

PART A MULTIPLE CHOICE QUESTIONS (30 MARKS)

Questions No. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. The basic assumption underlying the use of analytical procedures is:
 - (a) It helps the auditor to study relationship among elements of financial information
 - (b) Relationship among data exist and continue in the absence of known condition to the contrary
 - (c) Analytical procedures will not be able to detect unusual relationships
 - (d) None of the above
2. Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”
 - (a) Inherent Risk
 - (b) Detection Risk
 - (c) Control Risk
 - (d) None of the above
3. The auditor is required to evaluate management’s assessment of the entity’s ability to continue as a going concern. Certain events/ conditions were identified that may cast significant doubt on the entity’s ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances. If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company.

In the given case, which one of the following options is correct?

 - (a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.
 - (b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.
 - (c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.
 - (d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements.
4. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways described hereunder except-
 - (a) Proper Selection of Engagement Team
 - (b) Deciding the level of risk of material misstatement

- (c) Timely resolution of Potential Problems
 - (d) Proper Organization and Management of Audit Engagement.
- 5.** Which of the following statements is not correct?
- (a) Inherent risk and control risk cannot be controlled by the management i.e are uncontrollable
 - (b) Detection risk is related directly to the effectiveness of the auditor prosecutor
 - (c) Detection risk related inversely to control risk
 - (d) Inherent risk and control risk are highly interrelated
- 6.** As per Rule 5 of the Companies (cost records and audit) Rules, 2014, every company under these rules including all units and branches thereof, shall, in respect of each of its financial year is required to maintain cost records in prescribed form
- (a) CRA 3
 - (b) CRA 2
 - (c) CRA 1
 - (d) All of the above
- 7.** IF members do not agree with the auditor recommended by Board of Directors under section 139(8) of Companies Act 2013, in case of resignation, then members
- (a) do not have any right in this case.
 - (b) Exercise their right under section 140(4) for appointment of an auditor other than retiring auditor
 - (c) Can File a complaint with National Company Law tribunal for removal of the auditor
 - (d) None of the above
- 8.** Which of the following is most appropriate for Key audit Matters concept
- (a) Selected from matters communicated with TCWG
 - (b) Matters of utmost significance
 - (c) Disclosure depends upon auditor's judgment
 - (d) All of these
- 9.** As per section 177 read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014, every listed company and the following classes of companies shall constitute an Audit Committee Except-
- (a) All private company with a paid up capital of ten crore rupees or more;
 - (b) all public companies with a paid up capital of ten crore rupees or more;
 - (c) all public companies having turnover of one hundred crore rupees or more;
 - (d) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.
- 10.** For short duration crops, account is treated as NPA if..
- (a) Amount remains overdue for more than 90 days
 - (b) Account remains out of order
 - (c) Instalment remains overdue for two crop seasons
 - (d) Instalment remains overdue for one crop season

Questions (11-20) carry 2 Marks each

11. The Chanakya Bank Ltd. was having 150 branches all over India by the year ending 31 st March, 2019. Ten branches of the bank were already covered for concurrent audit and the Bank' s Audit Committee decided to include the below mentioned branches for concurrent audit from the year 2019 -20.

1. Allahabad branch which started foreign exchange business from February 2019.
2. Rae Bareilly branch whose aggregate deposits were more than 35% of the aggregate deposits of the bank.

Whether the decision of audit committee to include both the branches mentioned in above paragraph for concurrent audit is as per RBI Guidelines?

- (a) The decision of audit committee is valid as according to RBI Guidelines, both the branches fulfil the criteria for compulsory concurrent audit.
- (b) Allahabad branch falls under the compulsory audit criteria as per RBI Guidelines, however Rae Bareilly branch whose aggregate deposits are less than 50% of the aggregate deposits of the Bank is not required to be compulsorily covered for concurrent audit.
- (c) Allahabad and Rae Bareilly branch are compulsorily not required to be covered under concurrent audit as per RBI Guidelines.
- (d) Allahabad branch has started foreign exchange business in February 2019 and as per RBI Guidelines only the branches dealing in Foreign exchange business from more than three years are covered under concurrent audit. Therefore, Allahabad branch is not covered under compulsory concurrent audit criteria as per RBI Guidelines but the Rae Bareilly branch is covered under compulsory concurrent audit criteria.

12. Employees of LIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simon Travels Ltd. for managing booking, cancellation and other services required by their employees. As per contract terms, Simon travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by LIG Ltd. within 15 days of the bill date. The bills raised by Simon travels were of huge amount, so the management of LIG Ltd. decided to get an audit conducted of the process followed for booking/ cancellation of tickets and verify the accuracy of bills raised by the travel agency. Which audit do you feel the management should opt for?

- (a) Internal audit, as it relates to examine the operational efficiency of the organisation.
- (b) Management audit, as it is an audit desired by the management.
- (c) Performance audit so as to assess the performance of the Simon travels appointed by the organisation.
- (d) Operational audit, as it is the audit for the management and involves verifying the effectiveness, efficiency and economy of operations done by the Simon travels for the organisation.

13. While conducting the current year audit of Finco Ltd, the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements. This misstatement was related to recognition of research and development expenditure. The provisions of Ind AS 38 Intangible Assets relating to capitalisation of development expenditure was not applied properly. On this, unmodified opinion had been previously issued. The current auditor verified that the misstatement had not been dealt with as required under Ind AS 8 Accounting Policies,

Changes in Accounting Estimates and Errors. Accordingly, the current auditor will:

- (a) Express a qualified or an adverse opinion in the auditor's report on the current period financial statements modified with respect to the corresponding figures included therein.
- (b) Express an unmodified opinion in the auditor's report on the current period financial statements since it was related to the prior year.
- (c) Express a qualified opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
- (d) Express an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

- 14.** One of your audit client Vernon Co with a year ending 31 March 2019 is planning to prepare the financial statements from the next year as per Indian Accounting Standards (Ind AS). The finance director of Vernon Co has contacted the audit engagement partner, asking if your firm can provide training on Ind AS to the accounts department of the entity. This will help them to understand all the provisions of Ind AS and the transition process will be easier.

Which of the following options needs to be considered by the audit engagement partner?

- (a) The issue is whether there is a self-interest threat, as the auditor will receive separate training fees for the service provided. The audit partner should decline the training assignment.
- (b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such training to the staff of the entity. The audit partner should decline not all the qualified people are good trainers.
- (c) The audit partner could go ahead with the training service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.
- (d) The audit partner needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the training assignment.

- 15.** AJ Private Ltd. was incorporated on 21 March, 2018 and has limited operations. However, the capital induction in the company was huge because it would be capital intensive. The company is in the process to set up a plant in Karnataka which should be completed by 31 May, 2019. The company's management prepared its financial statements for the year ended 31 March, 2019. The auditors were also called to start the work in April 2019. The auditors would be able to complete their work by 31 May, 2019 and accordingly would issue their audit report by 1st week of June, 2019 as per the plan agreed with the management. The auditors have some observations related to preparations of financial statements which are not in compliance with Schedule III and most importantly the point related to capitalization of the plant as Property, Plant and Equipment in the financial statements for the year ended 31 March, 2019. Please suggest which of the following statements would be correct.

- (a) The compliance of Schedule III shall start from 1 April 2019 for this company as per Companies Accounts (Amendment) Rules 2016.
- (b) The compliance of Schedule III shall start from first financial period, however, some exemptions would be applicable as per Companies Accounts Rules 2014.

- (c) There should be full compliance of Schedule III and plant should be kept as CWIP as per Schedule III.
- (d) There should be full compliance of Schedule III and plant should be shown as PPE as per Schedule III.

Integrated Case Scenario 1

M/s QS & Associates, Chartered Accountants, a Chennai based audit firm had taken up the following assignments for the Financial Year 2019-20 (Assessment Year 2020-21):

- To conduct the management audit of M/s BR Ltd.
- To conduct the operational audit of M/s SI Ltd., which is a subsidiary company of M/s BR Ltd.
- Statutory audit of M/s I General Insurance Ltd. The company has a paid-up share capital of Rs. 15,000 lakhs, which includes preliminary expenses of Rs. 3400 lakhs. During the course of audit of the company, there was a difference of opinion between the auditors and the management with respect to the minimum amount of solvency margin that needs to be maintained by the company. However, the issue was later settled.
- The auditor of a listed company had resigned due to his personal reason. The board of directors of the company had appointed M/s QS & associates as replacement within 30 days. The firm also accepted the assignment without communicating about the same to the previous auditor. Certain shareholders of the firm opposed the appointment and later the problem was solved.
- Statutory auditor of M/s FGH (P) Limited company, having paid up capital of Rs. 112 lakhs and a negative balance of Rs.15 lakhs in reserves. After a long discussion between the auditors and the management of the company with respect to the applicability of CARO 2016, both of them arrived at a conclusion.

During the year, the company had also received few other assignments with respect to valuation for purpose of direct taxes, actuarial valuation services, cost audit of a private limited company, etc. However, since the firm was not having enough expertise from its side with respect to those kinds of assignments, they could not accept the same. As a result of this, the partners of M/s QS & associates decided to induct three new partners into the firm. The new partners included:

- I. Mrs. E, an engineering graduate from IIT Madras
- II. Mr. C, a member of The Institute of Cost and Works Accountants of India
- III. Mr. A, an architect and member of Indian Institute of Architects.

- 16.** What is the minimum solvency margin that has to be maintained by M/s I General Insurance Ltd?
- (a) Rs. 50 crores
 - (b) Rs. 7500 lakhs
 - (c) Rs. 5.8 cores
 - (d) Rs. 750 lakhs
- 17.** What could be the possible reason for the objections raised by the shareholders of the listed company?
- (a) Appointment of the incoming auditor should have been approved by members within 60 days from date of such appointment.
 - (b) Appointment of the incoming auditor should have been approved by SEBI within 30 days from date of such appointment.
 - (c) Appointment of the incoming auditor should have been approved by members within 30 days from date of such appointment.

- (d) Appointment of the incoming auditor should have been approved by members within 3 months from date of such appointment.
- 18.** Looking at the above appointment, what is the appropriate inference which you can make about the professional ethics of M/s QS & associates, Chartered Accountants?
- (a) They are guilty of professional misconduct as per clause 7 of part I of Second schedule for being grossly negligent in conduct of his professional duty
 - (b) They are guilty of professional misconduct as per clause 8 of part I of First schedule due to non-communication to previous auditor
 - (c) They are guilty of professional misconduct as per clause 8 of part I of Second schedule due to non-communication to previous auditor
 - (d) They are not guilty of any professional misconduct.
- 19.** Whether CARO is applicable to M/s FGH (P) Limited? If so, why?
- (a) No. Since as per para 1 of CARO 2016, it is not applicable to any private limited company.
 - (b) Yes. Since the paid-up share capital of the company exceeds Rs. 1 crore, CARO is applicable.
 - (c) Yes. Since the total of paid-up share capital and reserves of the company exceeds Rs. 1 crore in absolute terms.
 - (d) No. Since the total of paid-up share capital and reserves of the company does not exceed Rs. 1 crore.
- 20.** As per Chartered accountants Act, what can you infer from the addition of three new partners in M/s QS & associates?
- (a) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants (i.e. Guilty for partnership with all three of them).
 - (b) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mrs. E & Mr. A alone, who are Engineer & Architect respectively).
 - (c) The firm is guilty of professional misconduct under clause 4 of part I of First Schedule for entering into partnership with persons other than chartered accountants or a member of professional body (i.e. Guilty for partnership with Mr. A, an Architect).
 - (d) The firm is not guilty of any professional misconduct.

PART B DESCRIPTIVE QUESTIONS (70 MARKS)

QUES. 1 IS COMPULSORY. AND ATTEMPT ANY FOUR OUT OF REMAINING FIVE QUESTIONS.

Q.1

(a) (5 MARKS)

DH Limited, a company incorporated in India has six members in its Audit Committee. Due to recessionary conditions in India the revenue of the company is going down and there is slow down in other activities of the company. Therefore, it was expected that there would not be significant work for members of the Audit Committee. Considering the overall recession in the company and the economy, the members of the Committee decided unanimously to meet once in a year only on March 31, 2018. They reviewed monthly information system of the Company and found no errors. As an auditor of DH Limited **would you consider the decision taken by the Audit Committee is in line with the SEBI** (Listing Obligations and Disclosure Requirements) Regulations, 2015?

(b) (5 MARKS)

C Limited has defaulted in repayment of dues to a financial institution during the financial year 2016 – 17 and the same remained outstanding as at March 31, 2017. However, the Company settled the total outstanding dues including interest in April, 2017 subsequent to the year end and before completion of the audit. Discuss how you would deal with this matter and draft a suitable Auditor's Report.

(c) (4 MARKS)

Mr. PM, a practising Chartered Accountant, has been appointed as an auditor of Truth Pvt. Ltd. **What factors would influence the amount of working papers required** to be maintained for the purpose of his audit?

Q.2

(a) (5 MARKS)

Certain weaknesses in the internal control procedure in the payment of wages in a large construction company were noticed by the statutory auditor who in turn brought the same to the knowledge of the Managing Director of the company. In the subsequent year huge defalcation came to the notice of the management. The origin of the same was traced to the earlier year. The management wants to sue the auditor for negligence and also plans to file a complaint with the Institute.

Indicate the precise nature of auditor's liability in the following situation and support your views with authority, if any ;

(b) (5 MARKS)

H Co. Ltd., is a holding company with two subsidiaries R Co. Ltd., and S Co. Ltd. The H Co. Ltd., adopts straight line method of depreciation for its assets whereas S Co. Ltd., follows written down value or diminishing value method. Though R Co. Ltd., follows straight line method of depreciation, it does not give effect to component accounting of depreciation in respect of high value assets. **While consolidating** the financials of the R Co. Ltd., and S Co. Ltd., with those of H Co. Ltd., **determine the possible issues that you have to ensure for compliance in the light of above facts.**

(c)

(4 MARKS)

A Chartered Accountant in practice, empanelled as IP (Insolvency Professional) has mentioned the same on his visiting cards, letter heads and other communications also. Mr. A, who is residing in his neighbourhood, has filed a complaint for professional misconduct against the said member for such mention of insolvency professional on circulations.

Q.3

(a)

(5 MARKS)

You have been appointed as an auditor of ABC Insurance Co. Ltd. and found that M/s PQR Ltd. got their Plant & Machinery insured on 01-10-2018 but the amount of premium has been paid by them on 15-10-2018. In the meanwhile, on 10-10-2018 a fire has broken out in the factory and the company filed a claim for damages of plant & machinery with the Insurance company. **Advise the insurance company** in this regard.

(b)

(5 MARKS)

X Loud, a movie theatre complex, is the foremost theatre located in Delhi. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe shops, pubs etc. located in the complex. Its 'other income' includes advertisements exhibited within / outside the premises such as hoarding, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

X Loud appointed your firm as the auditor of the entity. Being the head of the audit team, you are therefore required to **draw an audit programme** initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points **related to a complex.**

(c)

(4 MARKS)

What are the objective of Quality Review ?

Q.4

(a)

(5 MARKS)

While commencing the statutory audit of Alex Co. Ltd., what would you consider as an auditor to **assess risk of material misstatement and responses to such risks** ?

(b)

(5 MARKS)

Ekbote Co. is currently a large organisation trading in items of office furniture. The entity wants to expand and hence are looking at acquisition of Rawat Co which deals in items of household furniture. Ekbote Co. hires a Chartered accountant to conduct a due diligence to consider whether there is the potential for additional value to be brought out of the target company by improving its operational function and also whether there are serious operational risks about which the potential buyer should be concerned (thereby allowing the buyer to consider aborting the deal or renegotiating the price). **Which of the due diligence review would be helpful to achieve the above objective?** **You are also required to briefly discuss the contents of a due diligence report.**

(c)

(4 MARKS)

Differences between Division II (Ind- AS- Other than NBFCs) and Division III (Ind- AS- NBFCs) of Schedule III

Q.5

(a)

(5 MARKS)

In an automated environment, the data stored and processed in systems can be used to get various insights into the way business operates. This data can be useful for preparation of management information system (MIS) reports and electronic dashboards that give a high – level snapshot of business performance. In view of above you are required to briefly discuss the **meaning of data analytics** and **example of circumstances** when auditing in an automated environment, auditors can apply the concepts of data analytics.

(b)

(5 MARKS)

Mr. 'A' is a practicing Chartered Accountant working as proprietor of M/s A & Co. He went abroad for 3 months. He delegated the authority to Mr. 'Y' a Chartered Accountant his employee for taking care of routine matters of his office. During his absence Mr. 'Y' has conducted the under mentioned jobs in the name of M/s A & Co.

- (i) He issued the audit queries to client which were raised during the course of audit.
- (ii) He attended the Income tax proceedings for a client as authorized representative before Income Tax Authorities.

Comment on eligibility of Mr. 'Y' for conducting such jobs in name of M/s A & Co. and **liability of Mr. 'A'** under the Chartered Accountants Act, 1949.

(c)

(4 MARKS)

"The C&AG may direct the appointed auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India." **What are the relevant sections** of the Companies Act, 2013 **and steps involved in auditor of Government Companies?**

Q.6

(a)

(5 MARKS)

(i) While conducting the tax audit of A & Co. you observed that it made an escalation claim to one of its customers but which was not accounted as income. What is your reporting responsibility?

(ii) While writing the audit program for tax audit in respect of A Ltd., you wish to include possible instances of capital receipt if not credited to Profit & Loss Account which needs to be reported under clause 16(e) of form 3CD. **Please elucidate possible instances.**

(b)

(5 MARKS)

The manager of ZedEx (P) Ltd. approached CA. Vineet in the need of a certificate in respect of a consumption statement of raw material. Without having certificate of practice (CoP), C.A. Vineet issued the certificate to the manager of the company, acting as a CA in practice and applied for the CoP to the Institute on very next day to avoid any dispute.

(c)

(4 MARKS)

Employees of GIG Ltd. have to travel frequently for business purposes, so the company entered into a contract with a Simony Travels Ltd. for managing booking cancellation and other services required by their employees. As per contract terms, Simony travels has to raise its monthly bills for the tickets booked or cancelled during the period and the same are paid by GIG Ltd. within 15 days

of the bill date. The bills raised by Simony travels were of huge amount, so the management of GIG Ltd. decided to get an audit conducted of the process followed for booking / cancellation of tickets and verify the accuracy of bills raised by the travel agency. **Which audit do you feel the management should opt for? Also briefly discuss the qualities the auditor should possess for such audit.**

Additional Questions for Practice

AQ1)

(5 Marks)

MKc LLP is a newly set up LLP (Limited Liability Partnership). The operations of the LLP have been picking up and management is currently in the process of setting up processes and procedures in place. As per the understanding of the management of the LLP , its accounts would not be required to be audited mandatory because of its operations but still the management has decided that they would get the accounts audited voluntarily. In this regard, the management would like to understand some of the aspects which they should consider not only limited to audit but also about the maintenance of books of accounts as per the relevant laws. Please advise.

AQ2)

(5 Marks)

While verifying the employee records in a company, it was found that a major portion of the labour employed was child labour. On questioning the management, the auditor was told that it was outside his scope of the financial audit to look into the compliance with other laws.

AQ3)

(4 Marks)

In the course of his audit assignment in M/s Bailey Ltd., CA Soft came to know that the company, due to financial crunch and unable to meet employees salary, has taken a loan of Rs. 50 lacs from Employees Gratuity Fund. The said loan was not reflected in the books of account of the company and the auditor ignored this transaction in his report. Comment with reference to the Chartered Accountants Act, 1949 and Regulations there to.