

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs). For 30 marks.
3. Part II comprises questions which require descriptive type answers for 70 marks.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs written in the descriptive type answer book will not be evaluated.

PART-I

Q.1 Multiple Choice Questions

(30 Marks)

1. “PQR & Co.” is an Audit Firm having partners “Mr. P”, “Mr. Q” and “Mr. R”, Chartered Accountants. “Mr. P”, “Mr. Q” and “Mr. R” are holding appointment as an Auditor in 5, 7 and 9 Companies respectively.
 - (i) What would be the maximum number of Audits remaining in the name of “PQR & Co.”

(a) 60	(b) 40
(c) 39	(d) None the above
 - (ii) What would be the maximum number of Audits remaining in the name of individual partner P, Q & R?

(a) 20, 20, 20.	(b) 15, 13, 11.
(c) 5, 7, 9.	(d) None the above

- (iii) What if PQR & Co. accept the appointment as an auditor in 65 private companies having paid-up share capital less than ₹ 100 crore, 2 small companies and 1 dormant company
- (a) It can accept all such audit as it is within the limit of 141(3)(g)
 - (b) It cannot accept all such audit as it is beyond the limit of 141(3)(g)
 - (c) It can accept audit of up to 60 companies only.
 - (d) None the above
- (iv) What if PQR & Co already holds audit of 9 public company & out of those 65 private companies as given in point ii, 45 companies are having paid-up share capital of ₹ 110 crore each?
- (a) It can take audit of 30 private company only out of 45 companies.
 - (b) It can take audit of 39 private company only out of 45 companies.
 - (c) It can accept audit of up to 60 companies only.
 - (d) It can accept audit in all the 65 companies.

(4 x 2 = 8 Marks)

2. Which of the following is correct?

- (a) If auditor concludes that opening balances contain misstatements that materially affects the current period's financial statements, the auditor shall express disclaimer of opinion.
- (b) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaimer of opinion, as appropriate, in accordance with SA 705.
- (c) If auditor concludes that the current period's accounting policies are not consistently applied in relation to opening balances, or a change in accounting policies is not properly accounted for, or not adequately disclosed in accordance with applicable reporting framework, the auditor shall express a qualified opinion or an adverse opinion as appropriate, in accordance with SA 705.
- (d) Both (b) and (c)

(2 Marks)

3. General IT control that ensure backups, performance monitoring, recovery from failures commonly include controls over
- (a) Program Change
 - (b) Access Security
 - (c) Data Center and Network Operations
 - (d) Application System acquisition, development and maintenance
4. Which of the following factor should be considered for examining validity of transactions?
- (a) Transaction should be taken place in compliance with terms and conditions of the agreement, if any
 - (b) If there are legal requirements, transaction should take place in compliance with legal requirements.
 - (c) Transaction should take place in compliance with internal rules and regulations.
 - (d) All of the above
5. After assembly of audit file, the auditor
- (a) May delete audit documentation if it is of no use
 - (b) May delete audit documentation if it is occupying much of its space
 - (c) Shall not delete audit documentation before its retention time period
 - (d) May delete audit documentation before its retention period if it is required by any law.
6. Pick the odd one
- (a) Those Charged with Governance
 - (b) Management
 - (c) Employees
 - (d) Auditor
7. When joint auditors are appointed, they should
- (a) Divide audit work among themselves on the basis of instruction of client
 - (b) Divide the audit work among themselves by mutual discussion
 - (c) Divide audit work among themselves as per law
 - (d) None of these

8. Which of the following is not IT related risk?
- (a) Unauthorized access to data
 - (b) Unauthorized changes to system of program
 - (c) Sampling Risk
 - (d) Lack of adequate segregation of duties
9. SA Series 500-599 cover the aspects of
- (a) Introductory matters
 - (b) General Principles and Responsibilities
 - (c) Audit Evidence
 - (d) Audit Conclusion and Reporting
10. If the professional becomes a witness where the part to litigation is his client, it will result in
- (a) Self- review threat
 - (b) Advocacy threat
 - (c) Familiarity threat
 - (d) Self-interest threat
11. Types of Controls in an Automated Environment
- (a) General IT Controls
 - (b) Application Controls
 - (c) IT Dependent Manual Controls
 - (d) All of above
12. While verifying intangible assets, an auditor would recompute amortization charges and determine whether amortization period is reasonable. The auditor tries to establish by doing it
- (a) Valuation
 - (b) Existence
 - (c) Disclosure
 - (d) Possession
13. Which of the following is the least persuasive type of audit evidence?
- (a) Bank statements obtained from the client
 - (b) Documents obtained by auditor from third parties directly
 - (c) Carbon copies of sales invoices inspected by the auditor
 - (d) Computations made by the auditor.
14. Following audit procedures are performed by auditor to obtain sufficient appropriate audit evidence
- (a) Risk assessment procedures
 - (b) Test of controls
 - (c) Substantive audit procedures
 - (d) Both (b) and (c)

- 15.** Components of risk of material misstatements are
- (a) Inherent Risk and Control Risk
 - (b) Inherent Risk and Detection Risk
 - (c) Control Risk and Detection Risk
 - (d) Inherent Risk, Control Risk and Detection Risk
- 16.** A Ltd, is in a highly competitive industry with majority of the competition coming from middle east countries. The company's products have a relatively short life cycle and product development is continuous in order to keep up with competitors.
For the inventory account, the assertion upon which most audit efforts should be concentrated is
- (a) Existence
 - (b) Completeness
 - (c) Right and Obligation
 - (d) Valuation and Allocation
- 17.** Audit Plan should be based on
- (a) Knowledge of client's business
 - (b) Knowledge of the applicable financial reporting standards
 - (c) Knowledge of the required accounting and auditing standards
 - (d) Nature and size of the business
- 18.** Which of the following section of Companies Act, 2013 deals with requirement of internal audit in companies
- (a) Section 139
 - (b) Section 138
 - (c) Section 143
 - (d) Section 148
- 19.** _____ means evaluation of financial information through analysis of plausible relationships among both financial and non-financial data.
- (a) Risk assessment
 - (b) Analytical Procedures
 - (c) Substantive Procedures
 - (d) Test of Controls
- 20.** _____ is the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
- (a) Inherent Risk
 - (b) Control Risk
 - (c) Sampling Risk
 - (d) Non-Sampling Risk

21. Which of the following is incorrect w.r.t audit programme
- (a) An audit programme consists of a series of verification procedures to be applied.
 - (b) It is desirable in respect of each audit and more particularly for bigger audits an audit programme should be drawn up.
 - (c) An audit programme is a summarized plan
 - (d) There should be periodic review of the audit programme to assess whether the same continues
22. For purposes of the SAs, which of the following meaning attributed to the term "Assertions"
- (a) Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.
 - (b) A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies or from the setting of inappropriate objectives and strategies.
 - (c) An identified and assesses risk of material misstatements that, in the auditor's judgement, requires special audit consideration.
 - (d) The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control to identify and assess the risk of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

(20 x 1 = 20 Marks)

PART-II**Descriptive questions**

- 1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.**
- 2. Working notes should form part of the answer.**

(70 Marks)**Q.1** Examine with reasons whether the following statements are correct or incorrect.

- (a) In Joint Audit, “Each Joint Auditor is responsible only for the work allocated to him”.
- (b) Generally, applying inquiry in combination with observation gives the most effective and efficient audit evidence.
- (c) Pervasive effects on the financial statements are those that, in the auditor’s judgment: Are confined to specific elements, accounts or items of the financial statements;
- (d) A provision is recognised when: An entity has a present obligation (legal or constructive) as a result of a past event; It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and A reliable estimate cannot be made of the amount of the obligation.
- (e) The higher the auditor’s assessment of the risk of material misstatement, the lower the sample size needs to be
- (f) The auditor’s lien on client’s books and records is unconditional
- (g) Mr. Aditya, a practicing-chartered accountant is appointed as a “Tax Consultant” of ABC Ltd., in which his father Mr. Sanghvi is the Managing Director, Mr. Aditya believes that his appointment is valid as tax consultant services are not included under section 144.
- (h) Registered mortgage is affected by a mere delivery of title deeds or other documents of title with intent to create security thereof.

(2 x 7 = 14 Marks) (Answer any seven out of eight)

- Q.2 (a)** Discuss the factors that may affect the identification of an appropriate benchmark. **(4 Marks)**
- (b)** As per SA 210 “Agreeing the Terms of Audit Engagements”, preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted. Discuss **(4 Marks)**
- (c)** Discuss the difference between Internal financial control and internal control over financial reporting. **(3 Marks)**
- (d)** In case of certain subject matters, limitations on the auditor’s ability to detect material misstatements are particularly significant. Explain such assertions or subject matters. **(3 Marks)**
- Q.3 (a)** A review of the internal control can be done by a process of study, examination and evaluation of the control system installed by the management. Discuss the methods for evaluation of internal control. **(4 Marks)**
- (b)** Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches. **(4 Marks)**
- (c)** Discuss the Analytical Procedures used as Substantive Tests. **(3 Marks)**
- (d)** The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Explain **(3 Marks)**

- Q.4 (a)** Companies prepare their financial statements in accordance with the framework of generally accepted accounting principles (Indian GAAP), also commonly referred to as accounting standards (AS). In preparing financial statements, Company's management makes implicit or explicit claims (i.e. assertions) regarding assets, liabilities, equity, income, expenses, and disclosures in accordance with the applicable accounting standards. Explain with example stating the relevant assertions involved in this regard. Also, explain financial statement audit. **(4 Marks)**
- (b)** At an Annual General Meeting of a listed company, Mr. R retiring auditor after completing the tenure of five consecutive years of his service claims that he has been reappointed automatically, as the intended resolution of which a notice had been given to appoint Mr. P, could not be proceeded with, due to Mr. P's death. **(4 Marks)**
- (c)** Reserves are amounts appropriated out of profits whereas on the contrary, provisions are amounts charged against revenue. Discuss explaining the difference between the two and also explain clearly revenue reserve and capital reserve. **(3 Marks)**
- (d)** Discuss the Compliance procedure for trade receivable as a part of sales audit. **(3 Marks)**
- Q.5 (a)** As the statutory auditor of B Ltd. to whom CARO, 2016 is applicable, how would you report in the following situation? Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources. **(4 Marks)**
- (b)** The auditor P of PAR and Co., a firm of Chartered Accountants is conducting audit of Kapur Industries Ltd. The auditor requests management to provide Banker's certificate in support of fixed deposits whereas management provides only written representation on the matter. Required-Discuss how you would deal as an auditor. **(4 Marks)**

(c) Nickson Ltd. is a subsidiary of Ajanta Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Nickson Ltd. appointed Mr. P as statutory auditor for the year **(3 Marks)**

(d) Discuss the audit procedure to obtain audit evidence. **(3 Marks)**

Q.6 (a) Discuss the matters which should be specially considered in the audit of accounts of a LLP. **(4 Marks)**

(b) Describe the audit procedures to be followed by a Statutory Auditor of a bank for audit of contingent liabilities. **(4 Marks)**

(c) Write a short note on “Reversal of Income” **(3 Marks)**

(d) “Examination of overdue debts, audit classification of society, and reporting the infringement of provisions of the Act are the special features of audit of a co-operative society.” Do you agree? **(4 Marks)**