

# CA INTER ICAI MCQs

## Case Study Based MCQ's

### Case Scenario 1

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

Sunlight Ltd. is a company engaged in the manufacture of solar panels. It is one of the largest solar panel manufacturing companies in India. With over a decade of experience, the company has implemented projects across the length and breadth of the country in both commercial and residential sectors. For the F.Y. 2023-24, Singhania & Co., an LLP of Chartered Accountants was appointed as the statutory auditors of the company. The audit work for the F.Y. 2023-24 is on the verge of completion.

During the audit, one of the audit team members, Mr. Rishab, was asked by the engagement partner, to verify the ownership assertion of the inventories held by the company. To verify such assertion, Mr. Rishab asked the concerned official of the company to make arrangements for the attendance of the audit team at the physical inventory count being conducted by the company. Mr. Rishab was of the view that only by attending the physical inventory count, the ownership assertion with respect to inventory of the company can be checked. He discussed his view with another audit team member Ms. Soni who had a different point of view for such situation. According to her, the correct course of action in this regard is that Mr. Rishab should verify the purchase requisition, purchase order, receiving reports, vendor invoices, inventory records, payment file etc. as ownership assertion cannot be verified by attending the physical inventory count only.

Further, while verifying the creditors and purchases balances, Ms. Soni decided to check the creditors balance on sample basis with a sample size of 50 creditors as she was satisfied with the Internal Control Procedures applied for the same. She asked the management to provide the list of all the 550 creditors. For deciding the sample, she took the sampling interval of every 11th creditor balance and in this way created a sample size of 50 creditors balance for the purpose of audit.

During the audit, while verifying the share capital balance of the company, Mr. Rishab and Ms. Soni noticed that there has been no change in the share capital raised by the company. Ms. Soni was of the view that since there has been no change in the share capital of the company, the audit team is not required to obtain any evidence with

respect to the share capital balance. However, Mr. Rishab opined that they should obtain audit evidence even if there is no change in the company's capital structure during the year. According to him such evidence can be a written confirmation from the accounts manager.

Before finalising the audit report, the Engagement Partner asked Mr. Rishab to coordinate with the client for requesting written representation from the management of the company with respect to the management responsibilities and information provided by the management. Mr. Rishab did not accept the representation given by the management as the same contained a qualifying language to the effect that representations are made to the best of its knowledge and belief, which according to Mr. Rishab was not reasonable to accept.

Since the engagement partner was about to finalise and sign the audit report, Mr. Rishab and Ms. Soni were discussing the various requirements of assembly of the final audit file and the changes that can be made in the audit documentation during the final assembly process. According to Ms. Soni only changes of administrative nature can be made, like deleting superseded documentation, sorting, collating and cross-referencing working papers and changes like recalculation of depreciation etc. should not be made during such final assembly process.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) While verifying the inventory as asked by the engagement partner, which specific assertion can be best verified by following the specific audit procedure considered appropriate by Mr. Rishab?
  - a) Rights and Obligations.
  - b) Existence and condition.
  - c) Valuation.
  - d) Presentation & Disclosure.
  
- 2) While selecting the sample for verification of creditors, which method of sampling has been applied by Ms. Soni?
  - a) Stratified sampling.
  - b) Haphazard sampling.
  - c) Systematic sampling.
  - d) Simple random sampling.

- 3) What is the best course of action to be taken by Mr. Rishab for verifying the assertion with respect to the inventory of the company, as asked by the engagement partner?
- a) Mr. Rishab should attend the physical inventory count as the only audit procedure.
  - b) Mr. Rishab should agree with Ms. Soni and follow the course of action as suggested by her.
  - c) Mr. Rishab should ask the management to provide a written representation in this regard as it is a sufficient and appropriate audit evidence.
  - d) Mr. Rishab should perform test count and inspection while attending the physical inventory count to verify the assertion as requested by the engagement partner.
- 4) With respect to verification of the share capital balance of the company, which of the following is the most appropriate?
- a) The point of view of Ms. Soni is correct.
  - b) The point of view of Mr. Rishab is correct.
  - c) The point of view of Mr. Rishab is partly correct as written confirmation should be obtained from the Company Secretary.
  - d) The point of view of Ms. Soni is partly correct as no evidence is required to be obtained if the same audit firm has conducted the audit of the previous year thereby verifying the closing balance of share capital in the previous year, which becomes the opening balance of the share capital for the year under audit.
- 5) Whether non-acceptance of the written representation by Mr. Rishab is correct?
- a) The non-acceptance of written representation by Mr. Rishab is not correct as the management of the company has the sole discretion to decide as to which language is used or what limitations are imposed in the written representation provided to the auditor.
  - b) The non-acceptance of written representation by Mr. Rishab is correct as it is not reasonable for the auditor to accept any qualifying language in the written representations given by the management.
  - c) The non-acceptance of written representation by Mr. Rishab is correct as SA 580 requires the auditor to accept the written representation only if it is in the language as used in the letter of audit engagement.
  - d) The non-acceptance of written representation by Mr. Rishab is not correct as it is reasonable for the auditor to accept such qualifying language if the auditor is satisfied

that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

- 6) Whether the view of Ms. Soni regarding assembly of the final audit file is correct?
- a) View of Ms. Soni is not correct as changes which are administrative in nature, cannot be made in the audit documentation during the final assembly process.
  - b) View of Ms. Soni is correct.
  - c) View of Ms. Soni is not correct as changes in the form of recalculation of depreciation amount can be made in the audit documentation during the final assembly process.
  - d) View of Ms. Soni is partly correct as during the final assembly process changes like deleting superseded documents cannot be made.

**Answers to Case Study:**

- 1) **Option (b)** Existence and condition.

**Reason:** As per SA 501, by attending the physical inventory count conducted by the client organisation, the auditor can verify the existence and conditions with respect to the inventory of the company.

- 2) **Option (c)** Systematic sampling.

**Reason:** Interval Sampling or Systematic Sampling is a selection method in which the number of sampling units in the population is divided by the sample size to give a sampling interval.

- 3) **Option (b)** Mr. Rishab should agree to Ms. Soni and follow the course of action as suggested by her.

**Reason:** For verifying the ownership assertion i.e. rights of the entity over the inventory, the auditor should verify the purchase requisition, purchase order, receiving reports, vendor invoices, inventory records, payment file etc. Only by attending the physical inventory count, the auditor can verify the existence assertion and not the ownership assertion.

- 4) **Option (c)** The point of view of Mr. Rishab is partly correct as written confirmation should be obtained from the company secretary.

**Reason:** In case there is no change in the share capital during the year, auditor should obtain a written confirmation/ representation from the Company Secretary that there were no changes to entity's capital structure during the year.

**5) Option (d)** The non acceptance of written representation by Mr. Rishab is not correct as it is reasonable for the auditor to accept such qualifying language if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

**Reason:** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

**6) Option (b)** View of Ms. Soni is correct.

**Reason:** As per SA 230, changes may be made to the audit documentation during the final assembly process, if they are administrative in nature. Examples of such changes include deleting or discarding superseded documentation, sorting, collating and cross-referencing working papers, changes like recalculation of depreciation cannot be made at such stage.

## Case Scenario 2

(ICAI MCQ Booklet) / (RTP-May 25)

Aditya & Co. LLP are the statutory auditors of Benuka Furniture Ltd., a company engaged in the manufacture of wide range of office furniture that suits various workspaces ranging from home offices to corporate environments. The audit team is headed by CA Aditya, being the engagement partner who is further assisted by 2 articled assistants namely Rohit and Mudit. Before starting the audit work of the company, CA Aditya briefed the engagement team about the client's business, the various audit procedures the team can perform and the Standard on Auditing that the team needs to be complied with while conducting the audit of this company. While such discussions were going on, Mudit showed no inclination towards understanding the business and business environment of the company. He was of the view that as a member of the audit team he needs to

obtain an understanding about the audit procedures to be performed during the course of audit and not about the client's business.

Rohit was asked by CA Aditya to verify the trade receivables, loan and advances given by the company, amounting to ₹ 20 crore and ₹ 20 lakhs respectively. Rohit asked the concerned official of the company to provide him with the ageing of trade receivables. Rohit decided to send confirmation requests to debtors having balance as on the balance sheet date exceeding ₹ 5 lakhs. He further decided to request to the third party in the request letters to reply positively whether the balance in their books tallies with the balance mentioned in the request letters. Also, while verifying the balance of loans and advances given by the company, Rohit selected the sample for checking without following any structured approach though he made sure to avoid any conscious biasness or predictability. Thus, he made sure that all the individual balances constituting the total of loans and advances given by the company had a chance of selection.

While checking the balances of fixed assets, Mudit asked the concerned employee of the company to provide him with various documents related to all the fixed assets appearing as on the balance sheet date. He asked for the title deeds with respect to the building owned by the company and the purchase bills for assets purchased by the company. While asking for such documents from the client company, Mudit was of the view that as a member of the audit team he can force the employee of the company to provide him with the required documents.

Further with respect to the inventory of the company, Mudit performed the audit procedures to verify that any inventory balance as at the year end does not include any element of next financial year.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Whether the view of Mudit regarding obtaining understanding of the client business is correct?
  - a) The view of Mudit is correct because as a member of the audit team, he needs an understanding only about the audit procedures to be performed by him.
  - b) The view of Mudit is not correct because while conducting an audit, the understanding of business and business environment of the client whose audit is to be conducted is very important.
  - c) The view of Mudit is partially correct because such understanding is required only for the engagement partner and not be the members of the audit team.

- d) The view of Mudit is not correct because such information forms a crucial part of the audit report to be issued at the end of the audit process.
- 2) Which type of confirmation requests Rohit decided to send the debtors for verification of balances of trade receivables?
- Negative confirmation.
  - Positive confirmation.
  - Exception letter.
  - Written Representation.
- 3) Which sample selection methods has been opted by Rohit while verifying the loans and advances given by the company?
- Interval Sampling.
  - Block Sampling.
  - Haphazard Sampling.
  - Monetary Unit Sampling.
- 4) While verifying the inventory of the client company, which assertion is being verified by Mudit?
- Cut-off assertion.
  - Valuation assertion.
  - Presentation & Disclosure assertion.
  - Rights & Obligations assertion.
- 5) With respect to fixed assets, which assertion does Mudit want to check?
- Valuation assertion.
  - Presentation and Disclosure assertion.
  - Rights and obligations assertion.
  - Existence assertion.



**Answers to Case Study:**

- 1) **Option (b)** The view of Mudit is not correct because while conducting an audit, the understanding of business and business environment of the client whose audit is to be conducted is very important.

**Reason:** As per SA 315 understanding the entity and the environment in which it operates is very significant. It helps the auditor in planning the audit and in identifying areas requiring special attention. Gaining knowledge about client's business is one of the important principles in developing an overall audit plan. In fact, without adequate knowledge of client's business, a proper audit is not possible.

- 2) **Option (b)** Positive confirmation

**Reason:** As per SA 505, "External Confirmations", positive confirmation request is a request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

- 3) **Option (c)** Haphazard Sampling

**Reason:** Haphazard sampling has no structured approach, does not involve judgement and does not even use the random number tables.

- 4) **Option (a)** Cut Off assertion

**Reason:** While verifying the Cut off assertion with respect to balance sheet caption, the auditor verifies as to whether all assets and liabilities are reported in the appropriate period. For example, for inventory, auditor will verify whether inventory balance as at the year- end does not include any element of next financial year.

- 5) **Option (c)** Rights and obligations assertion

**Reason:** While checking the rights and obligations assertion with respect to assets the auditor will verify whether entity has the right to assets i.e. (whether the entity has ownership and legal title to assets) as at a given date.

### Case Scenario 3

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

Nath Shah & Associates is a firm of Chartered Accountants practicing in Delhi. The firm consists of two partners namely, CA Ajay Nath and CA Ria Shah. The Statutory audit team is generally headed by CA Ajay Nath and his team consists of three articled assistants and one qualified Chartered Accountant, CA Reshu. With respect to the audit work of 4 clients for which the audit team intends to start the audit work, CA Ajay discussed with the team members about the development of audit programmes for individual clients. One of the articled assistants, Mr. Sumit, was of the view that one single audit programme can be developed for all the 4 clients operating in different industries.

With respect to one of the clients namely, Saraswati Ltd., a labour intensive company, CA Ajay asked CA Reshu to compare the amount of wages paid by the company in the current year and last year. Also, she was asked to verify the relationship between the number of employees and wages paid in both the years by the company.

The audit firm started the audit of another client, namely, Sarthak Ltd. having maximum transactions in foreign currency. CA Ajay asked one of the team members, Mr. Rahul, to verify whether the calculations related to conversion of the foreign currency into local currency is proper or not.

While verifying the share issue transactions of one client, namely, Laxman Ltd., CA Reshu found that the company has issued sweat equity shares during the year under audit. She asked one of the articled assistants, Mr. Saurabh, to further verify whether the relevant provisions of the Companies Act 2013, have been complied by the company in this regard. Also, with respect to Sarthak Ltd., there was reduction of share capital during the year. Mr. Saurabh was asked by the engagement partner to verify the compliance of relevant provisions of the Companies Act, 2013 in this regard also. Mr. Saurabh was of the view that there is requirement of passing of Special Resolution by the respective company for both.

While starting the audit work of another client, Rintex Ltd., the audit team noticed that the company has its internal audit team. Mr. Sumit was of the view that the statutory audit team can use and rely on the work of the Internal Auditors of the company and as such there is no requirement for the statutory audit team to perform

audit procedures again as the internal audit team must have verified the financial transactions of the company in detail. Further, while verifying the expenses ledger, Mr. Sumit noticed that the company has implemented a system whereby the entries related to expenses incurred during the year can be entered into the accounting system by authorised personnels only. However, with respect to travelling expenses which constituted about 30% of the total expenses, the entries were made by employees who were not authorised to make such entries.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Is the view of Mr. Sumit with respect to the development of audit programme correct?
  - a) Yes, the view of Mr. Sumit is correct as developing one audit programme for all the clients will avoid duplication of efforts of audit team.
  - b) No, the view of Mr. Sumit is not correct as all the four clients operate in different industries and evolving one audit programme for all businesses is not practicable.
  - c) Yes, the view of Mr. Sumit is correct as development of audit programme is not affected by the nature of client business.
  - d) No, the view of Mr. Sumit is not correct as development of audit programme is not the responsibility of the audit team. The individual clients will develop their respective audit programmes.
  
- 2) With respect to Saraswati Ltd., Ms. Reshu was asked by CA Ajay to perform which kind of audit procedures?
  - a) Substantive Analytical Procedures.
  - b) Test of details.
  - c) Test of transactions.
  - d) Test of Controls.
  
- 3) Whether understanding of Mr. Saurabh regarding the passing of Special Resolution is correct?
  - a) The understanding of Mr. Saurabh is partly correct as ordinary resolution is required in case of issue of sweat equity shares by the company though special resolution is required to be passed by the company in case of reduction of share capital.

- b) The understanding of Mr. Saurabh is partly correct as special resolution is required in case of issue of sweat equity shares by the company though ordinary resolution is required to be passed by the company in case of reduction of share capital.
  - c) The understanding of Mr. Saurabh is correct as special resolution is required in case of issue of sweat equity shares by the company and reduction of share capital.
  - d) The understanding of Mr. Saurabh is not correct as ordinary resolution is required in case of issue of sweat equity shares by the company as well as in case of reduction of share capital.
- 4) Is the view of Mr. Sumit correct with respect to using and relying on the work of the Internal Audit team of Rintex Ltd.?
- a) Yes, the view of Mr. Sumit is correct.
  - b) No, the view of Mr. Sumit is not correct as the statutory audit team cannot use the work of the internal audit team of the client company.
  - c) No, the view of Mr. Sumit is not correct as the statutory auditor has the sole responsibility for the audit opinion expressed.
  - d) The view of Mr. Sumit is partly correct as the statutory audit team can use and rely on the work of the internal audit team if the same is agreed while signing the engagement letter.
- 5) Which kind of risk is noticed by Mr. Sumit with respect to entries related to travelling expenses entered into the accounting system of Rintex Ltd.?
- a) Inherent Risk.
  - b) Detection Risk.
  - c) Control Risk.
  - d) No risk is being noticed.

### **Answers to Case Study:**

- 1) **Option (b)** No, the view of Mr. Sumit is not correct as all the four clients operate in different industries and evolving one audit programme for all businesses is not practicable.
- Reason:** Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that

vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable.

**2) Option (a) Substantive Analytical Procedures.**

**Reason:** The term analytical procedures means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. One of the examples of analytical procedures is comparing the entity's financial information with the information pertaining to prior periods.

**3) Option (c) The understanding of Mr. Saurabh is correct as Special Resolution is required in case of issue of sweat equity shares by the company and reduction of share capital.**

**Reason:** As per Section 54 of the Companies Act, 2013, the issue of sweat equity shares should be authorised by a Special Resolution passed by the company. Also, as per requirements of section 66 which deals with reduction of share capital, Special Resolution is required in case of reduction of share capital by the company.

**4) Option (c) No, the view of Mr. Sumit is not correct as the statutory auditor has the sole responsibility for the audit opinion expressed.**

**Reason:** As per SA 610, the external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement.

**5) Option (c) Control Risk.**

**Reason:** In accordance with SA 200, control risk is the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

## Case Scenario 4

(ICAI MCQ Booklet) (Model Test Paper-5) / (MTP-II Aug., 24)

DLP & Associates, a firm of Chartered Accountants, are in midst of conducting audit of Twist and Spin Limited. The company is in the business since last 15 years and have appointed DPL & Associates as their auditor for the first time for a term of 5 years beginning from financial year 2023-24. While identifying and assessing the risk of material misstatement at assertion level, the engagement team had assessed risk of material misstatement for revenues and trade receivables to be high.

The team is considering to send negative confirmation requests as sole substantive procedure to some business entities representing trade receivables appearing in the financial statements of the company. The company had made sales to these business entities in January, 2024. Such business entities are few and have quite large balances as on 31st March, 2024. However, team members are not on the same page regarding sending negative confirmation requests.

Besides considering sending confirmation requests, the engagement team has planned certain audit procedures pertaining to trade receivables. These procedures include:

- 1) Verification of invoices issued during the last 7 days of financial year 2023-24 to verify that goods have been despatched by the company.
- 2) Selection of a few invoices from the ageing report of the month March 2024 for verification of correctness of the billed amounts, to correct customers and on correct dates.
- 3) Preparation of schedule of movement of bad debts.
- 4) Review of the process of providing discounts to ensure that it is in accordance with company policy.

Another junior team member, S, observed that "Share Options Outstanding Account" reflected in the financial statements of the company. He started searching classification requirements of Schedule III of the Companies Act, 2013 in this regard.

The engagement team wants to ensure that only the inventories held by the company have been recorded in the financial statements and do not include any inventories belonging to third parties. They are keen to verify completeness assertion for inventories. The team has planned the following audit procedures in this respect: -

- 1) Comparison of inventory turnover ratio of current period with previous years;
- 2) Vertical analysis of current period with previous years;

- 3) Comparison of budgetary expectations vis-à-vis actuals;
- 4) Performing purchase and sales cut-off tests.

During the course of audit, R, a team member concluded that company has followed a particular accounting policy for revenue recognition during year 2023-24 which is in accordance with Accounting Standards and applicable financial reporting framework, but it was not consistently applied in preceding period having an impact upon opening balances of trade receivables of current year 2023-24. R is confused regarding the possible implications on auditor's report on this issue.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) The engagement team members are not able to take decision on sending negative confirmation requests to some entities described in case scenario. Which of the following statements is in accordance with Standards on Auditing?
  - a) It would be appropriate for engagement team to send negative confirmation requests to these business entities.
  - b) It would be inappropriate for engagement team to send negative confirmation requests to these business entities.
  - c) Sending negative confirmation requests depends upon auditor's professional judgment and Standards on Auditing do not spell out any confirmation requirements in this respect.
  - d) Business entities are more likely to respond in case of disagreement. Therefore, sending negative confirmation requests always provides better qualitative audit evidence as compared to other confirmation modes.
- 2) Which of the planned audit procedure(s) pertaining to trade receivables described in case scenario is/are not related to verification of "Completeness assertion"?
  - a) 2 only.
  - b) 2 and 3.
  - c) 3 only.
  - d) 1 and 3.
- 3) Guide team member S by selecting the correct option with respect to "Share Options Outstanding Account":
  - a) It is required to be classified under head "Current liabilities".
  - b) It is required to be classified under Shareholder funds under "Share Capital". Further, it is to be classified separately under "Paid up Share Capital".

- c) It is required to be classified under Shareholder funds under "Reserves & Surplus". Further, it is to be classified separately as such under "Reserves & Surplus".
  - d) It is required to be classified under Shareholder funds under "Reserves & Surplus". However, it is shown as part of Capital Reserve. No Separate disclosure is mandated under Schedule III of the Companies Act, 2013.
- 4) Which of the planned audit procedures in relation to the inventories described in the case scenario is/are not in nature of analytical procedure(s)?
- a) 2 and 3.
  - b) 3 only.
  - c) 2 and 4.
  - d) 4 only.

#### Answers to Case Study:

- 1) **Option (b)** It would be inappropriate for engagement team to send negative confirmation requests to these business entities.

**Reason:** As per SA 505, "External Confirmations", the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present:

- i) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
- ii) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
- iii) A very low exception rate is expected; and
- iv) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

In the given case, aforementioned conditions are not present.

- 2) **Option (c)** 3 only.

**Reason:** Preparation of the schedule of movement of bad debts is pertaining to valuation assertion and all other procedures are related to completeness assertion.



3) **Option (c)** It is required to be classified under Shareholder Funds under "Reserves & Surplus". Further, it is to be classified separately as such under "Reserves & Surplus".

**Reason:** Share Options Outstanding Account is required to be classified under "Reserve & Surplus" separately in accordance with requirements of Schedule III.

4) **Option (d)** 4 only.

**Reason:** Purchase and sales cut-off tests are not in the nature of analytical procedures.

## Case Scenario 5

(ICAI MCQ Booklet) / (Model Test Paper-7) / (MTP-II Dec., 24)

Oval Services Ltd. appointed Rupa & Associates as the auditors for the financial year 2023-24. The auditors believe that an audit program is crucial in providing clear and comprehensive instructions for the tasks to be carried out, offering a total perspective of the work involved. This is particularly important for large audits, and as such, they prepared an initial audit program based on the company's organisational structure and effective internal controls. During the audit, CA Nitin, Engagement Partner identified issues with the company's debt management practices, prompting the inclusion of a more detailed review of the loan agreements. However, in his opinion the planned review of petty cash was unnecessary due to the company's policy of limiting cash transactions. Thus, review procedure was removed from the audit programme.

To verify the balances of trade payables, the auditor decided to send external confirmation requests to the creditors of the company. These requests were made to verify the balances as on 20th March, 2024, a date chosen deliberately to ensure the accuracy and completeness of the liabilities, free from any influence or prior knowledge of management. This approach was taken to maintain the integrity of the confirmation process. However, it was noted that M/s. Keshav Traders and M/s. Amrit Distributors did not respond to the confirmation requests.

Furthermore, the auditor noted that in the financial year 2023-24, the company's Property, Plant, and Equipment (PPE) was revalued, resulting in an increase of 5% in the net carrying value of its machinery from ₹ 10 lakh to ₹ 10.5 lakh.

Also, due to the significant compliance burden, company is considering to convert into a Limited Liability Partnership (LLP). Management views the LLP structure as a hybrid

business model that combines the advantages of both companies and partnerships. Additionally, they believe this conversion would relieve them from mandatory audit requirements.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Whether audit team is correct in excluding the planned review of petty cash from the audit programme?
  - a) No, as the audit programme should always include a petty cash review, regardless of company policy.
  - b) Yes, as the company's internal controls and policy of limiting cash transactions reduce the need for a petty cash review in the audit programme.
  - c) No, as the audit programme must cover all the areas of financial transactions, including petty cash, to ensure comprehensive auditing.
  - d) Yes, as the audit programme should only focus on areas with high financial risk, and petty cash is not a high-risk area.
  
- 2) Whether the decision of auditor to send the confirmation request to the creditors of the company as on 20<sup>th</sup> March, 2024 justified?
  - a) Yes, decision of the auditor is correct as the auditor is allowed to choose any date reasonably close to the balance sheet date for confirmation, and the selected date helps to ensure the accuracy of the liabilities without consultation from the management.
  - b) No, decision of the auditor is not correct as the auditor should have sent the confirmation requests for the balance sheet date as this would accurately reflect the liabilities as on that date.
  - c) Yes, decision of the auditor is correct as the auditor is allowed to choose any date which is reasonably close to the balance sheet date for confirmation, and the selected date should be decided in consultation with the management.
  - d) No, decision of the auditor is not correct as confirmation should be asked within a week of the date of audit report.
  
- 3) Which of the following is not an appropriate procedure to verify the balances for M/s. Keshav Traders and M/s. Amrit Distributors?
  - a) Breaking down the balance into individual transactions and making sure they actually happened.

- b) Checking payments made after the year-end to vendors who didn't respond to confirmation requests.
  - c) Comparing the balance to the original invoices from the vendors.
  - d) Request a written representation from management confirming that all payables are accurately recorded and complete.
- 4) In the given case, is there any requirement for separate disclosure of the PPE revaluation?
- a) Yes, separate disclosure is required due to the 5% increase in carrying value.
  - b) No, separate disclosure is not required as the change in carrying value is less than 10%.
  - c) Yes, separate disclosure is required regardless of the percentage change.
  - d) No, separate disclosure is not required unless the revaluation results in a material change in the carrying value.
- 5) What is your perspective on the management's view regarding the audit requirements for an LLP?
- a) An LLP is always required to conduct an audit, regardless of its turnover or capital contribution.
  - b) An LLP is always required to conduct an audit if either the turnover exceeds ₹ 40 lakhs or the capital contribution exceeds ₹ 25 lakhs.
  - c) An LLP is always required to conduct an audit if either the turnover exceeds ₹ 25 lakhs or the capital contribution exceeds ₹ 40 lakhs.
  - d) An LLP is always required to conduct an audit if the capital contribution exceeds ₹ 25 lakhs and the turnover exceeds ₹ 40 lakhs.

### Answers to Case Study:

- 1) **Option (b)** Yes, as the company's internal controls and policy of limiting cash transactions reduce the need for a petty cash review in the audit programme.

**Reason:** To start with, an auditor having regard to the nature, size and composition of the business and the dependability of the internal control and the given scope of work, should frame a programme which should aim at providing for a minimum essential work which may be termed as a standard programme. As experience is gained by actually carrying out the work, the programme may be altered to take care of situations which were left out originally

but are found relevant for the particular concern. Similarly, if any work originally provided for proves beyond doubt to be unnecessary or irrelevant, it may be dropped.

- 2) **Option (c)** Yes, decision of the auditor is correct as the auditor is allowed to choose any date which is reasonably close to the balance sheet date for confirmation, and the selected date should be decided in consultation with the management.

**Reason:** The trade creditors may be requested to confirm the balances either (a) as at the date of the balance sheet, or (b) as at any other selected date which is reasonably close to the date of the balance sheet. The date should be decided by the auditor in consultation with the Company.

- 3) **Option (d)** Request a written representation from management confirming that all payables are accurately recorded and complete.

**Reason:** Where no reply is received, the auditor should perform additional testing regarding the balances. This testing could include:

- Testing of subsequent payments in respect of the trade payables to whom confirmations were rolled out but no replies received;
- Agreeing the details of the respective balance to the underlying vendor invoices;
- Preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these purchases/ expense transactions actually occurred.

- 4) **Option (b)** No, separate disclosure is not required as the change in carrying value is less than 10%.

**Reason:** A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

- 5) **Option (b)** An LLP is always required to conduct an audit if either the turnover exceeds ₹ 40 lakhs or the capital contribution exceeds ₹ 25 lakhs.

**Reason:** The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009. Such rules, inter-alia provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty-five lakh rupees, is not required to get its accounts audited.

## Case Scenario 6

(ICAI MCQ Booklet) / (Model Test Paper-7) / (MTP-II Dec., 24)

Shreyansh, a Chartered Accountancy student, is part of an engagement team conducting audit of the Coimbatore branch of XYZ Bank under the guidance of CA Dilip, the Engagement Partner. Shreyansh has been assigned the task of verifying provisions made for the branch's non-performing assets (NPAs) and classification of certain loans as on March 31, 2024, of which details are as under:

**Non-Performing Assets (NPAs):**

Name of Account	NPA classification	Outstanding amount as on March 31 <sup>st</sup> , 2024 (In ₹ lakhs)	Amount of provision made (In ₹ lakhs)	Security Available
AB Industries	Doubtful (D1)	10.00	5.00	Fully secured
Mars Traders	Substandard asset	50.00	7.50	Fully secured
RS Enterprises	Doubtful (D2)	30.00	30.00	Fully secured
NPS & Sons	Loss	1.00	1.00	Only personal guarantee of proprietor (Net worth ₹ 50 lakhs)

### Housing Loan and Car Loan

A borrower Mr. Shyam has availed following two loans from the branch:

♦ Housing Loan: EMIs are overdue for 120 days as on March 31, 2024.

♦ Car Loan: EMIs are overdue for 60 days as on March 31, 2024.

**Agricultural Advances**

The branch has provided a loan of ₹20 lakhs under the Kisan Credit Card (KCC) scheme to a farmer for the cultivation of paddy, which has a harvest period of 3–4 months. There has been no transaction in the account for the last 90 days. The branch has classified the loan as a Standard Asset.

CA Dilip has clarified that the NPA classification has been verified and is in accordance with RBI guidelines. He instructed Shreyansh to focus on evaluating the adequacy of the provisions, considering RBI Guidelines mandate specific percentages for provisioning based on the NPA classification and the nature of the security.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Is the provision made for AB Industries (Doubtful—D1) appropriate?
  - a) Yes, as it exceeds the required 25% provisioning for secured assets.
  - b) No, as it should be 40% of the outstanding amount.
  - c) No, as the required provision is ₹ 2.50 lakhs (25% of ₹ 10.00 lakhs).
  - d) Yes, as provisions for Doubtful assets can exceed the minimum requirement.
- 2) Considering the Housing Loan and Car Loan availed by the borrower Shyam, which of the following statements is appropriate?
  - a) Both Housing Loan and Car Loan should be classified as "Non-Performing Assets" in accordance with RBI norms on asset classification.
  - b) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms. However, Car Loan should be classified as Standard Asset.
  - c) Car Loan should be classified as "Non-Performing Asset." However, Housing Loan should be classified as Standard Asset.
  - d) Both Housing Loan and Car Loan should be classified as Standard Assets.
- 3) What is the minimum provision required for RS Enterprises (Doubtful—D2), considering the account is fully secured?
  - a) ₹ 30.00 lakhs.
  - b) ₹ 12.00 lakhs.
  - c) ₹ 15.00 lakhs.
  - d) ₹ 25.00 lakhs.

- 4) As regards the description of the agricultural advance under Kisan Credit Card, which of the following statements is most appropriate?
- a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset.
  - b) The classification made by the branch is proper. However, since there are no transactions in the account for 90 days, it is an SMA (Special Mention Account).
  - c) The classification made by the branch is proper.
  - d) The branch has erred in making classification as per RBI norms. It is a "Doubtful" asset.

**Answers to Case Study:**

- 1) **Option (c)** No, as the required provision is ₹ 2.50 lakhs (25% of ₹ 10.00 lakhs).  
**Reason:** Provision required for Doubtful assets up to 1 Year is 25% of secured amount.
- 2) **Option (a)** Both Housing Loan and Car Loan should be classified as "Non-Performing Assets" in accordance with RBI norms on asset classification.  
**Reason:** Car loan and Housing Loan both would be treated as an NPA because the NPA classification is Borrower wise and not Facility wise.
- 3) **Option (b)** ₹ 12.00 lakhs.  
**Reason:** Doubtful (D2) category requires provision of 40% of secured amount.
- 4) **Option (c)**

## Case Scenario 7

(ICAI MCQ Booklet) / (Model Test Paper-7) / (MTP-II Dec., 24)

M/s MCP Associates are having 3 partners namely CA Mahavir, CA Chandana and CA Prabha. CA Mahavir is about to conclude audit of a company. During the audit, he noticed that there is a shortage of important raw material supplies being imported from China due to prevailing geopolitical situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate. He also verified that all subsequent events have been accounted for and requested written representations from management, although the representations include qualifying language. Significant findings were communicated both orally and in writing to those charged with governance, with relevant communications documented.

CA Chandana is conducting an audit of a manufacturing company dealing in towels and bedspreads. The company's inventory is spread across its own locations and third-party premises. As part of audit procedures, she is performing many audit procedures required under different Standards on Auditing. She attends the physical inventory count, sends confirmation requests for trade receivables, and assesses controls. She relies on sampling extensively while auditing transactions, balances, and controls.

CA Prabha is auditing a firm's financial statements and performs detailed procedures to verify assertions. The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms. She checks classification of expenses, ensures trade payables are genuine, compares current and past wages, examines title deeds for land, and check the accuracy of calculation of the conversion of foreign currency into Indian rupees for export invoices.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the following best describes CA Mahavir's responsibility for subsequent events as per SA 560?
  - a) He has no obligation to perform audit procedures for events occurring between date of financial statements and date of auditor's report.



- b) He should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.
  - c) He has no obligation to perform audit procedures after signing of auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.
  - d) He has to only rely upon written representation of management regarding subsequent events. He has no other means to know about such events.
- 2) Which is the most appropriate action CA Chandana should take for verifying inventories held at third-party premises?
- a) Request confirmation of the inventory's quantity and condition from third parties or inspect the inventory at their premises.
  - b) Inspect all inventories at third-party premises without requesting confirmation.
  - c) Rely on management's written representation regarding inventories at third-party locations.
  - d) Confirm the inventory's value along with its quantity and condition from third parties.
- 3) Which audit procedure CA Prabha performed to verify whether conversion of foreign currency into Indian rupees is proper or not?
- a) Inspection.
  - b) Recalculation.
  - c) Observation.
  - d) Reperformance.

**Answers to Case Study:**

- 1) **Option (b)** He should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.  
**Reason:** As per SA 560, "Subsequent Events", events occurring between the date of the financial statements and the date of the auditor's report and facts that become known to the auditor after the date of the auditor's report are known as subsequent events.
- 2) **Option (a)** Request confirmation of the inventory's quantity and condition from third parties or inspect the inventory at their premises.

**Reason:** When inventory under the custody and control of a third party is material to the financial statements, the auditor shall request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.

**3) Option (b) Recalculation.**

**Reason:** Recalculation consists of checking the mathematical accuracy of documents or records. It may be performed manually or electronically.

### Case Scenario 8

(ICAI MCQ Booklet) / (Model Test Paper-6) / (MTP-I Nov., 24)

While auditing ANJ Industries Private Limited, CA J has decided that it would be appropriate to examine 100% of the items comprising turnover of ₹ 30 crores as reflected in its financial statements. For these transactions, he has designed tests of details. The sales function is automated in the company's information system involving repetitive nature of calculations. Further, in respect of designing of tests of controls pertaining to turnover, he is in a fix.

While verifying turnover of the company, CA J ensures that all the sales are correctly recorded in the books of accounts and discounts have been properly adjusted based on invoices. Similarly, in respect of verification of employee benefit expenses reflected in the financial statements, he ensured that TDS related adjustments are correctly reconciled and accounted for.

Ankush, a newly joined articled assistant under CA J, is also a part of the team assisting seniors. Although he has read about assertions, there remain several doubts about assertions in his mind. He noted down the following points about assertions as per his understanding:

1. Assertions are the representations made by the auditors.
2. Assertions are generally explicit and not implicit.
3. Verification of the assertions helps the auditor in finding out whether financial statements are in accordance with applicable financial reporting framework or not.

In normal course of business, the company also holds a part of goods as a consignee. While verifying assertions relating to inventories, he ensures that inventory held by the company as consignee of goods on behalf of third parties is excluded from inventories.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Based on CA J's approach in designing tests of details and tests of controls for sales, which of the following statements is the most appropriate?
  - a) The approach for both designing tests of details and tests of controls is proper.
  - b) The approach for designing tests of details is proper. However, it is an unlikely approach for tests of controls.
  - c) The approach for designing tests of controls is proper. However, it is an unlikely approach for tests of details.
  - d) The approach for designing tests of details as well as tests of controls is not proper.
  
- 2) Which assertion is CA J checking while verifying correctness of recording of sales based on invoices (including adjustment of discounts) and TDS adjustments for employee benefit expenses respectively?
  - a) Measurement, Measurement.
  - b) Completeness, Measurement.
  - c) Existence, Measurement.
  - d) Measurement, Completeness.
  
- 3) Considering the view of Ankush, which of the following(s) is/are false?
  - a) 1 and 2.
  - b) 1, 2 and 3.
  - c) 1 only.
  - d) 2 only.
  
- 4) As regards the matter of holding of certain inventories as consignee of goods, which type of assertion(s) is/are being verified by the auditor?
  - a) Cut-off and Valuation.
  - b) Completeness and Rights & Obligations.
  - c) Completeness only.
  - d) Rights & Obligations only.

**Answers to Case Study:**

- 1) **Option (b)** The approach for designing tests of details is proper. However, it is an unlikely approach for tests of controls.

**Reason:** The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details.

- 2) **Option (a)** Measurement, Measurement.

**Reason:** Transactions have been recorded accurately at their appropriate amounts in the financial statements are verified under 'Measurement' assertion. In the given case, the auditor is ensuring that sales are recorded correctly in the books on the basis of invoices and discounts have been properly adjusted or accounted for. In respect of employee benefit expenses, he is verifying that any adjustments such as tax deduction at source have been correctly reconciled and accounted for.

- 3) **Option (a)** 1 and 2.

**Reason:** Assertions are representations by management and not by auditor. The assertions are generally implied and not specifically spelt out. In representing that the financial statements are in accordance with the applicable financial reporting framework, management makes assertions, which are verified by auditor.

- 4) **Option (b)** Completeness and Rights & Obligations.

**Reason:** All assets, liabilities and equity balances that were supposed to be recorded have been recognised in the financial statements is covered under Completeness assertion. Further, entity has the right to assets i.e. (whether the entity has ownership and legal title to assets) is covered under Rights and Obligation Assertion. In the given case, the auditor ensures that the inventory held by the entity as a Consignee (on behalf of third party i.e. Consignor) is excluded and is covered under Completeness assertion. Whereas verification of the inventory held by the entity on behalf of another entity has not been recognised as part of inventory of the entity is Rights and obligation assertion.

## Case Scenario 9

(ICAI MCQ Booklet) / (Model Test Paper-6) / (MTP-I Nov., 24)

Revanth, Manohar and Piyush are planning to set up a new business of trading electronic goods. They have heard in business circles that many entrepreneurs are setting up their organisations as Limited Liability Partnerships (LLPs). However, they are least knowledgeable about such legal structures. In this regard, they have decided to approach CA S through a mutual contact.

They want to understand the difference between a partnership firm, an LLP and a private company as well as legal provisions regarding number of partners allowed in an LLP and the paperwork involved in forming an LLP.

Further, they also have doubts regarding maintenance of books of accounts and the audit requirement for such organisations. Revanth, being cost conscious, specifically asks CA S regarding requirement of audit of LLPs. During the discussion, he shares that they are expecting a turnover of ₹ 5 crores in the first year of their business and funds amounting to ₹ 50 lakhs would be brought by partners as their contribution.

Manohar is worried about the rules pertaining to the maintenance of accounts in a software having feature of audit trail. He has unambiguous idea of such rules to have become effective through social media handles. Additionally, he feels that such features are useful only for the auditors. CA S tries to brief them on these matters.

After resolving their doubts, they decided to constitute an LLP named Blitz Products LLP with the professional assistance of CA S, who helped them in completing the necessary paper formalities. After constituting an LLP, they shifted their energies towards running their business. They acquired dealerships of few reputed companies and received a good response from market due to prominent location of their showroom and are confident of achieving their turnover expectation within the first year of business.

They plan to get their accounts audited after closure of the financial year 2023-24 from CA S. The finance and accounts function of business is being seen by Piyush and he plans to contact him somewhere around August 2024 for getting audit of financial statements conducted, filing income tax return and making necessary regulatory compliances on behalf of LLP.

**Based on the above Case Scenario, answer the Multiple-Choice Questions:**

- 1) Which of the following is correct regarding the difference in types of organisational structures and connected matters?
- a) LLP gives the benefit of flexibility of limited liability of a partnership and good governance of a company. A minimum of two individuals are required to form an LLP and at least 2 partners are required to obtain DIN. The regulatory authority in the case of LLPs is the Registrar of firms of the respective state where the LLP is located.
  - b) LLP gives the benefit of limited liability of a company and flexibility of partnership. A minimum of two individuals are required to form an LLP and at least 2 partners are required to obtain DPIN. The regulatory authority in the case of LLPs is the Registrar of Companies (ROC).
  - c) LLP gives the benefits of limited liability of a company and flexibility of partnership. A minimum of two individuals are required to form an LLP and at least 2 partners are required to obtain DIN. The regulatory authority in the case of LLPs is the Registrar of Companies (ROC).
  - d) LLP gives the benefits of limited liability of a company and flexibility of partnership. A minimum of three individuals are required to form an LLP and at least 2 partners are required to obtain DPIN. The regulatory authority in the case of LLPs is the Registrar of Companies (ROC).
- 2) In the above case scenario, what guidance would CA S have likely provided to Revanth regarding audit of financial statements of LLP?
- a) There is no provision for compulsory audit of LLPs under the LLP Act, 2008 and relevant rules. However, partners may choose to get accounts audited due to advantages associated with an audit.
  - b) Every LLP is compulsorily required to get its accounts audited under the LLP Act, 2008 and relevant rules.
  - c) There exist provisions under the LLP Act, 2008 and relevant rules for audit of LLPs based upon twin criteria of turnover and contribution thresholds. However, the proposed business doesn't meet thresholds and would not be required to get its accounts audited.
  - d) There exist provisions under the LLP Act, 2008 and relevant rules for audit of LLPs based upon twin criteria of turnover and contribution thresholds. The proposed business meets thresholds and would be required to get its accounts audited.

- 3) Which of the following statement is correct regarding Manohar's point of view?
- a) Audit trails are useful only for auditors. However, maintenance of accounts in a software having feature of audit trail is not compulsory for LLPs.
  - b) Audit trails are useful for businesses as well as auditors. However, maintenance of accounts in a software having feature of audit trail is not compulsory for LLPs.
  - c) Audit trails are useful for businesses as well as auditors. Maintenance of accounts in a software having feature of audit trail is compulsory for LLPs.
  - d) Audit trails are useful for businesses as well as auditors. Maintenance of accounts in a software having feature of audit trail is compulsory for LLPs having certain turnover thresholds.
- 4) Which of the following statement is correct regarding Piyush's plan?
- a) Auditor is required to be appointed at least 30 days prior to March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
  - b) Auditor is required to be appointed at least 60 days prior to March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
  - c) Auditor is required to be appointed at any time before March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.
  - d) Piyush's plan is proper and there are no specific provisions for appointment of auditor of an LLP in accordance with relevant rules and regulations.
- 5) Considering Piyush's plan to contact CA S in August 2024 for making necessary regulatory compliances. What would be its consequences for LLP?
- a) Default by LLP in filing its annual return.
  - b) Default by LLP in filing its Statement of Account and Solvency.
  - c) Default by LLP in filing its annual return as well as Statement of Account and Solvency.
  - d) No default by LLP in making necessary compliances.

**Answers to Case Study:**

- 1) **Option (b)** LLP gives the benefit of limited liability of a company and flexibility of partnership. A minimum of two individuals are required to form an LLP and at least 2 partners are required to obtain DPIN. The regulatory authority in the case of LLPs is the Registrar of Companies (ROC).

**Reason:** LLP gives the benefits of limited liability of a company and flexibility of partnership. Minimum two persons are required to form an LLP. Further, at least 2 partners are required to take DPIN (Designated Partner Identification number). The regulatory authority in the case of LLPs is Registrar of Companies (ROC) and returns/forms are to be filed with ROC.

- 2) **Option (d)** There exist provisions under the LLP Act, 2008 and relevant rules for audit of LLPs based upon twin criteria of turnover and contribution thresholds. The proposed business meets thresholds and would be required to get its accounts audited.

**Reason:** The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009. Such rules, inter-alia, provides that any LLP, whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty-five lakh rupees, is not required to get its accounts audited. Other LLPs are required to get their accounts audited.

- 3) **Option (b)** Audit trails are useful for businesses as well as auditors. However, maintenance of accounts in a software having feature of audit trail is not compulsory for LLPs.

**Reason:** Audit trails (or audit logs) act as record-keepers that document evidence of certain events, procedures or operations, because their purpose is to reduce fraud, material errors, and unauthorised use. Audit trails help to enhance internal controls and data security. Systems which have a feature of audit trail inspire confidence in auditors. It helps auditors in verifying whether controls devised by the management were operating effectively or not. Therefore, audit trails are used for businesses as well as auditors. However, maintenance of accounts in a software having feature of audit trail is not compulsory for LLPs.

- 4) **Option (c)** Auditor is required to be appointed at any time before March 31st, 2024. Therefore, Piyush's plan to approach CA S is not in accordance with the relevant rules and regulations.



**Reason:** The auditor may be appointed by the designated partners of the LLP at any time for the first financial year but before the end of first financial year.

**5) Option (a)** Default by LLP in filing its annual return.

**Reason:** Every LLP would be required to file annual return in Form 11 with ROC within 60 days of closure of financial year. Every LLP is also required to submit a Statement of Account and Solvency in Form 8 which shall be filed within a period of thirty days from the end of six months the financial year to which the Statement of Account and Solvency relates. Therefore, plan to visit CA S in August 2024 could lead to default by LLP in filing its annual return.

## Case Scenario 10

(ICAI MCQ Booklet) (Model Test Paper-6) / (MTP-I Nov., 24)

Vama & Associates were appointed as auditors for Royal Constructions Ltd. for the financial year 2023-24. During the audit, the auditors observed a significant amount of work-in-progress inventory. Instead of attending the physical inventory count, they relied on alternative procedures. These included reviewing production reports, reconciling them with recorded inventory levels, and analysing variance trends to assess the accuracy of the work-in-progress balance.

The auditor also noticed that the company has obsolete inventory of ₹ 1,75,000, which had an estimated realisable value of ₹ 50,000, and the company has valued it at cost in its financial statements.

During the review of Property Plant and Equipment (PPE), the audit team noted that the company included ₹ 1,05,000 for employee benefits related to the acquisition of PPE and ₹ 1,25,000 for testing the functionality of the equipment, offset by ₹ 35,000 received from the sale of samples produced during testing.

Vama & Associates derive a significant portion of their income from Royal Constructions Ltd., amounting to ₹ 10,00,000, which represents 65% of their total annual revenue. Despite finding financial discrepancies of ₹ 3,00,000 in the company's accounts, the partners decided to overlook these issues to maintain their lucrative relationship with the client.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Royal Constructions Ltd. should value the obsolete inventory at:
  - a) ₹ 50,000.
  - b) ₹ 1,25,000.
  - c) ₹ 1,75,000.
  - d) It should be written off completely.
  
- 2) What amount should be included in the cost of PPE in the financial statements of Royal Constructions Ltd.?
  - a) ₹ 1,95,000.
  - b) ₹ 2,30,000.
  - c) ₹ 2,65,000.
  - d) ₹ 1,05,000.
  
- 3) What potential threat to the independence of Vama & Associates arises from receiving fees of ₹ 10,00,000 from Royal Constructions Ltd.?
  - a) Self-interest Threat.
  - b) Self-review Threat.
  - c) Intimidation Threats.
  - d) Familiarity Threats.

**Answers to Case Study:**

- 1) Option (a) ₹ 50,000.

**Reason:** The auditor should follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realisable value.

- 2) Option (a) ₹ 1,95,000.

**Reason:** Directly attributable costs in the Property, Plant and Equipment includes costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment; costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition.

### 3) Option (a) Self-interest Threat.

**Reason:** Self-interest Threats occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include (i) direct financial interest or materially significant indirect financial interest in a client (ii) loan or guarantee to or from the concerned client (iii) undue dependence on a client's fees and, hence, concerns about losing the engagement (iv) close business relationship with an audit client (v) potential employment with the client and (vi) contingent fees for the audit engagement.

## Case Scenario 11

(ICAI MCQ Booklet) / (MTP-I Mar.24)

Ekum & Associates is a firm of Chartered Accountants practicing in Delhi. The firm has been appointed as the statutory auditors of Energy Synergy Ltd. The company is engaged in the manufacture of energy equipment and related systems.

At the time of starting the audit work of the company, CA Ekum, the engagement partner, reviewed the Gross Profit Ratio of the company for the year under audit. He also compared GP ratio of Energy Synergy Ltd. with the other companies operating in similar industry. During the audit, Mr. Sachin, one of the team members, was asked by CA Ekum to verify the expenditure incurred on PPE to analyse whether the cost of an item of PPE is recognised as an asset only when such cost meet the criteria as specified in AS 10. Mr. Sachin is of the view that the cost of an item of PPE comprises the following:

- ♦ Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- ♦ Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- ♦ Costs of introducing a new product or service (including cost of advertising and promotional activities).
- ♦ Administration and other general overhead costs.

Mr. Sachin was also asked by CA Ekum to verify various assertions related to sales transactions of the company during the year. Before conducting detailed testing of sales transactions, Mr. Sachin decided to evaluate the internal control system implemented by the company with respect to sales transactions. For this, he gave a comprehensive

series of questions concerning the internal control related to sales to the client and requested the client to get it filled by the concerned executive.

While verifying sales transactions, Mr. Sachin carried out various audit procedures, specifically to confirm whether the recorded sales pertained to goods ordered by valid customers, duly despatched, and invoiced during the audit period.

Mr. Sachin also noticed that one of the internal controls implemented by the company for sales transactions was segregation of duty that is the person who checks the credit limit, the person who authorises the sales order, the person who raises the sales invoices, the person who collects and records the amounts received from debtors are different. However, he noticed that this segregation of duties was often not followed in practice. He concluded that the lack of proper segregation gives rise to specific risks that need to be addressed and discussed with the company's management.

While verifying the trade receivable balance, Mr. Sachin decided to test such balance on sample basis. For deciding the sample selection, he divided the trade receivable balance into 4 groups as follows:

- (a) Balance is in excess of ₹ 20,00,000.
- (b) Balances in the range of ₹ 12,50,001 to ₹ 20,00,000.
- (c) Balances in the range of rupees ₹ 7,50,001 to ₹ 12,50,000.
- (d) Balances equal to ₹ 7,50,000 and below.

From the above groups, Mr. Sachin picked up different percentage of items to be examined in detail according to his professional judgment.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which audit procedure did CA Ekum perform at the time of starting the audit work of the company?
  - a) Reperformance.
  - b) Analytical Procedure.
  - c) Inquiry.
  - d) Recalculation.
- 2) Whether the view of Mr. Sachin with respect to recognition of cost of PPE correct?
  - a) View of Mr. Sachin is correct.
  - b) View of Mr. Sachin is partially correct as the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates will not be included in the cost of PPE.

- c) View of Mr. Sachin is partially correct as the cost of introducing a new product or service and administration & other general overhead costs will not be included in the cost of PPE.
  - d) View of Mr. Sachin is partially correct as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management will not be included in the cost of PPE.
- 3) Which method is followed by Mr. Sachin for evaluating the internal control for the sales transactions?
- a) Check list.
  - b) Narrative record.
  - c) Internal Control Questionnaire.
  - d) Flow Chart.
- 4) Which specific assertions did Mr. Sachin intend to verify while performing various audit procedures for sales transactions?
- a) Occurrence.
  - b) Completeness.
  - c) Measurement.
  - d) Presentation & Disclosure.
- 5) Mr. Sachin concluded that a specific risk is present that needs to be addressed and discussed with the management of the company. Which kind of risk is Mr. Sachin referring to?
- a) Detection Risk.
  - b) Audit Risk.
  - c) Inherent Risk.
  - d) Control Risk.
- 6) Which sample selection method is used by Mr. Sachin to select sample of trade receivable balance for examination?
- a) Haphazard Sampling.
  - b) Monetary unit sampling.
  - c) Stratified Sampling.
  - d) Interval Sampling.

**Answers to Case Study:****1) Option (b) Analytical Procedure.**

**Reason:** The term analytical procedures mean evaluations of financial information through analysis of plausible relationships among both financial and non- financial data. One of the examples of analytical procedures is comparing the entity's financial information with the information pertaining to prior periods and other companies in similar industry.

**2) Option (c) The view of Mr. Sachin is partially correct as the cost of introducing a new product or service and administration and other general overhead costs will not be included in the cost of PPE.**

**Reason:** Examples of costs that are not costs of an item of property, plant and equipment are:

- i) Costs of opening a new facility or business, such as, inauguration costs;
- ii) Costs of introducing a new product or service (including costs of advertising and promotional activities);
- iii) Costs of conducting business in a new location or with a new class of customer (including costs of staff training); and administration and other general overhead costs.

**3) Option (c) Internal Control Questionnaire.**

**Reason:** Internal Control Questionnaire is a comprehensive series of questions concerning internal control. This is the most widely used form for collecting information about the existence, operation and efficiency of internal control in an organisation. With a proper questionnaire, all internal control evaluation can be completed at one time or in sections.

**4) Option (a) Occurrence.**

**Reason:** While verifying occurrence assertion, auditor verifies whether transactions recognised in the financial statements have occurred and relate to the entity.

**5) Option (d) Control Risk.**

**Reason:** Control risk is a risk that internal control existing and operating in an entity would not be efficient enough to stop from happening, or find and then rectify in an appropriate time, any material misstatement relating to a transaction, balance of an account or disclosure required to be made in the financial statements of that entity. Segregation of

duties is one of the internal controls implemented by the company with respect to the sales transactions.

**6) Option (c) Stratified Sampling.**

**Reason:** Stratified Sampling method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them. Each stratum is treated as if it was a separate population and if proportionate items are selected from each of these strata. The number of groups into which the whole population has to be divided is determined on the basis of auditor judgment.

## Case Scenario 12

(ICAI MCQ Booklet) / (Model Test Paper-5) / (MTP-II Aug., 24)

CA J is nearing completion of audit of Cheap Cost Private Limited, a manufacturing company for the year 2023-24. The draft financial statements of the company show a profit before tax of ₹ 5 crores. Materiality for financial statements as a whole has been determined @ 5% of Profit before Tax. At the end of June 2024, he is considering following issues flagged during the course of audit which remain uncorrected:

- A fire took place in one of the premises of the company on 1st May, 2024 resulting in damages to all the inventories lying there amounting to ₹ 1 crores. The inventories of affected premises are insured with Quick Bima Limited for ₹ 50 lakhs and the company has also lodged a claim with it which is still to be settled.
- The company has debited ₹ 10 lakhs under "Machinery Account" whereas expenditure relates to normal wear and tear of high-speed automated machinery. The amount has been wrongly capitalised under "Machinery account". (Ignore depreciation effect).
- The company has not properly accounted for the necessary elements of cost in arriving at work in progress. Further, estimates regarding various stages of production have not been made properly. All such factors have resulted in overstatement of work in progress inventories by ₹ 20 lakhs.

No other issues except as stated above merit attention. Besides, written representation letter has also been obtained on matters concerning management's responsibilities regarding fulfilment of responsibilities for preparation of financial statements and

providing access to all information to CA J. However, the written representation provided to CA J begins in the below stated manner:

"This representation letter is provided in connection with your audit of the financial statements of Cheap Cost Private Limited for the year ended March 31, 2024, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves)

....."

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the following statements is most appropriate as regards to the fire incident?
  - a) The auditor should ask management to adjust financial statements for period under audit and book a loss of ₹ 50 lakhs in its Statement of Profit and Loss.
  - b) The auditor should ask management to adjust financial statements for period under audit and book a loss of ₹ 1 crores in its Statement of Profit and Loss.
  - c) The auditor should ask management to disclose it in notes to accounts.
  - d) The auditor has no responsibility regarding described fire incident.
  
- 2) Identify the correct option regarding materiality of uncorrected misstatements relating to wrong capitalisation under "Machinery Account" and overstatement of inventories of work in progress.
  - a) The uncorrected misstatements are not material in context of audit of financial statements as a whole as these are below materiality level determined by auditor.
  - b) The uncorrected misstatements are material in context of audit of financial statements as a whole and their effect on opinion should be considered by auditor.
  - c) The uncorrected misstatements are not material in context of audit of financial statements as a whole as these are in nature of management's judgment.
  - d) The uncorrected misstatements are material in context of audit of financial statements as a whole and auditor should correct these.
  
- 3) The auditor has performed certain audit procedures described in case scenario relating to inventories of work in progress. Such procedures are related to verification of \_\_\_\_\_ assertion.



- a) Completeness.
  - b) Valuation.
  - c) Existence.
  - d) Rights and obligations.
- 4) Which of the following statements is correct in respect to manner of providing written representations by management?
- a) The extract of written representations provided in case scenario is proper.
  - b) The use of words "having made such enquiries" is not permitted.
  - c) The use of words "to the best of our knowledge and belief" is not permitted.
  - d) The use of both kind of words "having made such enquiries" and "to the best of our knowledge and belief" is not permitted.

#### Answers to Case Study:

- 1) **Option (c)** The auditor should ask management to disclose it in notes to accounts.  
**Reason:** As per SA 560, "Subsequent Events", events occurring between the date of the financial statements and the date of the auditor's report and facts that become known to the auditor after the date of the auditor's report are known as subsequent events. Such events include those events that provide evidence of conditions that arose after the date of the financial statements and may significantly impact the company's financial position, the auditor should ensure that the event is adequately disclosed in the notes to accounts in the financial statements.
- 2) **Option (b)** The uncorrected misstatements are material in context of audit of financial statements as a whole and their effect on opinion should be considered by auditor.  
**Reason:** As per SA 450, "Evaluation of Misstatements Identified during the Audit", uncorrected misstatements refer to those misstatements that the auditor has accumulated during the audit and that have not been corrected. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate.  
In the given case, the misstatement of ₹ 10 lakh is material in aggregate with misstatement related to overstatement of work in progress (₹ 20 lakh) as both together are more than 5% of PBT (i.e., ₹ 25 lakhs). Further, the misstatement of ₹ 40 lakh is material individually and is required to be considered separately.

### 3) Option (b) Valuation.

**Reason:** As per the Valuation Assertion, the auditor should ensure that inventories have been VALUED appropriately and as per generally accepted accounting policies and practices. For WIP, the auditor should ascertain:

- How the various stages of production/ value additions are measured and in case estimates are made, understand the basis for such estimates and
- What elements of cost are included. If overheads are included, ascertain the basis on which they are included and compare such basis with the available costing and financial data/ information maintained by the entity.

### 4) Option (a) The extract of written representations provided in case scenario is proper.

**Reason:** In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief.

## Case Scenario 13

(ICAI MCQ Booklet) / (Model Test Paper-5) / (MTP-II Aug., 24)

MPM & Associates, a firm of Chartered Accountants, have received offer letter from PST Bank for carrying out statutory audit of their Chandigarh branch for the financial year 2023-24. The offer letter, inter alia, requests audit firm to give an undertaking in writing that the firm is not disqualified under Section 141(3)(d)(ii) of the Companies Act, 2013. Such a provision relates to the disqualification of a person as auditor of a company if he, his relative or partner is indebted to the company subject to certain prescribed conditions. Before accepting the said audit, the firm checks out whether it complies with law requirements. However, there is a difference of opinion among firm personnel whether such an undertaking can be given in the case of banks.

The offer letter also contains the following declaration to be signed by the auditors in case they choose to accept the appointment:

"We declare that we will not communicate or allow to be communicated to any person, not legally entitled thereto, any information relating to the affairs of PST Bank or to the affairs of the person having any dealing with the Bank, nor will we allow any such person to inspect or have access to any books or documents belonging to or in possession of the Bank relating to the business of any person having any dealing with the Bank."

The audit firm has also received a document kit provided by Statutory Central Auditors of Bank. It relates to scope of audit, areas of special consideration while performing audit and requires an audit firm to confirm certain matters like adherence to RBI Master Circulars for income recognition, asset classification & provisioning and adequacy of checking of books of accounts based on sample etc. to them by way of a letter.

The document kit received also requires MPM & Associates to consider adverse comments made by stock auditors of borrowers enjoying cash credit facilities in their reports for purpose of reporting. It also contains specific instructions to check foreign letters of credit (FLCs) issued during the year in compliance with sanction terms of the respective borrowers and to verify income recognised in respect of FLCs.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the following statements is likely to be most appropriate regarding required undertaking in accordance with the Companies Act, 2013?
  - a) The referred provision mainly addresses self-interest threats to independence of auditors. The audit firm can give such an undertaking after verifying if it complies with such requirements.
  - b) The referred provision mainly addresses self-review threats to independence of auditors. The audit firm can give such an undertaking after verifying if it complies with such requirements.
  - c) The referred provision mainly addresses self-interest threats to independence of auditors. However, the audit firm can't give such an undertaking as such provisions are applicable to companies and not to banks.
  - d) The referred provision mainly addresses self-review threats to independence of auditors. However, the audit firm can't give such an undertaking as such provisions are applicable to companies and not to banks.
- 2) The declaration relating to non-communication of information related to affairs of Bank is related to adherence to which fundamental principle governing professional ethics?
  - a) Objectivity.
  - b) Confidentiality.
  - c) Independence.
  - d) Professional Competence and due care.

- 3) MPM & Associates are required to report on adverse comments made by stock auditors of borrowers of branch enjoying cash credit facilities. Which of the following statement is most appropriate in this regard?
- a) Stock auditors make comments in their reports on valuation of security and calculation of drawing power.
  - b) Stock auditors make comments in their reports on valuation of security only. However, no comments are made on calculation of drawing power.
  - c) Stock auditors make comments in their reports on valuation of security, documentation made by bank in respect of sanctioned credit facilities, leakage of revenue and calculation of drawing power only.
  - d) Stock auditors make comments in their reports on calculation of drawing power only.
- 4) Keeping in view the matter of foreign letters of credits (FLCs) described in case scenario, consider following statements: -
- 1) Foreign letter of credit issued by branch is a non-funded loan.
  - 2) Branch earns interest on issuance of foreign letter of credit which is credited in interest earned account of profit and loss account of branch.
  - 3) The bank which receives foreign letter of credit is known as beneficiary bank.
- Which of following statement(s) is/are true?
- a) Only statement 1 is correct.
  - b) Only statements 1 and 3 are correct.
  - c) Only statements 1 and 2 are correct.
  - d) Only statements 2 and 3 are correct.

#### Answers to Case Study:

- 1) **Option (a)** The referred provision mainly addresses self-interest threats to independence of auditors. The audit firm can give such an undertaking after verifying if it complies with such requirements.

**Reason:** Self-interest threats to independence occur when an auditor takes loan from a client. The provisions in the Companies Act, 2013 address self-interest threats. Besides, the provisions of the Companies Act, 2013 are also applicable to banks so far as these are not inconsistent with provisions of the Banking Regulation Act, 1949. The audit firm can give such an undertaking.

**2) Option (b) Confidentiality.**

**Reason:** Confidentiality principle requires a professional accountant to respect the confidentiality of information acquired as a result of professional or business relationships.

**3) Option (a) Stock auditors make comments in their reports on valuation of security and calculation of drawing power.**

**Reason:** Stock auditors are required to make comments in their reports on valuation of security and calculation of drawing power.

**4) Option (a) Only statement 1 is correct.**

**Reason:** Letter of credit is a non-funded facility. Bank earns commission/charges on it which are credited in "other income" in Profit and loss account. The bank receiving letter of credit is known as Advising bank. Therefore, only Statement 1 is correct.

### Case Scenario 14

(ICAI MCQ Booklet) / (Model Test Paper-4) / (MTP-I July, 24)

M/s. Vishwacharya and Associates, a CA firm based in Orissa, is appointed as an auditor of CBF Bank for the financial year 2023-24. During the course of audit, it came to notice that CBF Bank has sanctioned an overdraft facility of ₹ 75 lakh to Times Ltd. However, as per the stock statement furnished for the last quarter, the drawing power was calculated to be ₹ 50 lakh. It was observed that few advances were guaranteed by the:

- i) Central Government as part of 'Make in India' initiative. However, the guarantee was not invoked, and the advances were overdue by 95 days. These advances were classified as standard assets and were regarded as NPA for income recognition purpose.
- ii) State Government as part of power generation initiative. However, the guarantee was not invoked, and the advances were overdue by 80 days. These advances were also classified as standard assets and were regarded as NPA for income recognition purpose.

Additionally, XYZ Ltd., is a borrower availing cash credit facility of ₹ 110 Lakh against security of paid stocks and debtors up to 90 days. Margin stipulated was 25% of stock

as and 40% for debtors. Bank has calculated drawing power based on following information provided by XYZ Ltd.

Particulars	Amount (₹)
Value of Stocks (as on 31.12.2023)	130 Lakh
Value of Debtors (as on 31.12.2023)	75 Lakh
Value of stocks (Fully damaged and included in (i) above)	7 Lakh
Value of Debtors (exceeding 90 days included in (ii) above)	10 Lakh
Value of creditors for goods	60 Lakh

Also, the outstanding balance in one of the Loan accounts was ₹ 25 Lakh and the realisable value of the security as assessed by the bank / approved valuers was ₹ 2.25 Lakh. Bank identified the same as erosion in the value of security. It was classified as doubtful category and provision was made for the doubtful assets. A discussion also took place among the team members regarding issuance of the audit reports after completion of the bank audit and annexure to the same such as Long Form Audit Report, Report on compliance with SLR Requirements, Report on Treasury Operations - as per RBI guidelines, Report on compliance as per Ghosh committee recommendations and Report on adverse credit - lending ratio in the rural areas, etc.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) With respect to the overdraft facility sanctioned to Times Ltd., the account would be termed as out of order if:
    - i) The outstanding balance remains continuously in excess of ₹ 75 Lakh.
    - ii) The outstanding balance remains continuously in excess of ₹ 50 Lakh.
    - iii) The outstanding balance in the account is less than ₹ 75 Lakh but there are no credits or payments deposited into the account continuously for 90 days as on balance sheet date.
    - iv) The outstanding balance is less than ₹ 50 Lakh.
- Choose the correct option from below:
- a) (i), (ii) and (iii).
  - b) (i), (iii) and (iv).
  - c) (ii), (iii) and (iv).
  - d) (iii) and (iv).

- 2) Which of the treatment by the bank on the provisioning and income recognition is correct in case of bank guarantee given by the Central Government and State Government?
- Both (i) and (ii) are correct.
  - Only (ii) is correct.
  - Only (i) is correct.
  - Both (i) and (ii) are incorrect.
- 3) In the given case, drawing power of the borrower XYZ Limited should be:
- ₹ 86.25 Lakh.
  - ₹ 76.35 Lakh.
  - ₹ 96.25 Lakh.
  - ₹ 85.45 Lakh.
- 4) The bank has identified an erosion in the value of security and made provision for doubtful assets. Whether the treatment by bank for the doubtful asset is correct?
- Yes. The security should be classified under doubtful category. It may be either written off or fully provided by the bank.
  - No. The existence of such security should be ignored, and the asset should straight away be classified as loss asset. It may be either written off or fully provided by the bank.
  - Yes. The security should be classified under doubtful category and provisioning should be made as applicable for doubtful assets.
  - No. The existence of the security should be ignored, and the asset should straight away be classified as loss asset. Provisioning should be made for doubtful assets.
- 5) The Statutory Central Auditors of a bank must furnish, in addition to the main audit report, various other audit reports. From the options, choose the audit reports that M/s. Vishwacharya and Associates shall furnish:
- Long Form Audit Report.
  - Report on compliance with SLR Requirements.
  - Report on Treasury Operations - as per RBI guidelines.
  - Report on compliance as per Ghosh committee recommendations.
  - Report on adverse credit - lending ratio in the rural areas.
- Choose the correct answer:
- (i), (ii), (iii), (iv) and (v).
  - Only (i), (ii), (iii) and (iv).

- c) Only (i), (ii) and (iii).  
d) Only (i), (ii) and (v).

### Answers to Case Study:

#### 1) Option (a) (i), (ii) and (iii).

**Reason:** An account should be treated as 'out of order' if:-

- The outstanding balance remains continuously in excess of the sanctioned limit/drawing power or
- In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet; or
- Credits are there but are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

#### 2) Option (c) Only (i) is correct.

**Reason:** In case of Central Government guaranteed advances, where the guarantee is not invoked/ repudiated would be classified as Standard Assets but regarded as NPA for Income Recognition purpose. The situation would be different if the advance is guaranteed by State Government, where advance is to be considered NPA if it remains overdue for more than 90 days for both Provisioning and Income recognition purposes.

#### 3) Option (a) ₹ 86.25 Lakh.

**Reason:**

Particulars	Amount (₹ In lakhs)
Value of stocks (as on 31.12.2023)	130.00
Less: Value of damaged stocks	(7.00)
	123.00
Less: Creditors for goods (as on 31.12.2023)	(60.00)
Value of paid stocks	63.00
Less: Margin @25%	(15.75)



Drawing power (A)	47.25
Value of Debtors (as on 31.12.2023)	75.00
Less: Debtors exceeding 90 days	(10.00)
	65.00
Less: Margin @ 40%	(26.00)
Drawing power (B)	39.00
Drawing power (A+B)	86.25

**4) Option (b)** No. The existence of such security should be ignored, and the asset should straight away be classified as loss asset. It may be either written off or fully provided by the bank.

**Reason:**

- i) Erosion in the value of security can be reckoned as significant when the realisable value of the security is less than 50 per cent of the value assessed by the bank or accepted by RBI at the time of last inspection, as the case may be. Such NPAs may be straight-away classified under doubtful category and provisioning should be made as applicable to doubtful assets.
- ii) If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10 per cent of the outstanding in the borrowal accounts, the existence of security should be ignored, and the asset should be straight-away classified as loss asset. It may be either written off or fully provided for by the bank.

**5) Option (b)** Only (i), (ii), (iii) and (iv).

**Reason:** The Statutory Central Auditors are not required to furnish Report on adverse credit - lending ratio in the rural areas along with the main audit report.

## Case Scenario 15

(ICAI MCQ Booklet) / (Model Test Paper-4) / (MTP-I July, 24)

Priority Limited is a large company engaged in the manufacturing of terry towels making steady profits on a year-to-year basis. PMR & Associates, statutory auditors of the company since last two years, are in process of establishing audit strategy for conducting statutory audit under the Companies Act, 2013 for year 2023-24.

The company has 5 branches which are audited by independent auditors appointed under the Companies Act, 2013. It also has a wholly owned subsidiary company which is audited by another audit firm under the name of JKL & Associates. The engagement team has noticed that company has maintained several bank accounts and there is substantial movement in fixed deposits during the year leading to risk of misstatement in cash and cash equivalents. The engagement team has planned procedures regarding the same.

- i) At planning stage, engagement partner is also trying to set materiality for financial statements as a whole. The following information extracted from financial statements is given as under:

Particulars	(Amount in ₹ crores)
Revenue	100
Total Assets	40
Profit before Tax	8
Total Liabilities (excluding Equity)	30

- ii) While designing a sample for verifying revenues of company as part of tests of details, engagement partner has determined "tolerable misstatement" for ₹ 5 Lakh in order to address the risk that aggregate of individual immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements. One of the newly joined engagement team members has little conceptual understanding of "tolerable misstatement" determined by engagement partner. He also has no idea of the effect of change in tolerable misstatement on sample size.
- iii) During the course of audit, while performing tests of details, engagement team has come across certain misstatements in selected sample pertaining to verification of

revenues. The team has projected misstatements to population of revenues. The team wants to comply with the Standards on Auditing strictly.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) The auditors of company are in process of establishing audit strategy. Which of the following is not a relevant factor in establishing overall audit strategy in the given case scenario?
  - a) Consideration of 5 branches which are audited by independent auditors.
  - b) Consideration of wholly owned subsidiary company audited by another audit firm.
  - c) Expected time of holding AGM in accordance with provisions of the Companies Act, 2013.
  - d) Nature, timing and extent of planned procedures for cash and cash equivalents.
- 2) For Priority limited, which benchmark would the engagement partner most likely to use for setting materiality for the financial statements as a whole?
  - a) A percentage of Revenue.
  - b) A percentage of Total assets.
  - c) A percentage of Profit before tax.
  - d) A percentage of Total liabilities (excluding equity).
- 3) In the given case scenario, assume that the engagement partner has decided to increase tolerable misstatement to ₹ 10 Lakh while designing sample described. Select the correct statement.
  - a) It would lead to decrease in sample size.
  - b) It would lead to an increase in sample size.
  - c) It would have no effect on sample size.
  - d) It is not possible to draw inference on sample size due to increase in tolerable misstatement.
- 4) While performing procedures on designed sample, the engagement team identified certain misstatements in selected sample and projected these to the entire population of revenues. According to the requirements of the Standards on Auditing, which statement is correct in this regard?
  - a) Anomalous misstatement is auditor's best estimate of misstatement in population.
  - b) The projected misstatement plus anomalous misstatement, if any, is best estimate of misstatement in population.

- c) When projected misstatement exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.
- d) When projected misstatement plus anomalous statement, if any, exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.

### Answers to Case Study:

- 1) **Option (d)** Nature, timing and extent of planned procedures for cash and cash equivalents.  
**Reason:** Planned procedures for cash and cash equivalents are not a factor to be considered for establishing audit strategy. These form part of developing audit plan.
- 2) **Option (c)** A percentage of Profit before tax.  
**Reason:** As per SA 320, PBT is often used as a benchmark for profit making entities.
- 3) **Option (a)** It would lead to decrease in sample size.  
**Reason:** Increase in tolerable misstatement would lead to decrease in sample size as lower the tolerable misstatement, the larger the sample size needs to be.
- 4) **Option (b)** The projected misstatement plus anomalous misstatement, if any, is best estimate of misstatement in population.  
**Reason:** While performing procedures on designed sample the projected misstatement plus anomalous misstatement, if any, is the best estimate of misstatement in population. The effect of anomaly still needs to be considered in addition to projection of non-anomalous misstatements.

## Case Scenario 16

(ICAI MCQ Booklet) / (Model Test Paper-4) / (MTP-I July, 24)

Bandhu Charitable Trust is considering the appointment of MNO & Associates, Chartered Accountants, as independent auditors of its financial statements. The Trust is engaged in providing affordable healthcare services. It is in the interest of both auditor and client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent. It is, therefore, important that each party should be clear about

the nature of engagement. It should exactly specify the scope of work. Such an "engagement letter" is exchanged between Trust management and auditors.

While performing audit procedures, it is noticed by auditors that bills of two vehicles are not in the name of Trust but in the name of trustees. However, payment of these vehicles was made from the bank account of Trust. The said vehicles are used for activities of Trust.

It is also noticed that a sum of ₹ 50 Lakh is reflected in Trust's financial statements in the name of Gamma Instrument and Equipment in schedule of creditors. The said amount has been outstanding for the last two years. The auditors sent confirmation requests to the said supplier and seek management's co-operation in this regard. However, management of the Trust informs the auditor regarding a certain dispute going on with the supplier of equipment due to some quality issues. It is further informed that the dispute is near settlement, and it would not be proper to send confirmation requests as it can affect the negotiation process.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) As regards exchange of engagement letter between Trust management and auditors is concerned, which of the following statements is likely to be true?
  - a) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to the expected form and content of the report to be issued by them and a statement that there may be circumstances in which such report may differ from its expected form and content.
  - b) Engagement letter is sent by Bandhu Charitable Trust to MNO & Associates. It includes reference to the expected form and content of report to be issued by auditors. However, it does not include a statement that such report may differ from its expected form and content.
  - c) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to expected form and content of report to be issued by them. However, it does not include a statement that such a report may differ from its expected form and content.
  - d) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It does not include reference to the expected form and content of report to be issued by them.

- 2) Considering the issues related to vehicles as described in the case study, identify the most appropriate statement.
- a) Auditors have identified misstatement concerning "Existence" assertion made by Trust management.
  - b) Auditors have identified misstatement concerning "Rights and Obligations" assertion made by Trust management.
  - c) Auditors have identified misstatement concerning "Accuracy" assertion made by Trust management.
  - d) Auditors have identified misstatement concerning "Completeness" assertion made by Trust management.
- 3) What course of action should the auditor take regarding the amount payable to the equipment supplier when management has communicated that sending a confirmation request could negatively impact the negotiation process?
- a) The auditor should issue adverse opinion in auditor's report.
  - b) The auditor should seek audit evidence as to the validity and reasonableness of the reasons for refusal and perform alternative audit procedures.
  - c) The auditor should withdraw from engagement as Trust management's refusal is a limitation on scope of independent audit.
  - d) The auditor should disclaim opinion in auditor's report.

### **Answers to Case Study:**

- 1) **Option (a)** Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to the expected form and content of the report to be issued by them and a statement that there may be circumstances in which such report may differ from its expected form and content.

**Reason:** An engagement letter is sent by auditor to client. In terms of the requirements of SA 210, it includes reference to expected form and content of report to be issued by them and a statement that there may be circumstances in which such report may differ from its expected form and content.

- 2) **Option (b)** Auditors have identified misstatement concerning "Rights and Obligations" assertion made by Trust management.

**Reason:** With respect to Rights and Obligations assertions, the auditor should verify that the entity holds or controls the rights to assets of the entity.

**3) Option (b)** The auditor should seek audit evidence as to the validity and reasonableness of the reasons for refusal and perform alternative audit procedures.

**Reason:** In terms of requirements of SA 505, the auditor should seek audit evidence as to the validity and reasonableness of the reasons for refusal and perform alternative audit procedures. The issues of opinion or withdrawal from engagement come afterwards.

## Case Scenario 17

(ICAI MCQ Booklet) / (RTP Sept.24)

Pluto Limited is engaged in the manufacturing and distribution of furniture. After Covid, as the number of people working from home has gone up, this customisable range of home office furniture has gained lot of importance. They were able to perform very well over the years and the same has been reflected in their financial statements.

During the year 2023-24, M/s Saha and Associates was reappointed as the auditor. The new engagement team has CA Saha (partner) and five article assistants. Given the large volume of transactions, the partner instructed the article assistants to review the financial statements and auditor's report from the previous year, 2022-23, to gain a thorough understanding.

While reviewing the summary page, one of the articles, Kabir noticed that a few points were under discussion with the partner before finalising the audit.

The team verified the following points with respect to employee benefit expenses:

- The employee benefit expenses recorded in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel have been accounted for.
- The expenses recognised during the period are pertaining to the current accounting period.

It was also noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023 and was recognised as liability in the year 2022-23.

Another article Krish noticed that debtors constitute a major component of the company's financial statements. As part of the audit procedure, the auditor requested

the client to obtain external confirmations from the parties. For this, a list of all the debtors were obtained and a random sampling was performed by the auditor. The client directly obtained the selected debtor confirmations from the customers on time.

Krish also observed addition in the assets amounting ₹ 50 lakhs during the year supported by sufficient audit evidence. However, upon scrutiny, it was found that some of the invoices were not in the name of the company. Further, Cash and cash equivalents were classified as balances with banks, cheques and drafts on hand, cash on hand and earmarked balances with banks (e.g. unpaid dividend).

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which among the following assertions are discussed with respect to the employee benefit expenses?
  - i) Measurement.
  - ii) Occurrence.
  - iii) Cut-off.
  - iv) Completeness.Choose the correct combination from below:
  - a) (i), (ii) and (iv).
  - b) (ii), (iii) and (iv).
  - c) (i), (iii) and (iv).
  - d) (i), (ii) and (iii).
- 2) Whether disclosure of dividend under the liability head during the year 2022-23 is appropriate?
  - a) Yes, it should be recognised in the same year irrespective of the year of declaration as the amount of dividend belongs to the year 2022-23.
  - b) No, the amount should be recognised equally between two financial years.
  - c) No, the amount should not be recognised as a liability. It should be disclosed in the notes to accounts.
  - d) No, the amount should neither be recognised as liability nor disclosure is required in the financial statements.
- 3) Krish pointed out that that the method followed to obtain debtor confirmation in the previous year was not in accordance with SA 505. Therefore, M/s Saha & Associated should



reperform the same in the correct manner. Select the most appropriate procedure among the following:

- a) As per SA 505, confirmation should be directly obtained by the auditor. Further, for all significant account balances as on the Balance sheet date confirmations should necessarily be collected and for the smaller outstanding balances, random sampling could be performed.
  - b) It is ok to obtain confirmation through clients as they are in constant contact with their customers. Also, many customers may not respond to auditor's external confirmation request mail. Random selection can be done for all debtors irrespective of the amount in accordance with SA 505.
  - c) As per SA 505, confirmation should be directly obtained by the auditor. Whereas random selection can be done for all debtors irrespective of the amount.
  - d) Either auditor or client can obtain confirmation based on time availability. However, it is necessary to obtain confirmation for all significant account balances as on the Balance sheet date and for the remaining random sampling could be performed in accordance with SA 505.
- 4) Which assertion has been affected in the case of fixed assets?
- a) Existence.
  - b) Rights and obligation.
  - c) Completeness.
  - d) Measurement.
- 5) Cash and cash equivalents were not properly classified by the client. Which of the following is incorrect disclosure of the same?
- a) Balances with banks.
  - b) Cheques and drafts on hand.
  - c) Cash on hand.
  - d) Earmarked balances with banks. (e.g.: unpaid dividend)

**Answers to Case Study:****1) Option (b)** (ii), (iii) and (iv).

**Reason:** In the given case, the assertions of Occurrence, Cut-off, and Completeness are being evaluated concerning employee benefit expenses. The Occurrence assertion requires the auditor to ensure that the recorded expenses were actually incurred during the relevant period itself. Additionally, the Completeness assertion ensures that all personnel-related expenses have been accounted for. Lastly, the Cut-off assertion verifies that the recognised expenses during the period are pertaining to the current accounting period.

**2) Option (c)** No. The amount should not be recognised as a liability. It should be disclosed in the notes to accounts.

**Reason:** As per AS-4 (Revised) or IND AS 10, if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an entity should not recognise those dividends as a liability as at the balance sheet date. It should, however, disclose the amount of dividends that were proposed or declared after the balance sheet date, but before the financial statements were approved for issue.

**3) Option (a)** As per SA 505, confirmation should be directly obtained by the auditor. Further, for all significant account balances as on the Balance sheet date confirmations should necessarily be collected and for the smaller outstanding balances, random sampling could be performed.

**Reason:** To verify the existence of trade receivables at the period-end, the auditor should obtain direct confirmations from customers. Direct confirmation audit procedure involves directly contacting customers to confirm the amounts of unpaid accounts receivable as of the end of the reporting period under audit. This should necessarily be done for all significant account balances as at the period-end while certain random customers having smaller outstanding invoices should also be selected.

**4) Option (b)** Rights and obligation.

**Reason:** As per Rights and obligations assertion the auditor is required to verify that the entity has valid legal ownership over the PPE claimed to be held and recorded in the financial statements.

**5) Option (d)** Earmarked balances with banks. (e.g.: unpaid dividend)

**Reason:** Cash and cash equivalents shall be classified as:

- Balances with banks, Cheques, drafts on hand, Cash on hand, Others (specify nature)
- Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

## Case Scenario 18

(ICAI MCQ Booklet) / (Model Test Paper-2)

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

M/s Tripathi & Associates are willing to accept the engagement. They communicated with previous auditors before accepting the engagement. However, M/s Sreepath and Co. have failed to respond.

CA Kishan, partner of M/s Tripathi & Associates explained to his team members about the importance of the engagement letter. He also arranged a team discussion on matters relating to acceptance of terms of engagement.

The first point of consideration was concerning preconditions for an audit. Mr. Arun, a team member, could recollect a few of them. Those included determining whether the financial reporting framework used in the preparation of financial statement is acceptable, management providing auditor with access to all relevant information and additional information upon auditor's request. It was further elaborated by Arun that management has to provide unrestricted access to employees within entity as may be required by auditor for obtaining audit evidence. Team members were asked to list factors that may necessitate revision of engagement letters in case of recurring audits. Mr. Kumar, another team member replied that revision may be required in cases involving significant change in ownership, recent changes in senior management, change in financial reporting framework adopted in preparation of financial Statements, modest change in nature or size of the entity's business, change in legal and regulatory requirements etc. Mr. Ram, one of the team members, raised a doubt. He enquired regarding recourse available to incoming auditor in case management makes it clear before acceptance of

engagement by auditor regarding its inability in providing support to him in respect of certain procedures expected to be performed during the audit. In this respect, specific questions were raised relating to sending of confirmation requests to material trade payables reflecting in financial statements of a company. Trade payables pertain to material input and input services acquired and utilised by the company during the year. Lack of support by management in such a case would, in effect, signify management's refusal to allow the auditor to send confirmation requests at the outset before engagement is accepted by auditor.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) As regards the doubt of Mr. Ram described in last para of case scenario, which of the following statements is likely to be in accordance with Standards on Auditing?
  - a) The auditor needs to inquire into management's reasons for the refusal and perform alternative audit procedures to obtain relevant and reliable audit evidence.
  - b) The auditor needs to evaluate implications of management's refusal on auditor's assessment of risk of material misstatement and perform alternative audit procedures to obtain relevant and reliable audit evidence.
  - c) The auditor should not accept such an engagement.
  - d) The auditor needs to evaluate implications of management's refusal on risk of fraud and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- 2) When CA Kishan, the partner, asked about preconditions for an audit, Mr. Arun could recollect only a few of them. Which among the following points were missed by him?
  - i) Obtaining management responsibility on specific legal aspects governing the organisation.
  - ii) Obtaining management responsibility on Standards on Auditing applicable to the organisation.
  - iii) Obtaining management responsibility for the preparation of financial statements as per applicable financial reporting framework.
  - iv) Obtaining management responsibility on necessary Internal controls to enable preparation of financial statements which are free from material misstatement whether due to error or fraud.

Select the correct option

- a) (i), (ii) and (iii).
- b) (ii), (iii) and (iv).
- c) (iii) and (iv).

d) (i) and (iv).

- 3) Identify the incorrect factor mentioned by Mr. Kumar regarding the need for a revision of the Engagement Letter

OR

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

- a) A significant change in ownership.
  - b) A recent change in management.
  - c) A change in financial reporting framework adopted in preparation of Financial Statements.
  - d) A modest change in nature or size of the entity's business.
- 4) M/s Sreepath & Co. have failed to respond to incoming auditors. In this regard, choose the most appropriate option:
- a) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of objectivity principle.
  - b) It was ethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It does not involve violation of any fundamental principles governing professional ethics.
  - c) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of Professional competence and due care principle.
  - d) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is a violation of professional behaviour principle.

**Answers to Case Study:**

- 1) **Option (c)** The auditor should not accept such an engagement.

**Reason:** 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:

- 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.

**2) Option (c)** (iii) and (iv).

**Reason:** In order to establish whether the preconditions for an audit are present, the auditor shall: Obtain the agreement of management that it acknowledges and understands its responsibility:

- (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework including where relevant their fair representation; Use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management to the premise on which an audit is conducted a
- (ii) For such internal control as management considers necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

**3) Option (d)** A modest change in nature or size of the entity's business.

**Reason:** In case of recurring audits revision of terms audit engagement is mandated in following cases:

- i) Any indication that the entity misunderstands the objective and scope of the audit.
- ii) Any revised or special terms of the audit engagement.
- iii) A recent change of senior management.
- iv) A significant change in ownership.
- v) A significant change in nature or size of the entity's business.
- vi) A change in legal or regulatory requirements.
- vii) A change in the financial reporting framework adopted in the preparation of the financial statements.
- viii) A change in other reporting requirements.

**4) Option (d)** It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is a violation of principle of professional behaviour governing professional ethics.

**Reason:** In case where previous auditor does not communicate with current auditor, one of the important fundamental principles of Professional behaviour has been violated. Since, it requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession.

## Case Scenario 19

(ICAI MCQ Booklet) / (Model Test Paper-3) / (Sept.24)

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

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

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

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

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

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

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

- a) Take Management Representation regarding the existence and valuation of inventory and mention in Emphasis of Matter paragraph.
  - b) Rely on GHB Ltd.'s perpetual inventory records as audit evidence and express unmodified opinion.
  - c) Omit altogether the audit procedure of physical inventory counting from the audit programme because of impracticability.
  - d) Modify the opinion in the auditor's report in accordance with SA 705 as a result of the scope limitation.
- 2) Which assertion concerning the bifurcation of employee expenses into various heads are being verified by CA B?
- a) Occurrence.
  - b) Measurement.
  - c) Completeness.
  - d) Disclosures.
- 3) With reference to reporting on the internal financial controls system under the Companies Act, 2013, which of the following does not fall within the nature of responsibility of GHB Ltd?
- a) In accordance with the terms of reference specified in writing by the Board, act of every audit committee to include evaluation of internal financial controls and risk management systems.
  - b) Directors' responsibility statement to state that the Directors had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.
  - c) Board of Directors have to appoint an expert to state that the internal financial controls of the company are commensurate with the size and nature of its business.
  - d) In terms of code for Independent Directors, independent directors to get themselves satisfied that financial controls and systems of risk management are robust and defensible.
- 4) Due to tight deadlines, CA B has insufficient time to properly perform or complete the relevant duties and he has to sign off clean audit report. Which fundamental principle governing professional ethics is disregarded by him?



- a) Professional competence and due care.
  - b) Professional behaviour.
  - c) Integrity.
  - d) Objectivity.
- 5) Undue dependence on the fees from GHB Ltd. creates which threat of independence for the auditors?
- a) Intimidation Threat.
  - b) Familiarity Threat.
  - c) Self-interest Threat.
  - d) Advocacy Threat.

#### **Answers to Case Study:**

- 1) **Option (d)** Modify the opinion in the auditor's report in accordance with SA 705 as a result of the scope limitation.

**Reason:** As per SA 501, "Audit Evidence - Specific Considerations for Selected Items", if attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with SA 705.

- 2) **Option (d)** Disclosures.

**Reason:** A Company shall disclose by way of notes additional information regarding aggregate expenditure and income on Employee Benefits Expense (i) salaries and wages, (ii) contribution to provident and other funds, (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP), (iv) staff welfare expenses.

- 3) **Option (c)**

- 4) **Option (a)** Professional competence and due care.

**Reason:** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation

receives competent professional service, based on current technical and professional standards and relevant legislation, and act diligently and in accordance with applicable technical and professional standards.

#### 5) Option (c) Self-interest Threat.

**Reason:** Self-interest threats occur when an auditing firm, its partner or associate could benefit from a financial interest in an audit client. Examples include undue dependence on a client's fees and, hence, concerns about losing the engagement.

### Case Scenario 20

(ICAI MCQ Booklet) / (Model Test Paper-3) / (Sept.24)

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

M/s KRISH & Co. is appointed as the joint auditor along with M/s. PK and Associates and M/s. RS and Associates for the audit of a large manufacturing company for the financial year 2023-24. CA K is in charge of this audit. They have divided their audit areas and have also identified the common audit areas, which will be applicable to all the joint auditors. While forming the opinion, CA K had a different opinion whereas the other two audit firms shared the same opinion. Both of them contended that as they were forming a majority, M/s. KRISH & Co. will have to agree with their opinion.

CA R is conducting the statutory audit of PAWAN Ltd. He observed that, during the year, the company has issued shares at premium and has transferred the amount received as premium to securities premium account. He wants to ensure that PAWAN Ltd. has utilised the amount available in the securities premium amount for the purposes permitted under the Companies Act, 2013.

The Registrar of Co-operative Societies has appointed M/s KRISH & Co. as the statutory auditor of NAND Co-operative Society for the financial year 2023-24. CA I is looking after the audit of the said registered society. During the year, in terms of Section 34 of the Cooperative Societies Act, with the sanction of the Registrar, Society contributed

for charitable purposes as defined in section 2 of the Charitable Endowments Act, 1890. CA I is ensuring whether requirements, as regards contribution made, have been complied with.

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

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) In case of difference of opinion between the joint auditors, what course of action can M/s. KRISH & Co. take while issuing the audit report?
  - a) They will have to agree with the opinion formed by the majority of auditors.
  - b) They will have to agree with the opinion formed by the majority auditors, but they can mention their view in the Emphasis of Matter Paragraph.
  - c) They can add a separate audit opinion paragraph in the common audit report.
  - d) They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.
- 2) The securities premium account of PAWAN Ltd. cannot be applied for which of the following purposes?
  - a) In writing off the debit balance in the Profit & Loss account.
  - b) In writing off the expenses of, or the commission paid or discount allowed on any issue of equity shares of the company.
  - c) For the purchase of its own shares or other securities under section 68.
  - d) In paying up unissued equity shares of the company to be issued to the members of the company as fully paid bonus shares.
- 3) CA I, who is in charge of audit of NAND Co-operative Society, wants to ensure that the society has contributed for charitable purposes within the limits prescribed. How much is the society allowed to contribute for charitable purposes?
  - a) Contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.

- b) Contribute an amount at the appropriate rate as per class of the society.
  - c) Contribute an amount not exceeding 20% of the net profits remaining after the compulsory transfer to the reserve fund.
  - d) Contribute annually at prescribed percentage of the profits as approved by the General body of the society.
- 4) Which of the following need not be included by the audit team as a part of audit documentation during handling of their respective assignments?
- a) Significant and specific contracts and agreements.
  - b) Draft audit engagement letter.
  - c) Summaries of significant matters.
  - d) Checklists.

#### Answers to Case Study:

- 1) **Option (d)** They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.  
**Reason:** As per SA 299, "Joint Audit of Financial Statements", joint auditors are required to issue common audit report. However, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to each other's audit report(s).
- 2) **Option (a)** In writing off the debit balance in the Profit & Loss account.  
**Reason:** The securities premium account cannot be applied by the Company for writing off the debit balance in the Profit & Loss account.
- 3) **Option (a)** Contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.  
**Reason:** According to section 34, a registered society may, with the sanction of the Registrar, contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose as defined in section 2 of the Charitable Endowments Act, 1890.
- 4) **Option (b)** Draft audit engagement letter.

**Reason: Audit Documentation includes:**

- Audit programmes.
- Analyses.
- Issues memoranda.
- Summaries of significant matters.
- Letters of confirmation and representation.
- Checklists.
- Correspondence (including e-mail) concerning significant matters.
- Significant and specific contracts and agreements.

Thus, Draft audit engagement letter is not included in Audit Documentation.

## Case Scenario 21

(ICAI MCQ Booklet) / (Model Test Paper-3) / (Sept.24)

**Mega Power Ltd. is a manufacturer of solar lanterns, which are used in remote villages where there is no reliable supply of electricity. However, due to power projects undertaken by the government, the demand for their solar lanterns has significantly declined over the past few years.**

**The company was in need of ₹ 2 crores for working capital and other expenses but was not able to fund this amount. Consequently, their suppliers were paid much later than usual and hence some of them withdrew the credit terms, meaning the company had to pay cash on delivery. This created a severe cash crunch, and the auditor feels that other than the cash crunch, there are several other financial indicators that cast a significant doubt on the company's ability to continue as a going concern.**

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

**The auditor has concerns about ethical values and diligence of management. He is concerned about the reliability of the representations made by the management and the**

audit evidence in general. The auditor is of the opinion that the written representations from management are not reliable.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Financial events or conditions that may cast significant doubt on the entity's ability to continue as a going concern does not include
  - a) Inability to comply with the terms of loan agreements.
  - b) Inability to pay creditors on due dates.
  - c) Shortage of important supplies.
  - d) Substantial operating losses.
- 2) Which type of audit report will the auditor issue, if the use of going concern basis of accounting is appropriate, but a material uncertainty exists and adequate disclosure of the material uncertainty is made in the financial statements by the management?
  - a) Adverse opinion.
  - b) Disclaimer of opinion.
  - c) Unmodified opinion.
  - d) Qualified opinion.
- 3) If the auditor is of the opinion that the written representations are not reliable, what type of audit opinion should be issued by him?
  - a) Disclaimer of opinion.
  - b) Adverse opinion.
  - c) Unmodified opinion and mention the facts in Other Matters Paragraph.
  - d) Unmodified opinion and mention the facts in Emphasis of Matter Paragraph.

**Answers to Case Study:**

- 1) **Option (c)** Shortage of important supplies.

**Reason:** As per SA 570, "Going Concern", shortage of important supplies does not come under events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

- 2) **Option (c)** Unmodified opinion.

**Reason:** As per SA 570, "Going Concern", the auditor shall issue unmodified opinion if the use of going concern basis of accounting is appropriate, but a material uncertainty exists,

and adequate disclosure of the material uncertainty is made in the financial statements by the management.

### 3) Option (a) Disclaimer of opinion.

**Reason:** If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with SA 705, having regard to the requirement of disclaimer of opinion.

## Case Scenario 22

(ICAI MCQ Booklet) / (Model Test Paper-8)

Renu & Associates have been appointed as the auditors for Kailash Ltd., a manufacturing industry, for the financial year 2023-24. During the audit, one of the Engagement Partner CA Renu noticed a significant increase in raw material consumption in comparison to previous years, despite a decrease in production volumes. This raised concerns, instigating a detailed review of the vendors supplying these raw materials. Upon inquiry, the management explained that the company had transitioned to a new vendor offering premium materials to improve product quality.

Additionally, CA Renu observed that several credit notes were issued after the end of the accounting period.

During the verification of immovable properties, she discovered that Kailash Ltd. had pledged one of its commercial properties as security for a bank loan. However, the company did not possess the original title deeds for that property.

Further, CA Renu conducted a stock audit of a borrower availing a cash credit facility of ₹ 100 lacs from a bank branch. The cash credit facility was secured against paid stocks and debtors up to 90 days, with a margin of 25% for stocks and 40% for debtors. She observed that the computed drawing power of ₹ 82.50 lacs was incorrect, based on the following information as on 31.12.2023:

Value of stocks	₹ 125 lacs
Value of stocks (fully damaged) included in above	₹ 5 lacs
Value of debtors	₹ 50 lacs
Value of debtors exceeding 90 days included in above	₹ 10 lacs
Value of creditors for goods	₹ 50 lacs

CA. Renu also served as the statutory auditor for a multiplex cinema. During the audit, Madhu, an articled trainee, identified discrepancies between ticket sales and recorded revenue. She also noted that certain complimentary tickets were not properly accounted for.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) What audit procedure should auditor perform to check ownership of commercial property discussed in the scenario?
  - a) The auditor should request management to obtain confirmation from the bank for holding original title deeds of pledged immovable property are held as security.
  - b) The auditor can obtain a list of immovable properties from management at Kailash Ltd., along with management's representation regarding the ownership of these properties.
  - c) If the auditor is unable to verify the original title deeds of the pledged property, they may need to qualify the audit report accordingly.
  - d) The auditor can assume ownership of immovable properties without obtaining a written representation from management, as long as there is a general understanding of the assets.
  
- 2) Which assertion is the auditor evaluating while verifying the existence of vendors and the actual receipt of goods or raw materials by the company?
  - a) Occurrence.
  - b) Completeness.
  - c) Measurement.
  - d) Existence.
  
- 3) What could be the possible reasons for issuing credit notes after the end of the accounting period as mentioned in the above case?
  - a) Fictitious sales by the sales team to meet targets and cancel out those sales later with a credit note.
  - b) Ensuring necessary corrections are reflected in the financial records for accuracy.
  - c) When issues arise that lead to customer dissatisfaction, credit notes may be issued to resolve these disputes amicably.
  - d) Such adjustments may be made based on negotiations or changes in market conditions that occurred post-period.



- 4) What procedure should the auditor perform to reconcile discrepancies in ticket sales?
- a) Compare issued ticket stubs with recorded online sales data.
  - b) Rely on management's estimates for ticket sales.
  - c) Ignore complimentary ticket records.
  - d) Verify only cash sales, not online transactions.
- 5) In the given case, CA Renu found that the drawing power calculated was incorrect. What should be the correct drawing power?
- a) ₹ 75.00 lacs.
  - b) ₹ 76.50 lacs.
  - c) ₹ 78.00 lacs.
  - d) ₹ 74.50 lacs.

**Answers to Case Study:**

- 1) **Option (a)** The auditor should request management to obtain confirmation from the bank for holding original title deeds of pledged immovable property are held as security.
- Reason:** The auditor should insist and verify the original title deeds for all immoveable properties held as at the balance sheet date. In case the entity has given such immoveable property as security for any borrowings and the original title deeds are not available with the entity, the auditor should request the entity's management for obtaining a confirmation from the respective lenders that they are holding the original title deeds of immoveable property as security.
- 2) **Option (a)** Occurrence.
- Reason:** While testing occurrence assertion, auditor checks whether any fictitious vendors have been booked or purchases have been recorded by reviewing the vendor selection process followed by the entity and also performing procedures to ensure existence of the vendors.
- 3) **Option (a)** Fictitious sales by the sales team to meet targets and cancel out those sales later with a credit note.
- Reason:** Auditors should verify the credit notes issued after the accounting period. Sometimes sales team or sales personnel can make fictitious sales before the year end to meet performance target and cancel out those sales with a post year end credit note.

## 4) Option (a)

## 5) Option (b) ₹ 76.50 lacs.

Reason:

The computation of Drawing power is as under: -

Particulars	In (₹)
Value of stocks as on 31.12.22	₹ 125 lacs
Less: value of damaged stocks	₹ 5 lacs
	₹ 120 lacs
<b>Less:</b> creditors for goods as on 31.12.22	₹ 50 lacs
Value of Paid stocks	₹ 70.00 lacs
<b>Less:</b> Margin @ 25%	₹ 17.50 lacs
Drawing power (A)	₹ 52.50 lacs
Value of debtors as on 31.12.22	₹ 50 lacs
<b>Less:</b> debtors exceeding 90 days	₹ 10 lacs
	₹ 40 lacs
<b>Less:</b> Margin @ 40%	₹ 16 lacs
Drawing Power (B)	₹ 24 lacs
Drawing Power (A+B)	₹ 76.50 lacs

The drawing power calculated by CA P is not proper. Drawing Power comes to ₹ 76.50 lacs.

### Case Scenario 23

(ICAI MCQ Booklet) / (RTP May 24)

CA Neel / CA M. Raja has accepted the offer of appointment of an auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard.

He wants reasonable assurance that the accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

Further, during the course of audit, he has noticed as under:

- As required by the management, bank reconciliation is required to be performed monthly. However, the same is not carried out as stipulated due to time constraints faced by accountant.
- The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.
- Wage sheets are not verified by a responsible official as required by management.
- Staff of the entity is responsible for bringing cash from centers in nearby areas to entity's premises from where it is deposited into entity's bank account. However, the concerned officer has not renewed insurance for cash in transit.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) The auditor has performed procedures to obtain audit evidence about design and implementation of controls. Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?
  - a) Observing application of control.
  - b) Inspecting documentation pertaining to control.
  - c) Inquiry about application of control.
  - d) Studying design of control.
- 2) Examination and evaluation of internal control is indispensable for CA Neel/ CA M. Raja, It provides him necessary comfort relating to completeness of accounting information. However, review of internal controls of the entity will not enable him to know\_\_\_\_\_.
  - a) Whether errors or frauds are likely to be located in ordinary course of operations of business.
  - b) Whether an effective internal audit department is operating.
  - c) Whether his opinion needs modification.
  - d) Whether any administrative control has bearing on his work.
- 3) As regards weaknesses identified by the auditor in control system, which of the following represent(s) significant deficiencies in internal control?
  - a) Not performing bank reconciliation timely and not verifying wage sheets by responsible official only.

- b) Not performing bank reconciliation timely and lack of proper sequence in purchase orders only.
  - c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit.
  - d) Lack of insurance for cash in transit only.
- 4) Which of the following is most appropriate regarding auditor's responsibility in accordance with SA 265?
- a) To communicate significant deficiencies in internal control to management.
  - b) To communicate significant deficiencies in internal control along with explanation of their potential effects to management.
  - c) To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control.
  - d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management.

### Answers to Case Study:

- 1) **Option (a)** Observing application of control.

**Reason:** Observation consists of looking at a process or procedure being performed by others. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

- 2) **Option (c)** Whether his opinion needs modification.

**Reason:** The review of internal controls will not enable the auditor to know whether his opinion needs modification.

- 3) **Option (c)** Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit.

**Reason:** The significance of a deficiency or a combination of deficiencies in internal control depends not only on whether a misstatement has actually occurred, but also on the likelihood that a misstatement could occur and the potential magnitude of the misstatement. Significant deficiencies may, therefore, exist even though the auditor has not identified misstatements during the audit.

- 4) **Option (d)** To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management.

**Reason:** Communication in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis giving their description, explanation of potential effects and sufficient information by the auditor to those charged with governance and management to understand context of communication.

## Case Scenario 24

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

Hill Ltd., a company engaged in the business of trekking essentials, appointed CA Gagan as the statutory auditor for the year. Due to the large volume of transactions of the company, the audit engagement team of CA Gagan realised that it would not be feasible to audit each transaction separately during the financial year under audit. Therefore, the Engagement Partner decided to apply following audit sampling techniques:

- Random number tables were used for selection of sample for power, telephone, and fuel charges.
- No structured method of sampling was used for office stationery.
- Transactions exceeding ₹ 8,000 were selected for travel expenses.
- The first 200 sales invoices from the sales book for the month of July were selected for sales.

Mr. Kush, one of the team members, compared the salary expenses incurred by the company during the current year with those of the previous five years. He noticed a significant percentage increase in the expenses. This unusual increase raised doubts in his mind. He decided to compare such an increase in salary expenses with the increase in the number of employees.

The company is having warehouse at 2 locations. CA Gagan is planning to attend the physical inventory count process. The inventory includes finished products such as trekking jackets, bags, shoes etc., and raw materials like leather, cloth, chemicals, etc. Some of the inventory is also held by a third party.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the sampling techniques were used for the following transactions?
  - i) Power, telephone and fuel charges.
  - ii) Office Stationery.
  - iii) Travel expenses.
  - iv) Sales.

(Answer in the given order)

  - a) Random sampling, Systematic sampling, Monetary unit sampling, Block sampling.
  - b) Systematic sampling, Random sampling, Block sampling, Haphazard sampling.
  - c) Random sampling, Haphazard sampling, Monetary unit sampling and Block sampling.
  - d) Random sampling, Haphazard sampling, Monetary unit sampling and Systematic sampling.
- 2) Which audit procedure was Mr. Kush intended to perform by comparing salary expenses?
  - a) Test of details.
  - b) Test of balances.
  - c) Test of control.
  - d) Substantive analytical procedure.
- 3) Which of the following is not part of CA Gagan's responsibility with respect to the inventories held by the third parties?
  - a) CA Gagan should request confirmation from the third party regarding the quantity and condition of the inventory held by them.
  - b) CA Gagan should perform an independent valuation of the inventory based solely on the company's internal records.
  - c) CA Gagan should request the third party to allow him to physically inspect the inventories held by them.
  - d) CA Gagan should review the terms of the agreement between the company and the third party to understand the responsibilities related to inventory management.

**Answers to Case Study:**

1) **Option (c)** Random sampling, Haphazard sampling, Monetary unit sampling and Block sampling.

**Reason:**

- a) **Random Sampling:** Random selection ensures that all items in the population or within each stratum have a known chance of selection.
- b) **Haphazard sampling:** Haphazard selection, in which the auditor selects the sample without following a structured technique.
- c) **Monetary Unit Sampling:** It is a type of value-weighted selection in which sample size, selection and evaluation results in a conclusion in monetary amounts.
- d) **Block Sampling:** This method involves selection of a block(s) of contiguous items from within the population.

2) **Option (d)** Substantive analytical procedure.

**Reason:** Trend analysis is a commonly used technique of substantive analytical procedure. It is the comparison of current data with the prior period balance or with a trend in two or more prior period balances. The auditor evaluates whether the current balance of an account moves in line with the trend established with previous balances for that account, or based on an understanding of factors that may cause the account to change.

3) **Option (b)** CA Gagan should perform an independent valuation of the inventory based solely on the company's internal records.

**Reason:** Performing an independent valuation of the inventory based solely on the company's internal records is not part of CA Gagan's responsibility with respect to the inventories held by the third parties.

## Case Scenario 25

(ICAI MCQ Booklet) / (Jan., 25)

PKH & Associates, a Chartered Accountant firm, is practicing in Mumbai since last two decades. Rahul got the opportunity to work as an article clerk with PKH & Associates. After completion of formalities of article clerk registration, Rahul is placed in the statutory audit team of the firm. CA P, the partner heading audit team, planned to take Rahul in the audit work of M/s Fox India Limited for the financial year 2023-24. Till last year, CA K was the head of the audit team for audit of M/s Fox India Limited. As it is the first assignment of Rahul, he was instructed by the partner to go through the audit file of M/s Fox India Limited for the financial year 2022-23 and familiarise himself with audit procedures and methodology to be followed for upcoming audit assignment.

On-going through the audit file of F.Y. 2022-23, Rahul found revised engagement letter, other working papers relating to MAT & Deferred tax calculations and the following extract on verification of expenses:

Name of concern M/s. Fox India Limited

Financial Year 2022-23

Prepared by D (05.05.2023)

Reviewed by F (06.05.2023)

Approved by CA K (07.05.2023)

Sr. No.	Nature of Procedure	Extent of Check	Basis of Sample	Done by
1.	Vouch few expense invoices available in record of concern	10%	Random Sampling	D
2.	Trace these invoices into the account books of the concern.	10%	Random Sampling	D
3.	Verify few invoices with the GST data of the concern	10%	Random Sampling	D

Rahul immediately drafted a revised engagement letter for the financial year 2023-24 and also specified the scope of audit to include the following statements:



Statement I: Reliability and sufficiency of financial information,  
Statement II: Proper disclosure of financial information,  
Statement III: Responsibility of an auditor to prepare the financial statements, and  
Statement IV: Coverage of all aspects of entity relevant to the financial statements being audited.

He thought that it is mandatory to obtain engagement letter every year and handed over revised draft to CA P. CA P is surprised as to why Rahul drafted the same and explained him the situations under which it is necessary to obtain a revised engagement letter.

Before finalising the audit report of M/s. Fox India Limited for the F.Y. 2023-24, Rahul performed the following procedures regarding subsequent events:

- i) Obtained an understanding of procedures established by the company to ensure that subsequent events are identified.
- ii) Inquired management of the company as to whether any subsequent events have occurred which affects the financial statements as on 31.03.2024.
- iii) Read the entity's latest subsequent interim financial statements.
- iv) Read the minutes of meetings of M/s. Fox India Limited that have been held up to 31.03.2024.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the following would not form part of the explanation given by CA P to Rahul?
  - a) A recent change of senior management.
  - b) A significant change in nature or size of the entity's business.
  - c) Replacement of CA K by CA P.
  - d) A change in legal or regulatory requirements.
- 2) Which of the statements included by Rahul in revised draft engagement letter is incorrect?
  - a) Statement I.
  - b) Statement II.
  - c) Statement III.
  - d) Statement IV.

- 3) How will you categorise the information pertaining to F.Y. 2022-23 in relation to extract found?
- The same was a part of Audit plan.
  - The same was a part of Audit programme.
  - The same was a part of Audit guidelines.
  - The same was a part of Audit procedures.
- 4) Which of the audit procedure performed (before finalising the audit report of M/s. Fox India Limited) by Rahul is not as per SA 560?
- Procedure (i).
  - Procedure (ii).
  - Procedure (iii).
  - Procedure (iv).

**Answers to Case Study:**

- 1) **Option (c)** Replacement of CA K by CA P.

**Reason:** As per SA 210 replacement of head of audit team does not comes under factor that may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms.

- 2) **Option (c)** Statement III.

**Reason: Scope of audit of financial statements:**

- Coverage of all aspects of entity relevant to the financial statements being audited.
- Reliability and Sufficiency of financial information.
- Proper disclosure of financial information.
- Expression of an opinion on financial statements.

- 3) **Option (b)** The same was a part of Audit programme.

**Reason:** An audit programme is a detailed plan of applying the audit procedures in the given circumstances with instructions for the appropriate techniques to be adopted for accomplishing the audit objectives.

**4) Option (d) Procedure (iv).**

**Reason:** Reading minutes, if any, 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 matters discussed at any such meetings for which minutes are not yet available.

## Case Scenario 26

(ICAI MCQ Booklet) / (Jan., 25)

CA F has been appointed as an auditor of a manufacturing entity. Pursuant to appointment, CA F planned to assess the risk of material misstatement. During this process, CA F observed that entity has identified various controls to mitigate the risk. The entity has implemented a control (named TARGET) whose objective is to ensure that production systems are processed to meet financial reporting objectives.

On completion of risk assessment procedure, CA F was wandering as to how he can verify the existence of related party relationships and transactions. So, he consulted one of his colleagues, CA Z, who suggested following ways to identify the same:

- 1) Information supplied by the entity to regulatory authorities.
- 2) Entity's income tax returns.
- 3) Inventory records maintained by the entity.
- 4) Life insurance policies acquired by the entity. On-going through the financial statement provided by the entity, CA F observed that the entity has significantly borrowed the amount during the financial year 2023-24. CA F wanted to ensure that all borrowing on the balance sheet represent valid claims by banks or other third parties. Accordingly, he performed the following procedures:
  - i) Reviewed subsequent transactions after the end of the reporting period.
  - ii) Recomputed the interest on borrowing.
  - iii) Reviewed board minutes for approval of new lending agreements.
  - iv) Agreed loan balance and loan payables to the loan agreement.

CA F decided to perform analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price. For this, CA F scrutinised raw material consumed as per manufacturing account and compared the same with previous years with closing stock. The variations observed were discussed with the management of the entity.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Control "TARGET" will be categorised in which of the following?
  - a) Data center and network operations.
  - b) Program Control.
  - c) Processing control.
  - d) Application Control
  
- 2) Which of the procedures performed by CA F is suitable for satisfaction of concern regarding borrowing?
  - a) Procedure (i).
  - b) Procedure (ii).
  - c) Procedure (iii).
  - d) Procedure (iv).
  
- 3) Do you agree with all the ways suggested by CA Z to CA F?
  - a) No. Suggestion (i) is not correct.
  - b) No. Suggestion (ii) is not correct.
  - c) No. Suggestion (iii) is not correct.
  - d) No. Suggestion (iv) is not correct.
  
- 4) CA F performed which of the following analytical procedures to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material?
  - a) Consumption Analysis
  - b) Stock Composition Analysis.
  - c) Trend Analysis.
  - d) Ratio Analysis.

**Answers to Case Study:**

- 1) Option (a) Data center and network operations.

**Reason:** The objective of controls over Data centre and network operations is to ensure that production systems are processed to meet financial reporting objectives.

**2) Option (c) Procedure (iii).**

**Reason:** To ensure that all borrowing on the balance sheet represent valid claims by banks or other third parties, auditor should review board minutes for approval of new lending agreements.

**3) Option (c) No. Suggestion (iii) is not correct.**

**Reason:** During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the following records or documents that may provide information about related party relationships and transactions. He will not inspect inventory records maintained by the entity for verifying the existence of related party relationships and transactions.

**4) Option (a) Consumption Analysis.**

**Reason:** In Consumption Analysis, auditor should scrutinise raw material consumed as per manufacturing account and compare the same with previous years with closing stock and ask for the Reasons from the management, if any significant variations are found.

## Case Scenario 27

(ICAI MCQ Booklet) / (Jan., 25)

**GNH & Co., Chartered Accountants, has been appointed as the statutory branch auditors of Chandigarh branch of HFC Bank, a nationalised bank. While carrying out the audit, the following key issues were identified:**

**Issue 1:**

**Consortium Cash Credit Facility granted to X Ltd.:** HFC Bank is a consortium member providing cash credit facilities of ₹ 50 crores to X Ltd., with HFC's share being ₹ 10 crores. Over the past two quarters, interest amounting to ₹ 1.75 crores have been debited in cash credit account of X Ltd., while credits in the account amounts to only ₹ 1.25 crores. Despite this shortfall, the account has been classified as performing asset, based on a certificate from the lead bank (UNC Bank Limited).

**Issue 2:**

**Asset Classification of SJ Ltd.:** SJ Ltd.'s account has seen no recovery for the past 18 months. However, the bank has not applied NPA norms or income recognition norms

to this account. The management justifies this by stating that the account is guaranteed by the Central Government and that NPA and income recognition norms are not applicable. Government has not invoked the guarantee.

**Issue 3:**

**Loan Application from ABC Traders:** ABC Traders has applied for a cash credit limit from HFC Bank for supporting working capital requirements on account of business expansion. In discussions with ABC Traders, HFC Bank has requested different forms of security, depending on the nature of the assets offered, which includes immovable property (warehouse), goods in stock, accounts receivable, and insurance policies. Borrower provided the security and was sanctioned cash credit limit of ₹ 4.50 Crores.

**Issue 4:**

**Precision Engineering** (one of the borrowers of the branch) has utilised the entire sanctioned cash credit limit of ₹ 300.00 Lacs. Outstanding balance as on 31 March 2024 is ₹ 308.00 Lacs. Bank classified the account as Substandard Asset. One fine day DGM (Inspection) of Bank was passing through the area in which borrower is located and observed that building occupied by the borrower is damaged and there is no machinery, stock and other assets available in the premises. Borrower was not available telephonically and no contact could be made with him. He ordered independent verification of assets and report was submitted that no security mortgaged with bank is available. Report has been accepted by the bank authorities. Only a piece of land with realisable value ₹ 25 Lacs is available as of now. Bank made a provision in its books of accounts considering the account as Substandard Asset.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Whether the asset classification of account of X Limited is correct?
- a) Classification is correctly done on the basis of certificate provided by UNC Bank Limited.
  - b) Classification is correctly done subject to confirmation from the Central statutory auditor of the bank.
  - c) Classification is correctly done subject to confirmation from the Central statutory auditor of the bank and also other parameters specified in the RBI guidelines have been followed.
  - d) Classification is not in order as classification has to be done on the basis of record of recovery of the HFC Bank only.

- 2) Is the bank's decision not to apply NPA and income recognition norms to account of SJ Ltd. valid under regulatory guidelines?
- a) The bank is correct to the extent of not applying the NPA norms for provisioning purposes. However, this exemption is not available in respect of income recognition norms.
  - b) The bank is not correct for not applying the NPA norms for provisioning purposes. But this exemption is available in respect of income recognition norms.
  - c) The bank is correct in not applying the NPA norms and income recognition norms as both are not applicable.
  - d) The bank is not correct in not applying the NPA norms and income recognition norms as both are applicable.
- 3) ABC Traders offered its warehouse as security for the loan. HFC Bank created a charge on the warehouse. Which form of security has been created and whether bank is required to get stock audit done of cash credit account of ABC Traders?
- a) Security created is Pledge and bank is required to get stock audit done of cash credit account of ABC Traders.
  - b) Security created is Mortgage and bank is required to get stock audit done of cash credit account of ABC Traders.
  - c) Security created is Pledge and bank is not mandatorily required to get stock audit done of cash credit account of ABC Traders.
  - d) Security created is Mortgage and bank is not mandatorily required to get stock audit done of cash credit account of ABC Traders.
- 4) Whether correct classification and provisioning norms have been applied in the account of Precision Engineering?
- a) The account is correctly classified, but provision should be made for 100% of the unsecured portion besides making specified provision on secured portion.
  - b) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for 100% of the unsecured portion.
  - c) The account should have been classified as loss asset and full provision should have been made in the books of accounts.

- d) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.

### Answers to Case Study:

- 1) **Option (d)** Classification is not in order as classification has to be done on the basis of record of recovery of the HFC Bank only.

**Reason:** Consortium advances should be based on the record of recovery of the respective individual member banks and other aspects having a bearing on the recoverability of the advances. Where the remittances by the borrower under consortium lending arrangements are pooled with one bank and/or where the bank receiving remittances is not parting with the share of other member banks, the account should be treated as not serviced in the books of the other member banks and therefore, will be classified as an NPA.

- 2) **Option (a)** The bank is correct to the extent of not applying the NPA norms for provisioning purposes. However, this exemption is not available in respect of income recognition norms.

**Reason:** Central Government guaranteed Advances, where the guarantee is not invoked/repudiated would be classified as Standard Assets but regarded as NPA for Income Recognition purpose.

- 3) **Option (d)** Security created is Mortgage and bank is not mandatorily required to get stock audit done of cash credit account of ABC Traders.

**Reason:** A pledge involves bailment or delivery of goods by the borrower to the lending bank with the intention of creating a charge thereon as security for the advance. In case of Assets security created is Mortgage. Further, the stock audit should be carried out by the bank for all accounts having funded exposure of more than 5 crores in the given case cash credit limit is ₹ 4.50 Crores.

- 4) **Option (c)** The account should have been classified as loss asset and full provision should have been made in the books of accounts.

**Reason:** If the realisable value of the security, as assessed by the bank/ approved valuers/ RBI is less than 10% of the outstanding in the borrower accounts, the existence of security should be ignored and the asset should be straight-away classified as loss asset. It may be either written off or fully provided for by the bank.



## Case Scenario 28

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

A government department has been allocated a budget for infrastructure development. During the audit, the auditor observed several discrepancies that raise concern regarding the management and utilisation of funds. The key findings include:

- Some payments were processed without proper approval from the competent authority.
- A large-scale project was implemented, but no assessment was made to determine whether the expected benefits were achieved or not.
- Funds were utilised from an account for which no budgetary provision had been made.
- Certain expenditures were made without adhering to prescribed financial regulations.
- There were instances of unnecessary spending that did not align with the principles of financial propriety.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which type of audit would most likely identify the issue of payments processed without proper approval from the competent authority?
  - a) Audit against Rules & Orders.
  - b) Audit of Sanctions.
  - c) Audit against Provision of Funds.
  - d) Propriety Audit.
- 2) Which type of audit would evaluate whether the expected benefits of a large-scale infrastructure project were achieved?
  - a) Propriety Audit.
  - b) Audit against Rules & Orders.
  - c) Audit of Sanctions.
  - d) Performance Audit.
- 3) Out of the following, which audit would address the issue of funds being utilised from an account with no budgetary provision?
  - a) Audit against Provision of Funds.
  - b) Audit of Sanctions.

- c) Performance Audit.
  - d) Audit against Rules & Orders.
- 4) Which audit type would be relevant to detect expenditures made without following prescribed financial regulations?
- a) Performance Audit.
  - b) Audit against Rules & Orders.
  - c) Audit against Provision of Funds.
  - d) Audit of Sanctions.
- 5) What type of audit would most effectively identify instances of unnecessary spending that do not align with financial propriety?
- a) Performance Audit.
  - b) Audit of Sanctions.
  - c) Propriety Audit.
  - d) Audit against Rules & Orders.

#### **Answers to Case Study:**

**1) Option (b) Audit of Sanctions.**

**Reason:** When payments are processed without proper approval from the competent authority, an Audit of Sanctions is required. This ensures that there is sanction, either special or general, accorded by competent authority authorising the expenditure.

**2) Option (d) Performance Audit.**

**Reason:** In cases where a large-scale project has been implemented without any assessment of whether the expected benefits were achieved, a Performance Audit is necessary. This type of audit ensures that the various programmes, schemes and projects where large financial expenditure has been incurred are being run economically and are yielding results expected of them.

**3) Option (a) Audit against Provision of Funds.**

**Reason:** When funds were utilised from an account for which no budgetary provision was made, an Audit Against Provision of Funds is conducted. This ensures that there is a

provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority.

**4) Option (b) Audit against Rules & Orders.**

**Reason:** If expenditure is made without adhering to the prescribed financial regulations, an Audit Against Rules and Orders is applicable. This audit ensures that the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the Financial Rules and Regulations framed by the competent authority.

**5) Option (c) Propriety Audit**

**Reason:** Instances of unnecessary spending that do not align with financial propriety fall under the scope of a Propriety Audit. It ensures that the expenditure is incurred with due regard to broad and general principles of financial propriety.

## Case Scenario 29

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

CA Sumit, working in BRS & Associates, Chartered Accountants, has been assigned to prepare the year-end financial statements for a rapidly growing tech startup, "InnoTech". The company has been under pressure to show strong financial results to attract new investors. Sumit's manager, Viraj, has instructed him to arrange some of the numbers, particularly the reported revenues and expenses, to present a more favourable picture of the company's financial health.

During the preparation of the Financial Statements, CA Sumit noticed several irregularities, such as overstated revenues and understated liabilities. Although these adjustments are not explicitly illegal, they could mislead investors and stakeholders. Sumit also knows that Viraj has developed good family terms with the CEO of InnoTech over the year.

As Sumit continues working on the financial statements, he realised that the pressure to comply with Viraj's requests could violate his fundamental principles of professional ethics. He must decide whether to sign off on the reports or to raise his concerns, risking his professional relationship with Viraj and the firm.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the following fundamental principles of ethics is being violated when Sumit was instructed to present a more favourable picture of the company's financial health?
  - a) Professional competence and due care.
  - b) Integrity.
  - c) Objectivity.
  - d) Professional behaviour.
  
- 2) Which type of threat arises in case of development of relationship with CEO of InnoTech?
  - a) Advocacy Threat.
  - b) Self-interest Threat.
  - c) Intimidation Threat.
  - d) Familiarity Threat.
  
- 3) Which principle would Sumit violate if he disclosed financial details to a third party without the permission of the company?
  - a) Integrity.
  - b) Professional behaviour.
  - c) Confidentiality.
  - d) Professional competence and due care.

**Answers to Case Study:**

- 1) Option (b) Integrity.

**Reason:** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships. Integrity implies fair dealing and truthfulness.

- 2) Option (d) Familiarity Threat.

**Reason:**

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

### 3) Option (c) Confidentiality.

**Reason:** Confidentiality principle requires a professional accountant to respect the confidentiality of information acquired as a result of professional or business relationships.

## Case Scenario 30

(ICAI MCQ Booklet) / (Model Test Paper-1)

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

The engagement partner has asked him to prepare a summary of non-funded credit facilities outstanding as on balance sheet date. The following information is appearing in branch's CBS data/records as on 31st March 2024:

Serial number	Particulars in CBS (Core Banking solution)/ records	Amount in ₹ crores
1.	Agricultural term loans	15.00
2.	Staff housing loans	3.50
3.	Staff vehicle loans	0.20
4.	Housing loans-General public	10.00
5.	Letters of credit issued	2.50
6.	Education loans	1.50
7.	Guarantees issued (Fully secured by 100% margin)	1.00
8.	Bills purchased and discounted	2.00
9.	Bills for collection	0.10

On going through listing of housing loans to general public, CA B notices that branch has sanctioned many housing loans of small ticket size ranging between ₹ 10.00 lakhs to ₹ 20.00 lakhs. Therefore, he has assessed risk of material misstatements to be high.

Consequently, he has designed procedures to perform tests of controls as well as substantive tests.

Saurabh has been further asked to go through SMA (Special Mention Accounts) jotting as on 30<sup>th</sup> November 2023. Such reports are available from system on monthly frequency. Being new to such type of assignment, he is unable to understand relevance of above audit procedure mandated by engagement partner.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Considering table given in the case scenario, which of the following combination is an appropriate example of non-funded credit facilities provided by the branch to its customers?
  - a) Bills purchased and discounted; bills for collection.
  - b) Bills for collection; staff housing loans; letters of credit issued.
  - c) Bills purchased and discounted; letters of credit issued; guarantees issued (fully secured by 100% margin).
  - d) Letters of credit issued, guarantees issued (fully secured by 100% margin).
- 2) CA B's decision to perform both tests of control as well as substantive tests was taken after he had assessed risk of material misstatement in financial statements to be high due to large number of small ticket size loans. Which Standard on Auditing deals with auditor's responsibility to design such tests?
  - a) SA 500.
  - b) SA 330.
  - c) SA 300.
  - d) SA 315.
- 3) Saurabh is unable to understand the relevance of going through SMA jotting as on 30<sup>th</sup> November 2023. Which of the following statement is most appropriate in this context?
  - a) It would necessarily help auditor in identifying accounts with significant lending exposure.
  - b) It would help auditor in identifying accounts which may involve downgrading from Sub-standard asset category to doubtful category.
  - c) It would help auditor in identifying accounts where substantial recoveries have been received during the year.

- d) It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.

**Answers to Case Study:**

- 1) **Option (d)** Letters of credit issued, guarantees issued (fully secured by 100% margin).

**Reason:** Non-funded facilities are those which do not involve such transfer. Examples of non-funded loans are Letters of credit, Bank guarantees, etc.

- 2) **Option (b)** SA 330.

**Reason:** SA 330, "The Auditor's Responses to Assessed Risks", states that: -

- i) The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.
- ii) The auditor shall design and perform further audit procedures whose nature, timing and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level.

- 3) **Option (d)** It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.

**Reason:** Special Mention Account (SMA) is an account which exhibits signs of incipient stress resulting in the borrower defaulting in timely servicing of debt obligations, though the account has not yet been classified as NPA as per the RBI guidelines. Such a classification is significant as early recognition of such accounts enables banks to initiate timely remedial actions to prevent potential slippages of such accounts into NPAs.

## Case Scenario 31

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

Wire Ltd. is a leading electronics manufacturer specialising in televisions and accessories. The company has grown rapidly over the last few years, with a significant increase in both employees and inventory. The company is currently in the process of preparing its financial statements for the F.Y. 2023-24. The company appointed CA Ravi for an independent audit to ensure compliance with Accounting Standards and Standards on Auditing. CA Ravi, the auditor will focus on key financial assertions and implement specific audit procedures for the following items.

- **Employee Benefit Expenses:**

CA Ravi will review whether employee benefit expense has been incurred during the period in respect of the personnel employed by the entity and does not include the cost of any unauthorised personnel.

- **Inventory:**

i) CA Ravi will check Inventory balance as at the year-end does not include any element of next financial year. All items of inventory pertaining to the relevant year shall be included regardless of the location.

ii) He will verify whether the entity owns or controls the inventory recorded in the financial statements i.e. the purchase invoices have been made in the name of client. Any inventory held by the entity on behalf of another entity has not been recognised as part of inventory of the entity.

iii) He will also check that Inventory has been recognised at the lower of cost and net realisable value in accordance with AS 2 - Inventories.

iv) He will also ensure that any costs that could not be reasonably allocated to the cost of production and any abnormal wastage have been excluded from the cost of inventory. An acceptable valuation basis (e.g. FIFO, Weighted average etc.) has been used to value inventory as at the period-end.

By performing these procedures, the auditor will ensure that the financial statements reflect the true and fair financial position of the company.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

1) Which assertion is the auditor testing when they verify that employee benefit expenses do not include the cost of unauthorised personnel?

a) Completeness.



- b) Occurrence.
  - c) Valuation.
  - d) Existence.
- 2) All the items of inventory pertaining to the relevant year shall be included regardless of the location, which assertion is the auditor testing?
- a) Completeness.
  - b) Accuracy.
  - c) Rights and Obligations.
  - d) Cut-off.
- 3) The auditor reviews purchase invoices have been made in the name of client. Which assertion is he primarily testing?
- a) Valuation.
  - b) Rights and Obligations.
  - c) Completeness.
  - d) Occurrence.
- 4) When the auditor assesses whether inventory has been valued at the lower of cost and net realisable value, which assertion does he wants to test?
- a) Valuation.
  - b) Completeness.
  - c) Existence.
  - d) Occurrence.

**Answers to Case Study:**

- 1) Option (b) Occurrence.

**Reason:** As per Occurrence assertion the auditor is required to check that whether employee benefit expense has been incurred during the period in respect of the personnel employed by the entity.

**2) Option (d) Cut-off.**

**Reason:** Since inventory balance as at the yearend does not include any element of next financial year. All items of inventory pertaining to the relevant year shall be included regardless of the location, here assertion tested by auditor is Cut-off.

**3) Option (b) Rights and Obligations.**

**Reason:** As per Rights and Obligations assertion the auditor needs to verify that the entity owns or controls the inventory recorded in the financial statements i.e. the purchase invoices have been made in the name of client.

**4) Option (a) Valuation.**

**Reason:** As per Valuation assertion the auditor assesses whether inventory has been recognised at the lower of cost and net realisable value in accordance with AS 2 - Inventories.

### Case Scenario 32

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

CA Nagar is the managing partner of Nagar & Co., a CA Firm. As part of the firm's annual review, CA Nagar assessed whether any independence threats exist in the firm for the F.Y. 2023-24. The firm has recently taken on multiple clients and engagements, and CA Nagar has noted a few observations regarding the independence of the firm's staff and partners.

CA Nagar wants to classify and evaluate the threats to the firm's independence based on the observations received from the staff and partners for the year.

**Observations:**

Observation 1: CA P, a partner of the firm, performed both the statutory audit and the non-audit engagement services for Green Pvt. Ltd.

Observation 2: CA L, a partner of the firm, who has done income tax audit for M/s. Future Associates where in CA L has material significant indirect financial interest.

Observation 3: Nagar & Co. accepted expensive gifts and hospitality (including a luxury dinner) from the client after completing the year end audit.

**Observation 4:** One of the clients, M/s. Walk Limited, threatened to replace them as auditors because the audit team insisted to make provision for expected credit loss which the company was not willing to provide.

**CA Nagar needs to classify the threats to independence arising from each of the above observations in order to identify the specific risks and mitigate them.**

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which threat to the firm's independence exists in the case of CA P as referred in Observation 1?
  - a) Self-interest Threat.
  - b) Self-review Threat.
  - c) Familiarity Threat.
  - d) Intimidation Threat.
- 2) With reference to Observation 2 related to CA L, which type of threat exists?
  - a) Self-interest Threat.
  - b) Familiarity Threat.
  - c) Advocacy Threat.
  - d) Intimidation Threat.
- 3) Which threat to independence is involved in Observation 3, wherein the audit team accepted expensive gifts and hospitality from the client?
  - a) Advocacy Threat.
  - b) Self-interest Threat.
  - c) Intimidation Threat.
  - d) Familiarity Threat.
- 4) Identify the type of threat to independence on the basis of threat given by client M/s. Walk Limited in the Observation 4.
  - a) Intimidation Threat.
  - b) Self-review Threat.
  - c) Familiarity Threat.
  - d) Advocacy Threat.

**Answers to Case Study:****1) Option (b) Self-review Threat.**

**Reason:** When auditors perform services that are themselves subject matters of audit, it will be considered as Self-review threat.

**2) Option (a) Self-interest Threat.**

**Reason:** Self-interest threat includes direct financial interest or materially significant indirect financial interest in a client.

**3) Option (d) Familiarity Threat.**

**Reason:** Familiarity threats are self-evident and occur when auditors form relationships with the client where they end up being too sympathetic to the client's interests.

**4) Option (a) Intimidation Threat.**

**Reason:** Intimidation threats occur when auditors are deterred from acting objectively with an adequate degree of professional skepticism.

**Case Scenario 33**

(ICAI MCQ Booklet) / (Model Test Paper-1) / (MTP-I Mar.24)

Elite Fashions, a well-known retail brand with multiple outlets, has submitted its financial statements for audit to CA Riya. As part of her review, she plans to verify several key financial assertions and has outlined specific procedures for a detailed examination.

- A) She intends to check major invoices recorded under the "Store Renovation Expenses" account to ensure proper recording and classification.
- B) She plans to confirm that all balances under trade receivables are genuine and not overstated.
- C) She wants to compare advertising expenses incurred this year with the previous year and analyse their relationship with total sales.
- D) She decides to review property documents for a newly acquired showroom to confirm ownership.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) What type of audit test is CA Riya performing when verifying major invoices in the "Store Renovation Expenses" account?
  - a) Tests of Controls.
  - b) Tests of Transactions.
  - c) Tests of Balances.
  - d) Risk Assessment Procedures.
  
- 2) Identify which type of assertion she intends to test when she wants to ensure genuineness of trade receivables.
  - a) Occurrence.
  - b) Cut-off
  - c) Existence.
  - d) Accuracy.
  
- 3) When analysing advertising expenses of the current and previous years and their relationship with total sales, which type of audit procedure is being performed by CA Riya?
  - a) Tests of Details.
  - b) Tests of Transactions.
  - c) Tests of Balances.
  - d) Substantive Analytical Procedures.
  
- 4) Which audit procedure is being performed by CA Riya by reviewing property documents for the newly acquired showroom?
  - a) Observation.
  - b) Inspection.
  - c) External Confirmation.
  - d) Inquiry.

**Answers to Case Study:**

- 1) Option (b) Tests of Transactions.

**Reason:** Tests of transactions ensure that individual transactions are correctly recorded and classified.

**2) Option (c) Existence.**

**Reason:** The existence assertion ensures that recorded trade receivables actually exist and properly valued. By confirming their validity, CA Riya is checking whether the amounts shown in the financial statements represent genuine customer balances.

**3) Option (d) Substantive Analytical Procedures.**

**Reason:** Substantive analytical procedures involve identifying trends, patterns, and relationships in financial data. By comparing advertising expenses across two years and analysing their impact on sales, CA Riya is performing an analytical review to detect any inconsistencies or unusual patterns.

**4) Option (b) Inspection.**

**Reason:** Inspection involves examining records, documents, or tangible assets to verify their authenticity. Reviewing the property documents ensures that Elite Fashions has legal ownership of the newly acquired showroom, making this an inspection procedure.

### Case Scenario 34

(ICAI MCQ Booklet) / (MTP-I Mar.25)

MA & Associates, a Chartered Accountant firm is appointed as an auditor of XYZ Pvt. Ltd. Amit, partner of the firm, has recently bought stock in XYZ Pvt. Ltd. He believes that the company's goodwill will increase after the audit report is finalised, which could lead to a rise in stock price. As he reviews the company's financial statements, Amit decides to give unmodified opinion to help his investment.

During the audit of trade receivables, Amit selects a sample using a technique that ensures larger balances have a higher chance of being selected. However, this approach results in the exclusion of many smaller balances, potentially overlooking some crucial misstatements.

Meera, another Partner of Firm, is reviewing calculation of software development costs method adopted by XYZ Pvt. Ltd. Meera helped in creating this method earlier. She worries that her previous involvement in this method might affect her ability to review it.

Meanwhile, Raj, the CEO of XYZ Pvt. Ltd., has requested them to modify certain disclosures in the financial statements in a way that could mislead stakeholders. He argues that a more favourable presentation will help the company secure additional investments. Meera feels that complying with this request would compromise ethical standards and worries about potential conflicts with the client.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Amit has bought stock in XYZ Pvt. Ltd., and his investment could benefit from issuance of unmodified opinion in his audit report. This indicates existence of:
  - a) Self-interest Threat.
  - b) Self-review Threat.
  - c) Advocacy Threat.
  - d) Familiarity threat.
- 2) In the given case, Amit is selecting a sample to verify the trade receivables balances where larger balances have a higher chance of being included, causing smaller balances to be overlooked. This method is known as:
  - a) Random Sampling.
  - b) Systematic Sampling.
  - c) Block Sampling.
  - d) Monetary Unit Sampling.
- 3) Meera is reviewing a method for calculating software development costs that she helped in creating while working at XYZ Pvt. Ltd. This may involve:
  - a) Advocacy Threat.
  - b) Self-interest Threat.
  - c) Familiarity Threat.
  - d) Self-review Threat.
- 4) Raj, the CEO, is requesting the Meera and Amit to modify the financial statement disclosures in a misleading manner. Which fundamental principle of professional ethics would be violated if they agree to do so?
  - a) Integrity.
  - b) Objectivity.

- c) Confidentiality.
- d) Professional Competence and Due Care.

### **Answers to Case Study:**

#### **1) Option (a) Self-interest Threat.**

**Reason:** Self-interest threat includes direct financial interest or materially significant indirect financial interest in a client.

#### **2) Option (d) Monetary Unit Sampling.**

**Reason:** In the given case, Amit used a sampling method where larger balances have a higher chance of being selected. Monetary Unit Sampling is a value-weighted selection method where each monetary unit in the population has an equal chance of being chosen. This approach increases the likelihood of selecting high-value items but may overlook smaller balances, potentially missing some misstatements.

#### **3) Option (d) Self-review Threat.**

**Reason:** When auditors perform services that are themselves subject matters of audit, it will be considered as Self-review threat.

#### **4) Option (a) Integrity.**

**Reason:** If the auditors modify disclosures in a misleading manner as requested by Raj, they would violate the fundamental principle of Integrity, which requires accountants to be straightforward and honest in all professional relationships.



## Case Scenario 35

(ICAI MCQ Booklet) / (RTP May 24)

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

DS & Co. have accepted an audit of the above company for the year 2023-24 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas.

The following is extract of financial information of the company: -

(figures in rupees crores)

S. No.	Particulars	Year 2023-24	Year 2022-23
1.	Turnover	30.00	15.00
2.	Inventories	5.00	2.00
3.	Property, plant and equipment (Gross block)	1.25	1.25
4.	Property, plant and equipment (Net block)	1.00	1.25
5.	Gross profit	6.00	3.75
6.	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss. Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements, engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Keeping in view the description provided in the case scenario, which of the following statements is likely to be most appropriate?
  - a) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
  - b) Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
  - c) The situation reflected in the case scenario may not constitute threat to independence of auditor mandatorily. Irrespective of this, detection risk in engagement is low.
  - d) The situation reflected in the case scenario may not constitute threat to independence of auditor mandatorily. Irrespective of this, detection risk in engagement is high.
- 2) CA D has included in the audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is likely to be least relevant?
  - a) Inspecting and reviewing company's plan for physical verification of PPE.
  - b) Assessing depreciation method used.
  - c) Verifying cost of PPE items acquired during the year with purchase bills.
  - d) Recalculation of depreciation charged in statement of profit and loss.

- 3) Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?
- a) Gross profit ratio has decreased in year 2023-24 as compared to year 2022-23. It may be due to the fact that sales prices may have been reduced by the company to procure more orders.
  - b) Gross profit ratio has increased in year 2023-24 as compared to year 2022-23. It may be due to the reason that the cost of materials purchased by company could have decreased.
  - c) Gross profit ratio has decreased in year 2023-24 as compared to year 2022-23. It may be due to the fact that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.
  - d) Gross profit ratio has decreased in year 2023-24 as compared to year 2022-23. It may be due to the reason that the company has not made an allowance for obsolescence in respect of inventories during the year.
- 4) CA D has also studied purchases and sales data of the company during the year and has also compared such data with the preceding year and earlier years also. It is an example of \_\_\_\_\_.
- a) Ratio analysis forming part of substantive analytical procedures.
  - b) Trend analysis forming part of substantive analytical procedures.
  - c) Reasonable test forming part of substantive analytical procedures.
  - d) Structural modelling forming part of substantive analytical procedures.
- 5) Considering the whole case scenario, identify which of the following combination of Standards is not proper for their likely relevance in performing and completing the above engagement?
- a) SQC 1, SA 220, SA 501, SA 505.
  - b) SA 550, SA 510, SA 220, SA 610.
  - c) SA 700, SA 510, SA 220, SA 500.
  - d) SQC 1, SA 700.

**Answers to Case Study:**

- 1) **Option (d)** The situation reflected in case scenario may not constitute threat to independence of auditor mandatorily. Irrespective of this, detection risk in engagement is high.

**Reason:** The engagement partner's social acquaintance with the promoters does not create a familiarity threat mandatorily as it does not influence professional judgment. However, detection risk is high since it is the firm's first audit of the company, and there is a significant increase in turnover and trade receivables, indicating potential misstatements.

- 2) **Option (c)** Verifying cost of PPE items acquired during the year with purchase bills.

**Reason:** While comparing given procedure in the questions more relevant audit procedures include inspecting and reviewing company's plan for physical verification of PPE, assessing depreciation method used, and recalculation of depreciation charged in statement of profit and loss to be included in audit plan. Thus, verifying cost of PPE items acquired with purchase bills during the year only will be least relevant.

- 3) **Option (a)** Gross profit ratio has decreased in year 2023-24 as compared to year 2022-23. It may be due to the fact that sales prices may have been reduced by the company to procure more orders.

**Reason:** The Gross Profit Ratio for 2022-23 is 25%  $[(3.75/15) * 100]$ , whereas for 2023-24, it has decreased to 20%  $[(6/30) * 100]$ . This indicates a decline in the gross profit ratio. A possible Reason for this decrease could be that the company lowered its selling prices to secure more orders. Further, office staff salary engaged in administrative functions and office maintenance expenditure and allowance for obsolescence in respect of inventories primarily impact net profit, not gross profit.

- 4) **Option (b)** Trend analysis forming part of substantive analytical procedures.

**Reason:** Trend analysis is the comparison of current data with the prior period balance or with a trend in a two or more prior period balances. In other words, trend analysis implies analysing account fluctuations by comparing current year to prior year information and, also, to information derived over several years.

5) Option (b) SA 550, SA 510, SA 220, SA 610.

**Reason:** As per given facts in the question combination of option covering SA 550, SA 510, SA 220, SA 610 are not relevant. Since the company does not engage in related party transactions SA 550, "Related Parties", is not relevant. Further, SA 610 based on Using Work of Internal Auditors is also irrelevant as the company does not have an internal auditor. Furthermore, SA 220 and SA 510 is relevant but does not fit the overall combination when paired with SA 550 and SA 510.

### Case Scenario 36

(Model Test Paper-1)

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

The company has substantial number of computers at each centre to enable seamless experience for students appearing for standardized aptitude and language tests. The company has acquired new identifiable software involving substantial expenditure for conducting tests during the year which is expected to drive company's revenues in coming years. At the time of taking a test, a CD containing software is run in each system for enabling students to take tests. Cost of CD without software is nominal.

The revenue of the company during the year 2023-24 was ₹ 50 crores (₹45 crores from fees charged from students and ₹5 crores from sale of books). Besides, company has also received ₹ 10 lacs as interest on certain investments during the year. The company has a history of profitable operations.

During the course of audit, it is noticed by Dhanush that computers form significant chunk of PPE items in financial statements of company. The company has taken useful life of computers consisting of desktops for 3 years. However, depreciation charged on computers in financial statements of the company is higher than depreciation allowable under Income tax law. It results in lower accounting income as per books of accounts of company as compared with taxable income under Income tax law.

During the course of audit, he notices that cost of CDs along with software cost is treated as an intangible asset by company. It is also part of his responsibility to verify PPE register in accordance with audit programme. On perusing details in PPE register, he finds that some computers have moved from one centre to another centre to meet business requirements. Further, many computers were disposed or scrapped in earlier years. However, proper details in relation to movement and disposal/scrapping have not been entered in PPE register. When these items were physically verified by the management during the year, it has resulted in material discrepancies. The management has properly dealt with such discrepancies in books of accounts.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

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

- d) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as revenue expenditure.
- 3) As regards discrepancies noticed in computer systems on physical verification by management as described in case scenario, which of following statements is most appropriate?
- a) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it may result in modification of auditor's opinion.
  - b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under the Companies Act, 2013.
  - c) The management has properly dealt with such discrepancies. Therefore, Dhanush should not do anything further.
  - d) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it is in nature of misstatement which needs to be communicated and documented by auditor.
- 4) Which of following statements meets requirements of law in respect of revenue from operations of the company?
- a) Revenue from operations of ₹ 50 crores should be shown in Statement of Profit and loss.
  - b) Revenue from operations of ₹ 50.10 crores should be shown in Statement of Profit and loss. However, revenue from sale of books, fees charged from students and interest on investments should be disclosed separately in notes.
  - c) Revenue from operations of ₹ 50.10 crores should be shown in Statement of Profit and loss.
  - d) Revenue from operations of ₹ 50 crores should be shown in Statement of Profit and loss. However, revenue from sale of books and fees charged from students should be disclosed separately in notes.

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

- a) Prescribed under Schedule III to the Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule III.
- b) Is not prescribed under the Companies Act, 2013. It depends upon manufacturing specifications of desktops.
- c) Prescribed under Schedule II to the Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule II.
- d) Is not prescribed under the Companies Act, 2013. It needs to be arrived at mandatorily by a management expert.

**Answers to Case Study:**

- 1) Option (b)
- 2) Option (b)
- 3) Option (b)
- 4) Option (d)
- 5) Option (c)

### **Case Scenario 37**

(Model Test Paper-1)

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

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



balances and trade payables at auditee branches and maintained documentation of the same.

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

**Table 1**

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

The company's auditor has also decided to use work of Mr. D with respect to financial information of 5 branches included in financial information of the company. During the course of audit, company's auditor has advised Mr. D by way of email certain significant accounting, auditing and reporting requirements and has asked him to provide representation as to compliance with them. Irritated and surprised, Mr. D is of the view that such an email is beyond the rights of the company's auditor.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) As regards audit of a branch of CDL Limited as referred to in case scenario is concerned, which of following statements is most appropriate?
  - a) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor.
  - b) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to members of company.
  - c) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of

the Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to company's auditor.

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

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

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

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

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

- b) During year 2023-24, inventories of Branch II have moved faster in comparison to Branch I.
  - c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.
  - d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.
- 4) Considering contents of email sent by company's auditor to Mr. D, which of following statements is likely to be in accordance with Standards on Auditing?
- a) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements and ask him to provide representation as to compliance with them.
  - b) Company's auditor can advise Mr. D certain significant accounting, auditing and reporting requirements. However, asking him to provide representation as to compliance with them is breach of Mr. D's independence.
  - c) Company's auditor cannot advise Mr. D certain significant accounting, auditing and reporting requirements. It is breach of Mr. D's independence.
  - d) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements only when Mr. D makes such a request.

**Answers to Case Study:**

- 1) Option (a)
- 2) Option (c)
- 3) Option (a)
- 4) Option (a)

## Case Scenario 38

(Model Test Paper-2)

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

During year 2023-24, audit firm of S.J. and Associates was reappointed as their auditor. The engagement team consisted of CA Sneha (partner) and five articled assistants. One of the assistants was new to this engagement. Considering huge volume of transactions, the partner asked him to go through files of last year and auditor's report to gain an understanding of issues which arose in last year i.e. 2022-23.

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

### Point 1:

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

- The employee benefit expenses shown in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel were accounted for.
- The expense recognised during year 2022-23 related to this year only.

### Point 2:

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

### Point 3:

Debtors constitute one of the major components of company's financials. As part of audit procedures, verification was made whether company had made allowance for those debtors which were doubtful. In this regard, list of debtors under litigation was also obtained and scrutinized.

### Point 4:

Asset additions during the year amounted to ₹ 50 lakhs. The payment in respect of these assets were made through bank account of the company. However, on scrutiny, it

was found that some of invoices were not in the name of the company but in name of one of directors.

**Point 5:**

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

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) In point 1 relating to Employee benefits, which among the following assertions are discussed respectively (in same order as described in point 1)?
- i) Valuation
  - ii) Occurrence
  - iii) Cut-off
  - iv) Completeness
- Choose the correct combination from below: -
- a) (i),(ii) and (iv)
  - b) (ii), (iv) and (iii)
  - c) (ii), (iii) and (iv)
  - d) (i),(ii) and (iii)
- 2) Do you think the amount of dividend recognised as liability in the year 2022-23 as given in point 2 appropriate?
- a) Yes. As the amount of dividend related to year 2022-23, it should be recognised in the same year irrespective of the year of declaration.
  - b) No. The amount should be recognised equally between two financial years.
  - c) No. The amount should not be recognised as liability in year 2022-23. But it needed to be disclosed in the notes to accounts of that year.
  - d) No. The amount should not be recognised as liability. Further, no disclosure was needed in the financials of that year.
- 3) In relation to matter described in para 3 pertaining to debtors, which of the following assertions was verified by auditors?
- a) Valuation
  - b) Rights and obligations

- c) Existence
  - d) Completeness
- 4) Read Point 4 and choose which assertion is not proved in this case.
- a) Existence
  - b) Rights and obligation
  - c) Completeness
  - d) Measurement/Valuation
- 5) Choose the correct statement from below pertaining to matter described in Point 5.
- a) The company was required to restate said amount in accordance with requirements of AS 1. By verifying it, auditor had verified existence assertion.
  - b) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified completeness assertion.
  - c) There was no responsibility of company to restate said amount. It was auditor's responsibility to restate said amount in accordance with requirements of AS 11. No assertion was, therefore, verified by auditor.
  - d) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified valuation assertion.

**Answers to Case Study:**

- 1) Option (b)
- 2) Option (c)
- 3) Option (a)
- 4) Option (b)
- 5) Option (d)

## Case Scenario 40

(Model Test Paper-2)

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

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

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

Based on the above Case Scenario, answer the Multiple Choice Questions:

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

- a) Amount of ₹ 0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
  - b) Amount of ₹ 0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.
  - c) Amount of ₹ 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence.
  - d) Amount of ₹ 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence.
- 2) Considering matter of verification of inventories, which of following statements is based on facts described in the situation and also in essence of Standards on Auditing?
- a) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. Such evidence may constitute sufficient appropriate audit evidence.
  - b) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.
  - c) She should verify purchase invoices of inventory items lying in stocks as at year end. Stock records are not required to be verified. Such evidence is likely to constitute sufficient appropriate audit evidence.
  - d) She should verify purchase invoices of inventory items lying in stocks as at year end. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.
- 3) Identify correct statement on the basis of description provided in case scenario: -
- a) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are



all examples of internal evidence. Audit evidence obtained by auditor is final and conclusive.

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

#### Answers to Case Study:

- 1) Option (d)
- 2) Option (a)
- 3) Option (c)

### Case Scenario 41

(MTP-II Apr.25)

Star Ltd., a leading manufacturer of windmills in India, appointed M/s Shahi & Co., LLP of Chartered Accountants, as its statutory auditors for F.Y. 2023-24. During the audit, one of the audit team members, CA Ritik, was asked by the engagement partner to verify the ownership assertion of the company's inventories. To accomplish this, CA Ritik requested the concerned official of company to arrange for the audit team to attend the physical inventory count being conducted by the company. CA Ritik believed that attending the inventory count was the only way to check the ownership assertion related to the company's inventory. He discussed the matter with another audit team member, CA Pari. She had a different perspective. According to CA Pari, the correct course of action would be CA Ritik verifying the purchase requisition, purchase order, receiving reports, vendor invoices, inventory records, and payment files etc. as ownership assertion could not be verified simply by attending the physical inventory count.

While verifying the creditors and purchases balances, CA Pari, have been satisfied with the internal control procedures related to purchases and creditors, and decides to check the creditors balance on a sample basis. She requested the management to provide a list of all the creditors, which included a total of 550 creditors. To determine the sample, CA Pari chose a sampling interval of every 11th creditor's balance, which results in a sample size of 50 creditors balances for the audit.

During the audit, while verifying the share capital balance of the company, CA Ritik and CA Pari observed that there has been no change in the share capital raised by the company. CA Pari was of the view that since there has been no change in the share capital of the company, the audit team is not required to obtain any evidence with respect to the share capital balance. However, CA Ritik is of the opinion that they should obtain audit evidence even if there is no change in the company's capital structure during the year. According to him, such evidence can be a written confirmation from the accounts manager.

Before finalising the audit report, the engagement partner asked CA Ritik to coordinate with the client company to request a written representation from management regarding their responsibilities and the information provided. However, CA Ritik refused to accept the representation, as it contained a qualifying language to the effect that representations are made to the best of its knowledge and belief, which according to him was not reasonable to accept.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) What is the best course of action for CA Ritik for verification of the assertion with respect to the inventory of the company, as asked by the engagement partner?
  - a) CA Ritik should ask the management to provide a written representation in this regard as it is in itself a sufficient and appropriate audit evidence.
  - b) CA Ritik should perform test count and inspection while attending the physical inventory count in order to verify the assertion as asked by the engagement partner.
  - c) CA Ritik should attend the physical inventory count as the only audit procedure.
  - d) CA Ritik should agree to CA Pari and follow the course of action as suggested by her.
- 2) While verifying the inventory as asked by the engagement partner, which specific assertion can be best verified by following the specific audit procedure considered appropriate by CA Ritik?

- a) Existence and Condition.
  - b) Rights and Obligations.
  - c) Presentation & Disclosure.
  - d) Valuation.
- 3) Which method of sampling has CA Pari applied while selecting the sample for verification of creditors?
- a) Simple random sampling.
  - b) Systematic sampling.
  - c) Haphazard sampling.
  - d) Stratified sampling.
- 4) Which of the following is the most appropriate, with respect to verification of share capital balance of the company?
- a) The point of view of CA Pari is correct.
  - b) The point of view of CA Ritik is correct.
  - c) The point of view of CA Pari is partly correct as no evidence is required to be obtained if the same audit firm has conducted the audit of the previous year thereby verifying the closing balance of share capital in the previous year which becomes the opening balance of the share capital for the year under audit.
  - d) The point of view of CA Ritik is partly correct as written confirmation should be obtained from the Company Secretary.
- 5) Whether non-acceptance of the written representation by CA Ritik is correct?
- a) The non-acceptance of written representation by CA Ritik is not correct as management of the company has the sole discretion to decide as to what language is used or what limitations are imposed in the written representation provided to the auditor.
  - b) The non-acceptance of written representation by CA Ritik is correct as it is not reasonable for the auditor to accept any qualifying language in the written representations given by the management.
  - c) The non-acceptance of written representation by CA Ritik is not correct as it is reasonable for the auditor to accept such qualifying language if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

- d) The non-acceptance of written representation by CA Ritik is correct as SA 580 requires the auditor to accept the written representation only if it is in the language as used in the letter of audit engagement.

**Answers to Case Study:**

- 1) Option (d)
- 2) Option (a)
- 3) Option (b)
- 4) Option (d)
- 5) Option (c)

### **Case Scenario 42**

(MTP-II Apr.25)

Raavi & Co., a Chartered Accountants firm, has been appointed as auditor of XYZ Ltd., a prospective new client. CA Sukanya, one of the firm's partner, is handling the potential client. During a meeting with the company's officers, she discovers that Sushant, the company's CFO, is a former classmate. They had both started their Chartered Accountancy (CA) journey together, but Sushant left the program halfway due to repeated failures and later pursued an MBA in finance from a prestigious institution.

During initial discussions, the company reveals plans to launch a new service in the "weather-forecasting" sector. These services will be available on website of company, and users can access micro weather information for a fee. The company requests that the audit firm be visibly associated with their marketing efforts.

Assuming the firm accepts the offer, they send a letter to the previous auditor, Royal & Co., requesting any professional reasons that might prevent them from taking on the assignment. However, Royal & Co. does not respond to the inquiry.

While planning the audit, Raavi & Co. also learn that the company has acquired all shares of another company, which requires the financial statements of both companies to be consolidated and audited, according to applicable laws. Despite this information, Raavi & Co. fails to advise the client on the necessity of auditing the consolidated financial statements.

Firm is also reviewing internal controls of XYZ Ltd. He verifies following things:

- Are tenders called before placing orders?
- Are the purchases made on the basis of a written order?
- Is the purchase order form standardised?
- Are purchase order forms pre-numbered?

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Keeping in view request of the company to be visibly associated with company's new services, identify which type of threat is being faced by audit firm.
  - a) Self-interest threat.
  - b) Familiarity threat.
  - c) Self-review threat.
  - d) Advocacy threat.
- 2) The previous auditors, Royal & Co., have not replied to communication of Raavi & Co. Which fundamental principle of professional ethics is not followed by them?
  - a) Objectivity.
  - b) Professional behaviour.
  - c) Professional competence and due care.
  - d) Integrity.
- 3) Raavi & Co. have failed to advise the company regarding audit of consolidated financial statements. Which fundamental principle of professional ethics is being violated by Raavi & Co.?
  - a) Professional behaviour.
  - b) Integrity.
  - c) Objectivity.
  - d) Professional competence and due care.
- 4) Which method is Raavi & Co. using to facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls?
  - a) Narrative record.
  - b) Flow chart.
  - c) Check List.
  - d) Internal Control questionnaire

**Answers to Case Study:**

- 1) Option (d)
- 2) Option (b)
- 3) Option (d)
- 4) Option (c)

**Case Scenario 43**

(MTP-II Apr.25)

CA Misha is appointed as the statutory audit of a branch of FDH Bank. During the audit, the following issues were observed:

The bank provides "Kisan Credit Card" loans to farmers to meet their short-term credit needs for crop cultivation. One such loan, with an outstanding balance of ₹ 20 lakh at the year end, had no transactions for the past 90 days. The loan was granted for paddy cultivation, which typically takes 3-4 months from sowing to harvest. The branch has classified the loan as a "Standard Asset".

It was also noted that the account of a borrower with a cash credit limit of ₹ 50 lakh, which was taken over from another bank, was sanctioned by the branch manager instead of the immediate higher authority, as required in bank's "Manual of Delegation of Powers".

CA Misha also served as the statutory auditor for a multiplex cinema. During the audit, CA Misha observed that the revenue of company has fallen from ₹ 50 crore in last year to ₹ 5 crore in current year (for which financial statements have been received for audit) due to lack of demand in the market for company's products.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) As regards description of agricultural advance, which of the following statements is most appropriate in this regard?
  - a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset.
  - b) The classification made by branch is proper. However, there are no transactions in account since last 90 days, it is SMA.
  - c) The classification made by branch is proper.
  - d) The branch has erred in making classification as per RBI norms. It is a "doubtful" asset.

- 2) Regarding taken over account from another bank, which of the following statements is most appropriate?
- a) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.
  - b) It is an internal issue of Bank. However, the auditor may, at his discretion, report it.
  - c) It is an internal issue of Bank and auditor is not concerned with it.
  - d) There is no issue involved as credit facility was properly sanctioned.
- 3) Regarding drastic fall in revenue of the company, which of the following is an audit risk?
- a) Fall in revenue would result in fall of profits for the company.
  - b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.
  - c) The company can explore some new line of activity, if demand of its products is falling.
  - d) Fall in revenue would mean lower tax liabilities for the company.

**Answers to Case Study:**

- 1) Option (c)
- 2) Option (a)
- 3) Option (b)

## **Case Scenario 44**

(MTP-I Mar.25)

Jin Kushal & Associates is a firm of Chartered Accountants practicing in Delhi. The firm consists of two partners namely, CA Jin and CA Kushal. The Statutory audit team is generally headed by CA Jin and his team consists of three articled assistants and one qualified Chartered Accountant, CA Reshu. With respect to the audit work of 4 clients for which the audit team intends to start the audit work, CA Jin discussed with the team members about the development of audit programmes for individual clients. One of the articled assistants, Mr. Sumit, was of the view that one single audit programme can be developed for all the 4 clients operating in different industries.

With respect to one of the clients namely, Saraswati Ltd., a labour-intensive company, CA Jin asked CA Reshu to compare the amount of wages paid by the company in the current year and last year. Also, she was asked to verify the relationship between the number of employees and wages paid in both the years by the company.

The audit firm started the audit of another client, namely, Sarthak Ltd. having maximum transactions in foreign currency. CA Jin asked one of the team members, Mr. Rahul, to verify whether the calculations related to conversion of the foreign currency into local currency is proper or not.

While verifying the share issue transactions of one client, namely, Laxman Ltd., CA Reshu found that the company has issued sweat equity shares during the year under audit. She asked one of the articled assistants, Mr. Saurabh, to further verify whether the relevant provisions of the Companies Act 2013, have been complied by the company in this regard. Also, with respect to Sarthak Ltd., there was reduction of share capital during the year. Mr. Saurabh was asked by the engagement partner to verify the compliance of relevant provisions of the Companies Act, 2013 in this regard also. Mr. Saurabh was of the view that there is requirement of passing of Special Resolution by the respective company for both.

While starting the audit work of another client, Rintex Ltd., the audit team noticed that the company has its internal audit team. Mr. Sumit was of the view that the statutory audit team can use and rely on the work of the Internal Auditors of the company and as such there is no requirement for the statutory audit team to perform audit procedures again as the internal audit team must have verified the financial transactions of the company in detail. Further, while verifying the expenses ledger, Mr. Sumit noticed that the company has implemented a system whereby the entries related to expenses incurred during the year can be entered into the accounting system by authorised personnels only. However, with respect to travelling expenses which constituted about 30% of the total expenses, the entries were made by employees who were not authorised to make such entries.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Is the view of Mr. Sumit with respect to the development of audit programme correct?
  - a) Yes, the view of Mr. Sumit is correct as developing one audit programme for all the clients will avoid duplication of efforts of audit team.



- b) No, the view of Mr. Sumit is not correct as all the four clients operate in different industries and evolving one audit programme for all businesses is not practicable.
  - c) Yes, the view of Mr. Sumit is correct as development of audit programme is not affected by the nature of client business.
  - d) No, the view of Mr. Sumit is not correct as development of audit programme is not the responsibility of the audit team. The individual clients will develop their respective audit programmes.
- 2) Identify the audit procedures Ms Reshu was asked by CA Jin to perform with respect to Saraswati Ltd.
- a) Substantive Analytical Procedures.
  - b) Test of details.
  - c) Test of transactions.
  - d) Test of Controls.
- 3) Whether understanding of Mr. Saurabh regarding the passing of Special Resolution is correct?
- a) The understanding of Mr. Saurabh is partly correct as ordinary resolution is required in case of issue of sweat equity shares by the company though special resolution is required to be passed by the company in case of reduction of share capital.
  - b) The understanding of Mr. Saurabh is partly correct as special resolution is required in case of issue of sweat equity shares by the company though ordinary resolution is required to be passed by the company in case of reduction of share capital.
  - c) The understanding of Mr. Saurabh is correct as special resolution is required in case of issue of sweat equity shares by the company and reduction of share capital.
  - d) The understanding of Mr. Saurabh is not correct as ordinary resolution is required in case of issue of sweat equity shares by the company as well as in case of reduction of share capital.
- 4) Is the view of Mr. Sumit correct with respect to using and relying on the work of the Internal Audit team of Rintex Ltd.?
- a) Yes, the view of Mr. Sumit is correct.
  - b) No, the view of Mr. Sumit is not correct as the statutory audit team cannot use the work of the internal audit team of the client company.

- c) No, the view of Mr. Sumit is not correct as the statutory auditor has the sole responsibility for the audit opinion expressed.
- d) The view of Mr. Sumit is partly correct as the statutory audit team can use and rely on the work of the internal audit team if the same is agreed while signing the engagement letter.
- 5) Identify the type of risk noticed by Mr. Sumit with respect to entries related to travelling expenses entered into the accounting system of Rintex Ltd.
- Inherent Risk.
  - Detection Risk.
  - Control Risk.
  - Audit Risk.

**Answers to Case Study:**

- Option (b)
- Option (a)
- Option (c)
- Option (c)
- Option (c)

### **Case Scenario 45**

(MTP-I Mar.25)

A government department was allocated a specific budget for infrastructure development projects during the current financial year. During the audit process, the auditor reviewed the department's expenditure and management of funds and found several discrepancies that raised significant concerns regarding the management and utilisation of the allocated funds. The key findings from the audit were as follows:

- Several payments were processed without obtaining the necessary approval from the competent authority.
- The department implemented a large-scale project. However, the audit found no record of assessment being conducted to determine whether the project achieved the expected benefits.

- Another serious concern identified during the audit was the utilisation of funds from an account that had no budgetary provision was made.

The auditor now needs to determine which type of audit would be most effective in addressing each of these concerns.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which type of audit is most likely to identify payments processed without proper approval from the competent authority?
  - a) Audit against Rules & Orders.
  - b) Audit of Sanctions.
  - c) Audit against Provision of Funds.
  - d) Propriety Audit.
- 2) Identify the type of audit to evaluate whether the expected benefits of a large-scale infrastructure project were achieved or not.
  - a) Propriety Audit.
  - b) Audit against Rules & Orders.
  - c) Audit of Sanctions.
  - d) Performance Audit.
- 3) Which type of audit addresses the issue of funds being used from an account without a budgetary provision?
  - a) Audit against Provision of Funds.
  - b) Audit of Sanctions.
  - c) Performance Audit.
  - d) Audit against Rules & Orders.

**Answers to Case Study:**

- 1) Option (b)
- 2) Option (d)
- 3) Option (a)

## Case Scenario 46

(RTP-Sept.25)

Mohan & Associates were offered the statutory audit of Simi Pvt. Ltd. for the financial year 2024-25. In line with professional requirements, the firm communicated with the outgoing auditor, Veer & Co., to inquire whether there were any professional or other reasons that would preclude them from accepting the appointment. However, no response was received from Veer & Co. for the same.

During the audit, Mr. A, a partner of Mohan & Associates, relied solely on a management representation letter to support the accounting treatment of certain tax matters that were under appeal and no additional audit procedures were performed to verify the appropriateness of management's treatment of these matters in the financial statements, which may raise concerns regarding the sufficiency and appropriateness of audit evidence obtained.

As Simi Pvt. Ltd. had recently appointed a new accountant who lacked adequate knowledge of the accounting standards applicable to the company, the management requested Mr. A to assist with accounting and bookkeeping services. However, Mr. A declined the request, recognising that providing such services could impair his independence as an auditor.

Meanwhile, Mr. Raj, an investor in Simi Pvt. Ltd., placed full reliance on the audited financial statements, believing they indicated a strong financial position. He assumed that the audit guaranteed the safety of his investment, without any risk of loss.

While finalising the audit documentation, Mr. A prepared the working papers in physical form, under the belief that paper documentation was mandatory.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) The previous auditors, Veer & Co. did not reply to the communication of Mohan & Associates. Which fundamental principle of professional ethics is not followed by them?
  - a) Objectivity.
  - b) Integrity.
  - c) Professional behaviour.
  - d) Professional competence and due care.

- 2) The auditor did not carry out any other audit procedures to justify management's treatment of the said tax matters under appeal in the financial statements. What is lacking on part of auditor in such a situation?
- a) Professional Skepticism.
  - b) Objectivity.
  - c) Integrity.
  - d) Professional Behaviour.
- 3) Mr. A was requested to provide accounting & bookkeeping services to Simi Pvt. Ltd. Identify the type of threat to Independence that may be involved in acceptance of such an engagement.
- a) Self- interest threat.
  - b) Self- review threat.
  - c) Confidentiality.
  - d) Intimidation threat.
- 4) Mr. Raj is confident that investment made by him is completely secure and there is no risk of any loss. Select the correct statement in this regards:
- a) Audited Financial statements provide absolute assurance therefore money invested by Mr. Raj is absolutely safe.
  - b) Audited Financial statements provide reasonable assurance. It doesn't guarantee complete accuracy.
  - c) Neither (a) nor (b) is correct.
  - d) Both (a) and (b) are correct.
- 5) Mr. A was preparing the documents and audit file in physical (paper) form, believing that it is compulsory to do so. Is Mr. A's understanding, correct? Identify the correct statement regarding the form of an audit file.
- a) Audit file should be kept in both physical & electronic form.
  - b) Audit file should be kept in physical form only.
  - c) Audit file may be kept in physical or electronic form.
  - d) Audit file should be kept in electronic form only.

**Answers to Case Study:**

- 1) Option (c)
- 2) Option (a)
- 3) Option (b)
- 4) Option (b)
- 5) Option (c)

**Case Scenario 47**

(May 25)

M/s Rama & Associates, Chartered Accountants, have been appointed as the statutory auditors of a Government company H Ltd. by the Comptroller & Auditor General of India for F.Y. 2024-25. H Ltd. is engaged in the manufacturing of metro train coaches.

CA Rama, the engagement partner, had to conduct audit of expenditure as well of receipts.

During the course of the audit, CA Rama also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the newly constructed stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. CA Rama 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 Case Scenario, answer the Multiple Choice Questions:**

- 1) \_\_\_\_\_ 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
  - b) Audit against Rules and Orders
  - c) Performance Audit
  - d) Audit against Provision of funds

- 2) While conducting an audit against provision of funds, the statutory auditors, M/s Rama & 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 such expenditure does not exceed the appropriation made.
  - c) That the expenditure conforms to the relevant provision of the constitution and of the laws and rules made thereunder.
  - d) That the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.
- 3) Which type of the 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 Rama?
- a) Propriety Audit
  - b) Audit against provision of funds
  - c) Audit of sanctions
  - d) Performance Audit

**Answers to Case Study:**

- 1) Option (c)
- 2) Option (b)
- 3) Option (a)

### **Case Scenario 48**

(May 25)

M/s AB & Co., Chartered Accountants, have been appointed as the statutory auditors for Financial Year 2024-25 of PQ Ltd., which is a textile company. Mr. X, the engagement partner, assigned the task of auditing the various items of financial statements to the articled clerks. Mr. X explained to the articled clerks that financial statement purports to present something as a whole in addition to its component details. An income statement purports to present "the results of operations," whereas the

balance sheet purports to present "financial position." He further clarified that the auditor's opinion is typically directed to these overall representations.

However, before formulating and providing an opinion on the overall truthfulness of these statements, the auditor must first examine the truth of various specific assertions that make up each of these statements. By evaluating these individual assertions, the auditor can then form a judgment regarding the financial statement as a whole.

To verify the assertions presented in the financial statements, the auditor must perform variety of procedures.

Articled clerks looking after different areas seek your advice as regards their different concerns.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Mr. B, an Articled Clerk responsible for the audit procedures concerning inventory, found that the inventory amounting to ₹ 38 lakhs, after excluding ₹ 2 lakhs of inventory that was held by PQ Ltd. as a consignee, has been recognized in the Balance Sheet. Which of the following assertions related to inventory are applicable in this situation?
  - I) Occurrence
  - II) Completeness
  - III) Rights & Obligations
  - IV) Measurement
  - a) I & II above
  - b) II & III above
  - c) III & IV above
  - d) I & IV above
  
- 2) Mr. C, an Articled Clerk responsible for the audit procedures regarding the share capital, found that during the year under audit, PQ Ltd. had issued sweat equity shares amounting to ₹ 10 Lakhs. Which of the following statements regarding the issue of sweat equity shares are correct?
  - I) It can be issued to employees.
  - II) It can be issued to directors.
  - III) It can be issued at a discount.
  - IV) It should be of a class of shares already issued by PQ Ltd.
  - a) I & III above



- b) I, II & III above  
c) I, II & IV above  
d) I, II, III & IV above
- 3) Mr. D, an Articled Clerk, was performing audit procedures related to Reserves and Surplus in PQ Ltd. tell him that which statement are correct in respect of Reserves and Surplus?
- I) Reserves are the amounts appropriated out of profits for commitment.  
II) Securities premium is a capital reserve.  
III) A debit balance in the statement of profit and loss account shall be shown as a negative figure under the head 'surplus'.  
IV) All reserves can be used to augment the working capital of the Company.
- a) (A) I & II above  
b) (B) II & III above  
c) (C) III & IV above  
d) (D) II & IV above
- 4) Mr. E, an Articled Clerk, was not sure about which items should be considered as intangible assets in PQ Ltd. According to AS-26, which of the following items should not be recognized as intangible assets?
- I) Internally generated Goodwill  
II) Compact disk in the case of computer software  
III) Copyrights  
IV) Computer software for computer-controlled machine tools that cannot operate without that specific software, which is an integral part of the related hardware.
- a) I & II above  
b) II & III above  
c) III & IV above  
d) I & IV above
- 5) Mr. F, an Articled Clerk, wants to know that which of the below statement is incorrect while auditing Depreciation and Amortization expenses in PQ Ltd.?
- a) Depreciation and amortization have been charged as per the useful life of PPE and intangible assets.  
b) Depreciation on the revalued amount should be accounted from the revaluation reserve.

- c) Depreciation should be charged on assets from the date of actual usage and not when they are ready to use.
- d) Depreciation and amortization should be computed prospectively whenever there is any change in useful life of PPE and intangible assets.

#### Answers to Case Study:

- 1) Option (b)
- 2) Option (d)
- 3) Option (b)
- 4) Option (d)
- 5) Option (c)

### Case Scenario 49

(May 25)

M/s DG and Associates, Chartered Accountants, have been appointed as the statutory auditor of HT Private Limited for the financial year 2024-25. CA Mr. D, engagement partner, and a team comprising of three articled clerks has been assigned the task of conducting the audit of HT Private Limited for F.Y. 2024-25. In the initial stages of conducting an audit of HT Private Limited, CA Mr. D decided to evaluate internal control operating in the company. To gather information required for evaluation of internal control, CA Mr. D 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 the team suggested that they should follow a method, in which a series of instructions and/or questions are required to be followed and/or answered by the audit team and the answers to these instructions are usually Yes, No or Not Applicable. These instructions are framed having regard to the desirable elements of control.

The second team member of team suggested a method in which a complete and exhaustive description of the internal control system as found in operation is recorded by the auditor.

The third team member of team suggested a method in which comprehensive series of questions concerning internal control were required to be answered which would provide information about internal control.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) In initial stage of conducting audit of HT Private Limited, CA Mr. D decided to evaluate internal control of the company. Evaluation of internal control is very important part of
  - a) Audit Report
  - b) Audit Evidence
  - c) Audit Documentation
  - d) Audit Programme
  
- 2) The method suggested by first team member according to which, a series of instructions and/or questions which a member of the auditing staff must follow and/or answer. When he completes instruction, he initials the space against the instruction. This method is called as
  - a) Flow Chart
  - b) Check List
  - c) Narrative Record
  - d) Questionnaire
  
- 3) The method suggested by second team member in which a complete and exhaustive description of internal control in operation is recorded. This method is known as
  - a) Narrative Record
  - b) Flow Chart
  - c) Questionnaire
  - d) Check List
  
- 4) The third team member suggested a method in which comprehensive series of questions concerning internal control is used to collect information. These questions are usually issued to the client and the client is requested to fill it. This method of gathering information so that internal control can be evaluated is called as:
  - a) Internal Control Questionnaire
  - b) Flow Chart
  - c) Narrative Record
  - d) Check List

**Answers to Case Study:**

- 1) Option (d)
- 2) Option (b)
- 3) Option (a)
- 4) Option (a)

**Case Scenario 50**

(RTP Jan 25) / (May 25)

Joy Ltd., a company engaged in the business of trekking essentials, appointed CA Raj as the Statutory Auditor for the year. Due to the large volume of transactions of the company, the audit engagement team of CA Raj realized that it would not be feasible to audit each transaction separately during the financial year under audit. Therefore, Engagement Partner decided to apply following audit sampling techniques:

- Random number tables were used for selection of sample for power, telephone, and fuel charges.
- No structured method of sampling was used for office stationery.
- Transactions exceeding ₹ 8,000 were selected for travel expenses.
- The first 200 sales invoices from the sales book for the month of July were selected for sales.

Mr. Suresh, one of the team members, compared the salary expenses incurred by the company during the current year with those of the previous five years. He noticed a significant percentage increase in the expenses. This unusual increase raised doubts in his mind. He decided to compare such an increase in salary expenses with the increase in the number of employees.

The company is having warehouse at 2 locations. CA Raj is planning to attend the physical inventory count process. The inventory includes finished products such as trekking jackets, bags, shoes etc., and raw materials like leather, cloth, chemicals, etc. Some of the inventory is also held by a third party.

During a discussion among the team members regarding the sufficiency and appropriateness of audit evidence, they agreed that sufficiency is the measure of quantity of the audit evidence and appropriateness is the measure of quality of audit evidence.

Joy Ltd. operates 100 stores on rented premises across the country and is in the process of expanding. Although the rent expenses have been accounted for, the auditor requested the management to provide all active rent agreements for the year under audit for detailed examination.

**Based on the above Case Scenario, answer the Multiple Choice Questions:**

- 1) Which of the sampling techniques were used for the following transactions:
- I) Power, telephone and fuel charges;
  - II) Office Stationery;
  - III) Travel expenses; and
  - IV) Sales.
- (Answer in the given order)
- a) Random sampling, Systematic sampling, Monetary unit sampling, Block sampling.
  - b) Systematic sampling, Random sampling, Block sampling, Haphazard sampling.
  - c) Random sampling, Haphazard sampling, Monetary unit sampling and Block sampling.
  - d) Random sampling, Haphazard sampling, Monetary unit sampling and Systematic sampling.
- 2) Which audit procedure was Mr. Suresh intended to perform by comparing salary expenses?
- a) Test of details.
  - b) Test of balances.
  - c) Test of control.
  - d) Substantive analytical procedure.
- 3) Which of the following is not part of CA Raj's responsibility with respect to the inventories held by the third parties?
- a) CA Raj should request confirmation from the third party regarding the quantity and condition of the inventory held by them.
  - b) CA Raj should perform an independent valuation of the inventory based solely on the company's internal records.
  - c) CA Raj should request the third party to allow him to physically inspect the inventories held by them.
  - d) CA Raj should review the terms of the agreement between the company and the third party to understand the responsibilities related to inventory management.

- 4) Which audit procedure was used by CA Raj while collecting all rent agreements?
- a) Inspection.
  - b) Analytical procedure.
  - c) Reperformance.
  - d) Observation.
- 5) In the given case, the audit team of CA Raj discusses the sufficiency and appropriateness of audit evidence. In the context of Joy Ltd.'s audit, the team was considering various factors affecting the sufficiency of the evidence they gathered for large-volume transactions. Which of the following is not a factor that would influence the auditor's judgment on the sufficiency of audit evidence?
- a) Materiality of the transactions.
  - b) Risk of material misstatement in the financial statements.
  - c) Size and characteristics of the population being audited.
  - d) The type of products Joy Ltd. manufactures (trekking essentials).

**Answers to Case Study:**

- 1) Option (c)
- 2) Option (d)
- 3) Option (b)
- 4) Option (a)
- 5) Option (d)

## Independent MCQ's

- 1) CA Sumit, during the process of assembling the audit file after the completion of the audit, briefed his team on the changes to be made in the audit documentation. Which of the following changes can be made during the audit file assembly stage?
  - A) Sorting, collating and cross referencing of working papers.
  - B) Deleting or discarding superseded documents.
  - C) Recalculation of depreciation.
  - D) Recalculation of Interest on loans.
  - E) Signing off of completion checklist relating to file assembly.
  - a) A, B and E
  - b) C and D
  - c) A, C and D
  - d) A, C, D and E
- 2) CA Rao is conducting an audit for ABC Ltd., a large client. He is informed by the client's CFO that if they report certain deficiencies, the auditor's firm may not be considered for future engagements. Which type of threat does this scenario represent?
  - a) Familiarity Threat
  - b) Intimidation Threat
  - c) Self-interest Threat
  - d) Advocacy Threat
- 3) CA Kaushal, the statutory auditor of Femo Ltd., obtained trade receivables ageing report, analysed it and identified doubtful debts during the audit of accounts receivable balances. Which Balance Sheet assertion is CA Kaushal intended to check?
  - a) Valuation
  - b) Rights and obligations
  - c) Existence
  - d) Completeness

- 4) CA Muskan is auditor of two concerns viz. Well Star Homes and Well Star Stores. The partners in both the firms are common. While auditing financial statements of Well Star Homes, she has noticed that few expenditure bills pertaining to Well Star Stores have been entered in its books. Which assertion of Well Star Homes is disproved in above situation?
- Completeness
  - Accuracy
  - Occurrence
  - Classification
- 5) CA X is nearing completion of audit procedures during course of audit of a company. He has found nothing unusual till now. The company is earning handsome profits since last many years and there is little debt burden on it. It is also in the process of expanding its business by taking loan from a bank. The bank has also granted "in-principle" approval for lending money to the company. Which of the following statements is most appropriate in evaluation of going concern assumption being followed by management?
- Appropriateness of management's assessment in relation to going concern assumption may be made by auditor without performing detailed evaluation procedures.
  - Appropriateness of management's assessment in relation to going concern assumption would be made by auditor by performing detailed evaluation procedures.
  - Appropriateness of going concern assumption would be made by auditor directly by skipping management's assessment.
  - Appropriateness of going concern assumption would be made by auditor by necessarily examining cash flow forecast.
- 6) CA Piyush is offered appointment as statutory auditor of branch of a bank. He has also taken housing loan of ₹75 lakhs from the same bank. Identify threat to independence involved.
- Advocacy threat
  - Self-interest threat
  - Self-review threat
  - Familiarity threat



- 7) A Chartered Accountant finds during the course of statutory audit of a company that management is not serious about findings of internal audit reports. No action has been taken on findings of internal auditor and reports for last two quarters are gathering dust. He has further found that management has not disclosed information relating to transactions with another company. However, he has assiduously gathered that it is a related party by going through annual reports of past years and searching online database on MCA portal.

The described situation most appropriately denotes\_\_\_\_\_?

- a) Objectivity
  - b) Professional knowledge
  - c) Independence
  - d) Professional skepticism
- 8) You have been appointed as statutory auditor of a company for the first time. It has become very important for you to understand the company and its environment. Which of the following activities are not expected to be included in your attempts to know about the company and its environment?
- a) Gaining a knowledge about debt structure of the company
  - b) Evaluating whether company's accounting policies are appropriate for its business
  - c) Understanding business risks faced by the company
  - d) Gathering evidence about valuation of trade receivables of the company
- 9) CA Rocky is a recently qualified Chartered Accountant. He is appointed as an auditor of Sky Ltd. for the current Financial Year 2023-24. CA Rocky is of the view that he shall record all the matters related to audit i.e., audit procedures to be performed, audit evidence obtained and conclusions reached. Thus, he maintained a file and recorded each and every finding during the audit. His audit file, also includes audit programmes, notes reflecting preliminary thinking, letters of confirmation, e-mails concerning significant matters, etc. State which of the following need not be included in the audit documentation?
- a) Audit programmes.
  - b) E-mails concerning significant matters.
  - c) Letters of confirmation.
  - d) Notes reflecting preliminary thinking.

- 10) CA Ramesh has been the auditor of XYZ Ltd. for the past 10 years. Over these years, he has built a personal relationship with Mr. Rajan, CEO of the company. During the audit, CA Ramesh discovers several discrepancies, but he feels uncomfortable reporting these issues due to his personal relationship with Mr. Rajan. He has also accepted gifts from the company on several occasions. As a result, CA Ramesh is concerned about the impact of his long-standing relationship with Mr. Rajan on the audit report. Which threat to independence exists in the given case?
- a) Self-interest threat.
  - b) Familiarity threat.
  - c) Self-review threat.
  - d) Advocacy threat.
- 11) CA Paras is auditing a firm's financial statements and performs detailed procedures to verify assertions. The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms. He checks classification of expenses, ensures trade payables are genuine, compares current and past wages, examines title deeds for land, and check the accuracy of calculation of the conversion of foreign currency into Indian rupees for export invoices. Which audit procedure he performed to verify whether conversion of foreign currency into Indian rupees is proper or not?
- a) Inspection.
  - b) Recalculation.
  - c) Observation.
  - d) Reperformance.
- 12) CA Chatur provides accounting and book keeping services to Shiv Ganga Limited. He is also offered an audit of the accounts to the Shiv Ganga Limited. Which threat to independence may be involved in accepting such an engagement?
- a) Self-interest threats
  - b) Self-review threats
  - c) Familiarity threats
  - d) Advocacy threats

- 13) CA Sargun is conducting statutory audit of branch of KBC Bank. During the course of audit, it is noticed that one borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet. Which of the following statements is appropriate?
- a) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset.
  - b) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset.
  - c) Both Housing loan as well as car loan should be classified as "Non-Performing Assets" in accordance with RBI norms on asset classification.
  - d) Both Housing as well as car loans should be classified as Standard assets.
- 14) Sagar Finance Corporation Limited is a government company. The audit of the company is conducted by statutory auditors appointed by Comptroller and Auditor General of India (C&AG). Who is empowered to conduct "supplementary audit" of Sagar Finance Corporation Ltd.?
- a) Central Government
  - b) C&AG
  - c) Another independent auditor appointed by C&AG
  - d) Another independent auditor appointed by Ministry of Corporate Affairs
- 15) While auditing Happy Pvt. Ltd., CA M reviews a large number of invoices collected by the audit team. However, noticing that only a few have third-party confirmations, CA M reminds the team that simply having more documents doesn't ensure strong audit evidence and explained that reliability or quality matters too. What CA M is trying to explain in the given situation?
- a) Sufficiency relates to quality; appropriateness relates to quantity.
  - b) Internal documents are always sufficient and appropriate.
  - c) More documents mean better audit evidence.
  - d) Sufficiency refers to quantity; appropriateness refers to quality.

- 16) As per SA 560, 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 at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
- a) Modify the opinion in accordance with SA 705 and provide the amended auditor's report.
  - b) Discuss the matter with management and determine whether the financial statements need amendment.
  - c) Notify shareholders directly to prevent reliance on the auditor's report.
  - d) Withdraw from the engagement and disclaim an opinion.
- 17) Supriya has taken a loan from a bank by pledging her NSC (National Savings Certificate), which is eligible for surrender. The loan account currently shows no signs of repayment delay, and the bank confirms that an adequate margin is available in the accounts. However, the loan has technically become overdue. How should the bank classify this loan account?
- a) The account must be classified as an NPA due to overdue status.
  - b) The account should not be classified as an NPA since the adequate margin is available in the accounts.
  - c) The account must be written off immediately.
  - d) The account classification depends on the borrower's repayment history.
- 18) ABC Ltd. is undergoing an audit, and the auditors are evaluating the reliability of different types of audit evidence. External evidence is generally considered to be more reliable than internal evidence.
- The following is NOT an example of internal evidence:
- a) Inspection report
  - b) Purchase invoice
  - c) Goods received note
  - d) Bank reconciliation statement
- 19) Which of the following statement is incorrect with regard to written representations?
- a) Written representations are an important source of audit evidence.
  - b) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.

- c) Written representations not only provide necessary audit evidence, but also provide sufficient appropriate audit evidence on their own about any of matters with which they deal.
- d) Written representations only provide necessary audit evidence but do not provide sufficient appropriate audit evidence on their own about any of matters with which they deal.

**20) Which of the following statements 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 an overall audit strategy as well as detailed audit plan are not necessarily discrete or sequential process.
- c) Audit Strategy and Audit plan are not inter-related as changes in one may not 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.

**21) Which of the following statements is not correct about Limited Liability Partnership (LLP)?**

- a) An LLP is required to maintain Statements of costs of goods purchased, inventories, work-in-progress, finished goods and costs of goods sold.
- b) An LLP is called small LLP, the Turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees (₹ 40,00,000) or such higher amount, not exceeding fifty crore rupees, as may be prescribed;
- c) Every LLP would be required to file annual return in Form 11 with ROC within 30 days of closer of financial year. The annual return will be available for public inspection on payment of prescribed fees to Registrar.
- d) The auditor may be appointed by the designated partners of the LLP at any time for the first financial year but before the end of first financial year.

- 22) 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 amortization charge has ceased beyond the date of deletion.
  - c) The deletion with respect to the intangible asset has been recorded in the books of accounts post-approval by the entity's management and the amortization charge shall be continued.
  - d) The deletion with respect to the intangible asset has been recorded in the books of accounts post-approval by the entity's management and the amortisation charge has ceased beyond the date of deletion.
- 23) Management of ECX Systems Limited acknowledged that going concern assumption will not be suitable while preparing financial statements and informs the auditor that the fact of uncertainty related to going concern would suitably be disclosed in the notes of accounts. How should the auditor address this while preparing Independent Auditor's Report?
- a) To include a separate section under the heading "Material uncertainty related to Going Concern" in the auditor's report as per the requirement of SA 570.
  - b) To include a separate section under the heading "Key Audit Matters" in the auditor's report as per the requirement of SA 701.
  - c) To include a sub section under the heading "Material uncertainty related to Going Concern" under separate section of "Key Audit Matters" in the auditor's report as per the requirement of SA 705.
  - d) To include a separate section under the heading "Key Audit Matters" in the auditor's report as per the requirement of SA 570.
- 24) M/s RJ & Associates, Chartered Accountants, has been auditing the books of GP Resorts Private Limited for the past two years. GP Resorts Private Limited has experienced a significant increase in visitors due to a successful marketing campaign. This increase in number of visitors has prompted the Resort to introduce new services, such as event hosting, which contribute to higher revenue. Whether M/s RJ & Associates should issue a revised audit engagement letter to the GP Resorts Private Limited?

- a) No, since M/s RJ & Associates has been auditing the GP Resorts Private Limited for the past two years, new audit engagement letter is not required.
- b) Yes, the auditor is required to issue a new audit engagement letter for each period.
- c) Yes, a new engagement letter is required due to significant changes in the nature and size in the business of the GP Resorts Private Limited.
- d) No, M/s RJ & Associates is not required to provide a new engagement letter, as GP Resorts Private Limited will send new engagement letter to M/s RJ & Associates.

**25)** TAD & Associates, a sole proprietor firm of Agamya, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is checking the facts about the integrity of promoters of the company and key managerial persons. Matters such as the competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her. What is CA Agamya trying to do by checking such facts?

- a) CA Agamya is establishing an audit strategy.
- b) CA Agamya is conducting preliminary engagement activities.
- c) CA Agamya is designing audit plan.
- d) CA Agamya is checking her compliance of ethical requirements.

**26)** A practicing Chartered Accountant has been engaged by a company to perform certain procedures relating to its trade payables. Such agreed upon procedures includes verification of purchases from related parties, sending confirmation letters and reporting factual discrepancies to the management of the company. Which of the following statement is correct in this context?

- a) The practicing CA shall perform work in accordance with Standards on Related Services and Standards on Auditing.
- b) The practicing CA shall perform work in accordance with Standards on Related Services and SQC 1.
- c) The practicing CA shall perform work in accordance with Standards on Auditing only.
- d) The practicing CA shall perform work in accordance with Standards on Assurance Engagements and SQC 1.

- 27) CA Prince, after developing the audit strategy for Vedika Limited, develops an audit plan but finds a need to revise the materiality levels set earlier and therefore, a deviation from the already set audit strategy is felt necessary. In this case, he should
- a) Drop the audit and withdraw from the engagement.
  - b) Devise a new audit plan and then, change the strategy as per the Revised Plan.
  - c) First Modify the audit strategy and thereafter, prepare the audit plan according to the modified strategy.
  - d) Continue with the Audit Plan without considering the Audit Strategy.
- 28) Jasmine was of the view that audited financial statements are not a guarantee against probable wrong doings in the financial matters of companies. What kind of assurance does audit of financial statements provide?
- a) It provides reasonable assurance meaning a low level of assurance.
  - b) It provides reasonable assurance meaning a high level of assurance.
  - c) It provides reasonable assurance meaning an absolute level of assurance.
  - d) It provides reasonable assurance meaning a moderate level of assurance.
- 29) CA Raman instructed his article Raju to verify whether employee benefit expense of Prep Limited has been fairly allocated between the operating expense incurred in production activities and general expense. Which of the following assertions is being addressed by this instruction?
- a) Completeness
  - b) Presentation and Disclosure
  - c) Measurement
  - d) Occurrence
- 30) PQR Ltd., a manufacturing company, has been facing operational challenges. Recently, they struggled to find essential raw materials due to supply chain disruptions. This shortage has significantly impacted production, leading to delays in fulfilling customer orders. The company's financial health has also deteriorated, with declining cash flows leading to inability to pay creditors on time. Additionally, key financial ratios have worsened, and the company has stopped paying dividends to shareholders due to liquidity concerns.



Given this situation, which of the following is not a financial event or condition that may cast significant doubt on the entity's ability to continue as a going concern?

- a) Adverse key financial ratios.
- b) Inability to pay creditors on time.
- c) Shortages of important supplies.
- d) Arrears or discontinuance of dividends.

31) AMN Ltd. has capitalised a software as an intangible asset in its financial statements. To verify whether the software is actively in use, the auditor reviews the sale of goods and services that rely on this software during the audit period. Which assertion regarding intangible assets is the auditor verifying?

- a) Completeness.
- b) Valuation.
- c) Disclosure.
- d) Existence.

32) ABC Ltd. appointed CA Jai to conduct the statutory audit. During the audit, the auditor identified some errors in the financial records and he got it corrected. The audited statements were then submitted to tax authorities for compliance purposes. The audit procedures also helped the company improve its record-keeping processes. However, the management assumed that since the financial statements were audited, they could be used to predict future profits with certainty. In view of above, which of the following is not a likely benefit of auditing?

- a) Since auditing is connected to future events, audited information can be easily relied upon by users.
- b) Errors or frauds may be discovered during audit.
- c) Government authorities can make use of audited accounts for different purposes.
- d) It can help in bringing out deficiencies in maintenance of financial records.

33) CA Y has started planning for audit of a listed company. In this respect, he is considering all the matters relating to acceptance of client, assessment of compliance with ethical requirements including independence, consideration regarding the use of analytical procedures to be performed as risk assessment procedures and to have common

understanding regarding terms of engagement with management. Which of the following does not fall under the preliminary engagement activities of planning process?

- a) Considering all matters relating to acceptance of client.
- b) Assessing ethical requirements including independence.
- c) Using analytical procedures to be performed as risk assessment procedures.
- d) Establishing common understanding regarding terms of engagement.

34) A practicing Chartered Accountant is appointed by a company to perform certain agreed-upon procedures relating to its trade payables. Such agreed upon procedures include verifying listing with books of accounts, sending confirmation letters and reporting factual discrepancies to company management. Which of statements is correct in this context?

- a) The practicing CA shall perform work in accordance with Standards on Related Services and SA 220.
- b) The practicing CA shall perform work in accordance with Standards on Related Services and SQC 1.
- c) The practicing CA shall perform work in accordance with Standards on Auditing including SA 220.
- d) The practicing CA shall perform work in accordance with Standards on Assurance Engagements and SQC 1.

35) The audit of government expenditure is one of the major components of government audit. In this regard, what is meant by "Audit against rules and orders"?

- a) That the expenditure is incurred with due regard to broad and general principles of financial propriety.
- b) That there is sanction, either special or general, accorded by competent authority authorising the expenditure.
- c) That there is a provision of funds out of which expenditure can be incurred and the same has been authorised by competent authority.
- d) That the expenditure incurred conforms to the relevant provisions of the statutory enactment and in accordance with the financial rules and regulations framed by the competent authority.

- 36) CA Kamal, a partner at KPS & Co., is conducting an audit of Ridhi Ltd., a manufacturing company. During the audit it was found that KPS & Co. generates 72% of its total revenue from Ridhi Ltd., raising concerns about the firm's financial dependence on this single client. Identify the kind of threat to independence that may be involved in this case.
- a) Familiarity threat
  - b) Self-interest threat
  - c) Self-review threat
  - d) Advocacy threat
- 37) The auditor is evaluating the most appropriate method to assess the internal control system of the company. The selected method should be widely recognised for gathering information about the existence, operation, and efficiency of internal controls, while also minimizing the risk of oversight of important review procedures. Furthermore, the method should facilitate easier interim reviews of controls. Which method would be most appropriate for evaluating internal control based on the description provided above?
- a) Internal Control Questionnaire
  - b) Flow Chart
  - c) Check List
  - d) Narrative Record
- 38) Gori told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of the following statements seems to be appropriate in this regard?
- a) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.
  - b) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.
  - c) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare, odd cases.
  - d) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.

- 39) CA Radha is appointed as an auditor of a PVC Ltd. for the first time. A detailed set of instructions has been prepared by her office and handed over to assistants in engagement team. During the course of audit, she noticed that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard. What should be proper course of action by CA Radha?
- a) She should ignore this information as audit has already begun.
  - b) She should modify earlier set of instructions.
  - c) She should leave the matter to wisdom of engagement team.
  - d) She should put the ball in court of management as she was not provided with complete information earlier.
- 40) The management of a company has approached its bankers and requested for enhancement in working capital credit facilities. The bank manager requested for financial statements of the company for half year along with report providing assurance in this respect duly signed by CA. It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?
- a) Standards on Review Engagements.
  - b) There are no standards for issuing such type of reports.
  - c) Standards on Related Services.
  - d) Standards on Assurance Engagements.
- 41) While conducting the audit of receipts of Government Company, 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 Government Company.
  - 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.
- 42) "We, the people" is an NGO working for rights of citizens. Due to nature of its activities, its volunteers take part in agitations which acquire political overtones. It also gets money from trusts based in overseas countries. The government has tightened regulatory mechanism for NGOs receiving foreign funding. The finance and accounts department in NGO is headed by an experienced person, a former volunteer and activist himself. However, he has no professional or legal educational background. CA N is appointed as auditor of above NGO for the first time. Choose the most appropriate option regarding audit risk inferred by you from above.
- a) Audit risk in the above situation is low.
- b) The situation does not provide quantitative data. Therefore, it is not possible to make a precise measurement of audit risk.
- c) Audit risk in the above situation is high.
- d) The situation does not provide information affecting all components of audit risk. Therefore, inference cannot be made properly.
- 43) CA J is in process of planning audit for a large company engaged in business of dealing and manufacturing of pharmaceutical products. Central Drugs Standard Control Organisation (CDSCO), National regulatory Authority under Ministry of Health & Family Welfare is responsible for approval of drugs, conduct of clinical trials and laying down Standards for drugs and control over quality of imported drugs. Auditor is also considering whether to make use of audit evidence obtained in previous audit of the same company. Besides, he is also considering volume of transactions to determine whether it is efficient to rely on internal controls. As part of planning activities, he is also considering extent of substantive audit procedures to be performed. Consider following factors stated from 1 to 5:

- 1) Reporting requirements required by CDSCO, if any
- 2) Need for specialized knowledge of pharma industry
- 3) Expected use of audit evidence obtained in previous audit
- 4) Volume of transactions to consider reliance on internal control
- 5) Nature and extent of substantive audit procedures

Choose the most appropriate factor/combination of factors which could be relevant to CA J in establishing audit strategy: -

- a) 1, 3, 4 and 5
  - b) 1 only
  - c) 1, 2, 3 and 4
  - d) 2 only
- 44) CA Tarini is in process of formulating audit plan for conducting audit of a company engaged in business of dealing in commodity futures. Which of following is not likely to be an appropriate audit procedure to be included in audit plan for the abovesaid company?
- a) Verification of turnover of company
  - b) Verification of cost of raw material consumed
  - c) Examination of company's accounting policy for revenue recognition
  - d) Verification of contract notes with brokers
- 45) CA D, during the course of audit of a company engaged in export business, notices that credit facilities taken by company during the year from a bank for ₹10 crores have almost been fully utilized during the year. On going through sanction letter provided by bank to company, it is observed that rate of interest stipulated in sanction letter is 8% p.a. Financial statements of company show bank interest amounting to ₹60.00 lacs. Which type of substantive analytical procedure is being used by CA D?
- a) Trend analysis
  - b) Ratio analysis
  - c) Reasonableness tests
  - d) Structural modelling

- 46) An auditor of a company has found that accountant of a company has entered bogus purchase bills for ₹50 lacs in its books of accounts. Which of following is most appropriate regarding auditor's duty as far as reporting is concerned under the Companies Act, 2013?
- a) Report the matter to jurisdictional ROC
  - b) Report the matter to Secretary, MCA
  - c) Report the matter to Board of Directors of company
  - d) Report the matter to jurisdictional ROC as well as GST authority
- 47) During course of audit of a company, it is noticed by auditor that Profit before tax of company is Rs. 5 lakhs. Depreciation on building reflected in Schedule of PPE forming part of financial statements has been computed for Rs.10 lacs. The correct depreciation, according to him, should be Rs.25 lacs. The above description as a whole is an example of \_\_\_\_\_?
- a) Misstatement
  - b) Assertion
  - c) Sampling method
  - d) Audit risk
- 48) M/s DEF & Associates have been appointed as the statutory auditor of JKL Ltd. for the first time for the financial year 2024-25. The engagement partner, CA D, is briefing his engagement team about the need of Engagement Standards and Quality Control Standards in the areas of financial statement audits and in other types of assurance services. Out of the following which one point is not correct about why standards are needed?
- a) Standards equip professional accountants with professional knowledge & Skill.
  - b) Standards ensure audit quality.
  - c) Standards promote uniformity as audit of financial statements is carried out following these Standards.
  - d) Standards ensure carrying out of audit against established benchmarks at par with local practices.

- 49) RDB & Co. have been appointed as statutory auditors of INA Group of Hotels. This is the first time the firm is auditing an industry in food & beverage. The engagement partner, CA R, and other key members of the engagement team have undertaken the activity of development of an audit plan of INA Hotels after thorough understanding the Hotel's business and its environment. As per SA 300, description of which of the following matters is not a part of developing an audit plan?
- a) The nature, timing and extent of planned risk assessment procedure.
  - b) The nature, timing and extent of planned further audit procedures at assertion level.
  - c) The nature, timing and extent of resources necessary to perform the engagement.
  - d) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
- 50) The Board of Directors of a company wanted the auditor to certify Export sales during the year for submitting to the authorities. The auditor also signed the Confirmation letters to be sent to various debtors and creditors for confirming their balances as on 31.03.2024. UDIN is required to be generated by the auditor for:
- a) Export sales during the year certificate only.
  - b) Confirmation letters only.
  - c) Both Export sales during the year certificate and Confirmation letters.
  - d) No UDIN is required to be generated.
- 51) Which of the following is not included in an audit programme normally?
- a) Extent of checking
  - b) Date of checking
  - c) Nature or type of procedure
  - d) Planning of risk assessment procedures
- 52) Which of the following is TRUE about Engagement Standards?
- a) Engagement standards ensure proper rights to practitioners in course of performance of their duties.
  - b) Engagement standards ensure preparation and presentation of financial statements in a standardized manner.
  - c) Engagement standards ensure uniformity by practitioners in course of performance of their duties.



d) Engagement standards ensure savings in resources of clients.

**53)** CA Jai is conducting an audit for ABC Ltd., a large client. He is informed by the client's CFO that if they report certain deficiencies, the auditor's firm may not be considered for future engagements. Which type of threat does this scenario represent?

- a) Familiarity Threat
- b) Intimidation Threat
- c) Self-interest Threat
- d) Advocacy Threat

### Answers to Multiple Choice Questions

1) (a)	2) (b)	3) (a)	4) (c)	5) (a)	6) (b)
7) (d)	8) (d)	9) (d)	10) (b)	11) (b)	12) (b)
13) (c)	14) (b)	15) (d)	16) (b)	17) (b)	18) (b)
19) (c)	20) (c)	21) (b)/(c)	22) (d)	23) (a)	24) (c)
25) (b)	26) (b)	27) (c)	28) (b)	29) (b)	30) (c)
31) (d)	32) (a)	33) (c)	34) (b)	35) (d)	36) (b)
37) (a)	38) (a)	39) (b)	40) (d)	41) (b)	42) (c)
43) (c)	44) (b)	45) (c)	46) (c)	47) (a)	48) (d)
49) (c)	50) (a)	51) (d)	52) (c)	53) (b)	



### Notes:

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