



CA MENTORING PROGRAM CA RAVI AGARWAL

CA INTER AUDIT ONE STOP SOLUTION FOR ALL **MCQ's**

KEY HIGHLIGHTS :

- ☐ Covers Integrated Case Study based MCQs
- ☐ All MCQs of Study Material by ICAI
- ☐ Covers all MCQs of MTPs and RTPs
- ☐ Attempt wise Distribution of MCQs
- ☐ All Booklet MCQs also included
- ☐ Chapter wise Distribution of MCQs

SCORE **70⁺** IN AUDIT

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1

NATURE, OBJECTIVE AND
SCOPE OF AUDIT

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	q1, q2	q3 - q6	-	-	q7,q8	q9 - q11
RTP	q12,q13	q14	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

December-21

1. 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?

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

Answer : (c)

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

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

Answer : (d)



MAY-2021

3. is the threat which occurs when auditors are deterred from acting objectively with an adequate degree of professional skepticism.

- | | |
|------------------------|-------------------------|
| (a) Familiarity threat | (c) Self Review threat |
| (b) Advocacy threat | (d) Intimidation threat |

Answer : (d)

4. 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 :

- | | |
|----------------|---------------------------------|
| (a) Monitoring | (c) Subsequent Audit procedures |
| (b) Inspection | (d) Compliance procedures |

Answer : (b)

5. As per SQC 1 the retention period for audit engagements ordinarily is no shorter than from the date of the auditor's report.

- | | |
|----------------|-----------------|
| (a) ten years | (c) seven years |
| (b) five years | (d) four years |

Answer : (c)

6. 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:

- (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.

Answer : (c)

November-2019

7. If law or regulation prescribes in sufficient detail the terms of the audit engagement,

- (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

Answer : (a)

8. According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement with :

- (a) management
- (b) those charged with governance
- (c) management or those charged with governance, as appropriate.
- (d) Audit committee

Answer : (c)

May-2019

9. The matter of difficulty, time, or cost involved is :

- (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.

Answer : (a)

10. _____ are self-evident, and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.

- (a) Self-review threats
- (b) Familiarity threats
- (c) Intimidation threats
- (d) Advocacy threats

Answer : (b)

11. 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:

- (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.

Answer : (a)

Revision Test Papers

November-21

12. 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

Answer : (d)

13. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :

- (a) management
- (b) those charged with governance
- (c) audit committee
- (d) board of directors

Answer : (b)

May-21

14. The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :

- (a) management
- (b) those charged with governance
- (c) audit committee
- (d) board of directors

Answer : (b)

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PAGE NO.

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BOOKLET

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

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

2. No business or institution can effectively carry on its activities without the help of proper ----- :

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

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

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

4. (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:

- (a) professional judgement; (c) professional intelligence;
(b) professional skepticism; (d) Professional competence and due care.

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

- (a) Objectivity (c) Confidentiality
(b) independence (d) Integrity

6. Which of the following is the responsibility of the auditor:

- (a) Preparation and presentation of the Financial statements in accordance with applicable Financial reporting
(b) Design, implementation and maintenance of internal controls
(c) Express an opinion on the Financial Statements

(d) To obtain limited assurance.

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

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

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

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

9. 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:

- (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.

10. 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:

- (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.

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

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

- (a) (1) only (c) (1), (2) and (3)
(b) (1) and (2) (d) (1) or (2) or (3)

12. Standard on Quality Control (SQC) 1 provides that,

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

13. 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.

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

1	2	3	4	5	6	7	8	9	10	11	12	13
(a)	(b)	(c)	(d)	(b)	(c)	(b)	(b)	(a)	(c)	(c)	(d)	(c)

2

AUDIT STRATEGY, AUDIT
PLANNING & AUDIT PROGRAMME

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	q1	q2	-	-	q3,q4	q5-q7
RTP	-	-	q8	-	-	-
Booklet	-	-	-	-	-	-

Mock test Papers

December-2021

1. 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?

- (a) Static Review (c) Periodic Review
(b) Mechanical Review (d) Obsolete Review

Answer : (c)

May-2021

2. SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor

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

Answer : (b)

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PAGE NO.

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November-21

3. Planning an audit involves

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

Answer : (a)

4. According to SA 300,

- (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

Answer : (b)

May-2019

5. SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor

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

Answer : (b)

6. When planning the audit,

- (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

Answer : (a)

7. With reference to SA 300, the auditor shall document:

- (a) The overall audit strategy
- (b) The audit plan
- (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.
- (d) All of the above

Answer : (d)

Revision Test Papers

May-2020

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

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

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

Answer : (c)

BOOKLET

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

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

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

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

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

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

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

4 which of the following is not addressed by the overall audit strategy :

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

5 18. The overall audit strategy and the audit plan remain the _____ responsibility

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

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

- | | |
|----------------------------|-----------------------------|
| (a) Independence | (c) Professional skepticism |
| (b) Professional judgement | (d) Professional behaviour. |

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

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

8 Which of the following is correct :

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

9 Planning an audit involves

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

10 When planning the audit,

- (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

11 SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor

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

12 Which of the following is true:

- (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

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

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

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

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

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

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

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

1	2	3	4	5	6	7	8	9	10	11	12	13
(b)	(a)	(c)	(d)	(a)	(b)	(c)	(c)	(a)	(a)	(b)	(d)	(b)
14	15											
(d)	(c).											

3

AUDIT DOCUMENTATION AND
AUDIT EVIDENCE

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	q1-q3	-	-	q4-q11	q12-q22
RTP	q-23	q-24	-	-	q25-q32	-
Booklet	-	-	-	-	-	-

Mock Test Papers

May-2021

1. Audit documentation provides:

- (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.

Answer : (b)



2. Audit evidence includes

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

Answer : (b)

3. 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.

- (a) Assertions
- (b) Positive Confirmation
- (c) Written representation
- (d) Audit Evidence.

Answer : (a)

November-2019

4. 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.

Answer : (a)

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

- (a) Audit documentation
- (b) Audit File
- (c) Audit Note Book
- (d) Completion Memorandum

Answer : (a)

6. Audit evidence includes

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

Answer : (b)

7. Most of the auditor's work in forming the auditor's opinion consists of :

- (a) obtaining audit evidence.
- (b) evaluating audit evidence.
- (c) obtaining or evaluating audit evidence.
- (d) obtaining and evaluating audit evidence.

Answer : (d)

8. Professional skepticism is necessary to the critical assessment of

- (a) audit documentation
- (b) audit evidence.
- (c) audit procedures
- (d) All of the above

Answer : (b)

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

- (a) cumulative
- (b) regressive
- (c) selective
- (d) objective

Answer : (a)

10. Which of the following is not a Specific Evaluations by the Auditor :

- (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;

Answer : (d)

11. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,

- (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.

Answer : (d)

May-2019

12. Audit documentation provides:

- (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.

Answer : (b)

13. Which of the following is not an example of audit documentation:

- (a) Audit programmes
- (b) Summaries of significant matters
- (c) Audit file
- (d) Checklists.

Answer : (c)

14. which of the following is incorrect :

- (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.

Answer : (a)

15. Which of the following is incorrect :

- (a) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.
- (b) Similar to responses to inquiries, written representations are audit evidence.
- (c) Written representations are requested from those responsible for the preparation and presentation of the financial statements.
- (d) 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.

Answer : (d)

16. 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..

Answer : (a)

17. Audit evidence includes

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

Answer : (b)

18. Most of the auditor's work in forming the auditor's opinion consists of :

- (a) obtaining audit evidence.
- (b) evaluating audit evidence.
- (c) obtaining or evaluating audit evidence.
- (d) obtaining and evaluating audit evidence.

Answer : (d)

19. 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:

- (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

Answer : (d)

20. 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-

- (a) Positive confirmation request
- (b) Non-response
- (c) Exception
- (d) Negative confirmation request

Answer : (d)

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

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

Answer : (d)

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

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

Answer : (c)

Revision Test Papers

November-21

23. 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:

- | | |
|----------------------------|-----------------|
| (a) External Confirmation. | (c) Inquiry. |
| (b) Observation. | (d) Inspection. |

Answer : (b)

May-2021

24. 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 :

- | | |
|----------------|---------------------------------|
| (a) Monitoring | (c) Subsequent Audit procedures |
| (b) Inspection | (d) Compliance procedures |

Answer : (b)

November-2019

25. Judging the significance of a matter requires of the facts and circumstances.

- | | |
|-------------------------|--|
| (a) objective analysis | (c) Both subjective and objective analysis |
| (b) subjective analysis | (d) qualitative analysis |

Answer : (a)

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

- | | |
|-----------------------------|----------------------------|
| (a) professional skepticism | (c) professional judgment |
| (b) professional integrity | (d) Professional sincerity |

Answer : (c)

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

- | | | | |
|----------------|----------------|---------------|---------------|
| (a) cumulative | (b) regressive | (c) selective | (d) objective |
|----------------|----------------|---------------|---------------|

Answer : (a)

28. When more persuasive audit evidence is needed regarding the effectiveness of a control,

- (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.

Answer : (d)

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

- (a) the auditor shall not make any inquiries to understand these matters and their potential consequences
- (b) the auditor shall make specific inquiries to understand these matters and their potential consequences

- (c) the auditor shall make general inquiries to understand these matters and their potential consequences
- (d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences

Answer : (b)

30. Which of the following statement is correct :

- (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

Answer : (a)

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

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

Answer : (c)

32. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called-

- (a) Negative confirmation request
- (b) Non-response
- (c) Exception
- (d) Positive confirmation request

Answer : (b)

BOOKLET

1 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?

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

2 Which of the following is not correct?

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

3refers to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control to identify and assess the risk of material misstatement.

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

4 Audit documentation provides:

- (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.

5 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.

6 Audit evidence includes

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

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

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

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

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

1	2	3	4	5	6	7	8
(d).	(c).	(a)	(b)	(a)	(b)	(d)	(c)

CASE SCENARIOS

Mock Test Papers

December-2021

Case scenarios 1: 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.

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.

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. The counting of finished wooden doors was necessary for the purpose of verification of stock of finished wooden doors.

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.

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.

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.

5 CA H asked for written confirmations regarding account balances from Debtors and Creditors of WT Limited.

Keeping the basic concepts about various audit procedures in mind, answer the following multiple-choice questions:

1. 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:

- | | |
|----------------------------|-----------------|
| (a) External Confirmation. | (c) Inquiry. |
| (b) Observation. | (d) Inspection. |

Answer: (b)



2. 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:

- | | |
|----------------------------|-------------------|
| (a) Analytical Procedures. | (c) Inspection. |
| (b) Inquiry. | (d) Recalculation |

.Answer: (d)

3. 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:

- | | |
|------------------|--------------------|
| (a) Inspection | (c) Inquiry. |
| (b) Repformance. | (d) Investigation. |

Answer: (c)

4. 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:

- | | |
|------------------|--------------------|
| (a) Inspection. | (c) Recalculation. |
| (b) Repformance. | (d) Investigation |

Answer: (a)

5. Asking for written confirmations regarding account balances from Debtors and Creditors of WT Limited by CA H is an example of which audit procedure:

- | | |
|----------------|---------------------------|
| (a) Inquiry | (c) Investigation. |
| (b) Inspection | (d) External Confirmation |

Answer: (d)

Case scenarios 2: 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.

Para 1

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.

Para 2

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.

Para 3

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.

Para 4

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 or not adequately disclosed.

Para 5

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.

1. 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?

- (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.

Answer: (b)

2. 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 :

- (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.

Answer: (c)

3. 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?

- (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.

Answer: (a)

4. With reference to para 4, in such a situation CA M shall express a :

- (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

Answer: (c)

5. In respect to subject matter mentioned in Para 5, what procedures should Auditor perform to identify such events?

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.

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.

Statement 3: The Auditor should not read the entity's latest subsequent interim financial statements, if any.

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct

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- (c) Both Statements 1 and 2 are correct
- (d) Only Statement 3 is correct

Answer: (c)

November-20

Case scenarios 3: 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: -

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

- (a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.
- (b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.
- (c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-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.
- (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.

Answer: (d)

2. 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?

- (a) Nature of inventory, timing of physical inventory counting and stages of completion of work in progress
- (b) Nature of inventory, timing of physical inventory counting and valuation method of inventory
- (c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system

(d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system

Answer: (b)

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

(a) Observance of performance of 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

(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

(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

(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

Answer: (d)

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

Outcome I

Outcome II

Outcome III

Which of following statements is most likely true?

(a) Outcomes I, II and III are all necessarily established after inspection.

(b) Only Outcomes I and III are established after inspection and Outcome II is never established.

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

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

Answer: (c)

5. It was observed by auditors that, out of total rice physically counted on 31 st 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?

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

Answer: (c)

Scribble

4

RISK ASSESSMENT AND
INTERNAL CONTROL

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	q1-q3	-	-	q4-q9	q8-q15
RTP	-	q16	-	-	q17	-
Booklet	-	-	-	-	-	-

Mock Test Papers

May-2021

1 The persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity are :

- (a) management (c) audit committee
(b) Those charged with governance - (d) board of directors

Answer : (b)

2. The risk that the financial statements are materially misstated prior to audit is called -

- (a) Risk of material misstatement (c) audit risk
(b) detection risk (d) significant risk

Answer : (a)

3. Risk of material misstatement may be defined as the risk

- (a) that the financial statements are materially misstated after audit.
(b) that the financial statements are materially misstated during audit.
(c) that the financial statements are materially misstated prior to audit.

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(d) All of the above

Answer : (c)

November-2019

4. 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 is :

(a) Misstatement

(c) fraud

(b) Error

(d) Any of the above

Answer : (a)

5. Risk of material misstatement may be defined as the risk

(a) that the financial statements are materially misstated after audit.

(b) that the financial statements are materially misstated during audit.

(c) that the financial statements are materially misstated prior to audit.

(d) All of the above

Answer : (c)

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

(a) quantitative terms, such as in percentages, or in non-quantitative terms.

(b) quantitative terms, such as in percentages,

(c) non-quantitative terms.

(d) None of the above

Answer : (a)

7. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -

(a) at the financial statement levels only.

(b) at the assertion levels only.

(c) at the financial statement and assertion levels.

(d) at the financial statement or assertion levels. © The Institute of Chartered Accountants of India

Answer : (c)

May-2019

8. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -

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

Answer : (c)

9. The risks of material misstatement at the assertion level consist of two components:

- (a) Inherent risk and detection risk
- (b) control risk and detection risk
- (c) audit risk and detection risk
- (d) Inherent risk and control risk

Answer : (d)

10. The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?

- (a) ICAI
- (b) SEBI
- (c) MCA
- (d) RBI

Answer : (a)

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

- (a) Independence
- (b) Professional Judgement
- (c) Professional skepticism
- (d) All of the above

Answer : (b)

12. Audit risk is a function of the

- (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.

Answer : (a)

13. Risk of material misstatement may be defined as the risk

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

Answer : (c)

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

- (a) Misstatement
- (b) Error
- (c) Fraud
- (d) Any of the above

Answer : (a)

15. 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?

- (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.
- (a) 1 and 2 (b) 3 and 4 (c) 2 and 3 (d) 1 and 4

Answer : (b)

Revision Test Papers

May-2021

16. The concept of materiality is applied by the auditor :

- (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

Answer : (c)

November-2019

17. _____ 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.

- (a) Audit assessment procedures
- (b) substantive procedures
- (c) test of control
- (d) Risk assessment procedures

Answer : (d)

BOOKLET

1 Auditor's judgment as to sufficiency may be affected by the factors such as:

- (a) Materiality
- (b) Risk of material misstatement
- (c) Size and characteristics of the population.
- (d) All of the above

2 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:

- (a) Discuss the matter with management and, where appropriate, those charged with governance.

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- (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
- 3 Audit risk is a function of the risks of material misstatement and _____
- (a) detection risk. (c) control risk
- (b) inherent risk (d) business risk
- 4 For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.
- (a) direct. (c) no relationship
- (b) Inverse (d) either (a) or (c)
- 5 Risk of material misstatement has components
- (a) one (b) two (c) three (d) four
- 6 Controls can be related to an assertion.
- (a) directly
- (b) indirectly
- (c) directly or indirectly
- (d) no relationship between controls and assertion.
- 7 Which of the following is incorrect-
- For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall :
- (a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the Financial statements;
- (b) Assess the identified risks, and evaluate whether they relate 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.

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

- | | |
|------------------|------------------------------------|
| (a) Misstatement | (c) Error |
| (b) Fraud | (d) Fraudulent Financial reporting |

9 Latest and Vibrant Limited is an unlisted public limited company. For the above mentioned company, it will be required to appoint an internal auditor according to the provisions of Companies Act, 2013 only when during the preceding Financial year, the paid up share capital of the company would be:

- (a) Less than or equal to ₹ 50 crore.
- (b) More than or equal to ₹ 50 crore.
- (c) Less than or equal to ₹ 100 crore.
- (d) More than or equal to ₹ 100 crore.

10 Bright and Smart Private Limited will be required, according to the provisions of Companies Act, 2013 to appoint an internal auditor only if the turnover during the preceding Financial year would be:

- (a) Less than or equal to ₹ 200 crore.
- (b) More than or equal to ₹ 200 crore.
- (c) Less than or equal to ₹ 150 crore.
- (d) More than or equal to ₹ 150 crore.

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

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

- 12 When deviations from controls upon which the auditor intends to rely are detected,
- (a) the auditor shall not make any inquiries to understand these matters and their potential consequences
 - (b) the auditor shall make specific inquiries to understand these matters and their potential consequences
 - (c) the auditor shall make general inquiries to understand these matters and their potential consequences
 - (d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences
- 13 Because the assessment of the risk of material misstatement takes account of internal control,
- (a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.
 - (b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
 - (c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.
 - (d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.
- 14 Risk of material misstatement may be defined as the risk
- (a) that the Financial statements are materially misstated after audit.
 - (b) that the Financial statements are materially misstated during audit.
 - (c) that the Financial statements are materially misstated prior to audit.
 - (d) All of the above
- 15 The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is-
- (a) Control Risk
 - (b) Inherent Risk
 - (c) Detection Risk
 - (d) Audit Risk
- 16 The assessment of risks is a
- (a) matter capable of precise measurement rather than matter of professional judgment
 - (b) matter of professional judgment, rather than a matter capable of precise measurement.

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- (c) matter of professional judgement as well as capable of precise measurement sometimes.
(d) None of the above

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

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

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

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

19 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

- (a) Error of omission (c) Error of principle
(b) Compensating error (d) Error of commission

1	2	3	4	5	6	7	8	9	10	11	12	13
(d)	(d)	(a)	(b)	(b)	(c)	(d)	(a)	(b)	(b)	(b)	(b)	(d)
14	15	16	17	18	19							
(c)	(b)	(b)	(a)	(c)	(b)							

5

FRAUD AND RESPONSIBILITIES OF THE AUDITOR IN THIS REGARD

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	q1	q2	-	-	-	q3-q8
RTP	-	-	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

December-2021

1. 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 a ccounts 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 | (c) Board of Directors/Audit Committee |
| (b) Reserve Bank of India | (d) Comptroller & Auditor General |

Answer : (c)

May-2021

2. Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud are called as :

- | | |
|--------------------------------|-------------------------|
| (a) Fraud risk factors | (c) Fraud opportunities |
| (b) misappropriation of assets | (d) eventual frauds |

Answer : (a)

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May-2019

3. Which of the following is an example of inflating cash payments?

- (a) Making payments against purchase vouchers.
- (b) Teeming and lading.
- (c) Not accounting for cash sales fully.
- (d) Making payments against inflated vouchers.

Answer : (d)

4. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as-

- (a) Self-revealing errors.
- (b) Intentional errors.
- (c) Concealed errors.
- (d) Unconcealed errors.

Answer : (a)

5. The standard that requires auditors to analyse journal entries in an audit is?

- (a) SA 260
- (b) SA 230
- (c) SA 315
- (d) SA 240

Answer : (d)

6. In case of a fraud involving less than ₹ 1 crore, the auditor shall

- (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.

Answer : (a)

7. Which of the following is correct :

- (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.

Answer : (a)

8. If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

- (a) Withdraw from the engagement immediately.
- (b) Report to Audit team regarding withdrawal.
- (c) Determine the professional and legal responsibilities applicable in the circumstances.
- (d) Ask the management for his withdrawal.

Answer : (c)

BOOKLET

1 If as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

- (a) Withdraw from the engagement immediately
- (b) Report to Audit team regarding withdrawal
- (c) Determine the professional and legal responsibilities applicable in the circumstances.
- (d) Ask the management for his withdrawal

2 Which of the following is an example of inflating cash payments?

- (a) Making payments against purchase vouchers.
- (b) Teeming and lading
- (c) Not accounting for cash sales fully.
- (d) Making payments against inflated vouchers.

3 The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as:

- (a) Self-revealing errors.
- (b) Intentional errors
- (c) Concealed errors
- (d) Unconcealed errors.

4 Which of the following is Incorrect:

- (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

5 The factor which distinguishes an error from fraud and other irregularity is

- (a) Whether it is caused by officer of the entity or employee of the entity
- (b) Intention
- (c) Materiality
- (d) Whether it is caused by the auditor or the client

6 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

7 Reporting on fraud is made by auditor to Central Government in statement in the form

- (a) ADT - 1
- (b) ADT - 2
- (c) ADT - 3
- (d) ADT - 4

- 8 Reporting on fraud is made by auditor under which of the following clause of para 3 of CARO, 2020
- (a) Clause (xi)
 - (b) Clause (xii)
 - (c) Clause (xiii)
 - (d) Clause (xiv)

1	2	3	4	5	6	7	8
(c)	(d)	(a)	(a)	(b)	(d)	(d)	(a)

Scribble



6

AUDIT IN AN AUTOMATED ENVIRONMENT

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	-	-	-	-	-
RTP	-	-	C.S-1	-	-	-
Booklet	-	-	-	-	-	-

BOOKLET

- Which of the following is a General IT control?
 - IT Environment
 - Application Control
 - Access Security
 - IT Dependent Control
- Which of the following is an automated control?
 - Program change
 - System generated report
 - Application control
 - Configurations
- Who is mainly responsible for implementation of internal Financial controls in a company?
 - Auditors
 - Directors
 - Employees
 - Regulators

4 The Guidance Note on Audit of Internal Financial Controls over Financial Reporting has been issued by?

- (a) ICAI (b) SEBI (c) MCA (d) RBI

5 The standard that requires auditors to analyse journal entries in an audit is?

- (a) SA 260 (b) SA 230 (c) SA 315 (d) SA 240

6 In WH Limited every business activity was being carried out manually. The top management of WH Limited decided to change the business environment of WH Limited by using computer systems and computer systems related technology to carry out all the major business activities of WH Limited.

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

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

7 _____ are also known as pervasive or indirect controls :-

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

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

- (a) Computer Assisted Audit Techniques
(b) Automated Controls
(c) Data Analytics
(d) Combination Controls

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

- (a) Application controls (b) General IT controls

(c) Process controls

(d) All of these

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

(a) Application

(c) Automated Controls

(b) IT dependent Controls

(d) General IT Controls

11 is a logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.

(a) Data Mining

(c) Database

(b) Data warehouse

(d) Data Analytics

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

(a) Material Weakness

(c) Control Risk

(b) Material deficiency

(d) Significant Deficiency

13 Who among the following is required to comply with Section 149(8) read with Schedule IV to the companies Act, 2013 ?

(a) Board of Directors

(c) Statutory Auditor

(b) Audit Committee

(d) Independent Directors

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

(a) Inquiry

(c) Inspection

(b) Observation

(d) Reperformance

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

(a) Data center and network operations

(b) Program change

- (c) Access security
- (d) Application system acquisition, development, and maintenance (Business Applications)
- 16 The Objective of establishing Security Policies and Procedures is to
- (a) To ensure that production systems are processed to meet Financial reporting objectives.
- (b) To ensure that 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.
- 17 IT related risks, if not mitigated, may put an impact on
- (a) Substantive Audit (c) Reporting
- (b) Controls (d) All of above
- 18 Which of the following Audit Testing methods give the least audit evidence?
- (a) Inquiry (c) Observation
- (b) Inspection (d) Reperformance
- 19 Applying _____ gives the most effective and efficient audit evidence while using Audit testing methods.
- (a) Inquiry in combination with Inspection.
- (b) Inspection in combination with Observation
- (c) Observation in combination with reperformance
- (d) Reperformance in combination with Inquiry

20 _____ are needed to support the functioning of _____

- (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

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

CASE SCENARIO

Revision Test Papers

May-2020

Case Scenario 1: 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.

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.

Based on the above facts, answer the following:-

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

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

Answer: (b)



2. 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.

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

Answer: (c)

3. are also known as pervasive or indirect controls :-

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

Answer: (a)

4. Which of the following are not the types of audit tests that can be used in the audit in an automated environment?

- | | |
|-----------------|-----------------------|
| (a) Observation | (c) Re performance |
| (b) Inspection | (d) None of the above |

Answer: (d)

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

- | | |
|--|-----------------------|
| (a) Computer Assisted Audit Techniques | (c) Data Analytics |
| (b) Automated Controls | (d) None of the above |

Answer: (c)

7

AUDIT SAMPLING

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	C.S-1	-	-	-	q1-q3
RTP	-	q4	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

May-2019

1. In the case of tests of details

- (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.

Answer : (a)

2. Which of the following is correct :

- (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.

Answer : (b)

3. It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts :

(a) Haphazard sampling

(c) Stratified Sampling

(b) Monetary Unit Sampling

(d) Interval sampling

Answer : (b)

Revision Test Papers

May-2021

4. _____ in which the auditor selects the sample without following a structured technique.

(a) Haphazard selection,

(c) Block Sampling

(b) Monetary Unit Sampling

(d) Structured Sampling

Answer : (a)

BOOKLET

1 The main advantage of using statistical sampling techniques is that such techniques:

(a) Mathematically measure risk

(b) Eliminate the need for judgmental sampling

(c) Defines the values of tolerable error

(d) All of the them.

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

(a) Projected error

(c) Expected error

(b) tolerable error

(d) Both (b) and (c)

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

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

4 Which of the following is source of Non Sampling risk :

- (a) Human Mistakes
- (b) Applying audit procedures not appropriate to the objectives of audit
- (c) Misinterpreting the sample results
- (d) All of the above

5 Which of the following is more scientific :

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

6 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:

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

7 In random Sample, each item of population has

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

- 8 The relationship between tolerable error and sample size is
- (a) Inverse (c) Close
- (b) Direct (d) There is no relationship.
- 9 Statistical sampling has the following characteristics
- (a) Random selection (c) both (a) and (b)
- (b) Use of Probability theory (d) Judgmental approach

1	2	3	4	5	6	7	8	9
(a)	(d)	(c)	(d)	(a)	(d)	(a)	(a)	(c)

CASE SCENARIOS

Mock Test Papers

May-2021

Case Scenarios 1: 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.

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.

Also while checking the payment transactions on sample basis, the engagement team noticed that on 9 th 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.

Based on the above facts, answer the following:-

1. 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.?

- (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.

Answer: (d)

2. With respect to the weakness in internal control system of accounts receivable during the FY 2019 -20, the audit team:-

- (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.

Answer: (a)

3. "Statement 1: While conducting an audit, it is obligatory for the auditor to apply sampling.

Statement 2: There may be sometimes where test checking or sampling may not be suitable."

- (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

Answer: (b)

4. 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?

- (a) Stratified Sampling method
- (b) Monetary Unit Sampling method
- (c) Haphazard Sampling method
- (d) Interval Sampling

Answer: (a)

5. With respect to the deviation identified by the auditor occurring on 9 th and 10th of every month, what course of action should the audit firm adopt?

- (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

Answer: (d)

Scribble

8

ANALYTICAL PROCEDURES

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	-	-	-	q1,q2	q3
RTP	-	-	q6,q7	q4,q5	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

November-2019

1. Which of the following is not an analytical procedure?
- Tracing of purchases recurred in the purchase book to purchase invoices.
 - Comparing aggregate wages paid to number of employees
 - Comparing the actual costs with standard costs
 - All of them are analytical procedure

Answer : (a)

2. which of the following is correct :
- Different types of analytical procedures provide different levels of assurance.
 - Different types of analytical procedures provide similar levels of assurance.
 - Similar type of analytical procedures provide different levels of assurance.
 - All are correct

Answer : (a)

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May-2019

3. Which of the following is correct :

- (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 ratio analysis.

Answer : (c)

Revision test Papers

November-2020

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

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

Answer : (a)

5. While conducting the audit of Saraswati Ltd, a packaged water making company, it was found that a purchase of motor car was made in the name of the company. Your Article Assistant has performed the following audit procedures. Identify which of the following procedure is incorrect.

- (a) Ascertain whether the purchase of car has been properly authenticated.
- (b) Check invoice of the car dealer to confirm the purchase price
- (c) Examine registration with Transport Authorities to verify the ownership
- (d) Ensure that the motor car has been included in the Closing inventory of goods

Answer : (d)

May-2020

6. 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 | (c) Both statements are correct |
| (b) Only Statement II is correct | (d) Both Statements are incorrect |

Answer : (b)

7. 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.

Answer : (d)

BOOKLET

- 1 When significant risk had been identified by the auditor, then:
 - (a) Audit evidence obtained solely from substantive analytical procedures is sufficient.
 - (b) Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.
 - (c) Auditor will perform test of details also.
 - (d) Both b and c

- 2 Substantive Analytical Procedures are generally more applicable to:

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

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3 is the comparison of current data with the prior period balance.

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

4 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

5 What are analytical procedures?

- (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

6 Which of the following is not an analytical procedure?

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

7 Analytical procedures issued in the planning stage of an audit, generally:

- (a) help to determine the nature, timing and extent of other audit procedures
(b) direct attention to potential risk areas

- (c) indicate important aspects of business
- (d) All of the above

8 The basic assumption underlying the use of analytical procedures is:

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

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

- (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.

10 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 | (c) Walk through Test |
| (b) Test of Controls | (d) Audit Sampling |

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

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

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

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

1	2	3	4	5	6	7	8	9	10
(d)	(c)	(b)	(d)	(c)	(a)	(d)	(b)	(a)	(a)
11	12								
(c)	(b)								

Scribble



9

AUDIT OF ITEMS OF FINANCIAL STATEMENTS

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	q1	q2,q3	-	-	-	-
RTP	-	q4,C.S-1	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

December-2021

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

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

Answer : (c)

May-2021

2. Which of the following is an example of revenue expenditure-

- (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

Answer : (b)

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3. 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.

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

Answer : (b)

Revision Test Papers

May-2021

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

- | | |
|----------------|----------------------------|
| (a) Provisions | (c) Contingent Liabilities |
| (b) Reserves | (d) Liability |

Answer : (c)

CASE SCENARIOS

Revision Test Papers

Case Scenarios 1: 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.

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.

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:

- 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.

-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.

-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.

-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.

-5 While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H.

The above mentioned five points were some of the issues which Mr. H was unable to understand.

Answer the following questions:

1. 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:

- | | |
|---|-------------------------------------|
| (a) Outstanding Power and Fuel Expenses | (c) Power and Fuel Expenses |
| (b) Prepaid Power and Fuel Expenses | (d) Power and Fuel Expenses Payable |

Answer : (b)

2. 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:

- (a) Subtracted from Rent Expenses of business of UV Private Limited
- (b) Remain Added to Rent Expenses of business of UV Private Limited
- (c) Again Added to Rent Expenses of business of UV Private Limited
- (d) Subtracted twice from Rent Expenses of business of UV Private Limited

Answer : (a)

3. 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:

- (a) Prepaid Repair and Maintenance Expenses
- (b) Repair and Maintenance Expenses
- (c) Repair and Maintenance Expenses paid in advance

- (d) Repair and Maintenance Expenses Payable

Answer : (d)

4. 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:

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

Answer : (b)

5. As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H as:

- | | |
|------------------------|-------------------------------|
| (a) Invalid Supporting | (c) Lack of proper Supporting |
| (b) No Supporting | (d) Valid Supporting |

Answer : (d)

BOOKLET

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

- (a) No additional testing
- (b) Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the 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)

2 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 | (c) Existence |
| (b) Rights and obligations | (d) Completeness |

3 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 | (c) Completeness |
| (b) Valuation | (d) Existence |

4 Wages paid to workers would qualify as:

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

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

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

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

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

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

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

8 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:

- (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

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

(a) Existence

(c) Rights and Obligations

(b) Completeness

(d) Valuation

10 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

11 Useful life of assets is given in Schedule of Companies Ac 2013.

(a) II

(b) IV

(c) V

(d) VII

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

(a) Contingent Liabilities

(c) Securities Premium Reserve.

(b) Provision

(d) Liabilities

1	2	3	4	5	6	7	8	9	10
(b)	(a)	(d)	(c)	(b)	(d)	(c)	(c)	(b)	(d)
11	12								
(a)	(b)								

10

THE COMPANY AUDIT

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	q1	-	-	q2-q7	q8-q17
RTP	q18	q19-q21	q22,q23	-	q24	-
Booklet	-	-	-	-	-	-

Mock Test Papers

May-2021

1. 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.

- (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.

Answer: (c)

November-2019

2. Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), the following persons shall not be eligible for appointment as an auditor of a company, namely-

- (i) a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
- (ii) an officer or employee of the company;
- (iii) a person who is a partner, or who is in the employment, of an officer or employee of the company;

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(iv) a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. It may be noted that the relative may hold security or interest in the company of face value not exceeding Rs. 1,00,000.

Which of the above is incorrect :

- (a) All statements are incorrect. (c) (i) only
(b) (i) and (ii) (d) (iv) only

Answer: (c)

3. Which of the following is not an advantage of Joint Audit :

- (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.

Answer: (b)

4. 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—

- (a) a qualified opinion (c) a disclaimer of opinion
(b) an adverse opinion (d) emphasis of matter paragraph.

Answer: (a)

5. Which of the following is correct as per section 143(10) of the Companies Act, 2013 :

- (a) IFAC may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
(b) the International Auditing Standards Board may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
(c) the MCA may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

Answer: (d)

6. Which of the following is not a duty of auditor to report under section 143 (1)

- (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;

Answer: (d)

7. Which of the following is correct :

- (a) Under section 128 of the Act, books of account of a company must be kept at the registered office.
- (b) Under section 128 of the Act, books of account of a company must be kept at the corporate office.
- (c) Under section 128 of the Act, books of account of a company must be kept at the Head office of the company.
- (d) Under section 128 of the Act, books of account of a company must be kept at the usual place of business.

Answer: (a)

May-2019

8. Section 139(7) provides that 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 _____ from the date of registration of the company.

- (a) within 60 days
- (b) within 30 days
- (c) within 90 days
- (d) within 45 days

Answer: (a)

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9. As per Section 139(8), any casual vacancy in the office of an auditor shall 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,

- (a) be filled by the Audit committee within 60 days.
- (b) be filled by the Audit committee within 30 days.
- (c) be filled by the Board of Directors within 60 days.
- (d) be filled by the Board of Directors within 30 days.

Answer: (d)

10. As per section 140(2) the auditor who has resigned from the company shall-

- (a) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
- (b) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar
- (c) file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.
- (d) file within a period of 60 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company.

Answer: (b)

11. Which of the following is correct :

- (a) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
- (b) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting.
- (c) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its extra ordinary general meeting.
- (d) As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its Board meeting or in such manner as may be determined therein.

Answer: (a)

12. Which of the following is incorrect :

- (a) According to Section 140(1), the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf as per Rule 7 of CAAR, 2014-
- (b) The application to the Central Government for removal of auditor shall be made in Form ADT -2 and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.
- (c) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
- (d) The company shall hold the general meeting within 30 days of receipt of approval of the Central Government for passing the special resolution.

Answer: (d)

13. Which of the following is correct :

- (a) A firm whereof all the partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
- (b) A firm whereof majority of partners practising anywhere are qualified for appointment may be appointed by its firm name to be auditor of a company.
- (c) A firm whereof all the partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.
- (d) A firm whereof majority of partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.

Answer: (d)

14. As per Section 139(6), the first auditor of a company, other than a Government company, shall be appointed

- (a) by the Board of Directors within 30 days from the date of registration of the company.
- (b) by the audit committee within 30 days from the date of registration of the company.
- (c) by the Managing Director within 30 days from the date of registration of the company.
- (d) by the shareholders within 30 days from the date of registration of the company.

Answer: (a)

15. Where a company is required to constitute an Audit Committee under section 177,

- (a) 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.
- (b) all appointments, excluding the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.
- (c) appointment of first auditors shall be made after taking into account the recommendations of such committee.
- (d) appointment of subsequent auditors shall be made after taking into account the recommendations of such committee.

Answer: (a)

16. which of the following is incorrect :

- (a) In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for non-payment of his dues on account of the work done on the property.
- (b) Under section 128 of the Act, books of account of a company must be kept at the registered office. These provisions ordinarily make it impracticable for the auditor to have possession of the book and documents.
- (c) The company provides reasonable facility to auditor for inspection of the books of account by directors and others authorised to inspect under the Act.
- (d) working papers not being his own property, auditor can exercise lien on working papers.

Answer: (d)

17. Springfield Hospital located in the rural area of Lonawala region is a government hospital run by the local doctors who are appointed by the government. The hospital was registered on 1 October 2018. Which of the following is correct in respect of the appointment of the first auditor for Springfield Hospital?

- (a) The Board of Directors of the hospital have appointed the first auditor on 5th November 2018.
- (b) The Comptroller Auditor-General of India appointed the first auditor on 15th December 2018.
- (c) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Directors appointed the first auditor on 15th December 2018.
- (d) Since the Comptroller Auditor-General of India did not appoint the first auditor, the Board of Directors appointed the first auditor on 10th November 2018.

Answer: (c)

Revision Test Papers:

November-21

18. 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:

- (a) Principal Auditors of WZ Limited.
- (b) Branch Auditors of WZ Limited.
- (c) Individual Auditors of WZ Limited.
- (d) Joint Auditors of WZ Limited.

Answer: (b)

November-2020

19. M/s KYC & Co. is a reputed Audit firm in Mumbai. They are appointed as Statutory Auditors of Blessed Ltd. Which of the below is the responsibility of M/s KYC & Co.

- (a) Preparation of financial statements
- (b) Designing, implementation and maintenance of internal control system
- (c) Reporting on true and fair view of financial statements
- (d) Compliance with the applicable law and regulation

Answer: (c)

20. 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

Answer: (b)

21. Mr. Salman, is an engagement partner of Khan & co. chartered accountants for an audit of Lava Ltd., he died of a stroke on 30.09.2019 after completing the entire routine audit work of Lava Ltd. Mr. Shoaib, one of the partners of Khan & Co. will be signing the accounts of Lava Ltd. What is the course of action to be taken by Mr. Shoaib?

- (a) Sign the accounts of Lava Ltd without reviewing the work of his partner

- (b) Sign the balance sheet after reviewing the work of his partner
- (c) Withdraw the audit as the person who has performed the audit is no more
- (d) Issue an adverse report

Answer: (b)

May-2020

22. With respect to the forms specified by companies (Cost Records & Audit) Rule 2014, which of the following is incorrect combination:

- (a) Form CRA 1- Maintenance of cost records by the Company.
- (b) Form CRA 2- Intimation of appointment of another cost auditor to Central Government.
- (c) Form CRA 3- Submission of Cost Audit Report to the Board of Directors of the company.
- (d) Form CRA 4- Submission of Cost Audit Report by the company to the Registrar.

Answer: (d)

23. Statement I : A firm whereof majority of partners practising in India are qualified for appointment may be appointed by its firm name to be auditor of a company.

Statement II : Where a firm including a limited liability partnership is appointed as an auditor of a company, all the partners shall be authorised to act and sign on behalf of the firm.

- (a) Only Statement I is correct
- (b) Only Statement II is correct
- (c) Both statements are correct
- (d) Both Statements are incorrect

Answer: (a)

November-2019

24. In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, _____, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

- (a) the board
- (b) any director
- (c) Managing Director
- (d) Whole time director

Answer: (a)

BOOKLET

1 PQR & Associates, a firm of Chartered Accountants, has three partners P, Q and R. The firm is already having audit of 60 public companies. Now, the firm gets an offer from three company audits, out of which one is a dormant company, second is a one-person company and third is a private company having paid up share capital of ₹ 90 Crores. In this situation:

- (a) Auditor cannot accept any of the company audit being offered
- (b) Auditor can accept the audit of one-person company only
- (c) Auditor can accept the audit of one-person company and dormant company, but not that of private company
- (d) Auditor can accept audit of all three company audits being offered

2 Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within _____ days of occurrence of such vacancy and the company shall inform the central government in Form CRA-2 within 30 days of such appointment of cost auditor.

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

3 Section 139(7) provides that 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 _____ days from the date of registration of the company.

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

4 Section 139(1) of the Companies Act, 2013 provides that 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

- (a) till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.
- (b) till the conclusion of its sixth annual general meeting only.
- (c) till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every fifth meeting.

(d) till the conclusion of its fifth annual general meeting and thereafter till the conclusion of every fifth meeting.

5 Mr. Hitendra is acting as a Statutory Auditor of Kitex Ltd, for last 5 years. Kitex Ltd is unlisted and has no public borrowings. Rotation of auditor will be required for Kitex Ltd, if

- (a) Its paid up share capital is more than ₹ 10 crore
- (b) Its paid up share capital is equal to or more than ₹ 10 crore
- (c) Its paid up share capital is less than ₹ 50 crore
- (d) Its paid up share capital is equal to or more than ₹ 50 crore

6 The first auditor of SW Limited was appointed by Board of Directors of SW Limited. One of the employee of SW Limited named Mr. Y was of the opinion that remuneration of first auditor of SW Limited would be

decided only by the Members of SW Limited in First Annual General Meeting of SW Limited.

The opinion of Mr. Y is incorrect because remuneration of first auditor of SW Limited may be decided by:

- (a) Only Members of SW Limited.
- (b) Only Members of SW Limited in Second Annual General Meeting of SW Limited.
- (c) Only in EGM of SW Limited.
- (d) Board of Directors of SW Limited.

7 The information related to four companies is provided as follows:

NAME OF THE COMPANY NATURE OF THE COMPANY

Z1 Limited Public Limited Company

Y2 Limited Public Limited Company

N3 Private Limited Private Limited Company

M4 Private Limited Private Limited Company

Which of the above mentioned company or companies is required to constitute an Audit Committee:

- (a) Only M4 Private Limited.
- (b) Both M4 Private Limited and N3 Private Limited.
- (c) Both Y2 Limited and N3 Private Limited.

(d) Both Y2 Limited and Z1 Limited.

8 A Partnership Firm of Chartered Accountants by the name of HK and Associates were the auditor of the company named TR Limited. Due to some reasons HK and Associates resigned from being the auditor of TR Limited. In this scenario who will appoint another auditor for TR Limited:

- (a) Members of TR Limited in Annual General Meeting.
- (b) Members of TR Limited in Extra Ordinary General Meeting.
- (c) Board of Directors of TR Limited but such appointment need not be approved by company TR Limited in the next Annual General Meeting.
- (d) Board of Directors of TR Limited but such appointment should be approved by company TR Limited in a General Meeting held within 3 months.

9 There was a public limited company by the name of YW Limited. According to the last audited Financial Statements of YW Limited, the Paid Up Capital was Rupees 20 crore. A Partnership Firm of Chartered Accountants was required to be appointed as Auditor of YW Limited. In this scenario, which appropriate authority would consider the qualifications and experiences of Partnership Firm of Chartered Accountants for being appointed as an auditor of YW Limited considering the size and requirements of YW Limited:

- (a) Members of YW Limited.
- (b) Audit Committee of YW Limited.
- (c) Board of Directors of YW Limited.
- (d) Independent Directors of YW Limited.

10 A private limited company by the name of WS Private Limited had a paid up share capital of Rupees 65 crore for the Financial year 2018-19.

Which one of the following statement is correct relating to Rotation of Auditor of WS Private Limited:

- (a) Rotation of Auditor is applicable on WS Private Limited as WS Private Limited had a paid up share capital of more than Rupees 40 crore.
- (b) Rotation of Auditor is applicable on WS Private Limited as WS Private Limited had a paid up share capital of more than Rupees 50 crore.
- (c) Rotation of Auditor is not applicable on WS Private Limited as WS Private Limited had a paid up share capital of less than Rupees 100 crore.
- (d) Rotation of Auditor is not applicable on WS Private Limited as WS Private Limited had a paid up share capital of less than Rupees 75 crore.

11 A Partnership Firm of Chartered Accountants by the name of HS and Associates completed its two terms of five consecutive years as auditor of Y65 Private Limited in the Financial year 2018-19. Y65 Private Limited had a paid up share capital of Rupees 58 crore.

HS and Associates cannot be reappointed as auditor of Y65 Private Limited for how many years after completion of two terms of five consecutive years as auditor of Y65 Private Limited in the Financial year 2018-19:

- (a) 10 years. (b) 5 years. (c) 3 years. (d) 2 years.

12 A director of YH Limited (which is not a Government Company) by the name of Mr. W was of the opinion that first auditors of YH Limited must be appointed by Members of YH Limited within 40 days from the date of registration of YH Limited. The opinion of Mr. W is incorrect because:

- (a) The first auditor of YH Limited shall be appointed by Board of Directors of YH Limited within 30 days from the date of registration of YH Limited.
- (b) The first auditor of YH Limited shall be appointed by Board of Directors of YH Limited within 60 days from the date of registration of YH Limited.
- (c) The first auditor of YH Limited shall be appointed by Members of YH Limited within 30 days from the date of registration of YH Limited.
- (d) The first auditor of YH Limited shall be appointed by Members of YH Limited within 60 days from the date of registration of YH Limited.

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

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

14 _____ 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 (c) Completion Memorandum
- (b) Audit evidence (d) Audit Folder

15 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

11

AUDIT REPORT

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	-	-	-	q1	q2-q4
RTP	-	-	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

November-2019

1. An Audit report is:

- (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.
- (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.
- (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.
- (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.

Answer: (c)

May-2019

2. Which of the following is correct :

- (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.

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(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

Answer: (c)

3. Which of the following is correct :

(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 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.

(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.

Answer: (b)

4. Which of the following is incorrect :

(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);

Answer: (d)

BOOKLET

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

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

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

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

3 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 SA more recognizable. Which of the following is the specific heading:

- (a) Key audit matters
- (b) Basis of opinion
- (c) Date
- (d) All of the above

4 The Opinion section of the auditor's report shall:

- (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;

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(d) All of the above

1	2	3	4	5
(d)	(a)	(d)	(d)	(d)

Scribble



12

AUDIT OF BANKS

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	-	-	-	-	q1,q2-
RTP	-	-	-	-	-	-
Booklet	-	-	-	-	-	-

Mock Test Papers

May-2019

1. Which of the following is correct in case of Banks :

- (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.

Answer: (b)

2. 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?

- (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.

Answer: (c)

BOOKLET

- 1 Regulating body in case of banks is :
- (a) SEBI (b) IRDA (c) RBI (d) ICAI
- 2 Which of the following is fund based advance :
- (a) Term loans (c) Demand Loans
- (b) Cash credits, (d) All of the above
- 3 Which of the following is not classification of NPA -
- (a) Impaired (c) doubtful
- (b) sub standard (d) Loss
- 4 Engagement Team Discussions are usually done at which stage of Bank audit ?
- (a) Appointment (c) Framing an Audit Programme
- (b) Developing an Audit Plan (d) Issuing Audit Report
- 5 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

- 6 The LFAR is to be submitted before every year
- (a) 30th April (c) 30th June
(b) 31st May (d) 30th September
- 7 In case of Frauds involving amount less than INR 1 crores , the auditor should report to the :-
- (a) Central Government (c) Bank's Board/Audit Committee
(b) Reserve Bank of India (d) Comptroller & Audit General
- 8 Which of the following is a Non-Funded facility as sanctioned by any bank :-
- (a) Bank Guarantee (c) Staff Advances
(b) Term Loan (d) Bank Overdraft
- 9 The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank :-
- (a) Letter of Credit (c) Staff Advances
(b) Term Loan (d) Cash Credit Limit
- 10 Drawing Power in case of a Consortium advance is computed and allocated to member banks by the
- (a) Bank members proportionately (c) Borrower
(b) Lead bank (d) Reserve Bank of India
- 11 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
- 12 Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakhs and a Vehicle Loan to purchase an Activa Scooter for INR 60,000. She is regular in depositing EMI of the Activa Loan but has not made any payments towards the Personal Loan due to low business during the year. In this case , which of the following facilities should be categorized as NPA ?
- (a) Activa Loan
(b) Personal Loan

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

1	2	3	4	5	6	7	8	9	10
(c)	(d)	(a)	(b)	(a)	(c)	(c)	(a)	(d)	(b)
11	12								
(c)	(d)								

Scribble

13

AUDIT OF DIFFERENT TYPES OF ENTITIES

Category	Attempts					
	Dec-21	May-21	May -20	Nov- 20	Nov-19	May-19
MTP	-	-	-	-	-	-
RTP	q1,C.S-1	C.S-2	-	-	-	-
Booklet	-	-	-	-	-	-

Revision Test Papers

November-21

1. 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?

- (a) Central Government (c) Management Committee of the Society.
(b) State Government (d) Secretary of the Co-operative Society.

Answer: (b)

BOOKLET

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

- (a) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, Financial and other 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.

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

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

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

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

4 The Auditor of a Sole Proprietor Concern is appointed by

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

5 Every LLP would be required to file annual return in Form _____ with ROC

- (a) Form 11
- (b) Form 8
- (c) Form 9
- (d) Form DPIN

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

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

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

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

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

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

9 Which of the following is not correct:-

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

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

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

1	2	3	4	5	6	7	8	9	10
(d)	(a)	(a)	(c)	(a)	(c)	(d)	(c)	(d)	(b)

CASE SCENARIOS

Revision Test Papers

November-2021

Case Scenarios 1: 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.

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.

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.

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.

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.

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.

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.

Based on the above information, answer the following questions:

1. 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?

(a) Twenty-five percent of the total number of shares or of the value of shareholding upto ₹ 5,000

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- (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

Answer: (d)

2. As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than:

- (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.

Answer: (b)

3. Overdue debts for a period from _____ to _____ and more than _____ were classified and reported by RAS & Associates.

- (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.

Answer: (c)

4. To whom does RAS & Associates report the few transactions noticed during audit?

- (a) Registrar of Co-operative Societies
- (b) Secretary of Best Tea House.
- (c) State Government
- (d) Management Committee of Best Tea House

Answer: (a)

5. 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?

- | | |
|---------------------------------|-----------------------------------|
| (a) Part I of the audit report | (c) Schedules to the audit report |
| (b) Part II of the audit report | (d) Audit memos |

Answer: (b)

May-2021

Case Scenarios 2: 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.

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.

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.

Based on the above facts, answer the following:-

1. 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.

- | | |
|---------------------------------|------------------------------|
| (a) Only statement 1 is correct | (c) Both 1 & 2 are correct |
| (b) Only statement 2 is correct | (d) Both 1 & 2 are incorrect |

Answer: (a)

2. 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:-

- | | |
|------------------------------------|--------------------------------------|
| (a) Propriety audit | (c) Performance Audit |
| (b) Audit against Rules and orders | (d) Audit against Provision of funds |

Answer: (c)

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3. While conducting audit against provision of funds, the statutory auditors, M/s Suresh Rana & Associates must check:-

- (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.

Answer: (b)

4. 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?

- (a) Propriety Audit
- (b) Audit against provision of funds
- (c) Audit of sanctions
- (d) Performance Audit

Answer: (a)

5. While conducting the audit of receipts of HAIL Ltd., which of the following area is to be covered as part of Audit of Receipts?

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.
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.
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.
4. Whether the various schemes/projects are executed and their operations conducted economically and whether they are yielding the results expected of them.

- (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

Answer: (b)

INTEGRATED CASE SCENARIOS

Mock Test Papers

May-2021

Case scenario1: 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.

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.

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.

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.

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.

Based on the above facts, answer the following:-

(Chapter 2)

1. 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?

(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.

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- (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.
- (c) CA Ghan Shyam is right in making changes to the overall audit strategy and the audit plan.
- (d) CA Ghan Shyam can change the overall audit strategy and audit plan only after discussing the same with the management of ABC Ltd.

Answer: (c)

(Chapter 2)

2. Which of the following audit procedures should the audit team perform with respect to verification of debtors balance?

- (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.
- (b) Ghan Shyam & Associates can obtain direct balance confirmation from the debtors as this is external evidence which is most reliable and relevant.
- (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.
- (d) Both a & b.

Answer: (d)

(Chapter 3)

3. 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.

Statement 2: The audit evidence obtained from sources external to the entity are generally more reliable than the audit evidence from internal sources.

- (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

Answer: (c)

(Chapter 3)

4. 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?

- (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.

Answer: (c)

(Chapter 3)

5. 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?

(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.

Answer: (b)

Case Scenario2: 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. Para 1

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.

Para 2

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.

Para 3

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.

Para 4

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.

Para 5

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.

(Chapter-9)

1. 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?

- (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)

Answer: (b)

(Chapter-2)

2. In reference to para 2, which of the following Statement is inappropriate?

- (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.

Answer: (b)

(Chapter-10)

3. In reference to para 3, which form from the following should be filed by the Partners to avoid penalty consequences?

- (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.

Answer: (b)

(Chapter-4)

4. 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?

- (a) Reliability of Financial Reporting
- (b) Effectiveness and efficiency of operations
- (c) Compliance with applicable laws and regulations
- (d) All of the above.

Answer: (d)

(Chapter-6)

5. Which of the following statement is inappropriate with regard to testing methods as mentioned in Para 5 above?

- (a) Inquiry in combination with Inspection gives the most effective and efficient audit evidence.
- (b) Re-performance is the most effective as an audit test and gives the best audit evidence.
- (c) Inquiry should always be used in combination with any other testing method.
- (d) which audit test to use and in what combination does not require professional judgment.

Answer: (d)

Case Scenario 3: 2 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.

Para 1

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

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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.

(Chapter-10)

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

Answer: (d)

(Chapter-4)

2. 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.

Answer: (c)

(Chapter-5)

3. 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.

Answer: (b)

(Chapter-10)

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

- (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 get its accounts audited.
- (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 get its accounts audited.
- (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 get its accounts audited.
- (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 get its accounts audited.

Answer: (a)

(Chapter-10)

5. In reference to para 5, which among the following is an INCORRECT trait about the Operating Lease?

- (a) The Lessee does not have the option to buy the asset during the lease period.
- (b) The Lessee cannot claim Depreciation on the leased asset.
- (c) The Lessee generally bears the Insurance, Maintenance and Taxes.
- (d) The Lease term generally extends to less than 75% of the projected useful life of the leased asset.

Answer: (c)

Revision Test Papers

November-2021

Case Scenarios 1: 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.

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.

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.

Based on the above information, answer the following questions:

(Chapter – 10)

1. State whether appointment of CA Rajendra is correct in law.

- (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.

Answer: (b)

(Chapter – 9)

2. 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

- | | |
|----------------------------|---|
| (a) create provision | (c) create capital reserve |
| (b) create revenue reserve | (d) to be disclosed as contingent liability |

Answer: (a)

(Chapter – 9)

3. 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?

- | | |
|--|------------------------|
| (a) recognise dividends as a liability | (c) both a and b |
| (b) disclose the amount of dividend | (d) none of the above. |

Answer: (b)

(Chapter – 9)

4. State the disclosures Aksham Ltd is required to make with respect to the long-term borrowings taken from Saksham Bank.

- 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

- | | | | |
|---------------------|-----------|----------------|-------------|
| (a) I, II, III & IV | (b) I, II | (c) I, II, III | (d) II, III |
|---------------------|-----------|----------------|-------------|

Answer: (a)

(Chapter – 9)

5. State which of the following statement is true with respect to recording an intangible in the books of the company.

- (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.

Answer: (a)

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May-2021

Case scenario 2: 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.

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.

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 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:

"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. Based on the above facts, answer the following:-"

(Chapter-3)

1. 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:-

- (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.

Answer: (b)

(Chapter-5)

2. The inclusion of dummy workmen in the workmen list by the management of MNO Ltd. as noticed by CA Ramesh amounts to:-

- (a) Suppressing cash receipts
- (b) Casting wrong total in cash book
- (c) Inflating cash payment
- (d) Misappropriation of goods

Answer: (c)

(Chapter-5)

3. 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?

- (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.

Answer: (a)

(Chapter-5)

4. refers to events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud:-

- (a) Fraud Risk Factors
- (b) Misappropriation of assets
- (c) Incentives/ Pressures
- (d) Fraud

Answer: (b)

(Chapter-5)

5. Statement 1: The risk of auditor not detecting a material misstatement resulting from employee fraud is greater than for management fraud.

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.

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

Answer: (b)

May-2020

Case Scenario 3:

2 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

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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.

Various topics like audit planning, overall audit strategy, audit programme were 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:-

(Chapter-2)

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

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

Answer: (b)

(Chapter-2)

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

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

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

Answer: (c)

(Chapter-2)

3. 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 :-

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

Answer: (c)

(Chapter-2)

4. Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-

- | | |
|-------------------|-----------------------|
| (a) Total Revenue | (b) Profit before tax |
|-------------------|-----------------------|

(c) Net Asset Value

(d) None of the above

Answer: (d)

(Chapter-1)

5. (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.

(a) All the above statements are correct.

(c) Statements 1, 2 & 3 are correct

(b) Statements 1 & 2 are correct

(d) Statements 1,2 & 4 are correct

Answer: (a)

BOOKLET

CASE SCENARIOS

1 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: -

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

(a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.

(b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.

(c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-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.

(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.

1.2 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?

- (a) Nature of inventory, timing of physical inventory counting and stages of completion of work in progress
- (b) Nature of inventory, timing of physical inventory counting and valuation method of inventory
- (c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system
- (d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system

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

- (a) Observance of performance of 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
- (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
- (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
- (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

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

Outcome I --- Existence of inventory Outcome II

Outcome III

Which of following statements is most likely true?

- (a) Outcomes I, II and III are all necessarily established after inspection.
- (b) Only Outcomes I and III are established after inspection and Outcome II is never established.
- (c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.

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

1.5 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?

(a) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.

(b) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern.

(c) The value of 67 quintals rice would not be reflected in company's financial statements.

(d) The value of 67 quintals rice would be reflected in proprietary concern's financial statements as per method of valuation adopted by the company.

1.1	1.2	1.3	1.4	1.5
(d)	(b)	(d)	(c)	(c)

2 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.

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.

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:

-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.

-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.

-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.

-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.

-5 While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H.

The above mentioned five points were some of the issues which Mr. H was unable to understand.

Answer the following questions:

2.1 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:

- | | |
|---|-------------------------------------|
| (a) Outstanding Power and Fuel Expenses | (c) Power and Fuel Expenses |
| (b) Prepaid Power and Fuel Expenses | (d) Power and Fuel Expenses Payable |

2.2 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:

- (a) Subtracted from Rent Expenses of business of UV Private Limited
- (b) Remain Added to Rent Expenses of business of UV Private Limited
- (c) Again Added to Rent Expenses of business of UV Private Limited
- (d) Subtracted twice from Rent Expenses of business of UV Private Limited

2.3 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:

- (a) Prepaid Repair and Maintenance Expenses
- (b) Repair and Maintenance Expenses
- (c) Repair and Maintenance Expenses paid in advance
- (d) Repair and Maintenance Expenses Payable

2.4 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:

- | | |
|---|--------------------------------------|
| (a) All employees of UV Private Limited | (b) Management of UV Private Limited |
|---|--------------------------------------|

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- (c) Members of UV Private Limited (d) Any one director of UV Private Limited

2.5 As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H as:

- (a) Invalid Supporting (c) Lack of proper Supporting
(b) No Supporting (d) Valid Supporting

2.1	2.2	2.3	2.4	2.5
(b)	(a)	(d)	(b)	(d)

3 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.

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.

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.

3.1 Mr. Laxman shall obtain _____ that the financial statements are free from fraud and misstatement.

- (a) Absolute assurance (c) Management's assurance
(b) Reasonable assurance (d) Chief Financial Officer assurance

3.2 Mr. Laxman suspects that cash payments were inflated. Out of the below which could be probable reason for such inflated cash payments.

- (a) Not accounting for cash sales completely

- (b) Making payments against purchase vouchers
- (c) Making payments against inflated vouchers
- (d) Teeming and Lading

3.3 As per Section 143 (12) of Companies Act, 2013 & Rule 13 of CAAR, 2014; Mr. Laxman shall

- (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 audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.
- (d) report the matter to the Board within such time and in such manner as prescribed.

3.4 Owing to the _____ limitations of an audit, there is _____

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

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

3.5 As an auditor what conclusion can Mr. Laxman draw looking at the huge cash reserve of the company and corresponding bank loan?

- (a) Report this matter to the Central Government u/s 143(12) as there is a possibility of fraud
- (b) Obtain sufficient and appropriate audit evidence of existence of fraud
- (c) Report the matter under CARO, 2020
- (d) There is nothing to report as it's a normal financial decision

3.1	3.2	3.3	3.4	3.5
(b)	(c)	(a)	(a)	(b)

4 Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2019-20. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India.

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

- (a) One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.
- (b) One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around ₹ 1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share.
- (c) The gratuity valuation of the employees of the retail chain is done by an external valuer. The auditor, considering the quantum involved appoints an external auditor's expert for the verification of the actuarial calculation of gratuity.

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

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

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

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

- (a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts
- (b) The auditor can place reliance on the 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

procedures to satisfy himself on the correct treatment and issue opinion accordingly.

- (d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditor's opinion has higher authority than external auditor's opinion.

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

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

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

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

4.5 Which of these is not a factor affecting the external auditor's evaluation of the objectivity of the internal audit function?

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

4.1	4.2-	4.3	4.4	4.5
(b)	(c)	(a)	(b)	(c)

5 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.

Various topics like audit planning, overall audit strategy, audit programme were 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:-

5.1sets the scope, timing & direction of the audit and guides the development of the more detailed plan.

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

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

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

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct

(c) Both Statements 1 & 2 are correct

(d) Both Statements 1 & 2 are incorrect

5.3 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 :-

(a) Benchmark Materiality

(c) Performance Materiality

(b) Materiality in Planning

(d) Materiality.

5.4 Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-

(a) Total Revenue

(c) Net Asset Value

(b) Profit before tax

(d) None of the above

5.5 (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.

(a) All the above statements are correct.

(c) Statements 1, 2 & 3 are correct

(b) Statements 1 & 2 are correct

(d) Statements 1,2 & 4 are correct

5.1	5.2	5.3	5.4	5.5
(b)	(c)	(c)	(d)	(a)

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

1. The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system.

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2. The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods

receipt note is automatically prepared and approved in the system once the quantity and price of goods is entered against specific vendor. This entry is on real-time basis and system does not allow back dated entries.

3. The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and error. The auditor finds there is no documented risk assessment process.

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

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

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

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

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

6.3 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?

- (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.

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

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

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

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

6.1	6.2	6.3	6.4	6.5
(b)	(c)	(a)	(d)	(b)

7. • 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 liability 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 incomes 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)

Based on the above facts, answer the following:-

7.1is a possible obligation that arises from the past events and whose existence will be confirmed only by the occurrence/ non occurrence of one or more uncertain future events not wholly within the control of the entity:-

- | | |
|---------------|--------------------------|
| (a) Provision | (c) Contingent Liability |
| (b) Reserve | (d) Liability |

7.2 Which of the following is not correct with respect to the inventory held by Octopus Limited:-

- (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

7.3 If the management of Octopus Ltd. refuses to allow the auditor, to send the confirmation request to the debtors, the auditor should:-

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

7.4 Which of the following statements is not true so far as the liabilities of a company are concerned:-

- (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 as important as that of assets.
- (d) All of the above.

7.5 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.

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

7.1	7.2	7.3	7.4	7.5
(c)	(b)	(c)	(a)	(c)

8. 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 31.03.2021. The Gross turnover of the company is ₹ 105 crores, out of which turnover from one of its products namely coffee is of ₹ 95 crores during the immediate preceding Financial Year.

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 needs to be reported under the relevant provisions of Companies (Auditors Report) Order 2020.

During the FY 2020-2021, 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.

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.

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.

Based on the above facts, answer the following:-

8.1 After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-

- (a) 60 days (b) 30 days (c) 15 days (d) 20 days

8.2 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:-

- (a) 100 days, Market Value Rs 1,00,000 (c) 90 days, Face value Rs 1,00,000
(b) 60 days, Face value Rs 1,00,000 (d) 15 days, Market Value Rs 1,00,000

8.3 Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-

- (a) Section 143(12), 1 crore & above (c) Section 143(12), 2 crore & above
(b) Section 139(12), 1 crore & above (d) None of the above

8.4 What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-

- (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

8.5 Under relevant clause of CARO,2020, XYZ & Associates is required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-

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

8.1	8.2	8.3	8.4	8.5
(c)	(b)	(a)	(a)	(c)

9. 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.

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.

The auditors, M/s ABC & Associated have directed their audit staff to check the following in detail:

- the provisions relating to the depreciation and amortisation of assets and intangible assets and

- the applicability of various Accounting Standards applicable to the entity.

Based on the above facts, answer the following:-

9.1 Which of the following expenses should not be charged to revenue by XYZ Ltd.:-

- (a) Printing & Stationary
- (b) Power & Fuel
- (c) Salary & Wages of employees engaged directly or indirectly in production.
- (d) Major repairs of fixed assets that increases its productivity.

9.2 XYZ Ltd. should recognize Zenith X software as intangible, if such software:-

- (a) Is held for use in production or supply of goods or services
- (b) Is held for administrative purpose
- (c) Is held for rental to others
- (d) All of the above

9.3 In case any intangible asset is not in active use by the entity , the auditor should check whether:-

- (a) The deletion with respect to the intangible asset has been recorded in the books of accounts post approval by the entity's management.
- (b) The amortisation charge has ceased beyond the date of deletion.
- (c) Both a & b
- (d) None of a & b

9.4 With respect to the provisions of impairment of computer software, the following Accounting Standard is applicable:-

- (a) AS 18
- (b) AS 28
- (c) AS 26
- (d) AS 10

9.5 The following expenditure should not be capitalized with respect to the intangible assets:-

- (a) Expenditure during Development Phase.
- (b) Expenditure during Research Phase.
- (c) None of the above.
- (d) Both a & b.

9.1	9.2	9.3	9.4	9.5
(d)	(d)	(c)	(b)	(b)

10. 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:

- 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.

10.1 In case of M/s Persistent & Company, what would be an ideal Audit Opinion?

- | | |
|----------------|----------------|
| (a) Unmodified | (c) Adverse |
| (b) Qualified | (d) Disclaimer |

10.2 In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?

- | | |
|---------------|----------------|
| (a) Qualified | (c) Disclaimer |
| (b) Adverse | (d) Unmodified |

10.3 According to you, what would be appropriate course to take in case of M/s Honest & Associates?

- (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

10.4 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?

- (a) Issue Unmodified Opinion
- (b) Issue Qualified Opinion
- (c) Issue Disclaimer of Opinion
- (d) Mention it in Emphasis of Matter Paragraph

10.5 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

10.1	10.2	10.3	10.4	10.5
(b)	(c)	(c)	(b)	(d)

11. 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.

11.1 Mr. Meticulous asked about other Companies, he was intending to perform which audit procedure?

- (a) Analytical Procedures (c) Random Sampling
(b) Substantive Procedures (d) Statistical Sampling

11.2 What was the initial procedure carried on by Mr. Meticulous?

- (a) Trend Analysis (c) Statistical Modelling
(b) Ratio Analysis (d) Random Sampling

11.3 Who has the right to retain the audit working papers of the Company in current case?

- (a) Audit Committee (c) Auditor
(b) Board of Directors (d) Chairman of the Audit Committee

11.4 When Mr. Meticulous decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence?

- (a) Test of Transactions (c) Both (a) and (b)
(b) Test of Balances (d) Analytical Procedures

11.5 The impact of the exercise carried on by the Company for unbilled challans will have an impact on

- (a) Gross Receipts and Debtors (c) Debtors
(b) Gross Receipts and Inventory (d) Inventory

11.1	11.2	11.3	11.4	11.5
(a)	(b)	(c)	(c)	(a)

12. 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 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: -

12.1 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?

- (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.

12.2 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?

- (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.

12.3 Which of the following is not likely to be correct in evaluating results of audit sampling in case of tests of details?

- (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.

12.4 Which of the following is not likely to be correct in relation to Block Sampling and audit samples drawn upon using this technique?

- (a) Block selection involves selection of a block/blocks of contiguous items within the population.
- (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.
- (c) Block sampling has characteristics of simplicity and economy.
- (d) It is generally an appropriate sample selection technique when auditor intends to draw valid inferences about the entire population based upon sample.

12.5 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

- (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

12.1	12.2	12.3	12.4	12.5
(b)	(b)	(b)	(d)	(c)

13. 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: -

[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.

[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.

[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.

[D] The trade payables of the company include dues to micro and small enterprises amounting to ₹ 1,40,36,740.

[E] Printing and stationery expenses, travelling expenses and fair participation expenses are ₹ 74,320, ₹ 88,38,250 and 1,63,26,260 respectively.

Based upon above, answer following questions keeping in view classification and disclosure requirements of Schedule III of Companies Act, 2013: -

13.1 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?

- (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.

13.2 Which of the following is most correct as regards to disclosure of fact of guarantee of working capital credit facility?

- (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.

13.3 As regards current investments made by company in Ceekay Limited, which of following groups contain most valid requirements mandated by law?

- (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.

13.4 As regards current investments made by company in partnership firm, which of following classification and disclosure requirements include requirements mandated by law?

- (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.

13.5 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.

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Which of the following statements is correct?

- (a) Both statements I and II are true. (c) Statement I is true. Statement II is false.
(b) Both statement I and II are false. (d) Statement I is false. Statement II is true.

13.1	13.2	13.3	13.4	13.5
(c)	(c)	(a)	(a)	(d)

14. 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 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)

While conducting audit, the auditor is subject to relevant ethical requirements, including those pertaining to independence, relating to financial statements audit engagements. Relevant ethical requirements ordinarily comprise Code of Ethics issued by ICAI. The code establishes honesty, objectivity, professional judgment, loyalty and logical behaviour as fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements." (Para 6)

14.1 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
(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

14.2 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.

(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.

14.3 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?

(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.

14.4 Identify correct group of meaningful words to replace underlined erroneous words in para 4 in the same order in which these are underlined: -

(a) Prevent, binding and conclusive

(c) Forego, conclusive and persuasive

(b) Prevent, conclusive and binding

(d) Reduce, persuasive and persuasive

14.5 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?

- (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.

14.1	14.2	14.3	14.4	14.5
(c)	(d)	(d)	(d)	(b)

15. 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. CA Arun is the engagement partner and his team consists of two article assistants, namely Mr. Ram & Mr. Shyam.

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.

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.

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:-

15.1 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?

- (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.
- (b) M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.

(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.

(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.

15.2 With respect to the audit of cash balance of HKM Ltd. which is the correct course of action for M/s Arun Karun & Associates?

1. The cash balance with the cashier, petty cashier, and imprest balances with the employees should be checked simultaneously.

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.

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.

4. CA Arun should ask any of the cashiers to verify the cash balances and provide him with a report on the same.

(a) Statement 1 & 2

(c) Statement 1,3 & 4

(b) Statement 1 & 4

(d) Statement 1 & 3

15.3 Verification of all the travelling expenses of HKM Ltd. by the audit team addresses the following assertion related to the Income Expense account:

(a) Valuation

(c) Measurement

(b) Completeness

(d) Existence

15.4 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?

(a) Completeness

(c) Measurement

(b) Presentation and Disclosure

(d) Occurrence

15.5 Which of the following is correct with respect to the provisions relating to revenue reserves of HKM Ltd?

- i. Revenue Reserves of HKM Ltd. can be used to supplement divisible profits in lean years.
 - ii. Revenue Reserve cannot be used to augment the working capital of the business of HKM Ltd.
 - iii. Revenue Reserve cannot be used to finance an extension of the business of HKM Ltd.
 - iv. Revenue Reserve can be used to generally strengthen the company's financial position.
- (a) ii & iii are correct (c) i, ii, iii are correct
(b) i & iv are correct (d) i, ii, iii, iv are correct

15.1	15.2	15.3	15.4	15.5
(b)	(a)	(b)	(b)	(b)

16. 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 its 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.]

Provided also that, nothing contained in this sub-section shall prejudice 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 there under, 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

(c) a special resolution has not been passed at that meeting 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: -

16.1 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?

- (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 there under;
- (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

16.2 The provisions of rotation of auditors are not applicable to certain class of companies. Which of the following is not a correct option?

- (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

16.3 In case of a government company, the statutory auditor under companies Act is appointed by: -

- (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

16.4 Which of the following is incorrect regarding scope of actions of audit committee constituted under section 177 of Companies Act, 2013?

- (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.

16.5 Which of the following is correct regarding formation of audit committee under section 177 of Companies Act, 2013?

- (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.

16.1	16.2	16.3	16.4	16.5
(d)	(c)	(c)	(b)	(c)

17. • 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.

Based on the above facts, answer the following:-

17.1 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:-

- (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.

17.2 The Securities Premium Account can be used by the Star Ltd. for various purposes, except one:-

- (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.

17.3 With regard to the issue of Sweat Equity shares following conditions have to be complied. Identify the incorrect one:-

- (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.
- (c) Not less than one year has at the date of such issue, elapsed since the date on which the company has commenced business
- (d) Where the equity shares of the company are listed on recognized stock exchange, the shares are issued in accordance with requirements by SEBI.

17.4 Which of the following is not correct:-

- (a) Section 52- Securities Premium Account
- (b) Section 53- Issue of shares at discount
- (c) Section 54- Issue of Bonus Shares
- (d) Section 68- Buyback of shares

17.5 With respect to which of the following, passing of a Special Resolution is required by a company:-

- (a) Issue of Sweat Equity Shares
- (b) Reduction of Share Capital
- (c) Both a & b
- (d) None of a & b

17.1	17.2	17.3	17.4	17.5
(b)	(d)	(a)	(c)	(c)

18. • 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.

Based on the above facts, answer the following:-

18.1 M/s AMR & Associates shall hold the office as auditor of Venus Ltd.: -

- (a) For one term of five consecutive years
- (b) Till the conclusion of first Annual General Meeting
- (c) For two terms of five consecutive years.
- (d) None of the above.

18.2 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?

- (a) Section 167, No
- (b) Section 117, Yes
- (c) Section 177, Yes
- (d) Section 176, No

18.3 What is the maximum number of audits remaining in the name of M/s AMR & Associates: -

- (a) 60
- (b) 25
- (c) 10
- (d) 15

18.4 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 any body corporate. :-

- (a) ₹ 50 crore and ₹ 25 crore (c) ₹ 50 crore and ₹ 125 crore
(b) ₹ 150 crore and ₹ 25 crore (d) ₹ 25 crore and ₹ 50 crore

18.5 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 :-

- (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)

18.1	18.2	18.3	18.4	18.5
(b)	(c)	(d)	(a)	(b)

19. • 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.

Based on the above facts, answer the following:-

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

- | | |
|---------------------|---------------------------|
| (a) Audit File | (c) Completion memorandum |
| (b) Audit Programme | (d) Checklists |

19.2 The susceptibility of an assertion to a misstatement that could be material before consideration of any related control is:-

- | | |
|-------------------|----------------------|
| (a) Control Risk | (c) Audit Risk |
| (b) Inherent Risk | (d) Significant Risk |

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

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

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

19.4 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:-

- | | |
|--------------------------------|---------------------------------------|
| (a) Analytical Procedures | (c) Audit Procedures |
| (b) Risk Assessment Procedures | (d) Substantive Analytical Procedures |

19.5 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.

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

19.1	19.2	19.3	19.4	19.5
(c)	(b)	(c)	(b)	(b)

20. M/s UVW & Associates have been appointed as auditors of Mars Ltd. for the Financial Year 2019-20.

- 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.

Based on the above facts, answer the following:-

20.1 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.

- | | |
|---------------------------------|--|
| (a) Only Statement 1 is correct | (c) Both Statement 1 & 2 are correct |
| (b) Only Statement 2 is correct | (d) None of Statement 1 & 2 is correct |

20.2 The auditor can perform the following procedures to identify litigation and claims of Mars Ltd:-

- (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.

20.3 Negative confirmation requests require the third party to respond in the following cases :-

- (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.

20.4 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.

- (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

20.5 Which of the following is incorrect so far as the related party transactions are concerned:-

- (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.

20.1	20.2	20.3	20.4	20.5
(c)	(d)	(b)	(c)	(d)

21. • 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.
- 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.

Based on the above facts, answer the following:-

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

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

21.2 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.

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

21.3 are also known as pervasive or indirect controls :-

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

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

- | | |
|--|-----------------------|
| (a) Computer Assisted Audit Techniques | (c) Data Analytics |
| (b) Automated Controls | (d) None of the above |

21.5 Which of the following is not a correct statement :-

- (a) Inquiry should always be used in combination with any of the audit testing methods.
- (b) Re performance is the most effective but is very time consuming and least efficient most of the times.
- (c) Applying inquiry in combination with inspection gives the least effective and least efficient audit evidence.
- (d) Use of audit tests is a matter of professional judgment of auditor.

21.1	21.2	21.3	21.4	21.5
(b)	(c)	(a)	(c)	(c)

22. 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.

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.

Company ABC P L - Miss C owns share of ₹ 1000 in the Company and her Brother owns shares of Rs 50000 in the Company

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

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.

22.1 Which of the following Statement is correct in respect of ABC P L ("Company")

- (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.

22.2 Which of the following Statement is correct in respect of XYZ P L ("Company")

- (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.

22.3 Which of the following Statement is correct in respect of PQR P L ("Company")

- (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

22.4 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?

- (a) Market Value
- (b) Face Value
- (c) Book Value
- (d) Higher of the above

22.5 In case, Shareholding by a relative exceeds the threshold then in how many days Auditor is required to take corrective Action?

- (a) 15 Days
- (b) 30 Days
- (c) 45 Days
- (d) 60 Days

22.1	22.2	22.3	22.4	22.5
(c)	(b)	(c)	(b)	(d)

23. 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.

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.

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.

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.

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.

23.1 Which of the following Statement is correct?

- (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

23.2 Mr. C and Mr. A are discussing different approaches to Sampling, which are they?

- (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

23.3 Which of the following method is used by the Auditor for Drawing of the Samples?

- (a) Simple Random Sampling
- (b) Haphazard Sampling
- (c) Systematic Sampling
- (d) Stratified Sampling

23.4 What is the initial perception of control risk as far as Sales Transactions are concerned?

- (a) High
- (b) Medium
- (c) Low
- (d) Non-existent

23.5 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?

- (a) Inherent Risk (c) Control Risk
(b) Detection Risk (d) All of the above

23.1	23.2	23.3	23.4	23.5
(c)	(a)	(d)	(a)	(b)

24. 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.

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.

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.

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.

Based on the above facts and procedures, answer the following questions.

24.1 Mr. Samuel needs to furnish his written consent and a certificate to the company

- (a) Before his appointment (c) Within 30 days of his appointment
(b) Within 15 days of his appointment (d) None of the above

24.2 Mr. Samuel (the auditor of the company) subsequently submitted his resignation. He is required to intimate about his resignation to-

- (a) The Company
(b) The Registrar of Companies
(c) Both a and b.
(d) Board of Directors, Registrar of Companies and Central Government

24.3 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.

(a) ADT- 1, 10

(c) ADT – 3, 30

(b) ADT- 2, 7

(d) ADT - 4, 15

24.4 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.

(a) 10 years

(b) 8 years

(c) 5 years

(d) 3 years

24.5 Mr. Samuel's remuneration as auditor of M/S ABC Ltd will be fixed by

(a) By Board of Directors of the company

(b) By Company in general meeting

(c) By Central Government

(d) By Comptroller & Auditor General of India

24.1	24.2	24.3	24.4	24.5
(a)	(c)	(c)	(c)	(b)

25. 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.

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.

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.

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.

On the basis of above facts, please suggest appropriate treatments in respective cases.

25.1 As per the provisions of relevant enactments, please advise who can appoint auditors of a Nationalised bank.

- | | |
|------------------------------------|--|
| (a) Board of Directors of the Bank | (c) Comptroller and Auditor General of India |
| (b) Reserve Bank of India | (d) Central Government |

25.2 The matters which the banks require their auditors to deal with in the Long Form Audit Report is to be specified by

- | | |
|----------------------------------|--|
| (a) Banking Regulation Act, 1949 | (c) Comptroller and Auditor General of India |
| (b) Central Government | (d) Reserve Bank of India |

25.3 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 | (c) Minimum, 30 |
| (b) Minimum, 90 | (d) Minimum, 60 |

25.4 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.

- | |
|--------------------------------------|
| (a) One crop season, two crop season |
| (b) Two crop season, one crop season |
| (c) 90 days, 120 days |
| (d) 120 days, 90 days |

25.5 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

- | |
|---|
| (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. |

25.1	25.2	25.3	25.4	25.5
(a)	(d)	(b)	(b)	(a)

26. 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.

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.

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.

Based on below queries/cases, you are required to answer on specific areas which require special attention while conducting audit in an automated environment.

26.1 are policies and procedures that relate to many applications and support the effective functioning of application controls

- (a) General IT Controls (c) Both a) and b)
(b) IT Dependent Manual Controls (d) None of these

26.2 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

- (a) Data Centre and Network Operations
(b) Program Change
(c) Access Security
(d) Application system, acquisition, development and maintenance

26.3 Tools and techniques that auditors use in applying the principles of data analytics are known as-

- (a) Computer Aided Audit Technique
- (b) Computer Aided Audit Tools
- (c) Computer Accounting and Auditing Technique
- (d) Computer Assisted Audit Technique

26.4 _____ 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.

- (a) Application
- (b) Read Access Memory
- (c) Automated
- (d) Mainframe

26.5 _____ are needed to support the functioning of _____ and both are needed to ensure complete and accurate information processing through IT systems.

- (a) Internal controls, Automated controls
- (b) IT- Dependent controls, General IT controls
- (c) Application controls, IT- Dependent controls
- (d) General IT controls, Application controls

26.1	26.2	26.3	26.4	26.5
(a)	(c)	(d)	(d)	(d)

27. 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.

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.

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.

Based on above facts, you are required to answer below questions which require special attention while preparing the Audit report of Sigma Ltd.

27.1 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.

- | | |
|-----------------------|---------------------------|
| (a) qualified opinion | (c) unmodified opinion |
| (b) adverse opinion | (d) disclaimer of opinion |

27.2 In relation to grant of ₹50 lakhs, while preparing the audit report, the auditor needs to:

- (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

27.3 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.

- | | |
|-----------------------|---------------------------|
| (a) qualified opinion | (c) unmodified opinion |
| (b) adverse opinion | (d) disclaimer of opinion |

27.4 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 -

- (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

27.5 Communicating key audit matters in the auditor's report is

- (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.

27.1	27.2	27.3	27.4	27.5
(c)	(a)	(b)	(d)	(a)

28. 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.

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.

28.1 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

28.2 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

28.3 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

28.4 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.

28.5 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.

28.1	28.2	28.3	28.4	28.5
(c)	(b)	(d)	(b)	(a)

29. 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:

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.

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.

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.

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-imbursement.

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.

From the above facts, answer the following questions by choosing the right option.

29.1 Which among the following is NOT a fraud risk factor leading to a fraud in an organization?

- (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

29.2 What is the kind of fraud that the auditor has faced in Issue 2 raised in the case above?

- (a) Teeming and Lading
- (b) Cash skimming
- (c) Defalcation of cash by inflating cash payment
- (d) Misappropriation of receivables

29.3 Which among the following statement is incorrect in the context of the two types of fraud "Fraudulent financial reporting" and "Misappropriation of assets"?

- (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.

29.4 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?

- (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.

29.5 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.

29.1	29.2	29.3	29.4	29.5
(d)	(a)	(b)	(c)	(d)

30. 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.

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.

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.

30.1 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

- (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.

30.2 The Engagement Team's discussions as held by CA Raman are a part of which of the following phases of an audit?

- (a) Audit Planning.
- (b) Developing an Audit Programme.
- (c) Risk Assessment.
- (d) Audit Reporting.

30.3 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 ?

- (a) Statutory Audit Report
- (b) Tax Audit Report.
- (c) LFAR.
- (d) GST Audit Report.

30.4 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 ?

- (a) Report the nature of , amount & parties involved in the fraud in his audit report .
- (b) Ask for the matter to be disclosed in the Board's Report by the BOD..
- (c) Forward the reply received from the BOD to the Central Government along with his report and his comments upon the reply received.
- (d) Forward his Report with a Note to the Central Govt. stating the non-receipt of any observations from the BOD.

30.5 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?

- (a) Mortgage
- (b) Pledge
- (c) Hypothecation
- (d) Charge

30.1	30.2	30.3	30.4	30.5
(b)	(a)	(c)	(d)	(b)

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31. 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:-

- 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.

31.1 Mr. Verma's Loan account in the above case should be categorized as -

- (a) NPA because of no recovery for more than 90 days.
- (b) Loss asset as there are minute chances of recovery.
- (c) Standard asset as per the Manager as security is available against this loan and also the net worth of the borrower is strong.
- (d) SMA 02 Loan.

31.2 Which of the following Loan facilities given to Mrs. Lata be categorized as NPA by the Bank -

- (a) Cash Credit Facility
- (b) Education Loan

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(c) Car Loan

(d) All loans advanced

31.3 Mr. Kapoor's loan account as per the above case is -

(a) Overdue

(c) Doubtful asset

(b) SMA 01

(d) Out of Order

31.4 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.

(a) NPA ; NPA.

(c) Standard ; NPA.

(b) NPA ; Standard.

(d) Standard ; Standard.

31.5 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.

(a) NPA ; NPA.

(b) NPA ; Standard.

(c) Standard ; NPA.

(d) Standard ; Standard

31.1	31.2	31.3	31.4	31.5
(a)	(d)	(d)	(c)	(a)

32. 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:-

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.

32.1 Fraud in the above case scenario has been committed by resorting to which of the following Material Misstatements identified during the audit:-

- | | |
|------------------------------------|-------------------------|
| (a) Fraudulent Financial Reporting | (c) Defalcation of Cash |
| (b) Misappropriation of Goods | (d) Either (b) or (c) |

32.2 The Fraud Risk Factor behind committing of Fraud by Mr. X in the above case was:-

- | | |
|----------------------------|---------------------------|
| (a) Incentives or Pressure | (c) Perceived Opportunity |
| (b) Rationalization | (d) Adventure |

32.3 How has the Fraud been Committed by Mr. X ?

- (a) Manipulation/Falsification
- (b) Misrepresentation
- (c) Intentional Misapplication of Application Accounting Principles
- (d) Error

32.4 Mr. Y resorted to Defalcation of Cash by

- | | |
|-------------------------------|---------------------------------------|
| (a) Inflating Cash Payments | (c) Casting wrong totals in Cash Book |
| (b) Suppressing Cash Receipts | (d) Stealing Cash |

32.5 CA Arun found significant unexplained items on many reconciliations. This is an example of possibility of Fraud due to

- (a) Discrepancies in accounting Records
- (b) Problematic relationship between auditor & management
- (c) Conflicting or Missing Evidence

(d) Other

32.1	32.2	32. 3	32.4	32.5
(a)	(a)	(a)	(a)	(c)

33. 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.

33.1 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

- | | |
|------------------------------------|----------------------|
| (a) Performance Audit | (c) Propriety Audit |
| (b) Audit against rules and orders | (d) Efficiency Audit |

33.2 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

- (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)

33.3 As per Rule 24 of LLP Rules, 2009, Statement of Account and Solvency shall be filed in _____ with the ,within a period of _.

- (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

33.4 LLP, whose turnover does not exceed ₹ _____ or whose contribution does not exceed ₹ _____, is not required to get its accounts audited.

- (a) 40 Lakhs, 25 Lakhs
- (b) 50 Lakhs, 25 Lakhs
- (c) 40 Lakhs, 20 Lakhs
- (d) 60 Lakhs, 30 Lakhs

33.5 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.

33.1	33.2	33.3	33.4	33.5
(c)	(d)	(d)	(a)	(d)

34. 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.

34.1 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 | (c) audit quality |
| (b) audit effectiveness | (d) none of the above |

34.2 When auditor decides to select less than 100% of the population for testing, the auditor is said to be using _____

- | | |
|-----------------------------|--------------------|
| (a) Audit sampling | (c) Test Checking |
| (b) Representative sampling | (d) Internal Audit |

34.3 Tolerable error is in population that auditor is willing to for a given sample size.

- | | |
|---------------------|---------------------|
| (a) Minimum, Forego | (c) Minimum, Accept |
| (b) Maximum, Forego | (d) Maximum, Accept |

34.4 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 | (c) Audited population |
| (b) Selective population | (d) Universe |

34.5 _____ 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 (c) Haphazard Sampling
(b) Non statistical Sampling (d) Cluster Sampling

34.1	34.2	34.3	34.4	34.5
(b)	(a)	(d)	(a)	(a)

35. 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.

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.

Based on the above specific cases and in general, answer the following questions as per guidance provided by SA 230.

35.1 is the file containing the records and data that comprise the audit documentation for a specific engagement.

- (a) Audit file (c) Working file
(b) Engagement file (d) Client's file

35.2 Which of the following does not affects form, content & extent of documentation

- (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

35.3 If in exceptional circumstances the auditor departs from Standards on Auditing, he shall _____

- (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.

35.4 Which of the following is not true of working papers?

- (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.

35.5 Can CA. Bean provide access to working papers to Income Tax department during search & seizure operation?

- (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

35.1	35.2	35.3	35.4	35.5
(a)	(b)	(c)	(d)	(a)

36. Cheenu & Co are the auditors of a manufacturing industry. During the course of the audit, the following are the observations:

- 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.
- 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.
- 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.
- 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.

From the above information, answer the following by choosing the correct option:

36.1 As per SQC1, what is the retention period of the audit documentation?

- (a) It should be no shorter than seven years from the date of the auditor's report.
- (b) It should be no shorter than eight years from the date of the auditor's report
- (c) There is no such retention period; audit documentation must be there permanently as a defense in favor of the auditor in any litigation
- (d) It should be no shorter than eight years from the date of entering into the audit agreement with client

36.2 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?

- (a) Audit File
- (b) Completion Memorandum
- (c) Evidence summary
- (d) Control Memorandum

36.3 How should the auditor verify the inventory held in custody with the third party?

- (a) SA 501 mandates auditor to verify the same physically, hence management refusal will lead to a disclaimer of opinion
- (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
- (c) The auditor should obtain written representation from management on the inventory held in custody with third party
- (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.

36.4 Is the opinion of the auditor on not to document the materiality level correct?

- (a) Yes, SA 230 does not prescribe any documentation of materiality level as it is derived out of auditor's professional judgment.
- (b) Yes, none of the auditing standards prescribe documentation of materiality level.
- (c) No, though SA 230 does not prescribe any documentation, it should be documented as per SA 320.
- (d) No, SA 230 explicitly states that materiality level should be documented.

36.5 Which among the following is not a factor for identification of an appropriate benchmark?

- (a) The elements of the financial statements
- (b) The relative volatility of the benchmark
- (c) The entity's ownership structure and the way it is financed.
- (d) Previous experience of audit with the entity

36.1	36.2	36.3	36.4	36.5
(a)	(b)	(b)	(c)	(d)

37. 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 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.

In the initial stages of conducting audit of Healthy and Talented Private Limited, Mr. W decided to evaluate internal control operating in the company. To gather information required for evaluation of internal control, Mr. W asked his team members to suggest a method which would help in gathering information so that internal control of the company can be evaluated.

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 analyzing 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:

37.1 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. (c) Audit Documentation.
(b) Audit Evidence. (d) Audit Programme.

37.2 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. (c) Narrative Record.
(b) Check List. (d) Questionnaire.

37.3 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. (c) Questionnaire.
(b) Flow Chart. (d) Check List.

37.4 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. (c) Flow Chart.
(b) Questionnaire. (d) Narrative Record.

37.5 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. (c) Narrative Record.
(b) Flow Chart. (d) Check List.

37.1	37.2	37.3	37.4	37.5
(d)	(b)	(a)	(c)	(a)

38. 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:

38.1 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. | (c) Overstated by ₹ 20,000. |
| (b) Understated by ₹ 40,000. | (d) Overstated by ₹ 40,000. |

38.2 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.

38.3 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.

38.4 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.
- (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.

38.5 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:

- (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.

38.1	38.2	38.3	38.4	38.5
(d)	(b)	(b)	(a)	(d)

39. 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.

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:

- (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.

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:

39.1 Expenses incurred on installation of new machinery by Very Composed Private Limited should be treated as:

- (a) Revenue Expenditure
- (b) Capital Expenditure
- (c) Deferred Revenue Expenditure
- (d) Partly Revenue Expenditure and Partly Capital Expenditure

39.2 Expenses incurred on normal maintenance of old machinery by Very Composed Private Limited should be treated as:

- (a) Capital Expenditure
- (b) Deferred Revenue Expenditure
- (c) Partly Revenue Expenditure and Partly Capital Expenditure

(d) Revenue Expenditure

39.3 In books of accounts of Very Composed Private Limited, building should be treated as:

- (a) Depreciating Tangible Fixed Asset
- (b) Non-Depreciating Tangible Fixed Asset
- (c) Depreciating Intangible Fixed Asset
- (d) Non-Depreciating Intangible Fixed Asset

39.4 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

39.5 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

39.1	39.2	39.3	39.4	39.5
(b)	(d)	(a)	(c)	(d)

40. Vyom is a CA student who has just enrolled for his articleship 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.

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:-

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.

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.

40.1 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 | (c) Existence |
| (b) Valuation | (d) Rights & Obligations. |

40.2 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:

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

40.3 Relating and tallying information obtained from audit evidence internally and externally is an example of evidences as observed in the above case.

- | | |
|-------------------|-------------------|
| (a) Corroborative | (c) Contrasting |
| (b) Supplementary | (d) Contradictory |

40.4 Which assertion would Vyom find to be common among Income Statement and Balance Sheet.

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

40.5 Sufficiency of the Audit Evidence collected as per the above case is referred to by CA Kumar as of Audit Evidence?

- (a) Quality (c) Source
(b) Quantum (d) Form

40.1	40.2	40.3	40.4	40.5
(d)	(a)	(d)	(c)	(b)

*C.S – Case Scenario





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