Test Series: May, 2020

MOCK TEST PAPER- 1

INTERMEDIATE (NEW) GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

Time Allowed – 3 Hours **Maximum Marks – 100**

Division A- Multiple Choice Questions

Case Scenario 1 carries 10 Marks

Case Scenario 2 carries 10 Marks **Total 30 Marks**

General MCQs carry 2 Marks each

Case Scenario 1

- M/s TPR & Associates have been appointed as the auditors of Octopus Ltd. for the Financial Year 2019-20.
- During the course of audit, the auditor notices that there is significant change in the number of debtors of the company. The auditor decided to check the debtors account in detail.
- Further the company has made various provisions like the provisions for taxation, provision for bad & doubtful debts.
- Also during the current Financial Year, the auditor attended the physical verification of the inventory being carried out by the management.
- The auditor notices that there is no substantial change in the bifurcation of amount of items representing the liabilities side of the balance sheet of Octopus Ltd. Still the auditor understands that he needs to check the liability side in detail.
- Further the company has also recognised various income like interest income and dividend income which auditor understands need to be checked in detail.
- The auditor is of the understanding that certain matters need to be reported under Companies Auditors Report Order (CARO).

Based on the above facts, answer the following:-

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

   (a) Provision

   (b) Reserve

   (c) Contingent Liability

   (d) Liability

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

   (a) All inventory units held by the company should have been recorded and recognized in the financial statements.

   (b) Any inventory held by a third party on behalf of the company should not be included as part of the inventory balance.

   (c) Inventory should be recognized at cost or net realizable value whichever is lower.

   (d) Inventory balance as at the year end does not include any element of next year

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

   (a) Withdraw from the engagement.

   (b) Not listen at all to any requests of the management.

   (c) Consider the management's request for refusal and assess its validity and decide the nature, timing, extent of his audit procedures accordingly.

   (d) Agree to management request and proceed with audit of other items of the financial statements.

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

   (a) Liabilities are the financial obligations of a company including owner's funds.

   (b) Liabilities include borrowing, trade payable and other current liabilities and provisions.

   (c) Verification of liabilities is an important as that of assets.

   (d) All of the above.

5. **Statement 1**: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client

   Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances:-

   (a) Only statement 1 is correct

   (b) Only statement 2 is correct

   (c) Both 1 & 2 are correct

   (d) Both 1 & 2 are incorrect **(5 x 2 = 10 Marks)**

Case Scenario 2

ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2019. The Gross turnover of the company is Rs.105 crores, out of which turnover from one of its product namely coffee is of Rs.95 crores during the immediate preceding Financial Year.

During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same need to be reported under the relevant provisions of Companies (Auditors Report) Order 2016.

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During the FY 2018-2019, Mrs. X wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act 2013.

Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act 2013.

During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.

Based on the above facts, answer the following:-

1. After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-
   (a) 60 days
   (b) 30 days
   (c) 15 days
   (d) 20 days
2. If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ & Associates shall take corrective actions within…….days. What is the prescribed limit:-
   (a) 100 days, Market Value Rs 1,00,000
   (b) 60 days, Face value Rs 1,00,000
   (c) 90 days, Face value Rs 1,00,000
   (d) 15 days, Market Value Rs 1,00,000
3. Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-
   (a) Section 143(12), 1 crore & above
   (b) Section 139(12), 1 crore & above
   (c) Section 143(12), 2 crore & above
   (d) None of the above
4. What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-
   (a) Maintenance of cost records is mandatory, in form CRA 1.
   (b) Maintenance of cost records is mandatory, in form CRA 2.
   (c) Maintenance of cost records is mandatory, in any general format.
   (d) No requirement of maintenance of cost records.

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5. Under relevant clause of CARO,2016, XYZ & Associates is required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-

   (a) Exceeding 9 months

   (b) Exceeding 3 months

   (c) Exceeding 6 months

   (d) Exceeding 12 months **(5 x 2 = 10 Marks)**

General MCQs

1. The auditor shall update and change _____as necessary during the course of the audit.

   (a) overall strategy

   (b) the overall audit strategy and the audit plan

   (c) audit plan

   (d) audit program

2. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request is-

   (a) Positive confirmation request

   (b) Non-response

   (c) Exception

   (d) Negative confirmation request

3. Direct financial interest or materially significant indirect financial interest in a client is an example of

   (a) Self-review threats

   (b) Self-interest threats

   (c) Advocacy threats

   (d) Intimidation threats

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

   (a) a disclaimer opinion

   (b) a qualified opinion

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

   (d) unmodified opinion

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

   (a) Withdraw from the engagement immediately.

   (b) Report to Audit team regarding withdrawal.

   (c) Determine the professional and legal responsibilities applicable in the circumstances.

   (d) Ask the management for his withdrawal. **(5 x 2=10 Marks)**

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Division B- Descriptive Questions

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the Rest.*

Total 70 Marks

1. Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any **7** out of **8**)

   (i) The auditor is expected to and can reduce audit risk to zero

   (ii) SQC1 requires engagement partner to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 30 days after the date of the auditor's report.

   (iii) It is important for the auditor that each party should be clear about the nature of the engagement.

   (iv) If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.

   (v) Managing Director of Pigeon Ltd. himself wants to appoint CA. Champ, a practicing Chartered Accountant, as first auditor of the company.

   (vi) Article 150 of the Constitution provides that the accounts of the Union and of the States shall be kept in such form as the Finance Minister may on the advice of the C&AG prescribe.

   (vii) LLP need not file a "Statement of Accounts and Solvency".

   (viii) Depending on how the business operates, the management may value inventory using weighted average basis. **(7 x 2 = 14 Marks)**

2. **Discuss the following:**

   (a) The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements. The Code establishes the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements. Explain.**(3 Marks)**

   (b) Chartered Accountant has a responsibility to remain independent by taking into account the context in which they practice, the threats to independence and the safeguards available to eliminate the threats. Explain the guiding principles in this regard. **(4 Marks)**

   (c) The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. Explain the factors due to which above varies.

   (4 Marks)

   (d) The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning. **(3 Marks)**

3. (a) State the matters to be included in the auditor's report as per CARO, 2016, regarding:

   (i) Fixed Assets **(2 Marks)**

   (ii) Statutory Dues. **(2 Marks)**

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(b) The auditor of MARUT Ltd, engaged in manufacturing of Smart Motor Bikes, obtains an understanding of the control environment. As part of obtaining this understanding, the auditor evaluates whether:

(i) Management has created and maintained a culture of honesty and ethical behavior; and

(ii) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control.

Advise what is included in control environment. Also explain the elements of control environment.

(4 Marks)

(c) Companies Act, 2013 prescribes that a person shall not be eligible for appointment as an auditor of a company if such person is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. Explain stating the relevant provisions.

(3 Marks)

(d) The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment. When circumstances are similar, the effect on sample size of factors will be similar regardless of whether a statistical or non-statistical approach is chosen.

Explain stating the examples of factors **(any four)** that the auditor may consider when determining the sample size for tests of controls. **(3 Marks)**

4. (a) Where a company is required to constitute an Audit Committee, all appointments of an auditor under this section shall be made after taking into account the recommendations of such committee. Explain stating also the class of companies required to constitute Audit Committee. **(4 Marks)**

(b) Krishna Cycles Ltd. is engaged in manufacturing of different type of Bicycles. On going through its financial statements for the past years, it is observed that inventory is material to the financial statements. You as an auditor of the company wanted to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory as appearing in the financial statements. Discuss, how would you proceed as an auditor. **(4 Marks)**

(c) Fraud, whether fraudulent financial reporting or misappropriation of assets, involves incentive or pressure to commit fraud, a perceived opportunity to do so and some rationalization of the act. Explain with examples **(3 Marks)**

(d) M/s. ABC &Co. is an Audit firm, having partners CA. A, CA. B and CA. C. The firm has been offered the appointment as an Auditor of XYZ Ltd. for the Financial Year 2017-18.

Mr. D, the relative of CA. A, is holding 25,000 shares (face value of Rs. 10 each) in XYZ Ltd. having market value of Rs. 90,000. Are M/s. ABC & Co. qualified to be appointed as Auditors of XYZ Ltd.?

(3 Marks)

5. (a) "P India" Ltd. is a manufacturer of various sports products. The company is having several cases of litigation pending in courts. The auditor wanted to identify litigation and claims, which may give rise to risk of material misstatements. Suggest the audit procedures in the given case. **(4 Marks)**

(b) The C&AG Act gives powers to the C&AG in connection with the performance of his duties. Explain.

(4 Marks)

(c) "Completion Memorandum" is helpful as part of the audit documentation. Explain. **(3 Marks)**

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(d) Newton Ltd. has made loans and advances on the basis of following securities to various borrowers. As an' auditor what type of documents can be verified to ensure that the company holds a legally enforceable security?

(i) Shares and Debentures

(ii) Life Insurance Policy

(iii) Hypothecation of goods. **(3 Marks)**

6. (a) With respect to audit in an automated environment, explain the following: (any **four**)

(i) CAATs

(ii) Data Analytics

(iii) Database

(iv) Information Systems

(v) Privileged access **(4 Marks)**

(b) Cinescreen Multiplex Ltd. is operating cinemas in different locations in Mumbai and has appointed you as an internal auditor. What are the areas that need to be verified in relation to receipts from sale of Tickets? **(4 Marks)**

OR

(c) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain. **(4 Marks)**

(d) Write the audit procedures to be performed as an auditor for valuation (assertion) of following:

(i) Loans and Advances and other current assets. **(6 Marks)**

(ii) Finished goods and goods for resale.

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