

**INTERMEDIATE (IPC)
GROUP II - PAPER 6
AUDITING AND ASSURANCE RSN2**

JAN 2021

Roll No.

Total No. of Printed Pages – 7

Total No. of Questions – 6

Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
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 only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

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.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

RSN2

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(2)

RSN2

PART – II

1. State with reasons (in short) whether the following statements are correct or incorrect : (Answer any Seven) **2×7
=14**

- (a) The level of sampling risk that the auditor is willing to accept will not affect the sample size.
- (b) The area of co-operation between the statutory auditor and the internal auditor is limited.
- (c) According to SA 315, the objective of the auditor is to identify and assess the risk of material misstatement, whether due to fraud or error, only at assertion level.
- (d) There is an inverse relationship between detection risks and the combined level of inherent and control risks.
- (e) A company may distribute part of its profits during the two annual general meetings as dividend.
- (f) An auditor has to report on the matters specified in section 143(1) of the Companies Act, 2013.
- (g) In case of acquisition of an asset is on finance lease, lease payment should be recognized as an expense in the Statement of Profit and Loss on a straight line basis over the lease term.
- (h) Schedule III to the Companies Act, 2013 specifies that where the normal operating cycle cannot be identified, it is assumed to have duration of 15 months.

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(3)

RSN2

2. (a) In a system based audit, explain how test checking approach assists an auditor to form his opinion on the financial statements. 4
- (b) M/s RR and Associates, Chartered Accountants have been appointed as a statutory auditor of PK Limited for the financial year 2019-20. Mention any four examples or matters indicating to the auditor about non-compliance with laws and regulations by PK Limited. 4
- (c) Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Illustrate any three techniques by which fraud can be committed by management overriding controls. 3
- (d) M/s MP & Co, Chartered Accountants, have been appointed as auditors of LMP Private Limited. The partner of the firm asked the Audit assistant to carry out the 'examination – in-depth' of the payment made to a creditor. Advise him about the documents to be verified. 3

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(4)

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3. (a) ABC Limited is engaged in the business of manufacture of Bags and Belts. CA Dinesh is appointed as an auditor of ABC Limited for the year 2019-20. CFO of ABC Limited approached CA Dinesh with following details while finalizing the books of account of the Company as on 31st March, 2020 :- 4

Particulars	Financial Year 2019-20	Financial Year 2018-19
Rate of Gross Profit on Sales	20%	8%

Describe any four steps that CA Dinesh should carry out to satisfy himself on the sharp increase in rate of Gross profit on sales as compared to the previous year.

- (b) Explain the aspects to be considered by an auditor when designing and performing substantive analytical procedures, either alone or in combination with test of details, as substantive procedures in accordance with SA 330. 4
- (c) In the course of audit of SMP Limited for the financial year ended 31st March, 2020 you have observed as an auditor that the company has provided a sum of ₹ 20 Lakhs in the books of account as Gratuity payable to employees based on certificate obtained from an actuary. Give your comments with reference to the standard on Auditing. 3
- (d) What are the points to be looked into by an auditor while verifying "Leasehold property" appearing in the Balance sheet of a company ? 3

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(5)

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4. (a) XYZ Limited is engaged in the business of Shoes having geographical presence across India. Following details are available from the last audited financial statements of XYZ Limited for the financial year 2018-19 : 4

Particulars	₹
Paid-up Capital as on 31 st March, 2019	9.8 Crores
Turnover for Financial Year 2018-19	98 Crores
Outstanding Loan from Bank as on 31 st March, 2019	25 Crores
Liability on Outstanding Debentures as on 31 st March, 2019	26 Crores

Comment on the applicability of Constitution of Audit Committee for XYZ Limited for the financial year 2019-20 based on the above information.

- (b) AS Ltd. is regular in depositing undisputed statutory dues except Employee's State Insurance (ESI) which is outstanding as at the last day of the financial year for a period of more than four months from the date they became payable. Further AS Ltd has not remitted an Income-tax Demand on account of appeal which is pending in High Court. 4

State the reporting requirements of the auditor under CARO, 2016.

- (c) Mention the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. 3
- (d) Enumerate the circumstances under which the retiring auditor can be re-appointed. 3

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5. (a) As an auditor how will you verify the hire purchase transaction in the case of an entity engaged in the business of hire purchase ? 4
- (b) You have been appointed as an auditor of ABC Hotel, a three star hotel, for Financial Year 2019-20. As an auditor what are the special points that need to be considered in verifying the Inventories in the nature of food and beverages ? 4
- (c) The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 provides certain powers to the C & AG in connection with performance of his duties. Discuss. 3
- (d) Explain briefly the aspects that would be imminent on the part of the auditor to understand financial administration of Local bodies before embarking upon the audit. 3
6. (a) Enumerate the factors to be considered by an auditor while making reliance on internal control system in Computerized Information System (CIS) environment. 4

OR

State the matters that the auditor shall include in the written communication of 'significant deficiencies in internal control' to those charged with governance.

- (b) Mention any four financial events or conditions that, individually or collectively, may cast significant doubt on the Going Concern assumption of an entity. 4

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- (c) CA. Tom is offered statutory audit of UV Limited for the financial year 2019-20. Mention any three information that CA. Tom should obtain before accepting the audit engagement with the new client as per SA 220-“Quality Control for an Audit of financial statements”. 3
- (d) List out the areas where surprise checks can be employed while conducting an audit. 3
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