital of the business of HKM Ltd.</p> <p>iii. Revenue Reserve cannot be used to finance an extension of the business of HKM Ltd.</p> <p>iv. Revenue Reserve can be used to generally strengthen the company's financial position.</p>
	<p>(a). ii & iii are correct</p> <p>(b). i & iv are correct</p> <p>(c). i, ii, iii are correct</p> <p>(d). i, ii, iii, iv are correct"</p>

"One of your friends is preparing for auditing & assurance exams of CA (Intermediate new) course. You are already well versed with provisions of Companies Act, 2013. He seeks your help in better understanding of provisions of section 139 of companies act, 2013 in light of certain practical issues and concomitant matters as contained in Companies Act, 2013 regarding auditor's appointment. Further, he also provides you with text of Section 139 of companies Act, 2013 for ready reference and better understanding as below: -

"139. (1) Subject to the provisions of this Chapter, every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting and the manner and procedure of selection of auditors by the members of the company at such meeting shall be such as may be prescribed:

Provided further that before such appointment is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor:

Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141:

[Provided also that the company shall inform the auditor concerned of his or it's appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.]

Explanation. —For the purposes of this Chapter, "appointment" includes reappointment.

(2) No listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; and

(b) an audit firm as auditor for more than two terms of five consecutive years:

[Provided that—(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;

(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term:

Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years:

[Provided also that every company, existing on or before the commencement of this Act which is required to comply with the provisions of this sub-section, shall comply with requirements of this sub-section within a period which shall not be later than the date of the first annual general meeting of the company held, within the period specified under sub-section (1) of section 96, after three years from the date of commencement of this Act.]

the right of the company to remove an auditor or the right of the auditor to resign from such office of the company.]

(3) Subject to the provisions of this Act, members of a company may resolve to provide that—

(a) in the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or

(b) the audit shall be conducted by more than one auditor.

(4) The Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors in pursuance of sub-section (2).

Explanation. —For the purposes of this Chapter, the word "firm" shall include a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008.

(5) Notwithstanding anything contained in sub-section (1), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of one hundred and eighty days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.

(6) Notwithstanding anything contained in sub-section (1), the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company and in the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting.

(7) Notwithstanding anything contained in sub-section (1) or sub-section (5), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, *the first auditor shall be appointed by the Comptroller and Auditor-General of India within sixty days from the date of registration of the company and in case the Comptroller and Auditor-General of India does not appoint such auditor within the said period, the Board of Directors of the company shall appoint such auditor within the next thirty days; and in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within the sixty days at an extraordinary general meeting, who shall hold office till the conclusion of the first annual general meeting.

(8) Any casual vacancy in the office of an auditor shall—

(i) in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting;

(ii) in the case of a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor-General of India within thirty days:

Provided that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next thirty days.

(9) Subject to the provisions of sub-section (1) and the rules made thereunder, a retiring auditor may be re-appointed at an annual general meeting, if—

(a) he is not disqualified for re-appointment;

(b) he has not given the company a notice in writing of his unwillingness to be re-appointed; and appointing some other auditor or providing expressly that he shall not be re-appointed.

(10) Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

(11) Where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.”

* Responsibility to Inform C&AG

In light of above information, guide your friend and remove his dilemmas by answering the following questions correctly: -"

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|-----|---|
| I. | "Section 139 prescribes that before appointment of an auditor, certificate is to be obtained from auditor that appointment, if made, shall be in accordance with certain conditions. Which of the following is not such condition in case of a listed public company? |
| | <ul style="list-style-type: none"> (a). the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder; (b). the proposed appointment is as per the term provided under the Act; (c). the proposed appointment is within the limits laid down by or under the authority of the Act; (d). the proposed appointment is as per regulations of SEBI" |
| II. | "The provisions of rotation of auditors are not applicable to certain class of companies. Which of the following is not a correct option? |
| | <ul style="list-style-type: none"> (a). all unlisted public companies having paid up share capital up to a certain limit (b). all private limited companies having paid up share capital up to a certain limit (c). all unlisted public companies having paid up share capital and reserves up to a certain limit (d). all companies having public borrowings from banks up to a certain limit" |

	<p>III. "In case of a government company, the statutory auditor under companies Act is appointed by: -</p> <p>(a). Shareholders in annual general meeting (b). Board of directors in annual general meeting (c). CAG which is a constitutional authority (d). CAG which is a constitutional authority in consultation with Central Government"</p>
	<p>IV. "Which of the following is incorrect regarding scope of actions of audit committee constituted under section 177 of Companies Act, 2013?</p> <p>(a). The audit committee can make recommendation regarding appointment and terms of appointment of auditors. (b). The audit committee cannot make recommendations regarding remuneration of auditors. (c). The audit committee can review and monitor auditor's independence and performance. (d). The audit committee can undertake monitoring of effectiveness of audit process."</p>
	<p>V. "Which of the following is correct regarding formation of audit committee under section 177 of Companies Act, 2013?</p> <p>(a). The audit committee is to be constituted by every public company. (b). The audit committee is to be constituted by every public company and private company having paid up capital and reserves of more than ` 100 crore. (c). The audit committee is to be constituted by every listed public company. (d). The audit committee is to be constituted by every listed company and private company having paid up capital and reserves of more than ` 100 crore."</p>

21	<ul style="list-style-type: none"> • M/s ANS & Associates have been appointed as the auditors of Star Ltd. for the Financial Year 2019-20. • During the year under audit, Star Ltd has issued share capital at a premium of Rs 5 per share. The auditors understand that certain provisions as per the Companies Act 2013 related to the issue of shares at premium are applicable to the company. • Also, Star Ltd. has issued Sweat Equity shares to its employees during the year. M/s ANS & Associates has advised its audit staff to check in particular whether the company has complied with the relevant provisions related to the issue of sweat equity shares as per the Companies Act 2013. • Further, the auditor understands that the Company Star Ltd. needs to file various forms with different authorities when there is a change in the share capital of the company during the year. • Also special consideration is given under audit to the treatment of reserves as Revenue vs Capital by the company during the financial year. <p>Based on the above facts, answer the following:-"</p> <p>I. "As there is a change in the share capital of Star Ltd. during the year, which of the following combination related to the forms to be submitted is not correct:-</p> <p>(a). Form SH 7: To be filed with Ministry of Corporate Affairs (b). Form CRA 2: To be filed with the Central Government (c). Form PAS: To be filed with the Ministry of Corporate Affairs. (d). Form FCGPR: To be filed with the Reserve Bank of India."</p> <p>II. "The Securities Premium Account can be used by the Star Ltd. for various purposes, except one:-</p> <p>(a). In writing off the preliminary expenses of the company (b). Towards the issue of the unissued shares of the company to the members of the company as fully paid bonus shares (c). For purchase of its own shares and other securities under section 68. (d). To be used as working capital."</p> <p>III. "With regard to the issue of Sweat Equity shares following conditions have to be complied. Identify the incorrect one:-</p> <p>(a). The issue is authorized by ordinary resolution passed by the company. (b). The resolution should specify the number of shares, the current market price.</p>
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	<p>(c). Not less than one year has at the date of such issue, elapsed since the date on which the company has commenced business</p> <p>(d). Where the equity shares of the company are listed on recognized stock exchange, the shares are issued in accordance with requirements by SEBI."</p>
	<p>IV. "Which of the following is not correct:-</p> <p>(a). Section 52- Securities Premium Account</p> <p>(b). Section 53- Issue of shares at discount</p> <p>(c). Section 54- Issue of Bonus Shares</p> <p>(d). Section 68- Buyback of shares"</p>
	<p>V. "With respect to which of the following, passing of a Special Resolution is required by a company:-</p> <p>(a). Issue of Sweat Equity Shares</p> <p>(b). Reduction of Share Capital</p> <p>(c). Both a & b</p> <p>(d). None of a & b"</p>

22	<ul style="list-style-type: none"> • Venus Ltd. is a public limited company having turnover of ` 150 crores during the current financial year i.e. FY 2019-20 which is the first financial year for the company after its registration. • M/s AMR & Associates are appointed as the first auditors of Venus Ltd. • M/s AMR & Associates is having partners Mr. A, Mr. M, Mr. R all Chartered Accountants. • Mr. A, Mr. M, Mr. R are holding appointment as auditors in 10, 15, 20 companies respectively. The above numbers are after taking into account appointment of M/s AMR & Associates as auditors in Venus Limited. • During the course of audit, the auditors understand that since Venus Ltd is a public limited company, their duty is to also report on the adequacy of internal financial control of Venus Ltd • Further, Venus Ltd holds 20% equity share capital of Mercury Ltd which has approached M/s AMR & Associates for certain assignments namely Tax audit, Actuarial Science, Outsourced Financial services. <p>Based on the above facts, answer the following:-"</p>
	<p>I. "M/s AMR & Associates shall hold the office as auditor of Venus Ltd.:-</p> <p>(a). For one term of five consecutive years</p> <p>(b). Till the conclusion of first Annual General Meeting</p> <p>(c). For two terms of five consecutive years.</p> <p>(d). None of the above."</p>
	<p>II. "What are the relevant provisions of the Companies Act 2013 related to the audit committee. Whether Venus Ltd. is required to constitute an Audit Committee?</p> <p>(a). Section 167, No</p> <p>(b). Section 117, Yes</p> <p>(c). Section 177, Yes</p> <p>(d). Section 176, No"</p>
	<p>III. "What is the maximum number of audits remaining in the name of M/s AMR & Associates:-</p> <p>(a). 60</p> <p>(b). 25</p> <p>(c). 10</p> <p>(d). 15</p>
	<p>IV. "In case of a private company, under section 143(3)(i), the auditor has no duty to report on the internal financial control of the Company if turnover and aggregate borrowings are less than certain amount. What is the limit of Turnover and aggregate borrowings from bank or financial institutions or anybody corporate. :-</p> <p>(a). 50 crore and ` 25 crore</p>

	<p>(b). 150 crore and ` 25 crore (c). 50 crore and ` 125 crore (d). 25 crore and ` 50 crore"</p>
	<p>V. "Had Venus Ltd. been a government company, who would have appointed the first auditors of the company. Also state the relevant provisions of the Companies Act 2013 :-</p> <p>(a). Board of Directors, within 10 days of registration. Section 139(7) (b). Comptroller & Auditor General of India, within 60 days of registration, section 139(7) (c). Central Government, within 60 days of registration of company, Section 139(5) (d). Central Government, within 30 days of registration of company, Section 139(5)"</p>
23	<ul style="list-style-type: none"> • M/s PQR & Associates are appointed as auditors of Jupiter Ltd. for the Financial Year 2019-20. • The team consisted of Mr. P, Mr. Q, Mr. R all Chartered Accountants and three article assistants. • Mr. P, one of the engagement partners, briefed the audit staff about various items of financial statement to be checked in detail in case of Jupiter Ltd and about various aspects to be covered in the audit of the company. • Mr. P told the audit staff about audit documentation, audit evidence, audit file, completion memorandum and many other things along with relevant Standards of Auditing applicable. • Mr. P also told the staff about the risk of material misstatement that the financial statements are prone to and how it affects the sufficiency and appropriateness of audit evidence. • The audit staff was also apprised about the various audit procedures to be adopted while conducting the audit of Jupiter Ltd. • Further discussions were done about various types of risks related to financial statement and the audit work, the related audit procedures, and the risk assessment procedures. • The engagement partners are also very particular about the application of various Standards on Auditing applicable in case of Jupiter Ltd. <p>Based on the above facts, answer the following:-"</p> <p>I. " is the summary of significant matters identified during audit and way they are addressed</p> <p>(a). Audit File (b). Audit Programme (c). Completion memorandum (d). Checklists"</p> <p>II. "The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is.....:-</p> <p>(a). Control Risk (b). Inherent Risk (c). Audit Risk (d). Significant Risk"</p> <p>III. "Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures. Statement 2: Substantive procedures consist of test of details and analytical procedures.</p> <p>(a). Only Statement 1 is correct (b). Only Statement 2 is correct (c). Both 1 & 2 are correct (d). Both 1 & 2 are incorrect"</p> <p>IV. " 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 risks of material misstatement, whether due to fraud or error at the financial statement and assertion levels:-</p> <p>(a). Analytical Procedures (b). Risk Assessment Procedures (c). Audit Procedures</p>

	(d). Substantive Analytical Procedures"
	<p>V. "Statement 1:- Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level. Statement 2:-Test of Controls is audit procedure designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.</p> <p>(a). Only Statement 1 is correct (b). Only Statement 2 is correct (c). Both 1 & 2 are correct (d). Both 1 & 2 are incorrect"</p>
24	<p>"M/s UVW & Associates have been appointed as auditors of Mars Ltd. for the Financial Year 2019-20.</p> <ul style="list-style-type: none"> • During the course of audit, the auditors notice that there are certain legal expenses been charged to revenue during the financial year by Mars Ltd. • These legal expenses are related to litigations going against the company regarding its Corporate Social Responsibility expenses incurred near its factory area. • Further, M/s UVW & Associates noticed that there is a major change in the debtors and creditors account of Mars Ltd. during the financial year under audit. The auditors have decided to send balance confirmation requests to the debtors and creditors of Mars Ltd. Also the auditors decide to take management representation letters wherever required. • Also, the auditors have noticed certain related party transactions reflected in the financial statements of Mars Ltd during the financial year under audit. The transaction is between Mars Ltd and a Company owned by wife of one of the directors of Mars Ltd. • The auditors have become aware of certain subsequent events occurring in case of Mars Ltd. These are related to the outcomes of the litigations going against Mars Ltd. • The auditors are also concerned whether the litigations going against Mars Ltd. and their outcomes have any impact on the going concern of the company. <p>Based on the above facts, answer the following:-"</p> <p>I. "Statement 1: Although Written Representations provide necessary audit evidence, they do not provide sufficient and appropriate audit evidence on their own about the matters with which they deal. Statement 2: Written Representations do not include financial statements, the assertions within, or supporting books and records.</p> <p>(a). Only Statement 1 is correct (b). Only Statement 2 is correct (c). Both Statement 1 & 2 are correct (d). None of Statement 1 & 2 is correct"</p> <p>II. "The auditor can perform the following procedures to identify litigation and claims of Mars Ltd:-</p> <p>(a). Inquiry of management including in house legal counsel. (b). Reviewing legal expenses account. (c). Reviewing of minutes of meetings of those charged to governance and correspondence between entity and external legal counsel. (d). All of the above."</p> <p>III. "Negative confirmation requests require the third party to respond in the following cases :-</p> <p>(a). If there is agreement (b). If there is disagreement (c). In both cases of agreement as well as disagreement (d). None of the above."</p> <p>IV. "Statement 1:- A failure of the confirming party to respond, or fully respond to a positive confirmation request or a confirmation request returned undelivered is a case of Non-Response.</p>

	<p>Statement 2:- A response that indicates difference between information requested to be confirmed and contained in entity's records and information provided by the confirming part is a case of Exception. #Unique</p> <p>(a). Only Statement 1 is correct (b). Only Statement 2 is correct (c). Both Statement 1 & 2 are correct (d). None of Statement 1 & 2 is correct"</p>
	<p>V. "Which of the following is incorrect so far as the related party transactions are concerned:-</p> <p>(a). Many related party transactions are in the normal course of business. (b). Related party transactions may not be conducted under normal market term and conditions. (c). In some circumstances, related party transactions may give rise to higher risks of material misstatement. (d). None of the above."</p>
26	<p>"M/s FCA & Co ("The Firm"), Chartered Accountants is a Partnership Firm of Miss F, Miss C and Mr A based at Delhi. Partners are also engaged in the Investing Activities - that is they Purchase and Sale Shares of various firms and companies in their routine course of action.</p> <p>In past week, few Companies have approached the Firm to become their Auditors. Before accepting the Audits, Partners want to ensure that they are not disqualified according to the Provisions of the Companies Act. So they are looking into this matter - Company wise - which is given below. You are requested to go through the following and answer the ensuing questions.</p> <p>Company ABC P L - Miss C owns share of ` 1000 in the Company and her Brother owns shares of Rs 50000 in the Company.</p> <p>Company XYZ P L - Mr A's father owns shares of Rs 90000 in the Company. Mr A owes the Company in his personal capacity for the goods purchased by him to the tune of Rs 20000.</p> <p>Company PQR P L - Miss F has been advising the company for its Investment for past couple of years. Miss C is indebted to the Company to the tune of Rs 1 Lakh."</p> <p>I. "Which of the following Statement is correct in respect of ABC P L ("Company")</p> <p>(a). The Firm is eligible to be appointed as an Auditor of the Company (b). The Firm is not eligible to be appointed as an Auditor due to Shareholding of Miss C's Brother in the Company (c). The Firm is not eligible to be appointed as an Auditor due to Shareholding of Miss C in the Company (d). The Firm is eligible to be appointed as an Auditor of the Company, but they will have to disclose about Shareholding in Auditor's Report."</p> <p>II. "Which of the following Statement is correct in respect of XYZ P L ("Company")</p> <p>(a). The Firm is not eligible to be appointed as an Auditor due to the indebtedness of Mr A (b). The Firm is eligible to be appointed as an Auditor of the Company (c). The Firm is not eligible to be appointed as an Auditor due to the Shareholding of Mr A's Father in the Company (d). The Firm is eligible to be appointed as an Auditor of the Company only after Mr A pays the amount due to the Company."</p> <p>III. "Which of the following Statement is correct in respect of PQR P L ("Company")</p> <p>(a). The Firm is eligible to be appointed as an Auditor of the Company (b). The firm is not eligible to be appointed as an Auditor due to Miss C's Indebtedness towards the Company (c). The firm is not eligible to be appointed as an Auditor due to Miss F's involvement as an Advisor to the Company (d). The firm is eligible to be appointed as an Auditor of the Company, but it will have to disclose its indebtedness of Miss C in the Auditor's Report"</p>

	<p>IV. "While considering the threshold limit for holding any interest or security in the company for the Qualification for becoming an Auditor, which value is to be considered?"</p> <p>(a). Market Value (b). Face Value (c). Book Value (d). Higher of the above"</p>
	<p>V. "In case, Shareholding by a relative exceeds the threshold then in how many days Auditor is required to take corrective Action?"</p> <p>(a). 15 Days (b). 30 Days (c). 45 Days (d). 60 Days"</p>

27	<p>"M/s CA & Co is a firm of Chartered Accountants based at Mumbai, Mr C and Mr A being the Partners of the Firm. They are engaged, inter alia, in the Statutory Audit of Great Trading Company who is dealing in FMCG Products and sells its products to Wholesalers and Retailers.</p> <p>During the course of their primary discussion with the Accounting Personnel of the Company, Mr C found out that the number of Transactions are very high and the value of Transactions also vary a great length especially in the case of Sales Transactions - as their base is very large and number of sales transactions run into Hundreds of Invoices per month.</p> <p>Mr C and Mr A are thinking about checking the Sales Transactions and Balances of Account Receivables on a Sampling basis and for that they are discussing about which of the main two approaches to sampling would be appropriate in this case. They mostly are satisfied with the Internal Control Procedures as far as Sales Order Processing is concerned.</p> <p>After discussion, they have decided that they would divide the Sales Transactions into Value Buckets viz. Less than 1 Lakh, 1 Lakh to 5 Lakh, 5 Lakh and above. For Accounts Receivables they would go for Age-wise Receivables viz. up to 45 Days, 45 to 90 Days, 90 to 180 Days and Above 180 Days.</p> <p>Checking of Sales and Receipts Transactions on the above basis was carried out and though the Auditors didn't find any major irregularity in the Sales, it was observed that most of the Receivables in Above 180 Days category were from individual Sales Bill of 1 Lakh or less and most of the parties were local ones. So it was decided to follow-up this matter by asking for Balance confirmation from those Debtors whose balance remained outstanding for more than 180 Days."</p>
	<p>I. "Which of the following Statement is correct?"</p> <p>(a). Hundred Percent Checking will give absolute satisfaction to the Auditor about correctness of transactions. (b). Sampling Methods cannot be relied upon to reveal the true feature and characteristics of the population. (c). If drawn properly, a sample would give reasonable basis to an Auditor to draw conclusions about the entire population (d). Sampling should be done only when Hundred Percent Checking is not possible"</p>
	<p>II. "Mr C and Mr A are discussing different approaches to Sampling, which are they?"</p> <p>(a). Statistical Sampling and Non-statistical Sampling (b). Large Sample and Small Sample (c). Random Sampling and Systematic Sampling (d). Scientific Sampling and Non-Scientific Sampling</p>
	<p>III. "Which of the following method is used by the Auditor for Drawing of the Samples?"</p> <p>(a). Simple Random Sampling (b). Haphazard Sampling (c). Systematic Sampling (d). Stratified Sampling"</p>

	<p>IV. " What is the initial perception of control risk as far as Sales Transactions are concerned? #Unique</p> <p>(a). High (b). Medium (c). Low (d). Non-existent</p>
	<p>V. "To satisfy about the genuineness of Balances of Debtors outstanding for more than 180 Days, M/s CA & Co would have to lower which risk?</p> <p>(a). Inherent Risk (b). Detection Risk (c). Control Risk (d). All of the above"</p>
<p>28</p>	<p>"Sections 139 to 148 of the Companies Act, 2013 relating to audit of companies which broadly deal with who can be appointed as an auditor under the Act, i.e., qualifications and disqualifications, the manner of appointment, removal of an auditor and rights and duties of an auditor.</p> <p>Keeping above mentioned sections in mind, what guidelines/procedures need to be followed by M/s ABC Ltd and Mr Samuel when M/s ABC Ltd appointed Mr Samuel as statutory auditor of the company for the Financial Year 2019-2020.</p> <p>Samuel’s father holds security of Rs 7 lakh face value in ABC Ltd. Would this throw any challenges to Samuel’s appointment as statutory auditor of M/s ABC Ltd.</p> <p>Also, Mr Samuel’s remuneration was fixed by Board of Directors which was subsequently challenged by a shareholder in the company’s Annual General Meeting.</p> <p>Based on the above facts and procedures, answer the following questions."</p> <p>I. "Mr Samuel needs to furnish his written consent and a certificate to the company</p> <p>(a). Before his appointment (b). Within 15 days of his appointment (c). Within 30 days of his appointment (d). None of the above"</p> <p>II. "Mr Samuel (the auditor of the company) subsequently submitted his resignation. He is required to intimate about his resignation to-</p> <p>(a). The Company (b). The Registrar of Companies (c). Both a and b. (d). Board of Directors, Registrar of Companies and Central Government"</p> <p>III. "Mr Samuel needs to file a statement in the prescribed Form _____ (as per Rule 8 of CAAR) within _____ days of resignation with the company and the registrar.</p> <p>I. ADT- 1, 10 II. ADT- 2, 7 III. ADT – 3, 30 IV. ADT - 4, 15</p> <p>IV. "If Mr Samuel had been removed as auditor of the company under section 140(5) by order of Tribunal, he could not be appointed as auditor of any company for a period of _____ from the date of order of Tribunal.</p> <p>(a). 10 years (b). 8 years (c). 5 years (d). 3 years</p> <p>V. "Mr Samuel’s remuneration as auditor of M/S ABC Ltd will be fixed by</p> <p>(a). By Board of Directors of the company</p>

	<p>(b). By Company in general meeting (c). By Central Government (d). By Comptroller & Auditor General of India"</p>
<p>29</p>	<p>"M/s RGL has been appointed as auditors of New Indian Bank (a nationalised bank) for the Financial year 2018-19 by its Board of Directors.</p> <p>Appointment of M/s RGL has been challenged by a shareholder in the Bank's Annual General Meeting stating that the appointment should have been made by the shareholders in the bank's AGM.</p> <p>Their appointment as auditors of the bank throws some questions for the bank's management. New Indian bank has exposure to crop loans as many branches are located in the rural area. While conducting the audit, the auditors are faced with the question of classification of non-performing advances.</p> <p>Also, New Indian bank has lot of Credit cards issued to its clients, some of which are overdue for long. While conducting the audit, the auditors came across various peculiarities relating to Bank Audits like classification of NPA's, reporting etc. to name a few.</p> <p>On the basis of above facts, please suggest appropriate treatments in respective cases."</p> <p>I. "As per the provisions of relevant enactments, please advise who can appoint auditors of a Nationalised bank.</p> <p>(a). Board of Directors of the Bank (b). Reserve Bank of India (c). Comptroller and Auditor General of India (d). Central Government"</p> <p>II. "The matters which the banks require their auditors to deal with in the Long Form Audit Report is to be specified by</p> <p>(a). Banking Regulation Act, 1949 (b). Central Government (c). Comptroller and Auditor General of India (d). Reserve Bank of India"</p> <p>III. "The auditors should classify Credit card accounts as NPA, if _____ amount due, as mentioned in the credit card statement is not paid fully within _____ days from next statement date.</p> <p>(a). Total, 90 (b). Minimum, 90 (c). Minimum, 30 (d). Minimum, 60</p> <p>IV. "An agricultural advance is classified as NPA, if interest or principal is overdue for _____ in case of short duration crops or if interest or principal is overdue for _____ in case of long duration crops.</p> <p>(a). One crop season, two crop season (b). Two crop season, one crop season (c). 90 days, 120 days (d). 120 days, 90 days</p> <p>V. "The bank is a consortium member of Cash Credit Facilities of Rs 100 crores to Bottle Limited. Bank's own share is Rs 20 crores only. During the last two quarters against a debit of Rs 1.75 crores towards interest the credits in Bottle Ltd.'s account are to the tune of Rs 1.25 crores only. The auditors have classified the account of Bottle Ltd as performing</p> <p>(a). Incorrect, Bottle Ltd is Non-Performing Asset (NPA) (b). Correct, Bottle Ltd is performing asset (c). Bottle Ltd.'s classification is subjective (d). None of the above."</p>

30	<p>"Zenith Software Ltd has appointed Ram Laxman & Associates as its auditors for financial year 2019-2020. The audit would cover all the usual aspects of financial auditing but would be more focused on Systems Audit as Zenith Software is a company which maintains its financial records extensively on digital platform. The processes, operations, accounting and decisions are carried out by using computers in Zenith Software Ltd.</p> <p>Standards on Auditing SA 315 and SA 330 require auditors to understand, assess and respond to risks that arise from the use of IT systems. Ram Laxman & Associates have been seasoned auditors but have not carried out Systems audit in detail.</p> <p>The tools and techniques that can be used to deal with the enormous data and information of Zenith Software Ltd. were briefed to the audit staff by the engagement partners, but they still have some queries and doubts and seek your assistance for conducting this special assignment.</p> <p>Based on below queries/cases, you are required to answer on specific areas which require special attention while conducting audit in an automated environment."</p> <p>I. " _____ are policies and procedures that relate to many applications and support the effective functioning of application controls</p> <p>(a). General IT Controls (b). IT Dependent Manual Controls (c). Both a) and b) (d). None of these"</p> <p>II. "The objective of which of the following is to ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives</p> <p>(a). Data Centre and Network Operations (b). Program Change (c). Access Security (d). Application system, acquisition, development and maintenance"</p> <p>III. "Tools and techniques that auditors use in applying the principles of data analytics are known as-</p> <p>(a). Computer Aided Audit Technique (b). Computer Aided Audit Tools (c). Computer Accounting and Auditing Technique (d). Computer Assisted Audit Technique"</p> <p>IV. " _____ is a term that is used to describe a very large computer with high computing power, memory and storage that are required for running large business operations. #Unique</p> <p>(a). Application (b). Read Access Memory (c). Automated (d). (d) Mainframe"</p> <p>V. " _____ are needed to support the functioning of _____ and both are needed to ensure complete and accurate information processing through IT systems.</p> <p>(a). Internal controls, Automated controls (b). IT- Dependent controls, General IT controls (c). Application controls, IT- Dependent controls (d). General IT controls, Application controls"</p>
31	<p>"ARG & Associates who have been the auditors of Sigma Ltd for the financial year 2019-20 have concluded their audit, prepared their notes and are ready to draft the Auditor’s Report. As per SA 700, 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.</p> <p>There seems to be some confusion between the audit team members in regard to format of Audit report, its contents, issues to be incorporated etc. in the Auditor’s report.</p>

	<p>Also, Sigma Ltd received a grant of ₹50 lakhs under the PM Make in India Subsidy Scheme for acquiring machinery for setting up new plant. The entire grant received was credited to Profit and Loss Account. Mr Ram and Mr Sham (two partners of ARG & Associates) differ on an audit point relating to audit of Sigma Ltd. Mr Ram is of the view that it will attract qualification however Mr Sham disagreed with his opinion.</p> <p>Based on above facts, you are required to answer below questions which require special attention while preparing the Audit report of Sigma Ltd."</p> <p>I. "The auditor shall express _____ when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>(a). qualified opinion (b). adverse opinion (c). unmodified opinion (d). disclaimer of opinion"</p> <p>II. "In relation to grant of ₹50 lakhs, while preparing the audit report, the auditor needs to:</p> <p>(a). qualify the report stating the fact that the income has been overstated to the extent of the amount of grant net of proportionate credit that would have been worked out. (b). qualify the report stating the fact that the income has been understated to the extent of the amount of grant net of proportionate debit that would have been worked out. (c). express unmodified opinion as Accounting Standard-12 allow the recognition of grant received as income. (d). None of the above"</p> <p>III. "The auditor shall express _____ 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.</p> <p>(a). qualified opinion (b). adverse opinion (c). unmodified opinion (d). disclaimer of opinion"</p> <p>IV. "Assume Mr Ram and Mr Sham from two different joint auditor's firms. How audit report should be made in circumstances where two joint auditors have difference of opinion in relation to a specific issue -</p> <p>(a). The view of Mr Ram will prevail because of prudence (b). Joint Auditors should come at a common point and give opinion accordingly (c). The matter should be referred to a senior joint auditor firm (d). Mr Ram and Mr Sham would issue separate audit reports"</p> <p>V. "Communicating key audit matters in the auditor's report is</p> <p>(a). not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. (b). a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705. (c). a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; (d). a separate opinion on individual matters."</p>
<p>32</p>	
	<p>"Ravish and Co, a chartered accountancy firm, has been auditing the books of PQ groups of banks, from the past 6 years. Ravish and Co. has a good standing reputation as auditor and there are regular quality control activities performed by the firm's engagement partner. The recent weekly meeting of the firm's staff included discussions on each of the element of the firm's system of quality control as per SQC 1 and code of ethics as per SA 200.</p>

During the 7th year of audit, there have been some changes in the bank due to which the firm is considering revision of audit terms as per SA 210. Also, new laws and updates in the field of accounting makes the auditor feel that the financial reporting framework used by the bank is not acceptable as per law and is considering the impact of this on his audit report.

Owing to the changes, Mr. Ravish instructs his articles to go through the audit programme once again and make necessary changes to it. He also reviews the audit plan developed for the bank.

After the above exercise of re-planning and revision in terms of the engagement as per SA 210, Mr. Ravish and Co. carries on the audit of the 7th year and observes the following issues:

- a. As per the Income Tax Act 1961, the banks are to report certain high value transactions to the department. On verification of certain records, the auditor suspects that there is non-compliance with the law and in his judgment; the effect of the suspected non-compliance may be material to the financial statements. On discussion with management, he does not get sufficient information supportive that the bank is in compliance with the law.
- b. The management of the bank shows recent investigation reports by external authorities to the auditor wherein red flags have been raised in the internal control system of the bank. The management blames the auditor that he has not audited the entity's internal system correctly and threatens to hold the auditor responsible for the same.

Considering the above facts, answer the following questions by choosing the correct answer."

I. "Which among the following is NOT an element of firm's system of quality control?"

- (a). Ethical Requirements
- (b). Acceptance and continuance of client relationships and specific engagements
- (c). Engagement review
- (d). Monitoring"

II. "When conducting an audit of financial statement, which of the following is NOT a fundamental principle of professional ethics?"

- (a). Integrity
- (b). Professional Skepticism
- (c). Confidentiality
- (d). Objectivity"

III. "Which of the following statement is incorrect considering the context of revision in audit terms as per SA 210?"

- (a). Indication that the entity has misunderstood the objective and scope of the audit
- (b). A significant change in ownership of the bank
- (c). A change in legal or regulatory requirements
- (d). Significant change in the audit team"

IV. "The auditor has found that the financial reporting framework provided by law or regulation is unacceptable. What should be the impact of this on his report?"

- (a). Issue an adverse opinion owing to unacceptable financial reporting framework
- (b). Include an "Emphasis of Matter Paragraph" drawing user's attention to additional disclosures other than those as per law.
- (c). Include an "Other Matter paragraph" drawing user's attention to additional disclosure other than those as per law.
- (d). No need of any mention in report as law or regulation has prescribed the framework and law holds highest authority.

V. "Which among the following best defines an Audit Programme?"

- (a). An audit programme consists of a series of verification procedures to be applied to the financial statements and accounts of a given company for the purpose of obtaining sufficient evidence to enable the auditor to express an informed opinion on such statements.
- (b). An audit programme is a statement containing the details of the hours worked, work done, and output achieved by the staff of the audit firm used by the principal for review purpose
- (c). An audit programme is a checklist developed by the audit firm covering verification aspects which are common to clients handled by the audit firm.

	(d). An audit programme is the policies and procedures adopted by the company for ensuring orderly and efficient conduct of audit, including timely provision of records to auditors and prompt response to audit queries."
33	<p>"Deenan and Co. is the auditor of a service industry Niranjana Groups. The auditor during the course of identifying and assessing the risk of material misstatement through understanding the entity and its environment and during the course of performing the audit procedures comes across the following circumstances:</p> <p>Issue 1: The auditor, in general, finds that there are a lot of discrepancies in accounting. These circumstances indicate to the auditor that there is a possibility of fraud.</p> <p>Issue 2: The auditor finds that there is something unusual about the balances outstanding in the receivables. Date wise verification of the bank reconciliation performed by the auditor has resulted in mismatch in dates in most of the receivable ledger. The auditor has identified a pattern in the mismatches. He suspects that there might be a misappropriation of cash and the detection of this misappropriation is being prevented by crediting the amount received subsequently to the account of customer who paid earlier.</p> <p>Issue 3: On deeper scrutiny, the auditor also finds that the company is holding significant bank accounts and having branch operations in tax haven jurisdictions. Also, there are significant related party transactions which do not appear to be in the ordinary course of business.</p> <p>Issue 4: During the course of verification, it is found by the auditor that there is no proper hierarchy and approval procedure for the senior management expenditure such as travel re-imbursment.</p> <p>Issue 5: The auditor also assesses and suspects material misstatements in asset value. As a response to this, he plans to carry out physical observation of certain assets by using computer assisted audit techniques.</p> <p>From the above facts, answer the following questions by choosing the right option."</p> <p>I. "Which among the following is NOT a fraud risk factor leading to a fraud in an organization?</p> <p>(a). Incentive or pressure to commit fraudulent financial reporting (b). A perceived opportunity to commit fraud (c). Individuals being able to rationalize the act of committing a fraudulent act (d). Taking undue advantage of the inefficient internal control in the organization"</p> <p>II. "What is the kind of fraud that the auditor has faced in Issue 2 raised in the case above?</p> <p>(a). Teeming and Lading (b). Cash skimming (c). Defalcation of cash by inflating cash payment (d). Misappropriation of receivables</p> <p>III. "Which among the following statement is incorrect in the context of the two types of fraud "Fraudulent financial reporting" and "Misappropriation of assets"?</p> <p>(a). Fraudulent financial reporting is achieved by manipulation, falsification or alteration of accounting records from which financial statements are prepared (b). Misappropriation of assets is achieved by intentional misapplication of accounting principles relating to amount, classification, presentation and disclosure. (c). Fraudulent financial reporting is achieved by management override of controls (d). Misappropriation of assets is achieved by causing an entity to pay for goods and services not received."</p> <p>IV. "Issue 3 identified by the auditor is a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?</p> <p>(a). The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting. (b). The risk factor creates an incentive/pressure for the fraud and results in a misstatement due to misappropriation of assets (c). The risk factor creates a perceived opportunity for the fraud and results in misstatement due to fraudulent financial reporting.</p>

	(d). The risk factor creates a perceived opportunity for the fraud and results in misstatement due to misappropriation of assets."
	V. "Issue 4 identified by the auditor is also a fraud risk factor. What is the condition created by that fraud risk factor and what fraud does it result in?
	(a). The risk factor creates a rationalization for the fraud and results in a misstatement due to fraudulent financial reporting. (b). The risk factor creates an incentive/pressure for the fraud and results in a misstatement due to misappropriation of assets (c). The risk factor creates a perceived opportunity for the fraud and results in misstatement due to fraudulent financial reporting. (d). The risk factor creates a perceived opportunity for the fraud and results in misstatement due to misappropriation of assets."

34	<p>"PK & Associates, a 20-year-old CA firm was duly appointed as Statutory Auditors of one of the major branches of KBC Bank Ltd., a Nationalised bank , as per the applicable procedure of the appointment of auditors. The Engagement Partner, CA Raman Kumar, carries out discussions with the Engagement team on how to plan, start & conclude this Statutory Bank Audit. He also makes them aware of the importance of such Engagement discussion. CA Raman also discusses with other Partners of the firm regarding the Professional Remuneration the firm will be getting against the completion of this Statutory Audit assignment as fixed by the relevant authorities in this case.</p> <p>He tells the engagement team about various reports they would be required to issue after the conclusion of audit as the Statutory auditors such as the Statutory Report , LFAR , etc. During the course of the audit , the audit team suspects a fraud having been committed in the Bank branch involving an amount of INR 2.5 crores and they report of the same to the Bank’s Board of Directors (BOD) but receive no reply against it from them and therefore proceed further as per their legal obligation as the Statutory auditors.</p> <p>They also observe that more than 80% the Bank Branch’s advances consist of Gold Loans. Also , more than 90% of the remaining advances are overdue between 61 to 90 days but the Bank has not categorized them accordingly."</p>
	<p>I. "As per CA Raman’s discussions with other partners of the firm, their Professional remuneration as per the assignment allotted in the above case is fixed by the</p> <p>(a). The Shareholders of the Bank at their AGM. (b). The Reserve Bank of India in consultation with the Central Government. (c). The Bank through its Board of Directors. (d). The Central Government."</p>
	<p>II. "The Engagement Team’s discussions as held by CA Raman are a part of which of the following phases of an audit?</p> <p>(a). Audit Planning. (b). Developing an Audit Programme. (c). Risk Assessment. (d). (d) Audit Reporting."</p>
	<p>III. "Which of the following types of Audit Report do PK & Associates will have to issue to comply with the requirements as laid down by RBI circulars as narrated by CA Raman to the Engagement team ?</p> <p>(a). Statutory Audit Report (b). Tax Audit Report. (c). LFAR. (d). GST Audit Report."</p>
	<p>IV. "In the given case , what should be CA Raman’s legal obligation & reporting requirement w.r.t. the fraud noticed by the team during the course of the audit ?</p> <p>(a). Report the nature of amount & parties involved in the fraud in his audit report .</p>

	<p>(b). Ask for the matter to be disclosed in the Board’s Report by the BOD..</p> <p>(c). Forward the reply received from the BOD to the Central Government along with his report and his comments upon the reply received.</p> <p>(d). Forward his Report with a Note to the Central Govt. stating the non-receipt of any observations from the BOD."</p>
	<p>V. "The Bank’s major advances constitute a specific type of Loan product. What according to you must have been the most common form of Security Creation in the Bank against such types of Loans?</p>
	<p>(a). Mortgage</p> <p>(b). Pledge</p> <p>(c). Hypothecation</p> <p>(d). Charge</p>

35	<p>"Kwatra & Co. is a CA firm based at New Delhi. They were appointed as the Statutory Auditors of Mannalaxmi Bank Ltd. For the Financial year 2019-20. After having a good discussion with the Engagement team , CA Vikas , the Engagement Partner , started the Bank audit with his team and made the following observations during the course of the audit:-</p> <ul style="list-style-type: none"> • One of the borrowers , Mr. Rakesh Verma has availed a Machinery Loan from the Bank but has not paid the EMI since the past 100 days. However, his business is going good and the Bank Manager is of the view that such loan need not be classified as NPA as they have his Factory building available with them as Mortgaged Security against the Machinery Loan and good amount could be realized by its auction in the case of default by Mr. Verma. • Mrs. Lata , one of the prime customers of the Bank has availed a CC facility for her Garment business , a Car Loan for her personal purpose and an Education loan for her son’s higher studies , all from the Bank branch under audit. She has been regular in meeting the EMI obligations of all the loans except for the Car loan where she has not been able to pay the EMI since the past 4 months. • Mr. Kapoor has been sanctioned a Cash Credit Limit of INR 55 lakhs by the Bank and the outstanding balance in his CC account is INR 55 lakhs since the past 3 months. There are no credits continuously for 90 days as on the date of Balance Sheet • Sakhi Cooperative Society’s Term Loan of INR 10 lakhs has been guaranteed by the Central Government and is overdue since the past 120 days . The CG guarantee has not been invoked or repudiated till now. • Similarly , Vishwas NGO’s loan of INR 7 lakhs has been guaranteed by the State Government, but it is overdue since the past 105 days, but the Bank manager is of the view that this not be categorized as NPA as it has been guaranteed by the State Government and the guarantee has not been invoked/repudiated. • The RBI inspection team had identified a KCC Loan given to Mr. Khara , a farmer as a Loss in its RBI Report but the Bank has not provisioned it accordingly as the manager is hopeful of recovery from such loan. • There is a Term Loan advance by the Bank as a Lead Bank together with two other major banks under a specific agreement to a big Corporate house in the city." <p>I. "Mr. Verma’s Loan account in the above case should be categorized as-</p> <p>(a). NPA because of no recovery for more than 90 days.</p> <p>(b). Loss asset as there are minute chances of recovery.</p> <p>(c). Standard asset as per the Manager as security is available against this loan and also the net worth of the borrower is strong.</p> <p>(d). SMA 02 Loan."</p> <p>II. "Which of the following Loan facilities given to Mrs. Lata be categorized as NPA by the Bank</p> <p>(a). Cash Credit Facility</p> <p>(b). Education Loan</p> <p>(c). Car Loan</p> <p>(d). All loans advanced</p>
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	<p>III. "Mr Kapoor's loan account as per the above case is -</p> <p>(a). Overdue (b). SMA 01 (c). Doubtful asset (d). Out of Order</p> <p>IV. "The loan sanctioned to Sakhi Cooperative Society in the above case should be categorized as _____ for the purpose of Provisioning of Assets but/and deemed/taken to be as _____ for the purpose of Income recognition by the Bank , respectively.</p> <p>(a). NPA ; NPA. (b). NPA ; Standard. (c). Standard ; NPA. (d). Standard ; Standard.</p> <p>V. "The loan sanctioned to Vishwas NGO in the above case should be categorized as _____ for the purpose of Provisioning of Assets but/and deemed/taken to be as _____ for the purpose of Income recognition by the Bank , respectively.</p> <p>(a). NPA ; NPA. (b). NPA ; Standard. (c). Standard ; NPA. (d). Standard ; Standard</p>
36	<p>"Mr. Balwant Singh, the MD of Suvidha Stores Ltd., has requested CA Arun Kumar to carry out the Statutory Audit of his Store's Head office at Pune. On a discussion w.r.t. the terms of Engagement of the Audit, Mr. Balwant tells CA Arun that he smells something fishy going on in the Accounts department and wants CA Arun to report keeping susceptibility of Fraud as per SA-240 in mind. CA Arun tells MR. Balwant that Fraud results from material misstatements arising either due to Fraudulent Financial Reporting or Misappropriation of Assets. He also tells him about the various Fraud Risk Factors which form the reason behind Commitment of Fraud by the employees and also tells him about his reporting procedure. On scrutiny of the accounts of the Company and after discussing with the employees at the Head office, CA Arun notes down following observations:-</p> <ol style="list-style-type: none"> 1. Mr. X, the Head Accountant seems to have colluded with the Cashier Mr. Y. 2. Mr. X has reported higher than usual profits in the books of accounts because apart from his salary, he also receives incentives based upon the profits earned by the Co. 3. Mr. Y, the Cashier has shown some bogus expenses which have not actually been incurred. 4. CA Arun estimates the amount involved in Fraud to be ₹ 5 crores." <p>I. "Fraud in the above case scenario has been committed by resorting to which of the following Material Misstatements identified during the audit:-</p> <p>(a). Fraudulent Financial Reporting (b). Misappropriation of Goods (c). Defalcation of Cash (d). Either (b) or (c)"</p> <p>II. "The Fraud Risk Factor behind committing of Fraud by Mr. X in the above case was:-</p> <p>(a). Incentives or Pressure (b). Rationalization (c). Perceived Opportunity (d). Adventure</p> <p>III. "How has the Fraud been Committed by Mr. X ?</p> <p>(a). Manipulation/Falsification (b). Misrepresentation (c). Intentional Misapplication of Application Accounting Principles (d). Error</p>

	<p>IV. "Mr. Y resorted to Defalcation of Cash by</p> <ul style="list-style-type: none"> (a). Inflating Cash Payments (b). Suppressing Cash Receipts (c). Casting wrong totals in Cash Book (d). Stealing Cash
	<p>V. "CA Arun found significant unexplained items on many reconciliations. This is an example of possibility of Fraud due to</p> <ul style="list-style-type: none"> (a). Discrepancies in accounting Records (b). Problematic relationship between auditor & management (c). Conflicting or Missing Evidence (d). Other
<p>37</p>	<p>"As per Section 143(5) of the Companies Act, the power to appoint auditor of Government Company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government/s rests with Comptroller & Auditor General of India. Sigma & Associates (a practicing Chartered Accountant firm) having good practice spread across regions, industries now applied to Comptroller & Auditor General of India for allotment of audits of Government departments, Local bodies, Co-operative societies etc. The firm is also interested in taking up LLP audits and wants to know peculiarities related to LLP audits in accordance with LLP Rules 2009. Two senior Chartered Accountants are entrusted for this division within Sigma & Associates. Both of them are seasoned and highly experienced Chartered Accountants. Based on below queries/cases, you are required to answer on specific cases which require special attention while conducting audit of Government departments, Local bodies, Co-operative societies etc."</p> <p>I. "Public money should not be utilized for the benefit of a particular person or a section of the community or for the person who is sanctioning the expenditure. These are the principles covered in</p> <ul style="list-style-type: none"> (a). Performance Audit (b). Audit against rules and orders (c). Propriety Audit (d). Efficiency Audit" <p>II. "In case of co- operative societies, bad debts and irrecoverable losses before being written off against Bad Debt funds, Reserve fund etc. should be certified as bad debts or irrecoverable losses by the</p> <ul style="list-style-type: none"> (a). auditor where the law so requires (b). the managing committee of the society , when law is silent as to certification by auditor (c). the managing committee of the society , irrespective of the provisions of the law (d). Both (a) and (b)" <p>III. "As per Rule 24 of LLP Rules, 2009, Statement of Account and Solvency shall be filed in _____ with the _____, within a period of _____.</p> <ul style="list-style-type: none"> (a). Form 5, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates. (b). Form 5, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates. (c). Form 8, SEBI, 30 days from the end of 3 months of the financial year to which the Statement of Account and Solvency relates. (d). Form 8, Registrar, 30 days from the end of 6 months of the financial year to which the Statement of Account and Solvency relates" <p>IV. "LLP, whose turnover does not exceed ` _____ or whose contribution does not exceed ` _____, is not required to get its accounts audited.</p> <ul style="list-style-type: none"> (a). 40 Lakhs, 25 Lakhs (b). 50 Lakhs, 25 Lakhs

	(c). 40 Lakhs, 20 Lakhs (d). 60 Lakhs, 30 Lakhs"
	V. "Which of the following matter is not required to be inquired by auditor of multi-state co-operative society under Sec. 73(2) of Multi-State Co-operative Societies Act, 2002: (a). Whether loans and advances made on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the society or its members; (b). Whether transactions which are represented merely by book entries are not prejudicial to the interest of Society; (c). Whether personal expenses have been charged to revenue account; and (d). Whether loans and advances shown as deposits."
38	"Sargam Ltd appoints Kishore & Mukesh as statutory auditors for the financial year 2019-2020. Kishore & Mukesh seem to have different opinions on Audit approach to be adopted for audit of Sargam Ltd. Kishore wants to check all transactions without exception in order to ensure that nothing is missed from the scope so as to give them (auditors) reasonable assurance on the coverage of Audit. On the other hand, Mukesh is of the opinion that 100% checking is not required, and they can rely on Audit Sampling techniques in order to provide them a reasonable basis on which they can draw conclusions about the entire population. Based on above facts, please respond to below queries posed by them as per SA 530." I. "Sampling risk can lead to two types of erroneous conclusions one of them is when test of control appears to be more effective than they actually are which affects _____ and is more likely to lead to an inappropriate audit opinion. (a). audit efficiency (b). audit effectiveness (c). audit quality (d). none of the above II. "When auditor decides to select less than 100% of the population for testing, the auditor is said to be using _____ (a). Audit sampling (b). Representative sampling (c). Test Checking (d). Internal Audit III. "Tolerable error is _____ in population that auditor is willing to _____ for a given sample size. (a). Minimum, Forego (b). Maximum, Forego (c). Minimum, Accept (d). Maximum, Accept IV. "The application of audit sampling is such that all sampling units have a chance of selection in order to draw conclusion about the _____. (a). Entire population (b). Selective population (c). Audited population (d). Universe V. " _____ is a method of audit testing which is more scientific than testing based entirely on the auditor's own judgement because it involves use of mathematical laws of probability in determining the appropriate sample size. (a). Statistical Sampling (b). Non statistical Sampling

	<p>(c). Haphazard Sampling (d). Cluster Sampling</p>
<p>39</p>	<p>"Auditors while conducting audits are governed by SA 230 "Audit Documentation" in relation to record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. CA. Harry is a statutory auditor of Potter Ltd. The auditor of Rowling Ltd. a parent company of Potter Ltd. asked Harry the working papers of Potter Ltd for commenting on the important requirement of the Central Government.</p> <p>Also, CA. Bean is statutory auditor of Rowling Ltd. against which Income tax department started search and seizer procedure .CA. Bean was asked for the working papers of the company on the directions and permission of CIT (A) to provide for the relevant information asked.</p> <p>Based on the above specific cases and in general, answer the following questions as per guidance provided by SA 230."</p> <p>I. " _____ is the file containing the records and data that comprise the audit documentation for a specific engagement.</p> <p>(a). Audit file (b). Engagement file (c). Working file (d). Client’s file</p> <p>II. "Which of the following does not affects form, content & extent of documentation</p> <p>(a). Size and complexity of the entity (b). nature of audit team who will perform audit (c). identified Risk of material misstatement (d). audit methodology and tools to be used</p> <p>III. "If in exceptional circumstances the auditor departs from Standards on Auditing, he shall_____ #Unique</p> <p>(a). Document the reason for departure (b). document how the alternative procedures were performed for achieving the objective (c). Both (a) and (b) (d). Auditor is not allowed to depart from SAs.</p> <p>IV. "Which of the following is not true of working papers?</p> <p>(a). They record the audit evidence to provide support for the auditor’s opinion (b). They assist in review of the audit work (c). They are a direct aid in the planning of the audit (d). They provide proof of the correctness of the financial statements.</p> <p>V. "Can CA. Bean provide access to working papers to Income Tax department during search & seizure operation? #Unique</p> <p>(a). CA. Bean can provide as it is the requirement of law (b). CA. Bean is guilty of professional misconduct (c). CA. Bean should not provide the working paper (d). None of the above</p>
<p>40</p>	<p>"Cheenu & Co are the auditors of a manufacturing industry. During the course of the audit, the following are the observations:</p> <p>(a) Due to paucity of time, one of the partners of Cheenu & Co. suggests that the team may complete the audit procedures and issue the audit report. They may carry out the audit documentation at a later stage.</p>

	<p>(b) Cheenu & Co. has identified the benchmark for the materiality level. However, there is a difference of opinion in documenting materiality for the financial statements. One of the partners is of the opinion that there is no need to document the same as per SA 230.</p> <p>(c) During the course of the audit, Cheenu & Co. wants to verify the inventory of the company held under the custody and control of the third party. The management refuses the same as it is not practicable.</p> <p>(d) There exists a litigation matter in which the auditor assesses a risk of material misstatement and wants to directly communicate with the entity's external legal counsel. The management however refuses to give the auditor permission to communicate or meet the entity's external legal counsel. Further, the auditor is unable to obtain sufficient appropriate audit evidence by performing alternate procedures.</p> <p>From the above information, answer the following by choosing the correct option:"</p>
	<p>I. "As per SQC1, what is the retention period of the audit documentation?</p> <p>(a). It should be no shorter than seven years from the date of the auditor's report.</p> <p>(b). It should be no shorter than eight years from the date of the auditor's report</p> <p>(c). There is no such retention period; audit documentation must be there permanently as a defense in favour of the auditor in any litigation</p> <p>(d). It should be no shorter than eight years from the date of entering into the audit agreement with client"</p>
	<p>II. "As part of the audit documentation, the auditor may consider it helpful to prepare and retain a summary that describes significant matters identified during the audit and how they were addressed. What is this summary known as?</p> <p>(a). Audit File</p> <p>(b). Completion Memorandum</p> <p>(c). Evidence summary</p> <p>(d). Control Memorandum</p>
	<p>III. "How should the auditor verify the inventory held in custody with the third party?</p> <p>(a). SA 501 mandates auditor to verify the same physically, hence management refusal will lead to a disclaimer of opinion</p> <p>(b). The auditor should perform other procedures like requesting confirmation from third party or inspecting documentation like warehouse receipts to confirm existence of the inventory</p> <p>(c). The auditor should obtain written representation from management on the inventory held in custody with third party</p> <p>(d). Inventory of client held with third party is outside the scope of audit; hence auditor need not verify the same for his audit opinion on the financial statements."</p>
	<p>IV. "Is the opinion of the auditor on not to document the materiality level correct?</p> <p>(a). Yes, SA 230 does not prescribe any documentation of materiality level as it is derived out of auditor's professional judgment.</p> <p>(b). Yes, none of the auditing standards prescribe documentation of materiality level.</p> <p>(c). No, though SA 230 does not prescribe any documentation, it should be documented as per SA 320.</p> <p>(d). No, SA 230 explicitly states that materiality level should be documented."</p>
	<p>V. "Which among the following is not a factor for identification of an appropriate benchmark?</p> <p>(a). The elements of the financial statements</p> <p>(b). The relative volatility of the benchmark</p> <p>(c). The entity's ownership structure and the way it is financed.</p> <p>(d). Previous experience of audit with the entity"</p>

41	<p>"A Partnership Firm of Chartered Accountants by the name of WN and Associates was appointed to audit books of accounts of Healthy and Talented Private Limited for the financial year 2020-21. WN and Associates consisted of two partners, Mr. W and Mr. N. The main responsibility to audit books of accounts of Healthy and Talented Private Limited for the financial year 2020-21 was given to Mr. W by</p>
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WN and Associates. A team of seven members was provided to Mr. W for the purpose of helping him in conducting the audit of Healthy and Talented Private Limited for the financial year 2020-21.

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First team member of team helping Mr. W suggested that they should follow a method, according to which number of instructions were required to be followed to collect information about internal control.

The second team member of team helping Mr. W suggested a method in which complete description of internal control in operation is recorded.

The third team member of team helping Mr. W suggested a method in which internal control of a company is presented in graphic form.

The fourth team member of team helping Mr. W suggested a method in which a series of questions were required to be answered which would provide information for internal control.

After analysing all the suggestions Mr. W was satisfied with the suggestion of the third team member because according to Mr. W the suggestion of third team member was suitable from WN and Associates point of view and also from the point of view of Healthy and Talented Private Limited. Keeping the basic concepts of Internal Control in mind, answer the following multiple choice questions:"

I. "In initial stage of conducting audit of Healthy and Talented Private Limited, Mr. W decided to evaluate internal control of the company. Evaluation of internal control is very important part of:

- (a). Audit Report.
- (b). Audit Evidence.
- (c). Audit Documentation.
- (d). Audit Programme."

II. "The first team member of team helping Mr. W suggested a method according to which, number of instructions were required to be followed to collect information about internal control. This method is called as :

- (a). Flow Chart.
- (b). Check List.
- (c). Narrative Record.
- (d). Questionnaire.

III. "The second team member of team helping Mr. W suggested a method in which complete description of internal control in operation is recorded. This method is known as :

- (a). Narrative Record.
- (b). Flow Chart.
- (c). Questionnaire.
- (d). Check List.

IV. "The third team member of team helping Mr. W suggested a method in which internal control of company is presented in graphic form. This method of gathering information so that internal control can be evaluated is known as :

- (a). Check List.
- (b). Questionnaire.
- (c). Flow Chart.
- (d). Narrative Record.

V. "The fourth team member of team helping Mr. W suggested a method in which a series of questions were required to be answered to gather information for internal control. This method of gathering information so that internal control can be evaluated is called as :

- (a). Questionnaire.
- (b). Flow Chart.
- (c). Narrative Record.
- (d). Check List.

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"During the financial year 2020-21, a Partnership Firm of Chartered Accountants HW and Associates was appointed to audit the books of accounts of Extremely Healthy and Very Delicious Limited. HW and Associates consists of two partners, Mr. H and Mr. W. While auditing the books of accounts of the above mentioned company for the financial year 2020-21, Mr. H observed certain accounting transactions and accounting treatments which he was not able to understand. Such accounting transactions and accounting treatments are provided as follows:

1. The books of accounts of Extremely Healthy and Very Delicious Limited showed profit for the financial year 2020-21. The closing stock was incorrectly recorded in books of accounts of the company for ` 11,45,000. However, the actual closing stock was of ` 11,05,000.
2. Expenses and Incomes were not recorded on Accrual Basis and such fact was not disclosed in the financial statements.
3. Each and every type of inventory was valued at higher of Cost and Market Value.
4. An amount of ` 15,500 received in cash from one of the trade receivable was presented in the cash flow statement as Inflow of Cash of ` 15,500 from Investing Activities.
5. A payment of ` 16,600 was done in cash for the purpose of purchasing Machinery 22. This accounting transaction was presented in the cash flow statement as Inflow of Cash of ` 16,600 from Financing Activities.
6. Extremely Healthy and Very Delicious Limited received certain amount in cash on issue of shares. One such amount of ` 19,100 received in cash was presented as Outflow of Cash of ` 19,100 from Operating Activities in the Cash Flow Statement.
7. Fair Value of Equipment 31 = ` 1,07,300.
Carrying Amount of Equipment 31 = ` 90,400.
Residual Value of Equipment 31 = ` 79,600.

No depreciation was charged on Equipment 31 for the financial year 2020-21 as Management of Extremely Healthy and Very Delicious Limited was of the opinion that no depreciation would be charged as Fair Value of Equipment 31 was more than Carrying Amount of Equipment 31.

Keeping the basic concepts of Accounting Standard 1 relating to Disclosure of Accounting Policies, Accounting Standard 2 relating to Valuation of Inventories, Accounting Standard 3 relating to Cash Flow Statements, Accounting Standard 10 relating to Property, Plant and Equipment and Audit of Items of Financial Statements in mind answer the multiple-choice questions that follow:"

- I. "Closing Stock of ` 11,05,000 was incorrectly recorded in books of accounts of Extremely Healthy and Very Delicious Limited for ` 11,45,000. This means profit before correction in books of accounts of the company was:

- (a). Understated by ` 20,000.
- (b). Understated by ` 40,000.
- (c). Overstated by ` 20,000.
- (d). Overstated by ` 40,000.

- II. "Inventory of Extremely Healthy and Very Delicious Limited must be valued at:

- (a). Cost.
- (b). Lower of Cost and Net Realizable Value.
- (c). Market Value.
- (d). Higher of Cost and Net Realizable Value.

- III. "The amount of ` 15,500 which was received in cash from one of the trade receivable of Extremely Healthy and Very Delicious Limited, must be presented in Cash Flow Statement as:

- (a). Inflow of Cash of ` 15,500 from Miscellaneous Activities.
- (b). Inflow of Cash of ` 15,500 from Operating Activities.
- (c). Inflow of Cash of ` 15,500 from Investing Activities.
- (d). Inflow of Cash of ` 15,500 from Financing Activities.

- IV. "For the purpose of purchasing Machinery 22, a payment of ` 16,600 was done by Extremely Healthy and Very Delicious Limited in cash. This accounting transaction must be presented in the Cash Flow Statement as:

- (a). Outflow of Cash of ` 16,600 from Investing Activities.

	<p>(b). Outflow of Cash of ` 16,600 from Operating Activities. (c). Outflow of Cash of ` 16,600 from Financing Activities. (d). Outflow of Cash of ` 16,600 from Miscellaneous Activities.</p>
	<p>V. "During the financial year 2020-21, the fair value of Equipment 31 of Extremely Healthy and Very Delicious Limited was more than the carrying amount of Equipment 31. In this situation which of the following statement is correct:</p> <p>(a). No depreciation would be charged on Equipment 31 for the financial year 2020-21 as Fair Value was more than Carrying Amount for Equipment 31. (b). No depreciation would be charged on Equipment 31 for the financial year 2020-21 as Fair Value was more than Residual Value for Equipment 31. (c). Depreciation would be charged on Equipment 31 for the financial year 2020-21 as Carrying Amount was less than Fair Value for Equipment 31. (d). Depreciation would be charged on Equipment 31 for the financial year 2020-21 as Residual Value is less than Carrying Amount for Equipment 31.</p>
<p>43</p>	<p>"A private company by the name of Very Composed Private Limited was required to be audited for the financial year 2020-21. A partnership firm of Chartered Accountants, ST and Associates was appointed as company auditor of Very Composed Private Limited. The partnership firm ST and Associates had two partners, Mr. S and Mr. T. During the course of audit, one of the partners of ST and Associates, Mr. S took up one of the important item of financial statements namely tangible fixed assets for the purpose of audit.</p> <p>While auditing tangible fixed assets Mr. S observed various accounting policies, procedures and principles which management of Very Composed Private Limited had adopted for maintaining books of accounts of the above mentioned company which he was unable to understand. For Example:</p> <ol style="list-style-type: none"> 1. Expenses incurred on installation of new machinery purchased were treated as revenue expenditure. 2. Expenses incurred regarding normal maintenance of old machinery were treated as capital expenditure. 3. Depreciation was not charged on building of Very Composed Private Limited on the reason that it was non – depreciating in nature. 4. The appropriate authority of Very Composed Private Limited had not taken steps for assessing impairment loss on machinery. <p>The above mentioned four examples were some of the issues which Mr. S was unable to understand while auditing tangible fixed assets of Very Composed Private Limited. Keeping the basic concepts and accounting principles regarding tangible fixed assets in mind answer the following multiple choice questions that follow:"</p> <p>I. "Expenses incurred on installation of new machinery by Very Composed Private Limited should be treated as:</p> <p>(a). Revenue Expenditure (b). Capital Expenditure (c). Deferred Revenue Expenditure (d). Partly Revenue Expenditure and Partly Capital Expenditure</p> <p>II. "Expenses incurred on normal maintenance of old machinery by Very Composed Private Limited should be treated as:</p> <p>(a). Capital Expenditure (b). Deferred Revenue Expenditure (c). Partly Revenue Expenditure and Partly Capital Expenditure (d). Revenue Expenditure</p> <p>III. "In books of accounts of Very Composed Private Limited, building should be treated as:</p> <p>(a). Depreciating Tangible Fixed Asset (b). Non-Depreciating Tangible Fixed Asset (c). Depreciating Intangible Fixed Asset</p>

	(d). Non-Depreciating Intangible Fixed Asset
	IV. "In example 4 in integrated case scenario above, Mr. S mentions about appropriate authority of Very Composed Private Limited which has not taken steps for assessing impairment loss on machinery. By appropriate authority Mr. S was referring to:
	(a). Members of Very Composed Private Limited (b). All employees of Very Composed Private Limited (c). Management of Very Composed Private Limited (d). Any one Director of Very Composed Private Limited
	V. "The method of depreciation used by Very Composed Private Limited must be such that it allocates amount of depreciation of a tangible fixed asset in a systematic manner over its:
	(a). Complete Life (b). Service life (c). Economic life (d). Useful Life
44	<p>"Vyom is a CA student who has just enrolled for his article ship training with M/s Kumar & Co., a LLP of Chartered Accountants with Mr. Kumar & Mr. Kanwar as its designated Partners. Vyom has only theoretical knowledge till now of accounting work and wants to gain practical knowledge of Accounting & Auditing. He asks Mr. Kumar to take him to important assignments along with him so that he can also get exposure to practical auditing. Mr. Kumar, sensing his ambition, advises him to proceed slowly with less complex work in the beginning to understand the process of accounting and auditing from the core instead of jumping directly to be a part of the engagement teams for large audits. He assigns him a small audit of a sole trader Client 'X' and asks him to document each and every step of the Audit Programme being handed over to him as a part of the audit team auditing the accounts of Mr. X. Mr X follows accrual system of accounting.</p> <p>Vyom, on advice from Mr. Kumar, reads first about the Financial Statements, their inclusions and assertions they contain. He learns that a 'Financial Statement Audit' is the most common one but different from all other audits. In preparing the financial statements, an entity's management makes implicit or explicit claims known as assertions regarding the completeness, existence/occurrence, valuation/ measurement, rights and obligations and presentation and disclosure of financial statement items. While auditing the books of Mr. X, he observes the following and documents audit evidence gathered by him:-</p> <ul style="list-style-type: none"> • Assets have been shown at their Historical Cost in the Balance Sheet. • Prepaid & Outstanding Expenses have not been accounted for as per accrual basis. • Specific audit procedures to check the consistency of audit evidence obtained externally with those generated internally have been carried out. <p>CA Kumar discusses the evidence collected by Vyom and tells him that they are insufficient and makes him aware of the factors which he needs to consider in his future audits as to determine the sufficiency of audit evidence collected."</p>
	I. "Company X's Balance-Sheet shows Building with carrying amount of INR 5 Lakh, the auditor gathers evidence about the Company's ownership and control over such building. This is an assertion w.r.t-
	(a). Completeness (b). Valuation (c). Existence (d). Rights & Obligations.
	II. "The Advance Salary given to Mr. Y in the above case has not been accounted for properly in the accounts of the Company and shown on payment basis only. This is a violation of assertion of:

	<p>(a). Completeness (b). Valuation (c). Rights and obligations (d). Existence</p>
	<p>III. "Relating and tallying information obtained from audit evidence internally and externally is an example of _____ evidence as observed in the above case. #Unique</p>
	<p>(a). Corroborative (b). Supplementary (c). Contrasting (d). Contradictory</p>
	<p>Author's Note: ICAI has given option "d" as answer but correct answer is option "a".</p>
	<p>IV. "Which assertion would Vyom find to be common among Income Statement and Balance Sheet.</p>
	<p>(a). Existence (b). Valuation (c). Completeness (d). Measurement</p>
	<p>V. "Sufficiency of the Audit Evidence collected as per the above case is referred to by CA Kumar as _____ of Audit Evidence?</p>
	<p>(a). Quality (b). Quantum (c). Source (d). Form</p>
45	(M21R)
	<p>Suresh Rana & Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller & Auditor General for the FY 2019-20. HAIL Ltd. is a Government company engaged in the manufacture of metro train coaches. During the course of audit, CA Suresh extended his scope of audit to cover efficiency, effectiveness and economy audit. CA Suresh Rana also asked his audit team to conduct expenditure audit as part of the audit engagement of HAIL Ltd.</p> <p>During the course of audit, CA Suresh also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. Suresh considered such expenditure as infructuous and avoidable expenditure.</p> <p>The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.</p> <p>Based on the above facts, answer the following:-</p>
	<p>I. Statement 1: Government audit provides public accounting of operational, management programme and policy aspects of public administration as well as accountability of officials administering them. Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.</p>
	<p>(a). Only statement 1 is correct (b). Only statement 2 is correct (c). Both 1 & 2 are correct (d). Both 1 & 2 are incorrect</p>
	<p>II. "..... is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them:-</p>

	<p>(a). Propriety audit (b). Audit against Rules and orders (c). Performance Audit (d). Audit against Provision of funds</p>
	<p>III. “While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check:-</p> <p>(a). That each item of expenditure is covered by a sanction either general or special of a competent authority. (b). That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made. (c). That the expenditure conforms to the relevant provision of the constitution. (d). That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.</p>
	<p>IV. “Which part of expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Suresh Rana?</p> <p>(a). Propriety Audit (b). Audit against provision of funds (c). Audit of sanctions (d). Performance Audit</p>
	<p>V. “While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?</p> <p>1. Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd.</p> <p>2. Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or wilful omission or negligence to levy or collect taxes or to issue refunds.</p> <p>3. Whether 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.</p> <p>4. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.</p> <p>(a). Only statement 1 is correct (b). Statements 1 & 2 are correct (c). Statements 1,2,3,4 are correct (d). (Statements 1,2,3 are correct</p>

46	(M21R)
<p>RS & Associates have been appointed as the statutory auditors of MNO Ltd. for the Financial Year 2019-20. CA Ramesh is the engagement partner for the assignment. The management of MNO Ltd. has duly given a written representation letter to CA Ramesh regarding acknowledgement of its responsibility for the implementation and operation of accounting system and the internal control system of the company. The management has assured the audit firm that such accounting and internal control systems are designed and implemented to prevent and detect any misstatement on account of fraud or error.</p> <p>During the course of audit, the auditor found that the wages cost has increased substantially as compared to the last year. On detailed checking CA Ramesh found that many new workers have been added to the workers list which appear to be dummy workers to CA Ramesh.</p> <p>Further the auditor found that there was a fraud amounting to Rs. 2 crores committed during the year under audit by an officer of the company. Such fraud has already been reported by the Cost Accountant</p>	

<p>of the company, Mr. Sudesh, to the Central Government. The statutory auditors are considering their reporting responsibilities in this regard. The audit team also realized that there is inadequate Internal Control System with respect to the following:</p> <ul style="list-style-type: none"> • The system of authorization and approval of transactions specially in the process of making purchases. • The system of record keeping with respect to the assets. <p>Based on the above facts, answer the following:-</p>
<p>I. “As the management of MNO Ltd. has given a written representation regarding its responsibility for prevention and detection of misstatement on account of fraud and error, M/s RS & Associates:-</p>
<ul style="list-style-type: none"> (a). Should rely on such management representation and conduct its audit procedures without wasting much time and resources towards detection of fraud and error. (b). Should not consider such management representation as a substitute for obtaining sufficient and appropriate audit evidence and design its audit procedures accordingly. (c). Should not rely on such management representation and should obtain written representation from those charged with governance. (d). Should concentrate on audit of accounting system and accounting policies so used by the company as the prevention and detection of fraud and error is the responsibility of the management.
<p>II. “The inclusion of dummy workmen in the workmen list by the management of MNO Ltd. as noticed by CA Ramesh amounts to:-</p>
<ul style="list-style-type: none"> (a). Suppressing cash receipts (b). Casting wrong total in cash book (c). Inflating cash payment (d). Misappropriation of goods
<p>III. “With respect to the fraud which has already been reported by The Cost accountant of the company, Mr. Sudesh, what is the responsibility of M/s RS & Associates in this regard?</p>
<ul style="list-style-type: none"> (a). Since the reporting has been done to the Central Government by the cost accountant of the company, the statutory auditor has no responsibility for such fraud and its reporting. (b). The cost accountant has detected and reported the fraud to the Central Government. The statutory auditor should not interfere in the work of the Cost Accountant. (c). CA Ramesh should review the steps taken by the management with respect to the reported fraud and if he is not satisfied with such steps, he should request the management to perform additional procedures to enable him to satisfy himself that the matter has been appropriately addressed. (d). CA Ramesh should obtain written representation from the management that once the matter is appropriately addressed, he will be duly informed by the management.
<p>IV. “.....refers to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud:-</p>
<ul style="list-style-type: none"> (a). Fraud Risk Factors (b). Misappropriation of assets (c). Incentives/ Pressures (d). Fraud
<p>V. Statement 1: The risk of auditor not detecting a material misstatement resulting from employee fraud is greater than for management fraud.</p> <p>Statement 2: The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.</p>
<ul style="list-style-type: none"> (a). Only statement 1 is correct (b). Only statement 2 is correct (c). Both 1 & 2 are correct (d). Both 1 & 2 are incorrect

47	(M21M)
<p>Ghan Shyam & Associates have been appointed as the statutory auditors of ABC Ltd. for the FY 2019 - 2020. The engagement partner, CA Ghan Shyam established the overall audit strategy and made the detailed plan with respect to the audit assignment of ABC Ltd. after discussing the same with the engagement team.</p> <p>The strategy adopted by Ghan Shyam & Associates consisted of relying on the internal control system of the company and the audit plan and programme were developed accordingly & executed by the engagement team. During the course of audit, the engagement partner, CA Ghan Shyam found that some internal control system of the company were not in place. So, he decided not to rely on the internal control system of the company and accordingly changed the firm's overall audit strategy, audit plan & audit programme.</p> <p>While conducting audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of ABC Ltd. CA Ghan Shyam also asked for the addresses of various debtors from the management of ABC Ltd. to send balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of ABC Ltd. asked the debtors to send the responses to such confirmation request to General Manager of accounts department who will in turn provide such responses to the audit team. Also with respect to five random debtors, CA Ghan Shyam decided to confirm the terms of agreement also along with confirming the balance amount, by seeking responses to confirmation requests from such debtors.</p> <p>During the course of audit, the auditor found that the inventory of ABC Ltd. is kept at its factories and various other locations including warehouses. The audit team is unable to attend the physical verification activity undertaken by the management at all such locations.</p> <p>During the course of audit, the audit team found that legal cases have been filed against the company on account of customer complaint. CA Ghan Shyam discussed with his team regarding the audit procedures that can be performed by the audit team in this regard. CA Ghan Shyam also briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of ABC Ltd.</p> <p>Based on the above facts, answer the following:-</p>	
<p>I. "Is CA Ghan Shyam right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?"</p>	
<p>(a). CA Ghan Shyam is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p> <p>(b). CA Ghan Shyam is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c). CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d). CA Ghan Shyam can change the overall audit strategy and audit plan only after discussing the same with the management of ABC Ltd.</p>	
<p>II. "Which of the following audit procedures should the audit team perform with respect to verification of debtors balance?"</p>	
<p>(a). Ghan Shyam & Associates can compare the debtors balance reflected in financial statement with the total balance of ledgers account in the books of ABC Ltd.</p> <p>(b). Ghan Shyam & Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c). Ghan Shyam & Associates can obtain management representations with respect to the debtors balance from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d). Both a & b.</p>	
<p>III. Statement 1: The reliability of information to be used as audit evidence is influenced by its source and its nature, and the circumstances under which it is obtained.</p> <p>Statement 2: The audit evidence obtained from sources external to the entity are generally more reliable than the audit evidence from internal sources.</p>	

	<p>(a). Only statement 1 is true (b). Only statement 2 is true (c). Both the statements are true (d). None of the statements is true</p>
	<p>IV. “With respect to the inventory of ABC Ltd. kept in warehouse, which audit procedures can the audit team perform to obtain sufficient and appropriate audit evidence?</p>
	<p>(a). Checking of warehouse receipt with the inventory record of ABC Ltd. (b). Obtaining direct confirmation with respect to quantity & condition of inventory of ABC Ltd. from the warehouse. (c). Both a & b (d). Seeking a management representation regarding inventory valuation and mentioning the fact regarding inventory being kept at the warehouse in the audit report.</p>
	<p>V. “Is management correct in asking the debtors to provide the reply of confirmation request of auditor to the General Manager of accounts department of the company?</p>
	<p>(a). Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department. (b). No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor. (c). Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation are provided to the auditors. (d). No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>

48	(M21M)
<p>RRM & Associates have been appointed as the statutory auditors of UVW Ltd. for the FY 2019-2020. The engagement partner is CA Raj and his engagement team consists of 2 article assistants. CA Raj briefed his audit team regarding the factors affecting the sample selection and the sample size. The team was also told that the tolerable error should be zero and sample size should be selected accordingly. CA Raj gave a detailed audit programme to his team. The audit programme with respect to the checking of accounts receivable and accounts payable consists of checking the accounts on sample basis. CA Raj asked the engagement team to divide the accounts receivables and account payable balances into separate groups and to take sample from each of them.</p> <p>During the course of audit, the audit team noticed that certain internal control system with respect to the accounts receivable were not in place at few instances during the FY 2019-20.</p> <p>Also while checking the payment transactions on sample basis, the engagement team noticed that on 9th and 10th of every month, the miscellaneous expense vouchers were not signed by the authorised personnel. The engagement team discussed the implications of the same on their audit procedures to be performed in this regard.</p> <p>Based on the above facts, answer the following:-</p>	
<p>I. “Which of the following factors should not be considered by CA Raj in deciding the extent of checking while making the sample plan in case of UVW Ltd.?”</p>	
<p>(a). The size of UVW Ltd. (b). The state of the internal control system of UVW Ltd. (c). The tolerable error range decided in case of UVW Ltd. (d). The competence of the engagement team.</p>	
<p>II. “With respect to the weakness in internal control system of accounts receivable during the FY 2019-20, the audit team:-</p>	
<p>(a). Should consider a larger sample size or 100% examination of accounts receivables. (b). Should consider a smaller sample size of accounts receivables. (c). Should not consider applying sampling techniques. (d). Should give a disclaimer of opinion.</p>	
<p>III. Statement 1: While conducting an audit, it is obligatory for the auditor to apply sampling.</p>	

	<p>Statement 2: There may be sometimes where test checking or sampling may not be suitable.</p> <p>(a). Only statement 1 is true (b). Only statement 2 is true (c). Both the statements are true (d). None of the statements is true</p> <p>IV. “With respect to selecting sample for accounts receivable and accounts payable which method of selecting of sample is advised by CA Raj to the engagement team?</p> <p>(a). Stratified Sampling method (b). Monetary Unit Sampling method (c). Haphazard Sampling method (d). Interval Sampling</p> <p>V. “With respect to the deviation identified by the auditor occurring on 9th and 10th of every month, what course of action should the audit firm adopt?</p> <p>(a). RRM & Associates should ignore such deviation as it exists only on a very few instances during the entire year under audit. (b). RRM & Associates should extend its audit procedures to such deviated transactions. (c). RRM & Associates shall investigate the nature and causes of such deviations as such deviations may be intentional and may indicate the possibility of fraud. (d). Both b & c</p>
<p>49</p>	<p style="text-align: right;">(N21R)</p> <p>Ms. Rhea was among the promoters who set up a public company by the name "Aksham Ltd". The company appointed CA Rajendra as the auditor of Aksham Ltd. CA Rajendra is the brother of one of the directors of Aksham Ltd. After setting up of company, the company had a dispute with one customer of the company in year 2019-20 who took the company to court. There are probable chances that company will have to shelve out `50 lakhs as compensation but the case will likely to be finalised in year 2021-22.</p> <p>CA Rajender considers the fact that Askham Ltd has a present obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate i.e. `50 Lakhs can be made of the amount of the obligation.</p> <p>Aksham Ltd. declared dividend of `10 per equity share on 10th April,2021. The financial statements were approved on 30th June,2021. Askham Ltd took loan of `65 lakhs from Saksham Bank for a period of 10 years; the loan amount was guaranteed by Mr. Pramod, one of the directors of Aksham Ltd. The loan was completely secured against the fixed assets of the company. Aksham Ltd drew designs of one of the products of the company and this product constituted 90 % sales of the company. The designs of the product were such that the sale of the company will increase every year for the next 5 years. Aksham Ltd booked the designs of the company at a value of `1 crore in the books of account of the company as intangibles at its cost.</p> <p>Based on the above information, answer the following questions:</p> <p>I. “State whether appointment of CA Rajendra is correct in law.</p> <p>(a). Yes, it is correct in law as per Companies Act, 2013 (b). It is incorrect in law as per Companies Act, 2013 as the relative of director is not allowed to be appointed as an auditor of the company. (c). It is correct in law as per Companies Act, 2013 because brother is not covered under the definition of relative. (d). It is correct as appointment of auditor is not governed by any law in India.</p> <p>II. “Advise the company regarding the course of action Aksham Ltd will have to follow for the court case for financial statements prepared for year ending 31st March, 2021</p>

	<p>(a). create provision (b). create revenue reserve (c). create capital reserve (d). to be disclosed as contingent liability</p>
	<p>III. "What is the action which Aksham Ltd is supposed to take with regard to treatment of dividend declared while preparing and finalizing financial statements for year ending 31st March,2021?"</p> <p>(a). recognise dividends as a liability (b). disclose the amount of dividend (c). both a and b (d). none of the above.</p>
	<p>IV. "State the disclosures Aksham Ltd is required to make with respect to the long-term borrowings taken from Saksham Bank.</p> <p>I. Secured loan from Saksham Bank. II. The fixed assets are secured against the loan III. The loan of ` 65 lakhs is guaranteed by director. IV. Repayment terms of the loan</p> <p>(a). I, II, III and IV (b). I, II (c). I, II, III (d). II, III</p>
	<p>V. "State which of the following statement is true with respect to recording an intangible in the books of the company.</p> <p>(a). Intangible is correctly booked by the company. (b). Intangible is wrongly booked by the company as an intangible cannot be booked as per the accounting standard of India. (c). Intangible is wrongly booked by the company as an intangible cannot be booked as per the auditing standards of India. (d). Intangible is wrongly booked by the company as an intangible cannot be booked as per the Companies Act, 2013.</p>
50	(N21R)
	<p>Best Tea House is a Co-operative society formed as per the provisions of the Co-operative Societies Act, 1912. It runs a chain of restaurants serving mainly tea and snacks in Delhi. RAS & Associates, a Chartered Accountant firm, has been appointed to conduct the statutory audit of the society. None of the partners of the firm, CA R, CA A and CA S have ever conducted a Co-operative Society audit before and so familiarise themselves with the provisions of the particular Act governing the society before starting the audit.</p> <p>During the audit, Best Tea House informs the auditors that they have been in operation for the last five years, and no audit was required earlier since their turnover had not exceeded the prescribed limit.</p> <p>While examining the books of account of Best Tea House, RAS & Associates notice that as stated under section 43(h) of the Central Act, certain rules were framed prescribing the books and accounts to be kept by Best Tea House.</p> <p>The auditors also understand that according to section 5 of the Central Act, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of a certain percentage of the total number of shares or of the value of shareholding to a specified amount. RAS & Associates were concerned with this provision so as to watch any breach relating to holding of shares.</p> <p>While examining the loans of Best Tea House, the auditors notice that the society has given a loan to a relative named Mr. P, of a member of the society, Mr. T, of an amount not exceeding ` 1000. RAS & Associates examined the overdue debts and checked its classification which they are required to report.</p>

	<p>During the audit, RAS & Associates notice few transactions for personal profiteering by members of the management committee, which are ultimately detrimental to the interest of the society. RAS & Associates report this matter to the required authority to take necessary action.</p> <p>After the conclusion of the audit, in addition to the audit certificate in the prescribed form and various schedules, RAS & Associates also answered two sets of questionnaires called audit memos. The auditors also submitted the audit report in a narrative form addressed to the Chairman of the society which was divided into two parts styled as part I and part II.</p>
	<p>I. “According to section 5 of the Central Act, what is maximum percentage of the total number of shares and what is the maximum value of shareholding that RAS & Associates were concerned with, so as to watch any breach relating to holding of shares?</p> <p>(a). Twenty-five percent of the total number of shares or of the value of shareholding upto ` 5,000 (b). Twenty percent of the total number of shares or of the value of shareholding upto ` 5,000 (c). Twenty-five percent of the total number of shares or of the value of shareholding upto ` 1,000 (d). Twenty percent of the total number of shares or of the value of shareholding upto ` 1,000</p>
	<p>II. “As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than:</p> <p>(a). A member and with the special sanction of the Registrar, relatives of the member not exceeding an amount of ` 1000. (b). A member and with the special sanction of the Registrar, another registered society. (c). A member and with the special sanction of the Registrar, relatives of the member. (d). A member and with the special sanction of the Registrar, another registered society not exceeding an amount of ` 1000.</p>
	<p>III. “Overdue debts for a period from _____ to _____ and more than _____ were classified and reported by RAS & Associates.</p> <p>(a). 3 months to 6 months and more than 6 months. (b). 6 months to 3 years and more than 3 years. (c). 6 months to 5 years and more than 5 years. (d). 3 months to 5 years and more than 5 years.</p>
	<p>IV. “To whom does RAS & Associates report the few transactions noticed during audit?</p> <p>(a). Registrar of Co-operative Societies (b). Secretary of Best Tea House. (c). State Government (d). Management Committee of Best Tea House</p>
	<p>V. “Mistakes having an impact on the profitability of society were pointed out by RAS & Associates as it had a consequential effect on the financial position of society. In which of the following submissions was this information included?</p> <p>(a). Part I of the audit report (b). Part II of the audit report (c). Schedules to the audit report (d). Audit memos</p>

51	(N21M)
<p>A Partnership Firm of Chartered Accountants by the name of HS and Associates was appointed to audit books of accounts of WT Limited for financial year 2019-20. HS and Associates consisted of two partners CA H and CA S.</p> <p>While conducting audit of WT Limited for financial year 2019-20, CA H, one of the partners of HS and Associates used different audit procedures in order to obtain audit evidence.</p> <p>The different audit procedures used by CA H were as follows: (1) As WT Limited was engaged in manufacturing business of wooden doors, CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited.</p>	

<p>The counting of finished wooden doors was necessary for the purpose of verification of stock of finished wooden doors.</p> <p>(2) In WT Limited the stock of finished wooden doors was valued manually by multiplying number of finished wooden doors with value per finished wooden door. A team member of CA H again did the calculation in order to verify the accuracy regarding valuation of stock of wooden finished doors.</p> <p>(3) CA H with the help of his team members obtained information from people (who were experienced in manufacturing business of wooden doors) about the purchase price of raw materials required in manufacturing business of wooden doors and also obtained some non-financial information.</p> <p>(4) CA H and his team members while conducting the audit of WT Limited for financial year 2019-20 in detail checked and evaluated the books of accounts and relevant documents of W Limited.</p> <p>(5) CA H asked for written confirmations regarding account balances from Debtors and Creditors of WT Limited.</p> <p>Keeping the basic concepts about various audit procedures in mind, answer the following multiple - choice questions:</p>
<p>I. “CA H and his team members carefully watched the whole process of counting of finished wooden doors by employees of WT Limited. This is an example of which audit procedure:</p> <p>(a). External Confirmation. (b). Observation. (c). Inquiry. (d). Inspection.</p>
<p>II. “In order to verify the accuracy regarding valuation of stock of wooden finished doors, a team member of CA H again did the calculation. This is an example of which audit procedure:</p> <p>(a). Analytical Procedures. (b). Inquiry. (c). Inspection. (d). Recalculation.</p>
<p>III. “CA H with the help of his team members obtained information (both financial and non-financial information) from experienced people in manufacturing business of wooden doors. These experienced people provided the required information. This whole method of obtaining information is an example of which audit procedure:</p> <p>(a). Inspection (b). Reperformance. (c). Inquiry. (d). Investigation.</p>
<p>IV. “CA H and his team members in detail checked and evaluated the books of accounts and relevant documents of WT Limited. This is an example of which audit procedure:</p> <p>(a). Inspection. (b). Reperformance. (c). Recalculation. (d). Investigation</p>
<p>V. “Asking for written confirmations regarding account balances from Debtors and Creditors of WT Limited by CA H is an example of which audit procedure:</p> <p>(a). Inquiry (b). Inspection (c). Investigation. (d). External Confirmation.</p>

52	(N21M)
<p>RM & Associates have been appointed as Auditors of Techblocks Consulting Ltd. for the year 2020-21. CA R and CA M were the Engagement partners.</p>	
<p><u>Para 1</u> The Firm has freshly appointed 2 Article Clerks who had no practical knowledge in the area of Auditing. They had to work to tight hard-headed factual issues and were baffling to understand the various terms and their objectives in the field of Auditing.</p>	
<p><u>Para 2</u> To make sure that the Article Clerk do not misplace or mis-handle the Working Papers, CA M also described the relevance of Audit File and clarified that working papers are the property of Auditor. Such Audit file should be preserved for a period of seven years.</p>	
<p><u>Para 3</u> CA R while scrutinizing Books of Accounts suspected some fictitious sales as a result of which he anticipated inflated Debtors. Management was reluctant to give the details. As CA R could not gather more evidence from the Management, he sought to obtain details from the third party.</p>	
<p><u>Para 4</u> On further perusal of Opening Balances, it is essential to perceive that Accounting Policies have been consistently applied in the current period's financial statements and whether any changes have been properly accounted for and disclosed. CA M assigned this duty to his article clerk. The Article clerk explained to CA M about how he had observed that Accounting policies were not consistently applied in relation to opening balances in accordance with the financial reporting framework or a change is not properly accounted for or not adequately disclosed.</p>	
<p><u>Para 5</u> Subsequently, the Auditors gathered from the Management that there was a fire in the Factory premises after the Balance Sheet date, as a result of which the company suffered loss of Inventories. It did not provide any conditions on the Balance Sheet date. SA 560 deals with such type of transactions.</p>	
<p>I. "The Auditor explained his Audit team the purpose of Audit Documentation. Which of the following is incorrect with respect to the purpose of Audit Documentation?"</p>	
<p>(a). It enables the conduct of quality control reviews and inspections in accordance with SQC-1. (b). It helps in preparation of Financial Statements. (c). It retains a record of matters of continuing significance to future audits. (d). It enables the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.</p>	
<p>II. "An auditor strictly ensured that the audit team should document / assemble all the working papers in Audit file. The completion of assembling the Audit File is an administrative process and should be done in :</p>	
<p>(a). It should be within 30 days from the date of Audit Report. (b). It should be within 60 days from the completion of Audit. (c). It should not be more than 60 days from the date of Audit Report. (d). It should be before 90 days from the completion of Audit.</p>	
<p>III. "With reference to para 3 of Case scenario, this is a case of obtaining External Confirmation by the Auditor. Which of the following is inappropriate with regard to External Confirmation?"</p>	
<p>(a). External Confirmations are restricted to Account balances only. (b). It is also used in a case to obtain Audit evidence about the absence of certain conditions say, Side Agreement. (c). It can be also effective in obtaining Audit evidence about verification of Inventories held by third parties at bonded warehouses for processing or on consignment. (d). External Confirmation is also functional in case of Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the Balance Sheet date.</p>	

	<p>IV. "With reference to para 4, in such a situation CA M shall express a :</p> <p>(a). A Disclaimer Opinion (b). A qualified opinion (c). A qualified opinion or an adverse opinion in accordance with SA 705 (d). An unmodified opinion</p>
	<p>V. In respect to subject matter mentioned in Para 5, what procedures should Auditor perform to identify such events?</p> <p>Statement 1: Obtain an understanding of any procedures management has established as well as Inquiry with Management and those charged with governance procedures for identification of such subsequent events.</p> <p>Statement 2: Inspection of Minutes of the meetings of the entity's owners, management and those charged with governance that have been held after the date of the financial statements and inquiring about the matters discussed at any such meetings for which minutes are not yet available.</p> <p>Statement 3: The Auditor should not read the entity's latest subsequent interim financial statements, if any.</p> <p>(a). Only Statement 1 is correct (b). Only Statement 2 is correct (c). Both Statements 1 and 2 are correct (d). Only Statement 3 is correct</p>

53	(N21M)
	<p>Mars Ltd. is a public limited Company incorporated during the previous financial year 2019-20. R S Shah & Associates have been appointed as the Auditors of the Company.</p> <p><u>Para 1</u> Its Authorized Capital was Rs. 75 Lacs. Subsequently it increased its Share Capital. They issued Shares at a premium of Rs.25/- per share. The Company has transferred the amount received as premium to the Securities Premium Account.</p> <p><u>Para 2</u> CA R recommended his Engagement Team to prepare an Audit Strategy as well as Audit plan for efficient conduct of audit. He advised to the team that they should include a series of verification procedures to be applied to Financial Statements of the Company for accomplishing the Audit objectives. CA R illustrated to his team the relationship between Audit strategy as well as Audit plan.</p> <p><u>Para 3</u> Encompassed by a huge clientele, one of the Auditee firm was a LLP. It was in the name of Mangaldeep Geotech LLP. They conducted the business in a very efficient way but had allotted only the Audit and the Income Tax work to CA R S Shah & Associates. The Partners of the LLP were capable enough but however inadvertently bypassed the ROC Compliances. They had no knowledge about the Compliances and its related penalties. Thus they approached CA R S Shah and Associates for their guidance. They were completely clueless as to filing of Annual Return with ROC.</p> <p><u>Para 4</u> R S Shah and Associates have been appointed as Auditors of a large Enterprise namely Search Results Ltd. Considering the overhaul required in the Organization's Risk Management, Directors of the listed companies braced the subject of Internal Financial Control with much seriousness and rigor. The dawn of the Financial Year lays down the daunting task of establishing and implementing Internal Financial Control in an Enterprise.</p> <p><u>Para 5</u></p>

	<p>The Auditors are performing their Audit work in the Company Search Results Ltd by using CAAT's. The Company is completely automated and all the processes, operations are carried out using the Computer systems. Testing is performed in an automated environment to increase the efficiency and allow for more robust tools to be built. There are four types of testing methods in an Automated environment. They are Inquiry, Observation, Inspection and Re-performance.</p>
	<p>I. "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 an INCORRECT option?</p>
	<p>(a). To write off preliminary expenses of the Company (b). To pay dividend to equity shareholders (c). To provide premium on redemption of Preference share capital (d). To purchase its own shares or other securities under Sec 68(Buyback)</p>
	<p>II. "In reference to para 2, which of the following Statement is inappropriate?</p>
	<p>(a). Once the overall audit strategy is established, an audit plan can be developed to address the various matters identified in the overall audit strategy. (b). The establishment of overall audit strategy as well as detailed audit plan is a discrete and sequential process. (c). Audit Strategy and Audit plan are inter-related as changes in one may result in consequential changes to the other. (d). The Audit plan is more detailed than the Audit Strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members.</p>
	<p>III. "In reference to para 3, which form from the following should be filed by the Partners to avoid penalty consequences?</p>
	<p>(a). Form 11 within 90 day of end of closer of financial year and Form 8 within a period of 60 days from the end of six months of the financial year. (b). Form 11 within 60 days of end of closer of financial year and Form 8 within a period of 30 days from the end of six months of the financial year. (c). Form 11 within 30 days of end of closer of financial year and Form 8 within a period of 60 days from the end of three months of the financial year. (d). Form 11 within 60 day of end of closer of financial year and Form 8 within a period of 90 days from the end of three months of the financial year.</p>
	<p>IV. "With reference to para 4, which of the following point ensures implementation of policies and procedures with regard to Internal Financial Control by the Companies?</p>
	<p>(a). Reliability of Financial Reporting (b). Effectiveness and efficiency of operations (c). Compliance with applicable laws and regulations (d). All of the above.</p>
	<p>V. "Which of the following statement is inappropriate with regard to testing methods as mentioned in Para 5 above?</p>
	<p>(e). Inquiry in combination with Inspection gives the most effective and efficient audit evidence. (f). Re-performance is the most effective as an audit test and gives the best audit evidence. (g). Inquiry should always be used in combination with any other testing method. (h). which audit test to use and in what combination does not require professional judgment.</p>

<p>54</p>	<p>(N21M)</p>
	<p>A Partnership Firm of Chartered Accountants by the name of S K and Associates were appointed as the Auditors of the Company named Big Box Ltd.</p> <p><u>Para 1</u> Big Box Ltd is a Public Listed Company. The CA Firm comprised of 2 partners namely CA S and CA K. Subsequently, a close relative of CA K, acquired security having face value Rs.495000/- of Big Box Ltd. As per the provisions of Section 141 of the Companies Act 2013, an Auditor will be disqualified from</p>

appointment, if the Auditor himself or his relative acquires the security exceeding the prescribed limit in the Company.

Para 2

Further, the Auditors, S K and Associates also had to bank on the policies and procedures adopted by the Company for ensuring the efficient conduct of its business. They have to state about the adequacy of Internal Financial Controls in the Company. The Company had a turnover of Rs. 60 Crores as per the latest Audited Balance Sheet and its Borrowings during the year were Rs. 20 Crores from Banks.

Para 3

The CFO of the Company, Mrs. Darshana felt dubious in the Accounts department of the Company. She entreated the Auditors to perform a thorough investigation of the Accounts department. Mrs. Darshana was also anticipating a fraud in this situation. Both the Auditor as well as the CFO of the Company analyzed the various risk factors. The Auditors observed that the Head Accountant of the Department has inflated the Sales amount to finish his targets. There was collusion between the Head Accountant & Employees of the Company. Employees were presented incentives on accomplishing their targets. This resulted in a fraud by the Head Accountant of amount aggregating to Rs.75 Lacs.

Para 4

Mr. X, an acquaintance of CA S, wanted to form an LLP with his distant relatives. He wanted to possess in depth knowledge about LLP. CA S explained him that LLP is a separate legal structure and is liable to full extent of its assets but the partners are liable to the extent of their agreed contribution in LLP. Mr. X additionally wanted to know the criteria for the accounts of LLP to be audited. CA S enlightened him that the accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009.

Para 5

Big Box Ltd. is expanding its business. Consequently it requires many Computers. Purchasing computers may involve paying a huge upfront cost. Cash flow may get disrupted. Hence the Company came up with an idea of getting the Computers on lease. It will allow the businesses to have access to the latest technology without harming their cash flow.

The Auditors explained to the Directors that leasing Computers shall come under the purview of Operating Lease

I. "With reference to para 1, S K and Associates can take corrective actions within _____ days. The relative may hold security or interest in the company of face value not exceeding _____

- (a). 45 days, Face Value Rs.100000/-
- (b). 60 days, Market Value Rs.500000/-
- (c). 30 days, Face Value Rs. 500000/-
- (d). 60 days, Face Value Rs.100000/-

II. "The Auditors of S K and Associates were doubtful concerning the applicability of Internal Financial Controls in the Company Big Box Ltd. With reference to details provided in Para 2 above, please guide them in this regard.

- (a). It will be applicable as Turnover exceeds the threshold limit of Rs.50 Crores.
- (b). It is not applicable as the Borrowings are less than 25 Crores during the financial year.
- (c). It will be applicable as the Company is a Public Listed Company.
- (d). Reporting on Internal Financial Control is not under the scope of Auditors reporting. Hence, Not Applicable.

III. "With reference to para 3, wherein a fraud was observed by the Auditor, what should be the course of action of the Auditor?

- (a). The Auditor should report the fraud details to Central Government.
- (b). The Auditor shall report the fraud to the audit Committee or to the Board within the prescribed time.
- (c). The Auditor shall disclose it in the Audit Report and report the fraud details to RBI too.
- (d). Both a & c above.

IV. "With regard to information provided in Para 4, which of the following is a CORRECT option?

	<p>(a). Any LLP whose turnover does not exceed, in any financial year, Rs.40 Lacs or whose contribution does not exceed Rs.25 Lacs is not required to gets its accounts audited.</p> <p>(b). Any LLP whose turnover does not exceed, in any financial year, Rs.50 Lacs or whose contribution does not exceed Rs.20 Lacs is not required to gets its accounts audited.</p> <p>(c). Any LLP whose turnover exceeds Rs.25 Lacs in any financial year or whose contribution exceeds Rs.10 Lacs in any financial year is required to gets its accounts audited.</p> <p>(d). Any LLP whose turnover does not exceed, in any financial year, Rs.40 Lacs and whose contribution does not exceed Rs.25 Lacs is not required to gets its accounts audited.</p>
	<p>V. "In reference to para 5, which among the following is an INCORRECT trait about the Operating Lease?</p> <p>(a). The Lessee does not have the option to buy the asset during the lease period.</p> <p>(b). The Lessee cannot claim Depreciation on the leased asset.</p> <p>(c). The Lessee generally bears the Insurance, Maintenance and Taxes.</p> <p>(d). The Lease term generally extends to less than 75% of the projected useful life of the leased asset.</p>

55	(M22R)
<p>SaveLives Limited is a listed Company which deals in the manufacture of Sanitizers, floor cleaners, dish and fabric cleaners etc. In spite of spread of covid 19 in the country, the company's sales have been very high in the last financial year due to essential products it deals in. The Company is highly automated and is driven by IT systems and applications that are used in the preparation of the financial statements of the Company. The Company uses an integrated enterprise resource planning system since last five years.</p> <p>KRAN & Associates has been appointed to conduct the statutory audit of the Company. The firm consists of eight partners, and CA N has been appointed as engagement partner for the audit of SaveLives Limited.</p> <p>CA N briefed the team about the audit and also how IT would be relevant to the audit of SaveLives Limited. The team obtained an understanding of the entity and its automated environment which involved an understanding of how the IT department was organised, IT activities, IT dependence and the relevant risks and controls.</p> <p>One of the team members wanted to understand the importance of different types of controls in an automated environment viz., General IT Controls, Application Controls and IT- Dependent Controls. Same was discussed in detail along with the relationship between different controls.</p> <p>The Companies Act, 2013 has placed a greater emphasis on the effective implementation and reporting on the internal controls for a company. So, CA N decided to himself evaluate and validate the design and operating effectiveness of Internal Financial Controls over Financial Reporting (IFC-FR) of the company as at the Balance Sheet date. Internal Financial Controls (IFC) refers to the policies and procedures put in place by SaveLives Limited for ensuring adequacy and also the operating effectiveness of such controls.</p> <p>The audit team decided to use the tools and techniques that audi tors use in applying the principles of data analytics which are known as CAATs. Data analytics could also be used in testing of electronic records and data residing in IT systems using spreadsheets and specialised audit tools viz., IDEA and ACL to perform various functions.</p>	
<p>I. Under which situation is IT not relevant to an audit?</p> <p>a. Increased complexity of transactions</p> <p>b. Hi-tech nature of business</p> <p>c. Volume of transactions is low</p> <p>d. Company Policy (Compliance).</p>	
<p>II. Which of the following is a risk that arises from the use of IT systems?</p>	

	<ul style="list-style-type: none"> (a). Direct data changes (backend changes). (b). Limited/Monitored access. (c). Adequate segregation of duties. (d). Authorized access to data.
	<p>III. The relationship between two controls is such that _____ are needed to support the functioning of _____, and both are needed to ensure complete and accurate information processing through IT systems.</p>
	<ul style="list-style-type: none"> (a). IT Dependent Controls, General Controls (b). Application Controls, General Controls. (c). General Controls, IT Dependent Controls. (d). General IT Controls, Application Controls.
	<p>IV. The term Internal Financial Controls (IFC) refers to the policies and procedures put in place by companies for ensuring which of the following:</p>
	<ul style="list-style-type: none"> (a). reliability of financial transactions. (b). effectiveness and efficiency of operations. (c). safeguarding of human resources. (d). prevention and detection of errors.
	<p>V. Data analytics can be used in testing of electronic records and data residing in IT systems using spreadsheets and specialized audit tools viz., IDEA and ACL to perform which of the following:</p>
	<ul style="list-style-type: none"> (a). Evaluating impact of control deficiencies. (b). Compliance with applicable laws and regulations. (c). Authorized changes to system or programs. (d). Providing latest information.

56	(M22R)
<p>You are a partner in ABC & Company, a Chartered Accountant firm based in New Delhi. ABC & Company has been appointed as the statutory auditor of onetime Limited, a public limited company which manufactures and sells wall and table clocks and has many branches all over India. onetime Limited has been exporting the clocks since past two years. However, the domestic sales have contributed towards major source of revenue for the Company.</p> <p>You being the engagement partner have started the audit for the year ended 31.03.2021 along with your five team members. One of the team members, CA B started verification of inventory. In addition to other procedures, he also checked that valuation of Inventory had been recognised in accordance with AS -2. During detailed checking, he noticed that the amount spent on salary of administrative employees and normal wastage on production of the clocks, had not been added to the valuation of Inventory. The contention of XYZ Limited was that since the cost was not directly related to the production cost and so not added to the cost of inventory.</p> <p>CA B also noticed that one of the suppliers of onetime Limited, Mr AM had sent some raw material to the Company for storage in their warehouse in March 2021. Due to renovation going on at his warehouse, his stock could be damaged and so he had requested Onetime Limited to keep the same in their warehouse. onetime Limited contended that since the raw material was anyway billed to the Company the next month, so the same had been included in the valuation of stock, since physically the stock was present in the warehouse of Onetime Limited as on 31.03.2021.</p> <p>The Company had issued shares at premium, and the premium received on the shares had been transferred to a “securities premium account”. The same was then applied in writing off the expenses of selling the clocks, writing off the preliminary expenses of the Company and also writing off the commission paid to the sales agents. You have verified the same in detail.</p> <p>While verifying debtors, team member C noticed that there were a few trade receivables pertaining to export sales mainly to England. Mr. C verified the same with respect to the invoices issued and other</p>	

supporting documents. The amount booked as on 31.03.2021 was based on the exchange rate as on the date of the invoice.

Mr. T, another team member verified the fixed assets of the Company. onetime Limited had purchased few cars for its directors during the year of audit. The same were appearing in the fixed assets schedule of the Company. Mr T verified the same with respect to the invoices as well as physically verified the assets in the Company's premises. Since the cars were for the official use of the Directors, they were purchased in the name of the Directors of the Company. Mr. T verified the amount with the Invoice and checked the registration and insurance documents.

One of the article clerks was assigned the work of verification of "Provisions" appearing in the Balance sheet. He wanted to understand from you the circumstances in which a provision is recognised in the books of account. You explained him the situations in which an entity recognises Provisions in its books.

Onetime Limited has invested in the shares of other companies. One of the Companies has declared dividend on its shares. Onetime Limited has not recognised the same in the profit & loss account. Team Member R has asked you to look into the matter since she is unable to understand the reasons for the same.

The Company had spent a huge amount on repair and maintenance of the machinery used for the production of the clocks. The amount was accounted for in two parts: repairs were booked as a revenue expenditure and annual maintenance charges were capitalised and added to the machinery cost. Ms. R has verified the same in detail and raised her observations.

I. Is the raw material lying in the warehouse of onetime Limited accounted for correctly in its books of account?

- (a) No, since the same belongs to Mr. AM and should appear in his books.
- (b) Yes, since the same is in possession of onetime Limited and was billed to it the following month.
- (c) It should be shown in the books of both onetime Limited and Mr. AM.
- (d) It should not appear in the books of onetime Limited or Mr. AM and the raw material should be disclosed as a note in the final accounts of both the entities.

II. Which exchange rate is considered for accounting of foreign debtors at the year end?

- (a) Exchange Rate on the date of the invoice.
- (b) Exchange Rate on the last day of the financial year.
- (c) Exchange Rate on the date of shipment of the products to the customer.
- (d) Exchange Rate on the date of delivery of the products to the customer.

III. Which of the following assertions with respect to fixed assets has not been complied with by the Company?

- (a) Existence
- (b) Valuation
- (c) Cut-Off
- (d) Rights and Obligations

IV. Which of the following condition is not required to be met for recognizing a provision?

- (a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- (b) When an entity has a present obligation (legal or constructive) as a result of a past event.
- (c) A reliable estimate can be made of the amount of the obligation.
- (d) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

V. Dividends are recognized in the statement of profit and loss only on fulfilment of which condition:

- (a) the entity's right to receive payment of the dividend is established.
- (b) it is probable that the economic benefits associated with the dividend will flow to the entity.
- (c) the amount of the dividend can be measured reliably.
- (d) All of the above

57	(M22M)
<p>Honest Limited is a listed Company engaged in the construction business. The Company constructs residential buildings after purchasing vacant land and then sells ready flats to customers. The Company has not been earning good profits and so no dividend was declared in the last financial year for which the statutory audit is to be conducted.</p> <p>XYZ & Company has been appointed as the statutory auditor of Honest Limited. The audit firm has seven partners and is a reputed firm with the partners having expert knowledge in various areas. While conducting the audit, the engagement partner, CA Z suspects some fraudulent activities undertaken by the officers and employees of the Company. CA Z is aware that for the purpose of SAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. He understands that misstatements in the financial statements can arise from either fraud or error.</p> <p>On detailed verification by the audit team, it was observed that accounts were manipulated with a view to presenting a false state of affairs. The fraud was committed to avoid incidence of income -tax and withhold declaration of dividend. There was also an incidence of cash receipts being suppressed which came to the notice of the audit team.</p> <p>CA Z had enough reasons to believe that the offence of fraud, involved individually an amount of Rs.1 crore, and had been committed against the company by its officers or employees. The audit team discussed the reporting requirements of the fraud committed.</p> <p>One of the audit team members puts forward his recommendations on reporting which includes disclosure in the Board’s Report. He states that sub-section (12) of section 143 of the Companies Act, 2013 prescribes that the companies, whose auditors have reported frauds under this sub-section (12) to the audit committee or the Board, but not reported to the Central Government, shall disclose the details about such frauds in the Board’s report in such manner as may be prescribed.</p> <p>CA Z discusses the reporting under Companies (Auditor’s Report) Order, 2020 [CARO, 2020] wherein the auditor is required to report under clause (xi) of paragraph 3 of Companies (Auditor’ s Report) Order,2020, about fraud by the company or any fraud on the Company.</p> <p>Based on the above information, answer the following questions:</p>	
<p>I. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is:</p>	
<p>(a) Fraud causes a material misstatement in the financial statements. (b) Fraud is an intentional act. (c) Fraud is easier to detect than error. (d) Fraud can be committed by only the management, those charged with governance, and the employees.</p>	
<p>II. Which of the following is not a technique of suppressing cash receipts?</p>	
<p>(a) Writing down asset values in entirety, selling them subsequently and misappropriating the proceeds. (b) Adjusting unauthorized or fictitious rebates, allowances, discounts, etc. to customer’ accounts and misappropriating amount paid by them. (c) Manipulating totals of wage rolls either by including therein names of dummy workers or by inflating them in any other manner. (d) Writing off as debts in respect of such balances against which cash has already been received but has been misappropriated.</p>	
<p>III. To whom should XYZ & Company report the fraud committed in Honest Limited?</p>	
<p>(a) Report the matter only to the Audit Committee constituted under section 177 since the amount of fraud has not exceeded 1 crore. (b) Report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days</p>	

	<p>and on receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations.</p> <p>(c) Report the matter only to the Board since the amount of fraud is not less than 1 crore.</p> <p>(d) Report the matter either to the audit committee constituted under section 177 or the Central Government since the amount of fraud is neither less nor more than 1 crore.</p>
	<p>IV. Sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules,2014 states that the auditor is required to disclose in the Board’s Report details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) during the year. Which of the following details is not required to be disclosed in the Board’s Report</p> <p>(a) Nature of Fraud with description.</p> <p>(b) Parties involved, if remedial action taken.</p> <p>(c) Approximate Amount involved</p> <p>(d) Remedial actions taken.</p>
	<p>V. For reporting under clause (xi) of paragraph 3 of Companies (Auditor’s Report) Order,2020, which of the following points the auditor may consider?</p> <p>(a) Fraud by the company or on the company by its officers, employees or third parties to be reported.</p> <p>(b) Only suspected frauds shall be included here and not the noticed frauds.</p> <p>(c) Principles of materiality outlined in Standards on Auditing.</p> <p>(d) The auditor’s withdrawal from the engagement and the reasons for the withdrawal.</p>

58	(M22M/N22R)
	<p>SAM & Company, a Chartered Accountant firm, is in the process of finalising the audit of Health is Wealth Limited which is a Company listed on the Bombay Stock Exchange. Since the past decade, Health is Wealth Limited has made its presence felt in over 10 countries, including India, making it a leader in the global fitness industry. It runs a chain of fitness centres that offers energetic group workouts and multiple workout formats to choose from. It also offers the best equipment, knowledgeable staff and personal advice in a welcoming environment.</p> <p>SAM & Company being a very reputed firm, was appointed for the statutory audit of Health is Wealth Limited. The Engagement Partner CA A and her team of 8 members have conducted the audit in an efficient and effective manner. The senior manager in the team, CA K is of the opinion that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. One of the article clerks, Mr N, is a fresher and this audit is his first experience as an auditor in a limited company. He is a sharp boy and has grasped all the concepts and techniques very well. However, the term “pervasive” confused him so CA K patiently explained to Mr N the pervasive effects on the financial statements as per the auditor’s judgement. Mr. N understood the term well and thanked CA K for clearing all his doubts.</p> <p>CA A disagreed with CA K that they have obtained sufficient appropriate audit evidence, which concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements. So, the entire team held various meetings and discussions, and finally reached to a conclusion. They concluded that they have obtained reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion took into account:</p> <p>(a) Whether sufficient appropriate audit evidence had been obtained;</p> <p>(b) Whether uncorrected misstatements were material, individually or in aggregate;</p> <p>(c) The evaluations.</p> <p>The Auditor’s Report was prepared in writing and it was decided that an unmodified opinion would be expressed. The first section of the auditor’s report included the auditor’s opinion, and had the heading</p>

“Opinion”. Following the Opinion section, was a section with the heading “Basis for Opinion”. When expressing an unmodified opinion on financial statements, the auditor’s opinion used the following phrase, “In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].”

During the audit, the audit team had observed that there was uncertainty in Health is Wealth Limited relating to the future outcome of a regulatory action. So, a paragraph was included in the auditor’s report that referred to this matter which was appropriately disclosed in the financial statements and that, in the auditor’s judgment, was of such importance that it was fundamental to users’ understanding of the financial statements.

CA A also determined whether the financial statements included the comparative information required by the applicable financial reporting framework and whether such information was appropriately classified. One team member, Mr R was curious to know whether the auditor’s opinion referred to the corresponding figures or not, whenever the corresponding figures are presented. CA A explained the circumstances to Mr R in which, when the corresponding figures are presented, auditor’s opinion referred to the corresponding figures.

Based on the above information, answer the following questions:

- I. CA K explained to Mr. N the pervasive effects on the financial statements in the auditor’s judgement. Pervasive effects on the financial statements are those that, in the auditor’s judgement:
- (i) Are not confined to specific elements, accounts or items of the financial statements;
 - (ii) If so confined, represent or could represent a substantial proportion of the financial statements;
 - or
 - (iii) In relation to disclosures, are fundamental to users’ understanding of the financial statements.

Which of the following is correct?

- (a) (i), (iii)
- (b) (ii), (iii)
- (c) (i), (ii)
- (d) (i), (ii) and (iii)

- II. When expressing an unmodified opinion on financial statements, SAM & Company used the following phrase:
“In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].”

Which is the other phrase which is regarded as being equivalent to the above phrase and could also be used by SAM & Company?

- (a) In our opinion, the accompanying financial statements give a true and correct view of [...] in accordance with [the applicable financial reporting framework];
- (b) In our opinion, the accompanying financial statements present correctly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
- (c) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework];
- (d) In our opinion, the accompanying financial statements give a correct and fair view of [...] in accordance with [the applicable financial reporting framework].

- III. Which of the following statements is not included in the section with the heading “Basis for Opinion” in the Auditor’s Report?

- (a) Audit was conducted in accordance with the Accounting Standards.
- (b) Auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.
- (c) Description of the auditor’s responsibilities under the SAs.
- (d) States whether the auditor believes that the audit evidence the auditor has obtained, is sufficient

	and appropriate to provide a basis for the auditor’s opinion.
	IV. A paragraph was included in the Auditor’s Report of Health is Wealth Limited that referred to a matter which was appropriately disclosed in the financial statements that, in the auditor’s judgment, was of such importance that it was fundamental to users’ understanding of the financial statements. What is this section of the Auditor’s Report called?
	(a) Other Matters. (b) Emphasis of Matters. (c) Key Audit Matters. (d) Auditor’s Responsibilities for the Audit of the Financial Statements.
	V. CA A explained the circumstances to Mr. R in which, when the corresponding figures are presented, auditor’s opinion referred to the corresponding figures. Which of these circumstances did he mention to Mr. R?
	(a) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which a modified opinion has been previously issued. (b) If the auditor’s report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is resolved. (c) Prior Period Financial Statements are audited by another auditor. (d) Prior Period Financial Statements not audited.

59	(M22M)
<p>AA & Associates, an audit firm based in New Delhi, was appointed as the Statutory Auditor of Success Ltd., a listed Company having branches all over India. Success Limited is engaged in the business of manufacturing furniture items from timber which is imported from South Africa. The audit firm has six partners and partner CA A is the engagement partner for Success Ltd.</p> <p>The audit team consisting of CA A and five more members prepared an audit strategy and audit plan before commencing the audit. CA A was aware of the fact that the understanding of the internal control of the organisation would assist the team in various ways. So, it was decided that the team would first obtain an understanding of the internal control relevant to the audit before commencing the audit.</p> <p>CA A explained to the team that there is a direct relationship between an entity’s objectives and the controls it implements to provide reasonable assurance about their achievement. The entity’s objectives, and therefore controls, relate to financial reporting, operations and compliance; however, not all of these objectives and controls are relevant to the auditor’s risk assessment. CA A educated the team about the factors relevant to the auditor’s judgment about whether a control, individually or in combination with others, is relevant to the audit. The team then applied its professional judgment to decide whether a control, individually or in combination with others, is relevant to the audit.</p> <p>One of the team members, CA P scheduled a meeting with the Director of Success Ltd., Mr. D, to understand the risk assessment process of the entity. The entity’s risk assessment process formed the basis for the risk to be managed. CA P, on the basis of his judgment, found the process to be appropriate, and it helped him in identifying the risks.</p> <p>Once the risks were identified, CA P had to determine whether any of the risk identified is, in his judgment, a significant risk. CA P considered all the factors which he should have considered to exercise his judgement as to which risks are significant risks. He was aware that significant risks often relate to certain type of transactions and matters.</p> <p>In the meanwhile, CA A met the CFO of the Company, Mr. C to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting. Mr. C explained to CA A the various monitoring activities undertaken by the management to monitor the internal control performance of the company.</p> <p>Based on the above information, answer the following questions:</p>	

I. CA A was aware of the fact that the understanding of the internal control of the organization would assist the team in various ways. Which of the following is not achieved by an understanding of the internal control system?
<ul style="list-style-type: none"> (a) Identifying breakdown due to human error. (b) identifying types of potential misstatements. (c) designing the nature, timing, and extent of further audit procedures. (d) identifying factors that affect the risks of material misstatement.
II. Which of the following factors is not relevant to the auditor’s judgment about whether a control, individually or in combination with others, is relevant to the audit?
<ul style="list-style-type: none"> (a) The diversity and complexity of the entity’s operations. (b) Applicable legal and regulatory requirements. (c) The nature of the entity’s business, including its organization and ownership characteristics. (d) Nature, timing, and extent of further audit procedures.
III. CA P obtained an understanding of the risk assessment process of the entity. Which of the following is a risk assessment process to be followed by an entity?
<ul style="list-style-type: none"> (i) Identifying business risks relevant to financial reporting objectives. (ii) Estimating the significance of the risks. (iii) Assessing the likelihood of their occurrence. (iv) Deciding about actions to address those risks.
<ul style="list-style-type: none"> (a) (i), (ii), (iii), (b) (i), (ii) (c) (i), (ii), (iii), (iv) (d) (ii), (iii)
IV. CA P considered all the factors which he should have considered to exercise his judgment as to which risks are significant risks. Which of the following is a factor which he would have considered to determine the same?
<ul style="list-style-type: none"> (a) Whether the risk is a risk of error. (b) The complexity of transactions. (c) Whether the risk involves significant transactions with non-related parties. (d) The degree of objectivity in the measurement of financial information related to the risk, specially those measurements involving a wide range of measurement uncertainty.
V. Which among the following is incorrect with reference to last para of the case study regarding the auditor to obtain an understanding of the major activities that the entity uses to monitor internal control over financial reporting :
<ul style="list-style-type: none"> (a) It involves assessing the efficiency of controls on a timely basis and taking necessary remedial actions. (b) Management accomplishes it through ongoing activities, separate evaluations etc. (c) Management’s monitoring activities may include using information from communications from external parties. (d) In small entities, management’s monitoring of control is often accomplished by management’s or the owner-manager’s close involvement in operations.

60	(M22M)
<p>Suresh Rana & Associates have been appointed as the statutory auditors of HAIL Ltd. by the Comptroller & Auditor General for the FY 2021-22. HAIL Ltd. is a Government company engaged in the manufacture of metro train coaches. During the course of audit, CA Suresh extended his scope of audit to cover efficiency, effectiveness and economy audit. CA Suresh Rana also asked his audit team to conduct expenditure audit as part of the audit engagement of HAIL Ltd.</p> <p>During the course of audit, CA Suresh also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. Suresh considered such expenditure as infructuous and avoidable expenditure.</p>	

<p>The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.</p> <p>Based on the above facts, answer the following:-</p>
<p>I. Statement 1: Government audit provides public accounting of operational, management programme and policy aspects of public administration as well as accountability of officials administering them. Statement 2: Government audit is equipped and intended to function as an investigating agency, to pursue every irregularity or misdemeanour to its logical end.</p>
<p>(a) Only statement 1 is correct (b) Only statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect</p>
<p>II. _____ is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them:-</p>
<p>(a) Propriety audit (b) Audit against Rules and orders (c) Performance Audit (d) Audit against Provision of funds</p>
<p>III. While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check:-</p>
<p>(a) That each item of expenditure is covered by a sanction either general or special of a competent authority. (b) That the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of expenditure does not exceed the appropriation made. (c) That the expenditure conforms to the relevant provision of the constitution. (d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.</p>
<p>IV. Which part of expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Suresh Rana?</p>
<p>(a) Propriety Audit (b) Audit against provision of funds (c) Audit of sanctions (d) Performance Audit</p>
<p>V. While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?</p> <ol style="list-style-type: none"> Whether all revenues or other debts due to government have been correctly assessed, realised and credited to government account by the designated authorities of HAIL Ltd. Whether adequate checks are imposed to ensure the prompt detection and investigation of irregularities, double refunds, fraudulent or forged refund vouchers or other loss of revenue through fraud or willful omission or negligence to levy or collect taxes or to issue refunds. Whether 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. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.
<p>(a) Only statement 1 is correct (b) Statements 1 & 2 are correct (c) Statements 1,2,3,4 are correct (d) Statements 1,2,3 are correct</p>

61	(N22R)
<p>Bharat Bank, a nationalised bank, has branches all over India and has been the most popular public sector bank in India for the past few years. The bank is governed by the Banking Regulations Act, 1949 and the Central Statutory Auditors of the bank, ABC & Associates, were appointed according to the provisions of the relevant enactments. The engagement partner CA C commenced the audit with his team of seven members so that the audit is completed on time and all the documents are submitted before the due date. The audit at all the branches also started simultaneously and ABC & Associates was in constant touch with all the branch auditors to ensure timely completion of the audit.</p> <p>As per the audit strategy and plan, CA Q along with Ms. R and Mr. P were assigned the audit of the advances of Bharat Bank. Advances constituted the largest item on the asset side of the balance sheet of the bank. Since audit of advances is one of the most important areas covered by auditors in a bank audit, it was assigned to CA Q since he was aware of the various functional areas of the bank/branches, its processes, procedures, systems and prevailing internal controls with regard to advances.</p> <p>CA Q started with verifying whether the advances were classified as per RBI Prudential Norms. There were five categories of advances which were available to CA Q for verification. They were: Standard Regular, Sub Standard, Doubtful, Loss and Special Mention Accounts. An ageing analysis was available for doubtful advances and Special Mention Accounts which was examined in detail by CA Q.</p> <p>Ms. R, on being instructed by CA Q, verified the securities offered by the borrowers for the bank finance. For a particular customer named Aquabrass Pvt Ltd., the security was in the form of delivery of goods by Aquabrass to Bharat Bank with the intention of creating a charge thereon as security for the advance. The legal ownership of the goods remained with Aquabrass. In case of another customer named Prism Works, there was a transfer of a life insurance policy in favour of the bank as security. The bank had absolute right over the policy. Ms. R examined all the relevant documents for the above two cases in detail. She continued with her examination of other securities based on the sample selected by her.</p> <p>While checking the classification of NPA, Mr. P came across a customer named Trustworthy whose term loan instalment was overdue for 90 days at the year-end, but it was 100% secured against the office building. The same was classified as a Substandard asset. There was another customer named Super40, who had a cash credit account and a term loan with the bank. Super40 had been paying the instalments on the term loan as well as the interest on the cash credit account regularly and there was no overdue amount. Mr. P verified the drawing power of Super40 and found it to be less than the sanctioned limit throughout the year. The outstanding balance of Super40 during the whole year exceeded the drawing power but was less than the sanctioned limit. Both the advances to Super40 were classified as Standard Advances since the recoveries were regular and outstanding balance in the cash credit was less than the sanctioned limit.</p> <p>On examination of large advances, CA Q noticed that a customer named Stylish N Smart Private Limited had one funded loan (term loan) and one non funded loan (bank guarantee) sanctioned from the bank. CA Q checked in detail whether commission earned by the bank on the bank guarantee was provided for on accrual basis.</p> <p>CA Q along with Ms. R and Mr. P verified the advances in detail and also recommended a few changes in the classification/provisions based on the examination of the sample selected by them.</p> <p>Based on the above information, answer the following questions:</p>	
<p>I. What are the sub categories of the special mention accounts?</p>	
<p>(a) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p> <p>(b) SMA 0 (accounts showing stress signals), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)</p> <p>(c) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 31-60 days) and SMA 2 (Overdue between 61-90 days)</p>	

	(d) SMA 0 (accounts not yet due for payment), SMA 1 (Overdue between 0-45 days) and SMA 2 (Overdue between 46-90 days)
	II. Creation of security of Aquabross Private Ltd. and Prism Works was in the form of:
	(a) Mortgage and Hypothecation. (b) Lien and Set-off. (c) Hypothecation and Pledge. (d) Pledge and Assignment.
	III. In your opinion is Trustworthy a standard asset or a substandard asset?
	(a) Though it is due for 90 days, it is 100% secured so it is a standard asset. (b) Since it is due for 90 days, it is a substandard asset irrespective of the security. (c) Since it is not due for more than 90 days, it is a standard asset irrespective of the security. (d) Since it is not due for more than 90 days and it is 100 % secured, it is a standard asset.
	IV. Is Super40 correctly classified as a standard asset?
	(a) Yes, since the recoveries in both term loan and cash credit were regular and outstanding balance in the cash credit was less than the sanctioned limit. (b) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, so both the advances, that is, the term loan and cash credit facility will be classified as NPA. (c) No, since the outstanding balance of the cash credit facility exceeded the drawing power for more than 90 days, the cash credit facility will be classified as NPA and term loan as standard. (d) Yes, since the recoveries in both term loan and cash credit were regular, there is no relevance of sanctioning power/drawing power.
	V. Which among the following is a non- funded loan?
	(a) Demand Loans (b) Bills Discounted and Purchased (c) Letter of Credit (d) Participation on Risk Sharing basis

62	(N22M)
	<p>GSR & Company have been appointed as the statutory auditors of Raj Textiles Ltd. for the FY 2021-22. The engagement partner, CA Rahul Dhawan established the overall audit strategy and made the detailed plan with respect to the audit assignment of Raj Textiles Ltd. after discussing the same with the engagement team.</p> <p>The strategy adopted by GSR & Company consisted of relying on the internal control system of the company and the audit plan and program were developed accordingly and the audit team started to work in accordance with the developed audit plan and program. During the course of audit, the engagement partner, CA Rahul Dhawan found that some internal controls implemented by the company were not operating effectively. So,he decided not to rely on the internal control system of the company & accordingly changed the overall audit strategy, audit plan & audit program.</p> <p>While conducting the audit, the engagement partner also discussed with his team regarding the audit procedures to be performed to verify the debtors' balances of the company. CA Rahul Dhawan asked for the addresses of various debtors from the management of Raj Textiles Ltd. for the purpose of sending balance confirmation request to such debtors. The management provided such addresses to the audit team. However, the management of Raj Textiles Ltd. asked the debtors to send the responses of such confirmation requests to General Manager of accounts department of the company, who will in turn provide such responses to the audit team.</p> <p>Further, the audit team found that a legal case has been filed against the company on account of customer complaint. CA Rahul Dhawan discussed with his team regarding the audit procedures that can</p>

<p>be performed by the audit team to verify the implications of such litigation on the financial statements of the company.</p> <p>One of the audit team members, Mr. Girish had the following understanding with respect to the audit file to be maintained by the audit team with respect to the audit assignment:</p> <p>Point no. 1: The completion of assembly of final audit file after the date of the auditor's report is an administrative process involving the performance of new audit procedures or drawing of new conclusions.</p> <p>Point no. 2: After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.</p> <p>CA Rahul Dhawan briefed his engagement team regarding the documents to be included in the audit file with respect to the audit assignment of Raj Textiles Ltd. and also discussed with his team in detail regarding the various aspects of audit file</p>
<p>I. Is CA Rahul Dhawan right in changing the overall audit strategy and plan after the audit team has started working as per the earlier strategy established & plan so developed?</p>
<p>(a) CA Rahul Dhawan is not right as once the audit team has started the audit work, it is not correct to change the audit strategy and plan.</p> <p>(b) CA Rahul Dhawan is not right as once the overall audit strategy has been established the same cannot be changed. Audit plan however can be revised.</p> <p>(c) CA Rahul Dhawan is right in making changes to the overall audit strategy and the audit plan.</p> <p>(d) CA Rahul Dhawan can change the overall audit strategy and audit plan only after taking due permission from the management of Raj Textiles Ltd.</p>
<p>II. Which of the following audit procedures should the audit team perform with respect to verification of debtors' balances?</p>
<p>GSR & Company can compare the debtors' balance reflected in financial statements with invoices, debit notes, credit notes, monthly accounts statement sent to the customers.</p> <p>(b) GSR & Company can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.</p> <p>(c) GSR & Company can obtain management representations with respect to the debtors' balances from the management of ABC Ltd and need not perform other audit procedure as obtaining written representation from management constitutes sufficient and appropriate audit evidence.</p> <p>(d) Both a & b.</p>
<p>III. Is management correct in asking the debtors to provide the reply of confirmation request directly to the General Manager of accounts department of the company?</p>
<p>(a) Yes, the management has correctly asked the debtors to respond directly to the GM of accounts department.</p> <p>(b) No, management is not correct in asking for a direct response to GM of accounts department as external confirmation is the response obtained directly by the auditor.</p> <p>(c) Yes, the management is correct in advising direct response to the GM of accounts department as this will ensure that only correct confirmation is provided to the auditors.</p> <p>(d) No, management is not correct as this is the option of the auditor to see if the response to external confirmation is to be obtained by management or auditor himself.</p>
<p>IV. For confirming/verifying the litigation going against the company which of the following audit procedures is not correct??</p>
<p>(a) GSR & Company can enquire the management including in house legal counsel.</p> <p>(b) GSR & Company should review the minutes of meetings of those charged with governance.</p> <p>(c) GSR & Company can review the legal expense account.</p> <p>(d) GSR & Company need not perform audit procedures with respect to litigation claims of the company except for obtaining written representation from the management in this regard.</p>
<p>V. Is the understanding of Mr. Girish regarding the assembly of audit file with respect to an audit assignment, mentioned as point no. 1 & point no. 2 in the case scenario, correct?</p>

- (a) Only understanding as per point no. 1 is correct.
- (b) Only understanding as per point no. 2 is correct.
- (c) Understanding as per point no. 1 & point no. 2 both are correct.
- (d) Understanding as per point no. 1 & point no. 2, both are incorrect.

63

(N22M)

Meeta, Neeta, Rita and Babita are friends and all of them have joined office of an auditing firm for undergoing articled training. It is still early days in the office. However, all of them are curious about different issues of auditing. They have also studied auditing subject. They were going through one audit file of a large manufacturing company as part of their training. In the file are included some audit working papers and other related documents.

(A) Some papers contained in file reflect following: -

- (i) Are budgets for capital expenditure approved by the Board?
- (ii) Are approved budgets communicated in writing to accounts department and to department originating the request?
- (iii) Is the authority to incur capital expenditure restricted to specified officials?
- (iv) Are receipts of capital items subject to controls as in case of purchases of raw material, stores?
- (v) Is there proper check to see that amounts expended do not exceed the amount authorised?

Further, "Yes", "No" and "Not applicable" along with remarks/notes have been provided by the employees of company against items stated at serial no.[i] to [v].

(B) Also included in audit working papers is a detailed note on process of employee recruitment followed by company along with practices on related matters such as orientation, training, evaluation, compensation and promotion of employees. In particular, it seemed that auditors had shown keen interest in standards followed by the company in recruiting most qualified individuals.

(C) The audit file also includes documentation on how customs duty paid by company on imported raw material was verified. The engagement team had examined the payment of custom duty with reference to bill of entry available in client records. It was verified that customs duty was in accordance with applicable duty rate on goods. In cases where duty was paid by clearing and forwarding agent, bill of entry with reference to bill of forwarder was verified.

(D) The audit file includes a document, signed by CEO of company addressed to auditors, extract of which is as under: -

We have provided you with: -

- (i) Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- (ii) Additional information that you have requested from us for the purpose of the audit;
- (ii) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- (iv) All transactions have been recorded in the accounting records and are reflected in the financial statements.

(E) The audit file included following draft to be included in audit report: -

"Revenue is one of the main profit drivers and is, therefore, susceptible to misstatement. Cut -off is the main relevant assertion insofar as revenue recognition is concerned, since an inappropriate cut -off can result in material misstatement of results for the year.

Our audit procedures with regard to revenue recognition included testing controls, automated and manual- around deliveries, inventory reconciliations and substantive testing for cut -offs and analytical

	<p>review procedures.”</p> <p>The issues pertaining to above for audit period under consideration were communicated with responsible persons in management.</p> <p>I. Regarding description of expenditure on capital items reflected in Para A, which of the following views is Most appropriate?</p> <p>(a) Meeta is of view that such a document is in nature of a checklist for evaluating internal control over capital items.</p> <p>(b) Neeta is of view that such a document is in nature of audit programme for verification of capital items.</p> <p>(c) Babita considers that such a document is in nature of an internal control questionnaire for evaluating internal control over capital items.</p> <p>(d) Rita considers it to be specific audit plan in relation to capital items.</p>
	<p>II. On reading description in Para B, what were the auditors trying to do by studying employee recruitment and related HR matters?</p> <p>(a) Auditors were trying to gain an understanding of how the company is monitoring controls.</p> <p>(b) Auditors were gaining knowledge to understand how employee pay rolls are prepared and whether there could be any misstatements in pay rolls due to non- inclusion of promotion increments</p> <p>(c) Auditors were trying to understand control environment of the company.</p> <p>(d) Auditors were trying to assess the control activities relevant to audit to assess risk of material misstatement.</p>
	<p>III. On the basis of description provided in Para C, identify audit procedure(s) performed by auditors.</p> <p>(a) Test of Controls</p> <p>(b) Vouching</p> <p>(c) Analytical Procedures</p> <p>(d) Verification</p>
	<p>IV. What would the most appropriate nomenclature to extract of document described in Para D?</p> <p>(a) Engagement letter</p> <p>(b) Written Representation</p> <p>(c) External confirmation</p> <p>(d) Offer letter to auditor</p>
	<p>V. Given draft in Para E, which of the following views is Most appropriate in accordance with relevant Standards on Auditing?</p> <p>(a) Meeta is of the view that draft in Para E needs emphasis in audit report. Therefore, its inclusion under heading “Emphasis of Matter” is proper.</p> <p>(b) Neeta is of the view that draft in Para E is a residuary matter. Therefore, its inclusion under heading “Other Matters” is proper.</p> <p>(c) Rita is of the view that draft in Para E provides the basis on which opinion is to be given. Therefore, its inclusion under heading “Basis for Opinion” is proper.</p> <p>(d) Babita is of the view that draft in Para E relates to significant matter identified during course of audit and it contains how the same was addressed. Therefore, its inclusion under heading “Key Audit Matters” is proper.</p>

64	(N22M)
<p>Rohan is part of an engagement team conducting statutory audit of branch of a nationalized bank. The financial statements to be audited include Balance sheet and Profit & Loss account of the branch drawn up in accordance with Form A and Form B respectively of the Third Schedule to the Banking Regulation Act, 1949. Besides, various advances and other returns are also to be verified as part of audit. Rohan was part of all audit work pertaining to verification of deposits, advances, income and expenditure of the branch.</p> <p>While verifying different items of profit and loss account, it was noticed that income included income on account of interest earned and other income.</p>	

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

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

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

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

I. Which of the following does not constitute "Other income" in the profit and loss account of branch of a bank?

- (a) Discount on Bills purchased
- (b) Commission on Bills sent for collection
- (c) Loan processing fees
- (d) Credit card fees

II. Identify what the engagement team is trying to do in respect to advances of the branch.

- (a) The engagement team is carrying out analytical procedures in respect of advances.
- (b) The engagement team is evaluating internal control over advances.
- (c) The engagement team is evaluating internal control over advances.
- (d) The engagement team is trying to select samples for verification of advances.

III. Considering state government guaranteed advance of `20 crore and its NPA classification made by branch, which of the following statements is most appropriate?

- (a) The branch has correctly classified account as NPA and has rightly made provisioning and reversal of unrealized income in this regard. Uttar Pradesh government guarantee has no effect on provisioning and income recognition.
- (b) The branch has correctly classified account as NPA and has rightly made provisioning. However, unrealized income should not have been reversed due to Uttar Pradesh government guarantee.
- (c) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee without having recourse to provisioning and reversal of unrealized income.
- (d) The branch should have classified account as Standard asset due to Uttar Pradesh government guarantee. No provisioning is required. However, for purposes of income recognition, it should be treated as NPA and unrealized income should be reversed.

IV. The branch is operating in CBS environment. In view of above, which of the following statements is most appropriate?

- (a) Due to CBS environment, substantive procedures alone are effective to reduce audit risk to an acceptably low level.
- (b) In CBS environment, in most situations, the auditors' ability to reduce audit risk to an acceptably low level would be affected by the internal control systems established by the management.

	<p>(c) The extensive use of IT systems in CBS environment substantially reduces need to assess inherent and control risks.</p> <p>(d) Low level of branch staff sensitisation to the control expectations of management requires fewer audit procedures.</p>
	<p>V. With regards to audit documentation, consider the following: -</p> <p>(P) NOC from previous auditor</p> <p>(Q) Management certified trial balance of branch for year under consideration</p> <p>(R) KYC verification details</p> <p>(S) Latest RBI master directions/circulars</p> <p>Which of the following statements is correct as regards to audit documentation?</p> <p>(a) Only documents stated at Q and R form part of audit documentation.</p> <p>(b) Only documents stated at Q, R and S form part of audit documentation.</p> <p>(c) Only documents stated at Q and S form part of audit documentation.</p> <p>(d) All documents stated at P, Q, R and S form part of audit documentation.</p>

65	(M23R/SM23)
	<p>Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.</p> <p>She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.</p> <p>A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.</p>
	<p>I. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?</p> <p>(a) She is establishing audit strategy.</p> <p>(b) She is conducting preliminary engagement activities.</p> <p>(c) She is designing audit plan.</p> <p>(d) She is checking her compliance of ethical requirements.</p>
	<p>II. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -</p> <p>(a) Developing audit plan</p> <p>(b) Establishing overall audit strategy</p> <p>(c) Designing audit programme</p> <p>(d) Designing risk assessment procedures</p>
	<p>III. Taking into account description of planned inquiry and visit, which of the following statements is TRUE?</p> <p>(a) Planned inquiry and visit fall in area of audit strategy.</p> <p>(b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.</p> <p>(c) The said description is not related to audit planning.</p>

	(d) Planned inquiry and visit fall in scope of audit programme.
IV.	What is detailed set of instructions given to assistants in engagement team known as?
	(a) Audit guidelines (b) Audit plan (c) Audit Programme (d) Audit Procedures
V.	The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?
	(a) She should ignore this information as audit has already begun. (b) She should modify earlier set of instructions. (c) She should leave the matter to wisdom of engagement team. (d) She should put the ball in court of management as she was not provided with complete information earlier

66.	(M23R/SM23)
	CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:-
	(A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
	(B) The team has determined materiality for financial statements as a whole. The team has assessed risks of material misstatements to be low.
	(C) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.
	(D) During the course of audit, many related party transactions have come to notice.
I.	Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?
	(a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person. (b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties. (c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance. (d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous
II.	As regards materiality, which of the following statements is most appropriate in context of audit documentation?
	(a) Materiality has already been determined. There is no need to put it into working papers. (b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers. (c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented. (d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.
III.	As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?

	<p>(a) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.</p> <p>(b) Details of risk assessment procedures have to be documented.</p> <p>(c) Details about how understanding of each component of internal control was obtained has to be documented.</p> <p>(d) Precise calculation of risk of material misstatements has to be documented.</p>
	<p>IV. CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?</p> <p>(a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.</p> <p>(b) Detail of test counting undertaken should form part of audit documentation.</p> <p>(c) Detail of obsolete goods found should form part of audit documentation.</p> <p>(d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.</p>
	<p>V. As regards related party transactions, which of the following should not be part of audit documentation?</p> <p>(a) Management representation letter in this regard</p> <p>(b) Related party transaction policy of the company</p> <p>(c) Documentation to show that such transactions are at arm's length basis</p> <p>(d) Documentation to show that such transactions are at close length basis.</p>

67.	(M23M)
<p>M/s SPR & Associates are appointed as auditors of XYZ Ltd. for the Financial Year 2021-22.</p> <ul style="list-style-type: none"> The team consisted of Mr. S, Mr. P, Mr. R all Chartered Accountants and three article assistants. Mr. S, the engagement partner, briefed the audit staff about various items of financial statement to be checked in detail in case of XYZ Ltd and about various aspects to be covered in the audit of the company. Mr. S told the audit staff about audit documentation, audit evidence, audit file, completion memorandum and many other things along with relevant Standards of Auditing applicable. Mr. S also told the staff about the risk of material misstatement that the financial statements are prone to and how it affects the sufficiency and appropriateness of audit evidence. The audit staff was also apprised about the various audit procedures to be adopted while conducting the audit of XYZ Ltd. Further discussions were done about various types of risks related to financial statement and the audit work, the related audit procedures, and the risk assessment procedures. The engagement team is also very particular about the application of various Standards on Auditing applicable in case of XYZ Ltd. 	
<p>I. is the summary of significant matters identified during audit and way they are addressed :</p> <p>(a) Audit File</p> <p>(b) Audit Programme</p> <p>(c) Completion memorandum</p> <p>(d) Checklists</p>	
<p>II. The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is.....:</p> <p>(a) Control Risk</p> <p>(b) Inherent Risk</p> <p>(c) Audit Risk</p> <p>(d) Significant Risk</p>	
<p>III. Statement 1: Audit procedures consist of Risk Assessments Procedures and other procedures. Statement 2: Substantive procedures consist of test of details and analytical procedures.</p> <p>(a) Only Statement 1 is correct.</p> <p>(b) Only Statement 2 is correct.</p>	

	<p>(c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect</p>
	<p>IV. 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 risks of material misstatement, whether due to fraud or error at the financial statement and assertion levels: -</p> <p>(a) Analytical Procedures (b) Risk Assessment Procedures (c) Audit Procedures (d) Substantive Analytical Procedures</p>
	<p>V. Statement 1:- Substantive Procedures alone can provide sufficient and appropriate audit evidence at the assertion level. Statement 2:-Test of Control is audit procedure designed to evaluate the operating effectiveness of controls in prevention, detection and correcting material misstatement at the assertion level.</p> <p>(a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both 1 & 2 are correct (d) Both 1 & 2 are incorrect</p>

68.	(M23M)
	<p>M/s ABC & Associates have been appointed as auditors of Venus Ltd. for the Financial Year 2020-21.</p> <ul style="list-style-type: none"> • During the course of audit, the auditors notice that certain legal expenses been charged to revenue during the financial year by Venus Ltd. • These legal expenses are related to litigations going against the company regarding its Corporate Social Responsibility expenses incurred near its factory area. • Further, M/s ABC & Associates noticed that there is a major change in the debtors and creditors account of Venus Ltd. during the financial year under audit. The auditors have decided to send balance confirmation requests to the debtors and creditors of Venus Ltd. Also, the auditors decide to take management representation letters wherever required. • The auditors have noticed certain related party transactions reflected in the financial statements of Venus Ltd. during the financial year under audit. The transaction is between Venus Ltd. and a Company owned by wife of one of the directors of Venus Ltd. • The auditors have become aware of certain subsequent events occurring in case of Venus Ltd. These are related to the outcomes of the litigations going against Venus Ltd. • The auditors are also concerned whether the litigations going against Venus Ltd. and their outcomes have any impact on the going concern of the company. <p>I. Statement 1: Although Written Representations provide necessary audit evidence, they do not provide sufficient and appropriate audit evidence on their own about the matters with which they deal. Statement 2: Written Representations do not include financial statements, the assertions within, or supporting books and records.</p> <p>(a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both Statement 1 & 2 are correct (d) None of Statement 1 & 2 is correct</p> <p>II. The auditor can perform the following procedures to identify litigation and claims of Venus Ltd.:-</p> <ul style="list-style-type: none"> (i) Inquiry of management including in house legal counsel. (ii) Reviewing legal expenses account. (iii) Reviewing of minutes of meetings of those charged to governance and correspondence between entity and external legal counsel. <p>(a) & (i) are correct (b) (i), (ii) & (iii) are correct. (c) (ii) & (iii) are correct (d) only (i) is correct</p>

	<p>III. Negative confirmation requests require the third party to respond in the following cases : -</p> <p>(a) If there is agreement (b) If there is disagreement (c) In both cases of agreement as well as disagreement (d) None of the above.</p>
	<p>IV. Statement 1:- A failure of the confirming party to respond, or fully respond to a positive confirmation request or a confirmation request returned undelivered is a case of Non Response. Statement 2:- A response that indicates difference between information requested to be confirmed and contained in entity's records and information provided by the confirming part is a case of Exception.</p> <p>(a) Only Statement 1 is correct (b) Only Statement 2 is correct (c) Both Statement 1 & 2 are correct (d) None of Statement 1 & 2 is correct</p>
	<p>V. Which of the following is correct so far as the related party transactions are concerned: -</p> <p>(i) Many related party transactions are in the normal course of business. (ii) Related party transactions may not be conducted under normal market term and conditions. (iii) In some circumstances, related party transactions may give rise to higher risks of material misstatement.</p> <p>(a) only (i) is correct (b) (i) & (iii) are correct (c) (i), (ii) & (iii) are correct (d) (i) and (ii) are correct</p>

69.	(M23M)
	<p>Aastha Ltd. has published its audited financial statements for the year ended 31st March 2023. A shareholder of Aastha Ltd. raised a point to the promoter of the company questioning the authenticity of the financial statements. The Management of the Company conveyed the shareholder that the same have been audited by a Chartered Accountant as per the provisions of Companies Act,2013.</p> <p>The same shareholder then noticed that in the last year's financial statements, there was a disclosure regarding a legal dispute with its competitor. But in the current year's financial statements, there is neither such disclosure nor there is any update on the resolution of the dispute. However, the management did not give any convincing answer regarding lack of disclosure in current year's financial statements.</p> <p>The Management also revealed in the meeting that there were few fictitious vendors to whom payments worth ₹ 50 lakhs were made by an employee who has been suspended from the office with immediate effect and a case to that effect has been filed in the court of law. The same has also been appropriately disclosed in the financial statements. The Company transferred ₹ 75 lakhs from current year's profit to asset replacement reserve for making another building for the operations of the company</p>
	<p>I. The financial statements audit is a report by the auditor:</p> <p>(a) attesting to the truth and fairness of presentation of the financial statements and related disclosures. (b) attesting to the truth and fairness of presentation of the financial statements. (c) attesting to the truth, transparency and fairness of presentation of the financial statements and related disclosures. (d) attesting to the truth, completeness and fairness of presentation of the financial statements and related disclosures.</p>
	<p>II. Non-disclosure of the legal dispute with the competitor of Aastha Ltd.is:</p> <p>(a) Misappropriation of assets (b) Recording fictitious Journal Entries (c) Manipulation of accounts</p>

	(d) Misrepresentation in or intentional omission from financial statements.
III.	Payment to fictitious vendors by the employee of Aastha Ltd. Is:
	(a) Misappropriation of assets (b) Intentional misapplication of accounting principles (c) Manipulation of accounts (d) Misrepresentation in or intentional omission
IV.	The appropriation of ₹ 75 lakhs from the revenue profit to asset replacement reserve is:
	(a) Revenue Reserve (b) Capital Reserve (c) Capital Redemption Reserve (d) Capital Revenue Reserve

70.	(M23M)
	<p>As per SA 210 “Agreeing the Terms of Audit Engagements”, preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.</p> <p>Mridul & Co, a firm of Chartered Accountants agreed on the Terms of Audit Engagements of a Private Limited Company, Jayshree Private Limited. Jayshree Private Limited has conveyed to Mridul & Co that they want the firm to undertake the statutory audit as well as to examine the life of its plant and machinery at Indore which is in existence for 10 years. While finalizing the scope of the audit, the auditors agreed to cover all the units of the company based at Delhi and Indore. Mridul & Co has asked Jayshree Private Ltd to make all the relevant disclosures in the financial statements. The auditors were vigilant to inquire about any audit evidence that contradicts the other audit evidence.</p> <p>The auditors decided to cover following aspects under audit:</p> <ol style="list-style-type: none"> (i) An examination of the system of accounting and internal control (ii) Reviewing the system and procedures. (iii) Checking of the arithmetical accuracy of the books of account. (iv) Verification of the authenticity and validity of transactions. (v) Classification between capital and revenue expenditure. (vi) Comparison of the balance sheet and profit and loss account or other statements with the underlying record. (vii) Verification of the title, existence and value of the assets. (viii) Verification of the liabilities stated in the balance sheet. (ix) Checking the results shown by the profit and loss and to see whether the results shown are true and fair. (x) Reporting to the appropriate person/body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation. (xi) Where audit is of a corporate body, confirming that the statutory requirements have been complied with. <p>While testing the accounts receivables of Jayshree Private Limited, the auditor decided to divide the accounts receivables by age of receivables in the following manner:</p> <ul style="list-style-type: none"> • Below 15 days • 15 days -30 days • 31-60 days • 61-90 days • 91 days and beyond <p>Based on the above facts, answer the following:</p> <ol style="list-style-type: none"> I. According to you, what is the scope of the audit which Mridul & Co should cover in the audit of financial statements of Jayshree Private Limited? <ol style="list-style-type: none"> I. to examine the life of its plant and machinery at Indore which is in existence for 10 years.

II. to cover all the units of the company based at Delhi and Indore. III to check whether the relevant disclosures are properly made in the financial statements
(a) I,II,III (b) I,II (c) II,III (d) I,III
II. What is the name of the method used by the auditor for segregation of accounts receivable?
(a) Value weighted selection (b) Stratification (c) Systematic method of Sampling (d) Tests of Control
III. The aspects covered by auditor should be:
(a) i, ii, iii, x, vi, vii (b) i, ii, iv, v, vi, vii. (c) i, ii, iii, iv, v, vi, vii, viii, ix, x, xi. (d) ii, iii, viii, x, xi
IV. The auditor’s vigilance to question the audit evidence that contradicts the other audit evidence is called as:
(a) Professional Skepticism (b) Vigilant Skepticism (c) Professional Judgement (d) Judgement and Skepticism
V. With respect to the preconditions for an audit, which one of the following is correct: I. The use by Management of an acceptable financial reporting framework in the preparation of financial statements. II. Management’s responsibility for the internal control III. Giving auditor access to all information and access to the Entity’s premises.
(a) I, II (b) I, II, III (c) II, III (d) I, III

71.	(N23R)																								
<p>Kartik, a CA student undergoing his articled training, is part of an engagement team conducting statutory audit of MSE Auto Private Limited, a company engaged in manufacturing of automobile spare parts. The company has its manufacturing facilities located in Pimpri- Chinchwad industrial belt near Pune. It is a profit making company and one of the most sought after by banks in the area due to its good track record. The following is extract of financial information taken from its pre-audit financial statements for year 2022-23. Figures have been rounded off in ₹ 000’s.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Particulars</th> <th>Year 2022-23</th> <th>Year 2021-22</th> </tr> </thead> <tbody> <tr> <td>Share capital</td> <td style="text-align: right;">2500.00</td> <td style="text-align: right;">2500.00</td> </tr> <tr> <td>Long term borrowings</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">15000.00</td> </tr> <tr> <td>Short term borrowings</td> <td style="text-align: right;">55000.00</td> <td style="text-align: right;">15000.00</td> </tr> <tr> <td>Inventories</td> <td style="text-align: right;">35000.00</td> <td style="text-align: right;">27000.00</td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">60000.00</td> <td style="text-align: right;">25000.00</td> </tr> <tr> <td>Revenue from Operations</td> <td style="text-align: right;">300000.00</td> <td style="text-align: right;">100000.00</td> </tr> <tr> <td>Profit before tax</td> <td style="text-align: right;">60000.00</td> <td style="text-align: right;">18000.00</td> </tr> </tbody> </table> <p>While going through schedule of long term borrowings and books of accounts, he finds that reduction of long term borrowings of the company is on account of full payment of a term loan in month of April 2022 taken from a bank in past. However, he finds that charge in respect of above term loan in favour</p>		Particulars	Year 2022-23	Year 2021-22	Share capital	2500.00	2500.00	Long term borrowings	0.00	15000.00	Short term borrowings	55000.00	15000.00	Inventories	35000.00	27000.00	Trade receivables	60000.00	25000.00	Revenue from Operations	300000.00	100000.00	Profit before tax	60000.00	18000.00
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Profit before tax	60000.00	18000.00																							

of bank is still subsisting on MCA portal beyond statutory period due to non-registration of charge satisfaction.

He had read about assertions pertaining to balance sheet and income statement. However, he was not sure about nomenclatures assigned to assertions pertaining to balance sheet and income statement.

The team had also attended physical inventory count of the company as at year end in accordance with SA 501.

Besides, company's trade receivables have increased from ₹ 25000 in year 2021-22 to ₹ 60000 in year 2022-23 (both figs in '000s). His understanding is that increase in company's trade receivables as compared to last year signifies longer time taken by company's customers to make their payments.

Considering substantial rise in revenue from operations of the company in the year under audit, team wants to ensure that revenues of company are not overstated.

VI. Keeping in view description regarding full payment of term loan in April 22 taken from a bank in past and non-registration of satisfaction of charge, which of following statements is correct?

- The above fact may be disclosed by the company's management in its financial statements at its discretion along with reasons as such disclosure would bring transparency.
- The above fact along with reasons is required to be disclosed by the company in its financial statements in accordance with requirements of Standards on Auditing.
- The above fact along with reasons is required to be disclosed by the company in its financial statements in accordance with requirements of Schedule III of Companies Act, 2013.
- The above fact is not required to be disclosed as term loan has already been repaid in full and there are no outstanding long term borrowings.

VII. The company's short-term borrowings have increased during the year 2022-23 as compared to last year. One of following assertions is not relevant to verification of short term borrowings. Which odd one you would suggest to Kartik in this regard?

- Existence
- Occurrence
- Completeness
- Valuation

VIII. As regards team's attendance at physical inventory count process of company's inventories in accordance with SA 501 is concerned, which of following is not a relevant audit procedure?

- Inspection of inventories
- Checking appropriateness of method employed for valuation of inventories
- Evaluating management's instructions for recording results of physical inventory count
- Performing test counts

IX. The company's trade receivables have increased during year 2022-23 as compared to last year. Which of following statements is most appropriate regarding understanding of Kartik on this issue?

- The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to go through trade receivables ageing schedule to confirm it.
- The view of Kartik is incorrect.
- The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to perform direct confirmation procedures to confirm it.
- The view of Kartik is correct and it has led to increased audit risk pertaining to valuation of trade receivables. Therefore, team needs to perform cut-off procedures to confirm it

X. The team wants to ensure that revenues of company are not overstated. Which of following is not likely to be a relevant audit procedure in this regard?

- Obtaining confirmations from customers

	<p>(b) Reviewing GST returns and their reconciliation with revenue stated in statement of profit & loss</p> <p>(c) Reviewing credit notes issued by company post year end</p> <p>(d) Reviewing debit notes issued by company post year end</p>
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72	(N23R)
<p>CA X has accepted offer of conducting statutory audit of financial statements of DOS Solutions Private Limited. Keeping in mind requirements of Standards on Auditing including those relating to SA 300, he plans audit so that it is conducted in an effective manner. He knows that because of inherent limitations of an audit, there is audit risk in audit of financial statements even though audit is properly planned and performed in accordance with Standards on Auditing.</p> <p>Considering nature of operations of the company, he has decided to use audit sampling in performing audit procedures. The various areas of his testing include testing controls over revenues, expenditures, assets and liabilities of the company. Besides, he has decided to perform tests of details in respect of all these areas of financial statements.</p> <p>While verifying tests of controls over purchase orders placed by the company based on selected audit samples, he has erroneously concluded that Standard operating procedures (SOP) for placing purchase orders are not being followed strictly and controls are less effective than they actually are.</p> <p>Further, while testing controls over wage payments, he has tested 20 sample wage sheets of different sections of company and finds that one wage sheet has not been signed by authorized officer of the company. The rate of deviation was earlier set by him at 3%.</p> <p>During the course of designing procedures for selecting samples for verification of trade receivables, he has decided to divide trade receivable balances into groups viz. balances in excess of ₹ 10 lakh, balances in range of ₹ 7,50,001 to ₹ 10,00,000, balances in range of ₹ 5,00,001 to ₹ 7,50,000, balances in range of ₹ 2,50,001 to ₹ 5,00,000 and balances of ₹ 2,50,000 and below. He has planned to pick up different percentage of items from each of above groups. Random sample is chosen from each group using random number tables.</p> <p>Some of the trade payables of the company were outstanding since long. He has decided to merely verify arithmetical accuracy of ageing schedule and its reconciliation with books of accounts. Therefore, nature of audit procedures, nature of financial reporting itself and need for audit to be conducted within a reasonable period of time and at a reasonable period of cost all lead to inherent limitations of audit.</p>	
<p>I. The auditor has erroneously concluded that Standard operating procedures (SOP) for placing purchase order are not being followed strictly and controls are less effective than they actually are. Which of the following statements is likely to be true in this regard?</p>	
<p>(a) It is a sampling risk and might lead to auditor expressing inappropriate audit opinion.</p> <p>(b) It is a sampling risk and affects audit effectiveness.</p> <p>(c) It is a sampling risk and affects audit efficiency.</p> <p>(d) It is a control risk and affects audit effectiveness.</p>	
<p>II. The auditor has tested 20 sample wage sheets in different sections of the company and finds that one wage sheet has not been signed by authorized officer of the company. It represents _____?</p>	
<p>(a) Tolerable misstatement</p> <p>(b) Misstatement</p> <p>(c) Tolerable rate of deviation</p> <p>(d) Actual rate of deviation</p>	
<p>III. Which method of selecting samples for verification of trade receivables has been planned by auditor?</p>	
<p>(a) Simple random sampling</p> <p>(b) Systematic sampling</p> <p>(c) Block sampling</p> <p>(d) Stratified sampling</p>	

	<p>IV. The auditor has decided to merely verify arithmetical accuracy and reconciliation of ageing schedule relating to trade payables. The use of above audit procedure can lead to _____ ?</p> <p>(a) Sampling risk (b) Non-sampling risk (c) Inherent risk (d) Control risk</p>
	<p>V. Keeping in view inherent limitations of audit of financial statements, which of following statements is likely to be most appropriate?</p> <p>(a) Due to inherent limitations of audit, auditor obtains conclusive audit evidence. (b) Due to inherent limitations of audit, auditor can be satisfied with less than persuasive evidence. (c) Due to inherent limitations of audit, subsequent discovery of material misstatement in financial statements after audit, which was conducted in accordance with SAs, does not indicate a failure of audit. (d) Due to inherent limitations of audit, auditor can skip a difficult, time-consuming and costly procedure.</p>

73	(N23M)
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Following is the extract of information taken from financial statements of AAF Private Limited for the financial year 2022-23: -
(All Figs in tables are in ₹ 000s)

Particulars	31/03/23	31/03/22
Paid up share capital	75000	75000
Long term borrowings	24500	30000
Short term borrowings	55000	50000
Other current liabilities	350	550
Property, Plant and Equipment	48500	56000
Depreciation	7500	9500
Profit/(Loss) after tax	(5000)	(6000)

Assume that there are no taxation adjustments.
The schedule of short-term borrowings reflects as under: -

Particulars	31/03/23	31/03/22
Loans repayable on demand from MMT Bank (secured) (Cash credit limit against hypothecation of stocks guaranteed by all directors)	55000	50000

It has been further noticed during the course of audit that quarterly statements filed by company with its bank for availing cash credit facilities of ₹ 5.50 crores during the year vis-à-vis books of accounts reflect following details: -

Period ending	Value of stocks as per quarterly statements	Value of stocks per Books of accounts
30.6.22	80000	70000
30.9.22	70000	65000
31.12.22	85000	70000
31.3.23	80000	80000

It has also been noticed that long term borrowings consist of a term loan from MMT Bank. Term loan outstanding has reduced in comparison to last year. However, during the year 2022-23, company has not paid one instalment of ₹ 5 lakhs on time which is overdue for 65 days as on balance sheet date. The credit facilities have been classified as Standard assets by the Bank in accordance with prudential guidelines of RBI.

<p>Other current liabilities as on 31/3/23 include TDS payable of ₹ 1.00 lac (out of which ₹ 0.60 lac for month of Feb 23 was due for deposit on 7.3.23). The balance Rs 0.40 lac pertains to month of March 2023.</p> <p>You are part of engagement team conducting audit of AAF Private Limited. As part of assigned work, you are also responsible for providing information/input to your senior for reporting under CARO, 2020 for financial year 2022-23.</p>
<p>I. Considering description about short-term borrowings in the case study, which of following statements is in accordance with CARO, 2020?</p>
<p>(a) The statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts.</p> <p>(b) The statutory auditor is required to provide details of differences only in respect of those quarterly statements where there is discrepancy of more than 10% as compared to its books of accounts.</p> <p>(c) The statutory auditor is not required to provide details of differences as reporting requirement is triggered only when working capital limits have been sanctioned in excess of ₹ 10 crore during any point of time of the year.</p> <p>(d) The statutory auditor is not required to provide details of differences, as at end of year, books of accounts are in agreement with quarterly statement filed.</p>
<p>II. The company has not paid one instalment of ₹ 5 lakhs on time which is overdue for more than 65 days as on balance sheet date. Identify likely correct statement in this regard in relation to reporting under CARO, 2020: -</p>
<p>(a) The account has not become NPA as on 31.3.23. Hence, there is no reporting requirement.</p> <p>(b) The reporting requirement is necessary only when company is declared a wilful defaulter by Bank. In the given situation, there is no reporting requirement.</p> <p>(c) Amount of default along with period of default is required to be reported.</p> <p>(d) The reporting requirement is necessary only when company has diverted amount of term loan for some other purpose. In the given situation, there is no reporting requirement.</p>
<p>III. As regards TDS payable of ₹ 1.00 lakh included in other current liabilities, what input would be provided by you to your senior for reporting under CARO, 2020?</p>
<p>(a) TDS payable of ₹ 1.00 lac in financial statements shall not be reported as it does not meet necessary reporting requirements.</p> <p>(b) It is in nature of undisputed statutory dues. Hence, outstanding amount of ₹ 1.00 lac not deposited is to be reported.</p> <p>(c) It is in nature of undisputed statutory dues. However, only outstanding amount of ₹ 0.60 lac not deposited is to be reported.</p> <p>(d) TDS payable of ₹ 1.00 lac does not fall under meaning of “undisputed statutory dues”. Hence there is no question of reporting.</p>
<p>IV. Which of following is not a reporting duty of statutory auditor regarding Property, Plant and Equipment reflected in company’s financial statements under CARO, 2020?</p>
<p>(a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment</p> <p>(b) whether Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account.</p> <p>(c) whether Property, Plant and Equipment have been physically verified by the auditor during the year; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account.</p> <p>(d) whether title deeds of all immovable properties (other than properties where company is lessee and lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company</p>
<p>V. The company has reflected losses in its financial statements for year 2022-23 and 2021-22. Which of following statements is likely to be correct in this regard while reporting under CARO, 2020 for year 2022-23?</p>

	<p>(a) Losses reflected in statement of profit and loss for year 2022-23 and 2021-22 are required to be reported under CARO, 2020.</p> <p>(b) Loss reflected in statement of profit and loss for year 2022-23 is alone required to be reported under CARO, 2020.</p> <p>(c) There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.</p> <p>(d) The company's losses reflected in statement of profit and loss in financial year 2022-23 and 2021-22 are less than prescribed percentage threshold limit of paid-up capital. Hence, these are not required to be reported.</p>
74	(N23M)
	<p>Sookrit, a CA student, has decided to participate in "Mega Conference of CA Students" being organized by Student Skills Enrichment Board, (Board of Studies-Operations), ICAI to be held in a city in South India. He has decided to try his luck for presenting a paper in one of the technical sessions of the conference on the topic of "Nature, Objective and Scope of Audit". He has to first submit for approval a soft copy of the paper to the competent authority.</p> <p>While preparing a draft for the presentation, he has included some paragraphs on the topic. Para A requires filling of certain gaps to explain nature of auditing to prospective audience at the conference. Para B and C have certain misleading and false statements which need corrections. Para D needs certain elaborations.</p> <p>Para A An audit of financial statements provides _____ assurance to the users of financial statements. It is a _____ level of assurance but it is not _____ assurance. The auditor has to see effect of misstatement(s) _____. Misstatements in financial statements can arise due to frauds or _____ or both.</p> <p>Para B Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. He also carries out appropriate tests and procedures. Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. However, he is not expected to perform duties which fall outside his domain of competence. Auditor is not an official investigator.</p> <p>Para C The process of audit suffers from certain inbuilt limitations. Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. However, future events may affect an entity adversely.</p> <p>Para D The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Its basic nature lies in providing assurance i.e., confidence to users of financial statements. Apart from this obvious utility, there are other advantages of an audit. Some or all of those are of considerable value even to those enterprises and organizations where audit is not compulsory.</p>
	<p>I. Identify appropriate words to be used in blanks to make the sentences meaningful and relevant in context of theme of the topic</p>
	<p>(a) absolute, high, complete, individually, uncertainties</p> <p>(b) reasonable, high, complete, in totality, errors</p> <p>(c) reasonable, moderate, low, in totality, errors</p> <p>(d) moderate, low, complete, individually, judgments</p>

II.	After reading Para B, which of following statements is false as regards scope of an audit of financial statements is concerned?
	<ul style="list-style-type: none"> (a) Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. (b) The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. (c) Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. (d) Auditor is not an official investigator.
III.	After reading Para C, which statement needs to be corrected in draft regarding inherent limitations of audit?
	<ul style="list-style-type: none"> (a) Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. (b) The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. (c) Future events may affect an entity adversely. (d) The process of audit suffers from certain inbuilt limitations.
IV.	Para D states that an audit provides advantages of considerable value to enterprises. Which of following is not one of advantages of an audit of financial statements of a listed company?
	<ul style="list-style-type: none"> (a) It acts as a moral check on employees. (b) It acts as an appraisal function. (c) Its chief advantage lies in safeguarding financial interest of management. (d) It is useful for settling trade disputes for higher wages or bonus.
V.	Para D states that audit can be of considerable value even to those enterprises where it is not compulsory. In context of companies in India, which of following statements is correct in relation to Companies Act, 2013?
	<ul style="list-style-type: none"> (a) OPC and small companies are exempted from audit. (b) OPC, small companies and section 8 companies are exempted from audit. (c) For all companies in India, except Section 8 companies, audit is legally obligatory. (d) For all companies in India, audit is legally obligatory.

75	(N23M)
<p>CA Sanjoy is conducting audit of PETA Education Solutions Private Limited for the first time. The company is engaged in providing solutions to students appearing for competitive exams under engineering and medical streams. Company’s business is operated from physical centres spread in many states of the country. However, of late, number of aspirants availing company’s services are shrinking due to emergence of new competitors and inability of company to switch to new technologies available in market to render its services.</p> <p>The company had taken bank loans in past years for expansion of its physical centres. However, due to reduction in strength of aspirants opting for services provided by the company, management is always looking for means to meet its financial commitments on time. During the course of audit, CA Sanjoy wants to be sure about revenue and profit assertions reflected in financial statements of the company. Therefore, he is planning to test company’s system for booking revenue in its books of accounts.</p> <p>He notices that during the year under consideration, many experienced teaching faculties have left due to late payment of their contractual payments by the company. These have been replaced by inexperienced faculties having lower contractual costs but leading to poor satisfaction outcomes among aspirants. Besides, employee turnover of regular administrative staff also remains high. The company has not organized any training programmes either for its faculties or administrative staff for considerable period of time.</p> <p>He has, in his wisdom, decided to increase the area of substantive checking in the company. He does not want to suffer from probable adverse publicity or loss of his professional goodwill.</p>	

I.	After studying description of the company and its nature of operations, which of following statements is most appropriate?
	<ul style="list-style-type: none"> (a) Inherent risk for revenue and profit assertions is likely to be lower. (b) Inherent risk for revenue and profit assertions is likely to be higher. (c) Inherent risk for revenue and profit assertions cannot be assessed from given situation. (d) There does not exist inherent risk for revenue and profit assertions in described situation.
II.	The case scenario describes a situation of leaving of experienced faculties, high employee turnover and absence of training programmes for staff of the company. Such indicators are an example of _____?
	<ul style="list-style-type: none"> (a) Unsatisfactory risk assessment process used by the company (b) Unsatisfactory control environment of the company (c) Unsatisfactory performance reviews carried out by the company (d) Unsatisfactory system of segregation of duties in the company
III.	The auditor is planning to test company’s system for booking revenue in its books of accounts. Identify the correct statement in this regard: -
	<ul style="list-style-type: none"> (a) He is likely to place greater reliance on controls relating to booking of revenue. (b) He is likely to place lower reliance on controls relating to booking of revenue. (c) Reliance placed by him on controls relating to booking of revenue would be unaffected due to reduction in contractual costs by company. (d) Reliance placed by him on controls relating to booking of revenue would be unaffected due to shrinking number of aspirants.
IV.	The auditor has increased area of “substantive checking” in the company. It is due to the reason that
	<ul style="list-style-type: none"> (a) he wants to lower detection risk (b) he wants to lower control risk (c) he wants to raise sample risk (d) he wants to lower inherent risk
V.	The auditor does not want to suffer from probable adverse publicity or loss of professional goodwill. Such a situation is indicative of _____?
	<ul style="list-style-type: none"> (a) audit risk (b) auditor’s business risk (c) auditor’s detection risk (d) non-sampling risk

76	(N23M)
<p>You are a partner in ABC & Company, a firm of Chartered Accountants based in New Delhi. ABC & Company have been appointed as the statutory auditors of Onetime Limited, a public company which manufactures and sells wall and table clocks and has many branches all over India. Onetime Limited has been exporting the clocks since past two years. However, the domestic sales have contributed towards major source of revenue for the Company.</p> <p>One of the team members, CA B noticed that one of the suppliers of Onetime Limited, Mr AM had sent some raw material to the Company for storage in their warehouse in March 2023. Due to renovation going on at his warehouse, his stock could be damaged and so he had requested Onetime Limited to keep the same in their warehouse. Onetime Limited contended that since the raw material was anyway billed to the Company the next month, so the same had been included in the valuation of stock, since physically the stock was present in the warehouse of Onetime Limited as on 31.03.2023.</p> <p>While verifying the debtors, team member C noticed that there were a few trade receivables pertaining to export sales mainly to England. Mr. C verified the same with respect to the invoices issued and other supporting documents. The amount booked as on 31.03.2023 was based on the exchange rate as on the date of the invoice.</p>	

<p>Mr. T, another team member verified the PPE of the Company. Onetime Limited had purchased few cars for its directors during the year of audit. The same were appearing in the PPE schedule of the Company. Mr T verified the same with respect to the invoices as well as physically verified the assets in the Company’s premises. Since the cars were for the official use of the Directors, they were purchased in the name of the Directors of the Company. Mr. T verified the amount with the Invoice and checked the registration and insurance documents. Besides, all items appearing in the PPE schedule were verified and he was satisfied that all PPE items that should have been recorded have, in fact, been recorded.</p> <p>One of the articled clerks was assigned the work of verification of “Provisions” appearing in the Balance sheet. He wanted to understand from you the circumstances in which a provision is recognised in the books of accounts. You explained him the situations in which an entity recognises Provisions in its books.</p> <p>Onetime Limited has invested in the shares of other companies. One of the Companies has declared dividend on its shares. Onetime Limited has not recognised the same in the profit & loss account. Team Member R has asked you to look into the matter since she is unable to understand the reasons for the same.</p>
<p>I. Is the raw material lying in the warehouse of Onetime Limited accounted for correctly in its books of account?</p>
<ul style="list-style-type: none"> (a) No, since the same belongs to Mr. AM and should appear in his books. (b) Yes, since the same is in possession of Onetime Limited and was billed to it the following month. (c) It should be shown in the books of both Onetime Limited and Mr. AM. (d) It should not appear in the books of Onetime Limited or Mr. AM and the raw material should be disclosed as a note in the final accounts of both the entities.
<p>II. Which exchange rate is considered for accounting of foreign debtors at the year end?</p>
<ul style="list-style-type: none"> (a) Exchange Rate on the date of the invoice. (b) Exchange Rate on the last day of the financial year. (c) Exchange Rate on the date of shipment of the products to the customer. (d) Exchange Rate on the date of delivery of the products to the customer.
<p>III. Which of the following management assertions is not satisfied with respect to Cars included in the PPE items by the company :</p>
<ul style="list-style-type: none"> (a) Existence (b) Valuation (c) Completeness (d) Rights and Obligations
<p>IV. Which of the following condition is not required to be met for recognizing a provision?</p>
<ul style="list-style-type: none"> (a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. (b) When an entity has a present obligation (legal or constructive) as a result of a past event. (c) A reliable estimate can be made of the amount of the obligation. (d) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
<p>V. Which of the following conditions is not necessary for recognising dividends in the statement of profit and loss of Onetime Ltd.:</p>
<ul style="list-style-type: none"> (a) the entity’s right to receive payment of the dividend is established. (b) it is probable that the economic benefits associated with the dividend will flow to the entity. (c) the amount of the dividend can be measured reliably. (d) payment of income tax on dividends received

CASE SCENARIOS OF ICAI SM 23

Chapter 1

77	(SM23)
	<p>Rohit, Gurpreet, Ali and Goreti are friends since their school days based in Mumbai. They have cleared CA foundation exams in the same attempt and now plan to appear for CA Intermediate exams. All of them are avid news listeners and regularly keep track of business news even on social media.</p> <p>They are trying to understand new subjects including auditing. Rohit, Gurpreet and Ali have also started attending Live Coaching Classes (LCC) being conducted by Board of studies of ICAI. Goreti has not been able to join Live Coaching Classes yet as she was away on a holiday with her parents. However, she plans to catch it up with her friends very soon. Ali had also joined the classes but he had skipped some lectures.</p> <p>During one informal get together, their discussions centred around new subject of auditing. They discussed many things regarding its nature, scope, benefits and other general practical issues. Goreti was regular in keeping track of audited results of companies being published in leading newspapers. Her view was that audited financial statements of companies give 100% guarantee to different stake holders. It is the main reason behind so much reliance upon auditing. But she could not understand why wrong doings in financial matters are being discovered after many years have gone by.</p> <p>Ali also concurred with her view and added that when financial statements are audited, each and every transaction appearing in books of accounts is verified. However, he could not give clarity to Goreti.</p> <p>Gurpreet was of the opinion that audit was conducted on the basis of sample checking. He was also of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of the companies.</p> <p>Not to be left behind, Rohit also jumped in the fray. He supported Gurpreet and also added something of his own.</p>
	<p>I. Gurpreet was of the view that 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?</p>
	<p>(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.</p>
	<p>II. Rohit added that auditor can force an employee of the company to provide him required information and documents. Can he do so?</p>
	<p>(a) Yes, he can do so. It is necessary to obtain audit evidence. (b) Yes, he can do so. There are express rights given to him in this respect. (c) No, he cannot do so. He can only request for providing him with necessary information and documents. But it cannot be forced by him. (d) No, he cannot do so. He has no right of seeking information and documents. Therefore, question of forcing does not arise.</p>
	<p>III. Ali had listened in one of the classes that audit covers all aspects of an entity and concluded that each and every transaction of entity is verified by auditor. Goreti also seemed to be in agreement with him but she was of the view that besides this, it also meant that audit should be so organized to cover all areas of an entity. Which of following statements is appropriate in this regard?</p>
	<p>(a) Only view of Ali is correct. (b) Only view of Goreti is correct. (c) Views of both Ali and Goreti are correct. (d) Views of both Ali and Goreti are incorrect.</p>

	<p>IV. All of them also discussed about benefits of auditing. Which of the following is not a likely benefit of auditing?</p>
	<p>(a) Since auditing is connected to future events, audited information can be easily relied upon by users.</p> <p>(b) Errors or frauds may be discovered during audit.</p> <p>(c) Government authorities can make use of audited accounts for different purposes.</p> <p>(d) It can help in bringing out deficiencies in maintenance of financial records.</p>
	<p>V. Goreti told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of following statements seems to be appropriate in this regard?</p>
	<p>(a) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.</p> <p>(b) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.</p> <p>(c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.</p> <p>(d) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare, odd cases.</p>

78	(SM23)
	<p>Me and You Private Limited has been newly incorporated. The plant of the company has recently started production with the help of funds provided by a bank for purchase and installation of machinery. Further, the company is also utilizing working capital credit facilities from the same bank for meeting its day to day working capital requirements like for purchase of raw materials, labour payment etc. However, just within six months of its operations, the management feels that working capital funds are inadequate and situation is creating liquidity issues in the company.</p> <p>The management of the company has approached its bankers and requested for enhancement in working capital credit facilities. The bank manager is insisting upon financial statements of the company for half year along with report providing assurance in this respect duly signed by Chartered Accountant as audit is far away. It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management.</p> <p>The management approaches CA P, who has qualified recently and started practising. Reports providing assurance for half yearly results and projected financial statements are sought from CA P. The Management provides necessary information and records to him in this regard.</p> <p>Assume, in above case, the company only provides trial balance, financial statements in draft/preliminary form along with accompanying records for the relevant half year to CA P and requests him to provide duly signed financial statements with a report for mutually agreed professional fees.</p>
	<p>I. The management of company has engaged CA P to issue a duly signed report for half year. Which of the following standards, if any, issued by ICAI are relevant for CA P?</p>
	<p>(a) Standards on Review Engagements</p> <p>(b) Standards on Auditing</p> <p>(c) Standards on Related Services</p> <p>(d) There are no standards for issuing report in such situation.</p>
	<p>II. Which of the following statements is MOST APPROPRIATE in given case situation?</p>
	<p>(a) CA P can assist management in preparation of financial statements of the company. However, issue of a report in such a case is outside the scope of work.</p> <p>(b) CA P can assist management in preparation of financial statements of the company and he can issue an audit report.</p>

	<p>(c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect.</p> <p>(d) The responsibility of preparation of financial statement is of company's management. CA P cannot assist management in preparation of financial statements of the company. However, he can issue a review report.</p>
III.	In the above said scenario for issuance of signed financial statements for half year by CA P, as discussed in last para of Case Study, identify the MOST APPROPRIATE statement: -
	<p>(a) Standard on Quality control (SQC 1) is not applicable as CA P cannot issue audit report.</p> <p>(b) Standard on Quality Control (SQC I) is not applicable as CA P cannot issue review report.</p> <p>(c) Standard on Quality Control (SQC 1) is applicable in such type of engagement.</p> <p>(d) Standard on Quality Control (SQC 1) is not applicable as CA P is barred from issuing any report in such type of engagement.</p>
IV.	The banker of company has also requested for projected financial statements for coming years along with a report from CA regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?
	<p>(a) Standards on Review Engagements</p> <p>(b) There are no standards for issuing such type of reports.</p> <p>(c) Standards on Related Services</p> <p>(d) Standards on Assurance Engagements</p>
V.	Suppose CA P also accepts work of issuing projected financial statements with a report to be signed by him. The management has projected turnover of ₹700 crore for the next year, ₹150 crore & ₹200 crore for following years respectively as compared to present turnover of ₹25 crore in current half year. Identify the MOST APPROPRIATE statement in this situation: -
	<p>(a) CA P has to satisfy himself regarding arithmetical accuracy of projected data.</p> <p>(b) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover and its consistency with actuals.</p> <p>(c) CA P has to satisfy himself regarding arithmetical accuracy of data along with its proper presentation to banker.</p> <p>(d) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.</p>

Chapter 02

79	(SM23)
	<p>Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.</p> <p>She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.</p> <p>A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.</p>
	VI. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?

	<p>(a) She is establishing audit strategy.</p> <p>(b) She is conducting preliminary engagement activities.</p> <p>(c) She is designing audit plan.</p> <p>(d) She is checking her compliance of ethical requirements.</p>
VII.	Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -
	<p>(a) Developing audit plan</p> <p>(b) Establishing overall audit strategy</p> <p>(c) Designing audit programme</p> <p>(d) Designing risk assessment procedures</p>
VIII.	Taking into account description of planned inquiry and visit, which of the following statements is TRUE?
	<p>(a) Planned inquiry and visit fall in area of audit strategy.</p> <p>(b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.</p> <p>(c) The said description is not related to audit planning.</p> <p>(d) Planned inquiry and visit fall in scope of audit programme.</p>
IX.	What is detailed set of instructions given to assistants in engagement team known as?
	<p>(a) Audit guidelines</p> <p>(b) Audit plan</p> <p>(c) Audit Programme</p> <p>(d) Audit Procedures</p>
X.	The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?
	<p>(e) She should ignore this information as audit has already begun.</p> <p>(f) She should modify earlier set of instructions.</p> <p>(g) She should leave the matter to wisdom of engagement team.</p> <p>(h) She should put the ball in court of management as she was not provided with complete information earlier</p>

Chapter 03

80	(SM23)
	<p>CA Paritosh is auditor of a company. The financial statements of the company have just been received for audit. Following issues have been flagged pertaining to the financial statements of the company for purpose of risk assessment: -</p> <p>i. The revenue of company has fallen from ₹ 50 crore in last year to ₹ 5 crore in current year (for which financial statements have been received for audit) due to lack of demand in the market for company's products.</p> <p>ii. Due to advent of new products in the market, company's products are fast becoming outdated.</p> <p>iii. A large customer having an outstanding balance of ₹ 5 crore has failed to pay to the company despite efforts made by the company.</p> <p>iv. Inventory holding period has increased from 30 days in last year to 90 days.</p> <p>v. The company also gets carried out job operations from third parties. Therefore, parts of inventories are lying with third parties.</p>
	<p>I. Regarding drastic fall in revenue of the company, which of the following is an audit risk?</p> <p>(a) Fall in revenue would result in fall of profits for the company.</p> <p>(b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.</p> <p>(c) The company can explore some new line of activity, if demand of its products is falling.</p> <p>(d) Fall in revenue would mean lower tax liabilities for the company.</p>

	<p>II. The company’s products are getting outdated in the market. Which of the following is an audit risk?</p> <p>(a) The company should devise strategies to sell products in the market. (b) Inventories may be understated in such a scenario. (c) Inventories may be overstated in such a scenario. (d) The company should launch a 1+1 free offer for its customers.</p>
	<p>III. A large customer has failed to pay to the company. Identify audit risk from below:</p> <p>(a) Receivables may be misstated if irrecoverable debt is not written off. (b) Receivables may be overstated if irrecoverable debt is not written off. (c) Writing off irrecoverable debt would impact profits of company adversely. (d) Failure to recover outstanding debt would impact cash flows of company adversely.</p>
	<p>IV. Identify audit risk involved when inventory holding period has increased from 30 days to 90 days.</p> <p>(a) There is a risk of overstatement of inventories. (b) There is a risk relating to existence of inventories. (c) There is a risk that slow movement of stocks would increase tax liability when GST rates are increased. (d) There is a risk relating to holding and storage cost of inventories.</p>
	<p>V. Part of inventories are lying with third parties. Identify audit risk involved.</p> <p>(a) There is a risk that third parties do not manufacture according to specifications of the company. (b) There is a risk that by getting job work done from third parties, company is increasing its costs. (c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties. (d) There is a risk that sufficient and appropriate evidence would not be available for quality control in respect of inventories lying with third parties.</p>

81	(SM23)								
<p>CA Piyush is understanding internal controls as part of audit exercise of a company. It is a new client. He has studied controls in place in various operational areas of the company. After studying and gaining an understanding of such controls, he has decided to test few controls to actually see whether these are operating as intended by the management.</p> <p>Till now, he has studied controls over inventories and bank. Few of such controls are listed below: -</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Nature of Control</th> <th>Control description</th> </tr> </thead> <tbody> <tr> <td>Control over inventories</td> <td>Inventories of the company lying at each location should be insured.</td> </tr> <tr> <td>Control over inventories</td> <td>There should be inventory counts on a regular basis for each location of the company.</td> </tr> <tr> <td>Control over Bank operations</td> <td>Bank reconciliations are to be performed at regular intervals.</td> </tr> </tbody> </table>		Nature of Control	Control description	Control over inventories	Inventories of the company lying at each location should be insured.	Control over inventories	There should be inventory counts on a regular basis for each location of the company.	Control over Bank operations	Bank reconciliations are to be performed at regular intervals.
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	<p>I. Which of the following most appropriately describes test of control regarding insurance of inventories?</p> <p>(a) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. The sum insured and period of validity of policy are not relevant. (b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired. (c) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure policy period has not expired.</p>								

	(d) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. Ensure policy period has not expired.
II.	Which of the following most appropriately describes test of control regarding inventory counts?
	(a) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. (b) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count. (c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count. (d) Attend inventory count and perform test count.
III.	While testing control over bank reconciliations, it has been noticed that bank reconciliations are not being performed at regular intervals. Identify the most appropriate description of “control deficiency” in this regard: -
	(a) Bank reconciliations are not being performed regularly as concerned staff is overburdened. (b) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. (c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements. (d) Bank reconciliations are not being performed regularly as concerned staff is overburdened. These should be performed monthly and reviewed by senior accountant.
IV.	Since the company is a new client, which of the following statements is most appropriate?
	(a) There is reduced detection risk. (b) There is increased detection risk. (c) There is no effect on detection risk. (d) Detection risk should be increased to lower audit risk.
V.	Which of the following statements is most appropriate regarding auditor’s response to assessed risk of a new client?
	(a) More substantive procedures would require to be performed. (b) Less substantive procedures would require to be performed. (c) There is no effect on substantive procedures. (d) There is no effect on substantive procedures as audit risk is low.

Chapter 04

82	(SM23)
<p>CA Drishti Khandelwal is conducting audit of a company engaged in manufacturing of towels and bedspreads. The company is having its own manufacturing set-up. However, it also gets some manufacturing processes outsourced from third parties. The company has three locations having substantial quantities of inventories in the same city. Besides, due to outsourcing of some processes, inventories are also held in premises of third parties in the same city. As part of audit procedures, she is performing many audit procedures required by different Standards on Auditing.</p> <p>In particular, she is attending physical inventory count process of the company at year end in accordance with requirements of SA 501. The inventory of the company includes raw materials consisting mainly of natural and dyed yarns, work in process in different stages of manufacturing and finished stocks of towels and bedspreads.</p> <p>She is also planning sending confirmations to parties to whom the company has sold goods. On reviewing trade receivables list, she finds that the list also contains large number of parties having small balances. She further finds that these receivables have arisen due to sale of bedspreads to small time retailers and possibility of difference in balances as per company’s records and as per records of these</p>	

<p>small-time retailers is low. Risk of misstatements in relation to trade receivables has been assessed as low. Besides, there is nothing to suggest that small-time retailers would disregard such requests.</p> <p>While conducting audit, she is testing controls operating in the company. She is also conducting tests of various items of income and expenditure as well as balances appearing in balance sheet. She intends to rely upon sampling extensively.</p>	
I.	<p>Which of the following statements is most appropriate regarding inventory count by auditor in accordance with SA 501?</p> <p>(a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting.</p> <p>(b) She should inspect the inventory to ascertain its existence at all locations, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.</p> <p>(c) She should inspect the inventory to ascertain its existence at selected location, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.</p> <p>(d) She should inspect the inventory to ascertain its existence and condition at all locations and perform counting of each and every item.</p>
II.	<p>As regards inventories lying with third parties, which of following statements meets requirements of SA 501?</p> <p>(a) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company as well as request third parties to allow her to inspect inventories held by them. Both requirements are necessary to be complied with.</p> <p>(b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.</p> <p>(c) There is no obligation cast upon an auditor in respect of inventories lying with third parties.</p> <p>(d) She should request confirmation from third parties regarding quantity, condition and value of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these is sufficient for purposes of SA 501.</p>
III.	<p>Keeping in view description regarding trade receivables, identify the most appropriate statement in context of SA 505?</p> <p>(a) She should not plan and design confirmation requests for large number of parties having small balances.</p> <p>(b) She should plan and design positive confirmation requests for large number of parties having small balances.</p> <p>(c) She should plan and design positive confirmation requests for large number of parties having small balances and meticulously analyse exception rate</p> <p>(d) She should plan and design negative confirmation requests for large number of parties having small balances.</p>
IV.	<p>As regards sampling, which of the following statements is most appropriate in terms of requirements of SA 530?</p> <p>(a) Sampling is used in tests of transactions as well as tests of controls.</p> <p>(b) Sampling is used in tests of balances as well as tests of controls.</p> <p>(c) Sampling is used in tests of details.</p> <p>(d) Sampling is used in tests of details as well as tests of controls</p>
V.	<p>Since she intends to rely upon sampling extensively, which of the following statements is true about sampling risk?</p> <p>(a) Sampling risk can be eliminated.</p> <p>(b) Increase in sampling risk would lead to decrease in detection risk.</p> <p>(c) Decrease in sampling risk would lead to increase in detection risk.</p>

	(d) Sampling risk will always be in existence.
83	(SM23)
	<p>Financial statements of a firm have been put up for audit before CA Manushi. On going through financial statements, she wants to verify assertions contained in financial statements and has planned certain procedures for carrying out detailed checking.</p> <p>(A) She plans 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.</p> <p>(B) She plans to verify that all balances appearing under trade payables are genuine and not fake.</p> <p>(C) She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.</p> <p>(D) She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.</p> <p>(E) The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.</p>
	<p>I. As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform?</p> <p>(a) Tests of Controls (b) Tests of transactions (c) Tests of balances (d) Risk assessment procedures</p>
	<p>II. Identify which type of assertion she intends to focus when she wants to ensure genuineness of trade payables.</p> <p>(a) Occurrence (b) Cut-off (c) Existence (d) Accuracy</p>
	<p>III. As regards comparison of wages of current year and last year and comparison of relationship between the number of employees and wages paid in both years, identify what she is trying to do?</p> <p>(a) She is intending to perform tests of details. (b) She is intending to perform tests of transactions. (c) She is intending to perform tests of balances. (d) She is intending to perform substantive analytical procedures.</p>
	<p>IV. In case of examination of title deeds of "land", which of the following fits into most appropriate description of such an audit procedure?</p> <p>(a) Observation (b) Inspection (c) External confirmation (d) Enquiry</p>
	<p>V. She wants to verify whether conversion of foreign currency into Indian rupees is proper or not. Identify what she is trying to do?</p> <p>(a) Reperformance (b) Recalculation (c) Observation (d) Inspection</p>

84	(SM23)
<p>Sunsteel Ltd. is a company engaged in the manufacture of variety of stainless steel household items ranging from hot pot, pressure cooker, cutlery set, bottles, to serving trays. The company has its corporate office in Delhi and its plant in Raigarh, a city in the state of Chhattisgarh. The company is planning to expand its manufacturing activities by setting up two new plants in the Raipur district of the state. For this purpose, the company also raised funds by making a follow-on public offer during the financial year 2022-23. R K Maheshwari & Associates are the statutory auditors of the company since the year 2020-21. The engagement team consisted of 5 members, with CA Raman as the engagement partner, CA Madhu as the senior associate and three articled trainees namely, Aman, Chetanya and Depesh.</p> <p>The company raised fresh capital of ₹ 5 Cr during the FY 2022-23. The shares with the nominal value of ₹ 10 per share were issued at a premium of ₹ 5 per share.</p> <p>The company has the Reserves and Surplus totalling to ₹ 2 Cr, comprising of securities premium and general reserve.</p> <p>CA Raman directed CA Madhu to verify the issue of the share capital in detail giving special consideration to the utilization of the securities premium amount.</p> <p>The audit engagement team discussed with the management about the performance of the company during the year under consideration. To this, the management told the engagement team that the company is performing very well and the company has doubled its revenue during the year as compared to the last year. The management of the company also told the auditors that during the year the company has made majority of its sales on credit basis to its customers.</p> <p>CA Raman directed Mr. Aman to send balance confirmation requests to debtors having balance in excess of ₹ 1 lakh.</p> <p>During the course of audit, CA Raman, Chetanya and Depesh also visited the power plants in Raigarh to get a detailed understanding of the manufacturing process. The team performed analytical procedures to obtain audit evidence with respect to the overall reasonableness of purchase quantity and price of inventory. More specifically, Chetanya collected the reports from the management for composition of stock i.e. raw materials as a percentage of total stock and compared the same with the data of the previous year. CA Raman and Chetanya thereafter, discussed the reasons for the variations with the management.</p> <p>Also, while considering the presentation and disclosure requirements as per Schedule III to the Companies Act, CA Madhu discussed with CA Raman the disclosure with respect to the following account balances:</p> <ul style="list-style-type: none"> • Current maturities to long term borrowings • Long term maturities of finance lease obligations • Interest accrued but not due on borrowings • Interest accrued and due on borrowings 	
<p>I. Which of the following is not correct with respect to shares issued at premium and securities premium account in terms of Section 52 of the Companies Act, 2013?</p> <p>(a) Where a company issue shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a securities premium account.</p> <p>(b) The securities premium account can be applied by the company in paying up unissued equity shares of the company to be issued to members of the company as fully paid bonus shares.</p> <p>(c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company.</p>	

	(d) The securities premium account can be applied by the company for the purchase of its own shares or securities under section 68.
II.	Which of the following is not an example of capital reserve?
	(a) Revaluation reserve arising from revaluation of fixed assets (b) Securities Premium (c) Capital redemption reserve (d) General reserve
III.	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, the auditor should perform alternate procedures regarding the balances.
	(b) Only statement 1 is correct (c) Only statement 2 is correct (d) Both statements 1 & 2 are correct (e) Both statements 1 & 2 are incorrect
IV.	Mr. Chetanya performed which of the following analytical procedures to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material?
	(a) Consumption Analysis (b) Stock Composition Analysis (c) Reasonableness test (d) Ratio analysis
V.	Which of the following is not correct with respect to the disclosure requirements of Schedule III to the Companies Act 2013?
	(a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings (b) Long term maturities of finance lease obligations is to be disclosed under the head long term borrowings (c) Interest accrued but not due on borrowings is to be disclosed under the head Other Current Liabilities (d) Interest accrued and due on borrowings is to be disclosed under the head Other Current Liabilities

Chapter 06

85	(SM23)
	<p>CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:-</p> <p>(A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).</p> <p>(B) The team has determined materiality for financial statements as a whole. The team has assessed risks of material misstatements to be low.</p> <p>(C) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.</p> <p>(D) During the course of audit, many related party transactions have come to notice.</p>

VI.	Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?
	<ul style="list-style-type: none"> (a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person. (b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties. (c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance. (d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous
VII.	As regards materiality, which of the following statements is most appropriate in context of audit documentation?
	<ul style="list-style-type: none"> (e) Materiality has already been determined. There is no need to put it into working papers. (f) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers. (g) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented. (h) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.
VIII.	As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?
	<ul style="list-style-type: none"> (e) Discussion amongst engagement team members and detail of significant decisions reached has to be documented. (f) Details of risk assessment procedures have to be documented. (g) Details about how understanding of each component of internal control was obtained has to be documented. (h) Precise calculation of risk of material misstatements has to be documented.
IX.	CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?
	<ul style="list-style-type: none"> (a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location. (b) Detail of test counting undertaken should form part of audit documentation. (c) Detail of obsolete goods found should form part of audit documentation. (d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.
X.	As regards related party transactions, which of the following should not be part of audit documentation?
	<ul style="list-style-type: none"> (a) Management representation letter in this regard (b) Related party transaction policy of the company (c) Documentation to show that such transactions are at arm's length basis (d) Documentation to show that such transactions are at close length basis.

86	(SM23)
<p>CA. Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.</p> <p>Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.</p> <p>Before concluding audit, he requests written representations from management regarding its responsibilities. However, it is noticed that such written representations provided by management use qualifying language.</p> <p>He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails. Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.</p>	
<p>I. As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?</p>	
<p>(a) The auditor should express an unmodified opinion.</p> <p>(b) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>(c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.</p> <p>(d) Such an issue does not affect auditor's opinion.</p>	
<p>II. As regards going concern basis of accounting is concerned, which of the following statements is true?</p>	
<p>(a) A company showing net loss in its financial statements is essentially not a going concern.</p> <p>(b) Following going concern assumption of accounting is primary duty of auditor.</p> <p>(c) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.</p> <p>(d) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.</p>	
<p>III. Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?</p>	
<p>(a) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report.</p> <p>(b) There is no obligation for an auditor to perform audit procedures after signing of auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.</p> <p>(c) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events.</p> <p>(d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.</p>	
<p>IV. As regards use of qualifying language in written representations, which of the following statement is most appropriate?</p>	

	<p>(a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.</p> <p>(b) Written representations should be unconditional. Such a wording is not acceptable.</p> <p>(c) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances.</p> <p>(d) Qualifying language in written representations is compulsory.</p>
V.	As regards auditor's responsibility regarding matters communicated orally with those charged with governance, which of following is most appropriate?
	<p>(a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.</p> <p>(b) Matters communicated orally need not be put into writing. It is sufficient for auditor to have communicated orally.</p> <p>(c) Matters communicated orally need not be put into writing. It is not practically feasible.</p> <p>(d) Matters communicated orally have to be documented by the auditor stating to whom these were communicated</p>

Chapter 08

87	(SM23)
<p>M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:</p> <ul style="list-style-type: none"> • During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial statements and if auditor persists they may give the effect in the next financial year. • During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr B. • During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise. 	
I. In case of M/s Persistent & Company, what would be an ideal Audit Opinion?	
<p>(a) Unmodified</p> <p>(b) Qualified</p> <p>(c) Mention the fact in Emphasis of Matter Paragraph</p> <p>(d) Disclaimer</p>	
II. In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?	
<p>(a) Qualified</p> <p>(b) Adverse</p> <p>(c) Disclaimer</p> <p>(d) Unmodified</p>	
III. According to you, what would be appropriate course to take in case of M/s Honest & Associates?	

	<ul style="list-style-type: none"> (a) Issue Qualified Opinion (b) Issue Adverse Opinion (c) Mention the fact of change in method in Emphasis of Matter Paragraph (d) Issue Disclaimer of Opinion
	<p>IV. When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do?</p>
	<ul style="list-style-type: none"> (a) Issue Unmodified Opinion (b) Issue Qualified Opinion (c) Issue Disclaimer of Opinion (d) Mention it in Emphasis of Matter Paragraph
	<p>V. When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:</p>
	<ul style="list-style-type: none"> (a) Modified Opinion (b) Qualified Opinion (c) Disclaimer of Opinion (d) Unmodified Opinion

Chapter 09

88	(SM23)
<p>Consider the following five descriptions: -</p> <p>(A) Audit of "Implementation of Nagpur Metro Rail Project" was conducted by the Comptroller and Auditor General of India.</p> <p>Following is extract of few audit findings placed on website cag.gov.in.</p> <p>"The location of New Airport station was not ideal from the viewpoint of ridership due to sparse population in and around the station and also from the accessibility point of view.</p> <p>Cotton Market station, the second additional station was projected to have high peak hour peak direction trips but the work was kept on hold midway citing fund crunch due to non-release of pending contribution from stakeholders. However, the situation could have been managed through prioritization of works."</p> <p>(B) Another set of audit findings in respect of audit of Haryana Power Generation Corporation Limited, a wholly owned government company responsible for operation of power generation plants in state of Haryana is as under: -</p> <p>"The main reason for low generation was higher variable cost of thermal power stations which resulted in backing down of plants."</p> <p>(C) A report was tabled in Parliament highlighting main features of direct taxes administration of country as mandated in Constitution of India. This report primarily discussed compliance to the provisions of the Income Tax Act, 1961 and the associated rules and procedures etc. as applied to administration of direct taxes including irregularities noticed in finalizing assessments etc.</p> <p>(D) Radial finance corporation Limited is a government company. The audit of the company is conducted by statutory auditors appointed by Comptroller and Auditor General of India.</p> <p>(E) Bharat Insurance Company Limited is a general insurance government owned company. The statutory auditor is appointed by Comptroller and Auditor General of India.</p> <p>The annual report for a particular year also contains comments of statutory auditors on matters such as whether company has carried out reconciliations in respect of its inter-company balances with other government owned insurance companies.</p>	
<p>I. Based upon plain reading of audit findings stated at Para (A), identify type of audit carried out by office of the Comptroller and Auditor General of India.</p>	

	<ul style="list-style-type: none"> (a) Audit against provision of funds (b) Propriety audit (c) Performance audit (d) Compliance audit
II.	Keeping in view audit findings in respect of Haryana Power Generation Corporation Limited, identify type of audit carried out.
	<ul style="list-style-type: none"> (a) Audit of Government Company (b) Audit against rules and orders (c) Compliance audit (d) Performance audit
III.	Which of the following is the most appropriate statement in context of report tabled in Parliament regarding administration of direct taxes?
	<ul style="list-style-type: none"> (a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India. (b) It is likely to be a report prepared for submission to the Prime Minister Under Article 151 of the Constitution of India by an independent task force of experts. (c) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Central Board of Direct Taxes. (d) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by Central Board of Direct Taxes.
IV.	Who is empowered to conduct "supplementary audit" in case of Radial finance Corporation Limited, a government company?
	<ul style="list-style-type: none"> (a) Central Government (b) Another independent auditor appointed by CAG (c) CAG (d) Another independent auditor appointed by Ministry of Corporate Affairs
V.	As regards comments of auditors specified in respect of audit report of above insurance company, which of the following is likely to be most appropriate statement?
	<ul style="list-style-type: none"> (a) Such are likely to be comments of test audit carried out by CAG. (b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work. (c) Such are likely to be comments of supplementary audit carried out by CAG. (d) Such are likely to be comments of statutory auditors in accordance with requirements of Standards on Auditing

Chapter 10

89	(SM23)
<p>CA M is conducting statutory audit of branch of MMC Bank. During the course of audit, it is noticed as under:-</p> <p>(i) Loans under "Kisan credit card" are given by Bank to farmers to meet their short-term credit needs for cultivation of crops.</p> <p>In respect of one agricultural advance classified under "Kisan Credit Card" having an outstanding balance of ₹ 20 lacs as at year end, there is no transaction in account since last 90 days. The said loan has been granted for cultivation of paddy which is harvested in a period of 3-4 months from sowing. The branch has classified the said advance as "Standard asset".</p> <p>(ii) It is also observed that account of one borrower availing cash credit limit of ₹ 50 lacs was taken over from another bank. The proposal was sanctioned by branch manager instead of immediate next higher authority as required in "Manual of Delegation of Powers" of Bank.</p> <p>(iii) It is noticed that head office of bank has flagged a savings account maintained in branch in which interest was wrongly paid at higher rate due to wrong data feeding entry. Now, situation has been rectified by debiting excess interest paid in the account. Since there was little balance in savings</p>	

	<p>account, a debit balance of ₹ 1.50 lac was created in the said savings account due to above reversal. The matter was immediately informed to account holder. However, he has not turned up for payment since matter was informed to him about six months ago.</p> <p>(iv) There are many cash credit accounts in the branch. Such borrowers are required to submit monthly stock statements to branch showing calculation of drawing power.</p> <p>(v) One borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet.</p>
	<p>I. Based upon plain reading of audit findings stated at Para (A), identify type of audit carried out by office of the Comptroller and Auditor General of India.</p> <p>(a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset. (b) The classification made by branch is proper. However, there are no transactions in account since last 90 days, it is SMA. (c) The classification made by branch is proper. (d) The branch has erred in making classification as per RBI norms. It is a "doubtful" asset.</p>
	<p>II. Regarding taken over account from another bank, which of following statements is most appropriate?</p> <p>(a) It is an internal issue of Bank and auditor is not concerned with it. (b) It is an internal issue of Bank. However, the auditor may, at his discretion, report it. (c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail. (d) There is no issue involved as credit facility was properly sanctioned.</p>
	<p>III. As regards debit balance of ₹ 1.50 lacs in Savings account, which of the following is correct from point of view of an auditor?</p> <p>(a) The situation does not attract RBI norms on asset classification. (b) The debit balance of 1.50 lacs should be classified as NPA. (c) The situation does not attract RBI norms on asset classification as no credit facility was granted. (d) The bank cannot demand excess interest paid to account holder.</p>
	<p>IV. Which of the following statements is not true about "drawing power" (DP)?</p> <p>(a) Drawing Power refers to the amount calculated based on primary security less margin as on particular date. (b) It is always less than sanctioned limit. (c) It can be different from sanctioned limit. (d) Creditors for goods are reduced for purpose of calculating Drawing Power.</p>
	<p>V. Considering housing loan and car loan availed by a borrower, which of the following statements is appropriate?</p> <p>(a) Both Housing loan as well as car loan should be classified as "Non Performing Assets" in accordance with RBI norms on asset classification. (b) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset. (c) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset. (d) Both Housing as well as car loans should be classified as Standard assets.</p>

Chapter 11

90	(SM23)
	<p>Das & Co, a firm of auditors, is offered appointment as auditor of a company, a prospective new client. CA Sukanya, one of partners, is dealing with new client. While meeting with officers of the company, she comes to know that Sushant, CFO of the company, was her classmate. In fact, both of them had started CA together. However, Sushant had left CA mid-way due to repeated failures and tried his luck</p>

to pursue MBA (finance) from one of leading institutions.

During initial discussions, it transpires that company is going to launch new services in the field of “weather-forecasting”. Such services would be available on web site of company and micro weather information would be available on payment of charges. The company requests audit firm to be visibly associated with their marketing blitz.

Assume that firm chooses to accept the offer and writes to previous auditor, Walker & Co., to advise whether there exist any professional reasons for them not to accept the proposed offer. However, Walker & Co. do not reply to the request of Das & Co.

During preliminary discussions, it also became known that the said company has acquired all shares of another company. Under relevant provisions of law, financial statements of both companies needed to be consolidated and audited. Despite this knowledge, Das & Co. failed to advise their client regarding audit of consolidated financial statements.

The company also offers auditors contract for providing IT services pertaining to information system of company.

I. Considering discussion about Sukanya and Sushant, which of the following statements seems most appropriate?

- (a) The above discussion is irrelevant in context of proposed offer.
- (b) The proposed offer should be accepted by firm. The engagement team may be headed by CA Sukanya for better coordination and results.
- (c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.
- (d) The matter is too trivial to be reported by CA Sukanya to other partners of firm.

II. Keeping in view request of the company to be visibly associated with company’s new services, identify which type of threat is being faced by audit firm.

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

III. The previous auditors, Walker & Co., have not replied to communication of Das & Co. Which fundamental principle of professional ethics is not followed by them?

- (a) Objectivity
- (b) Professional behaviour
- (c) Professional competence and due care
- (d) Integrity

IV. Das & Co. have failed to advise the company regarding audit of consolidated financial statements. Which fundamental principle of professional ethics is violated by Das & Co.?

- (a) Professional behaviour
- (b) Integrity
- (c) Objectivity
- (d) Professional competence and due care

V. Which of the following statements is most appropriate regarding providing offer of work of IT services by auditors to the company?

- (a) Such offer may create a self-review threat.
- (b) Such offer may create an advocacy threat.
- (c) Such offer does not constitute any threat.
- (d) Such offer may create self-review and advocacy threats.

1	I.	b
	II.	c
	III.	a
	IV.	d
	V.	c
2	I.	b
	II.	c
	III.	c
	IV.	d
	V.	a
3	I.	c
	II.	b
	III.	c
	IV.	a
	V.	c
4	I.	c
	II.	b
	III.	a
	IV.	a
	V.	c
5	I.	d
	II.	b
	III.	d
	IV.	c
	V.	c
6	I.	b
	II.	a
	III.	d
	IV.	b
	V.	d
7	I.	b
	II.	c
	III.	a
	IV.	a
	V.	b
8	I.	d
	II.	b
	III.	d
	IV.	c
	V.	c
9	I.	b
	II.	a
	III.	d
	IV.	b
	V.	d
10	I.	b
	II.	c
	III.	a
	IV.	d
	V.	b
13	I.	d
	II.	d
	III.	c
	IV.	b
	V.	b

14	I.	b
	II.	c
	III.	c
	IV.	b
	V.	d
15	I.	a
	II.	b
	III.	c
	IV.	c
	V.	b
16	I.	b
	II.	b
	III.	b
	IV.	d
	V.	c
17	I.	c
	II.	c
	III.	a
	IV.	a
	V.	d
18	I.	c
	II.	d
	III.	d
	IV.	d
	V.	b
19	I.	b
	II.	a
	III.	b
	IV.	b
	V.	b
20	I.	d
	II.	c
	III.	c
	IV.	b
	V.	c
21	I.	b
	II.	d
	III.	a
	IV.	c
	V.	c
22	I.	b
	II.	c
	III.	d
	IV.	a
	V.	b
23	I.	c
	II.	b
	III.	c
	IV.	b
	V.	b
24	I.	c
	II.	d
	III.	b
	IV.	c
	V.	d

26	I.	c
	II.	b
	III.	c
	IV.	b
	V.	d
27	I.	c
	II.	a
	III.	d
	IV.	a
	V.	b
28	I.	a
	II.	c
	III.	c
	IV.	c
	V.	b
29	I.	a
	II.	d
	III.	b
	IV.	b
	V.	a
30	I.	a
	II.	c
	III.	d
	IV.	d
	V.	d
31	I.	c
	II.	a
	III.	b
	IV.	d
	V.	a
32	I.	c
	II.	b
	III.	d
	IV.	b
	V.	a
33	I.	d
	II.	a
	III.	b
	IV.	c
	V.	d
34	I.	b
	II.	a
	III.	c
	IV.	d
	V.	b
35	I.	a
	II.	d
	III.	d
	IV.	c
	V.	a
36	I.	a
	II.	a
	III.	a
	IV.	a
	V.	c

37	I.	c
	II.	d
	III.	d
	IV.	a
	V.	d
38	I.	b
	II.	a
	III.	d
	IV.	a
	V.	a
39	I.	a
	II.	b
	III.	c
	IV.	d
	V.	a
40	I.	a
	II.	b
	III.	b
	IV.	c
	V.	d
41	I.	d
	II.	b
	III.	a
	IV.	c
	V.	a
42	I.	d
	II.	b
	III.	b
	IV.	a
	V.	d
43	I.	b
	II.	d
	III.	a
	IV.	c
	V.	d
44	I.	d
	II.	a
	III.	d
	IV.	c
	V.	B
45	I.	a
	II.	c
	III.	b
	IV.	a
	V.	b
46	I.	b
	II.	c
	III.	c
	IV.	a
	V.	b
47	I.	c
	II.	d
	III.	c
	IV.	c
	V.	b

48	I.	d
	II.	a
	III.	b
	IV.	a
	V.	d
49	I.	b
	II.	a
	III.	b
	IV.	a
	V.	a
50	I.	d
	II.	b
	III.	c
	IV.	a
	V.	b
51	I.	b
	II.	d
	III.	c
	IV.	a
	V.	d
52	I.	b
	II.	c
	III.	a
	IV.	c
	V.	c
53	I.	b
	II.	b
	III.	b
	IV.	d
	V.	d
54	I.	d
	II.	c
	III.	b
	IV.	a
	V.	c
55	I.	c
	II.	a
	III.	d
	IV.	b
	V.	a
56	I.	a
	II.	b
	III.	d
	IV.	a
	V.	d
57	I.	b
	II.	c
	III.	b
	IV.	b
	V.	c
58	I.	d
	II.	c
	III.	a
	IV.	b
	V.	d

59	I.	a
	II.	d
	III.	c
	IV.	b
	V.	a
60	I.	a
	II.	c
	III.	b
	IV.	a
	V.	b
61	I.	a
	II.	d
	III.	c
	IV.	b
	V.	c
62	I.	c
	II.	d
	III.	b
	IV.	d
	V.	b
63	I.	c
	II.	c
	III.	b
	IV.	b
	V.	d
64	I.	a
	II.	c
	III.	a
	IV.	b
	V.	D
65	I.	b
	II.	b
	III.	b
	IV.	c
	V.	B
66	I.	c
	II.	c
	III.	d
	IV.	d
	V.	d
67	I.	c
	II.	b
	III.	c
	IV.	b
	V.	b
68	I.	c
	II.	b
	III.	b
	IV.	c
	V.	C
69	I.	a
	II.	d
	III.	a
	IV.	b
70	I.	c
	II.	b

71	III.	c
	IV.	a
	V.	B
	I.	c
	II.	b
72	III.	B
	IV.	b
	V.	D
	I.	c
	II.	d
73	III.	d
	IV.	b
	V.	C
	I.	a
	II.	c
74	III.	a
	IV.	c
	V.	C
	I.	b
	II.	c
75	III.	b
	IV.	c
	V.	D
	I.	b
	II.	b
76	III.	b
	IV.	a
	V.	B
	I.	a
	II.	b
77	III.	d
	IV.	a
	V.	c
	I.	c
	II.	c
78	III.	c
	IV.	d
	V.	d
	I.	c
	II.	c
79	III.	c
	IV.	d
	V.	d
	I.	b
	II.	b
80	III.	b
	IV.	C
	V.	b
	I.	b
	II.	b

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Chapter 1		
77	I	c
	II	c
	III	d
	IV	a
	V	c
78	I	c
	II	c
	III	c
	IV	d
	V	d
Chapter 2		
79	I	b
	II	b
	III	b
	IV	C
	V	b
Chapter 3		
80	I	b

81	II	c
	III	b
	IV	a
	V	c
	I	b
82	II	c
	III	c
	IV	b
	V	a
	Chapter 4	
83	I	a
	II	b
	III	d
	IV	d
	V	d
84	I	b
	II	c
	III	D
	IV	B
	V	B
Chapter 5		
85	I	C
	II	D
	III	C
	IV	B
	V	A
Chapter 6		
86	I	C
	II	C
	III	D
	IV	D
	V	d
Chapter 7		
87	I	C
	II	C
	III	d
	IV	a
	V	a
Chapter 8		
88	I	b
	II	c
	III	c
	IV	b
	V	d
Chapter 9		
89	I	c
	II	d
	III	a
	IV	c
	V	b
Chapter 10		
90	I	c
	II	c
	III	b
	IV	d
	V	a

Chapter 11		
90	I	c
	II	d
	III	b
	IV	d
	V	a

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