

MOCK TEST PAPER 1
INTERMEDIATE (NEW) GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Time Allowed – 3 Hours

Maximum Marks – 100

Division A- MCQ's-30 Marks

Questions (1-20) 1- Mark

1. Planning an audit involves
 - (a) establishing the overall audit strategy for the engagement and developing an audit plan.
 - (b) establishing the overall audit plan for the engagement and developing an audit strategy.
 - (c) establishing the overall audit plan for the engagement
 - (d) developing an audit strategy.
2. Which of the following is correct :
 - (a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
 - (b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
 - (c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.
 - (d) The auditor shall not assemble the audit documentation in an audit file.
3. Standard on Quality Control (SQC) 1 provides that,
 - (a) unless otherwise specified by law or regulation, audit documentation is the property of the management.
 - (b) unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.
 - (c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.
 - (d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.
4. Audit evidence includes
 - (a) information contained in the accounting records underlying the financial statements
 - (b) both information contained in the accounting records underlying the financial statements and other information.
 - (c) other information.
 - (d) information contained in the accounting records underlying the financial statements or other information.
5. Most of the auditor's work in forming the auditor's opinion consists of :
 - (a) obtaining audit evidence.
 - (b) evaluating audit evidence.
 - (c) obtaining or evaluating audit evidence.

- (d) obtaining and evaluating audit evidence.
6. A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework is :
- (a) Misstatement
 - (b) Error
 - (c) fraud
 - (d) Any of the above
7. Risk of material misstatement may be defined as the risk
- (a) that the financial statements are materially misstated after audit.
 - (b) that the financial statements are materially misstated during audit.
 - (c) that the financial statements are materially misstated prior to audit.
 - (d) All of the above
8. Professional skepticism is necessary to the critical assessment of
- (a) audit documentation
 - (b) audit evidence.
 - (c) audit procedures
 - (d) All of the above
9. The assessment of the risks of material misstatement may be expressed in
- (a) quantitative terms, such as in percentages, or in non-quantitative terms.
 - (b) quantitative terms, such as in percentages,
 - (c) non-quantitative terms.
 - (d) None of the above
10. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -
- (a) at the financial statement levels only.
 - (b) at the assertion levels only.
 - (c) at the financial statement and assertion levels.
 - (d) at the financial statement or assertion levels.
11. According to SA 300,
- (a) planning is not a continual and iterative phase of an audit, but rather a discrete process
 - (b) planning is not a discrete phase of an audit, but rather a continual and iterative process
 - (c) planning is not continual and iterative process
 - (d) planning is not a discrete phase of an audit
12. Which of the following is not an analytical procedure?
- (a) Tracing of purchases recurred in the purchase book to purchase invoices.
 - (b) Comparing aggregate wages paid to number of employees
 - (c) Comparing the actual costs with standard costs

- (d) All of them are analytical procedures
13. Audit evidence is necessary to support the auditor's opinion and report. It is_____in nature and is primarily obtained from audit procedures performed during the course of the audit.
- (a) cumulative
 - (b) regressive
 - (c) selective
 - (d) objective
14. Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), the following persons shall not be eligible for appointment as an auditor of a company, namely-
- (i) a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
 - (ii) an officer or employee of the company;
 - (iii) a person who is a partner, or who is in the employment, of an officer or employee of the company;
 - (iv) a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. It may be noted that the relative may hold security or interest in the company of face value not exceeding Rs. 1,00,000.

Which of the above is incorrect :

- (a) All statements are incorrect.
 - (b) (i) and (ii)
 - (c) (i) only
 - (d) (iv) only
15. Which of the following is not an advantage of Joint Audit :
- (a) Sharing of expertise.
 - (b) General superiority complexes of some auditors.
 - (c) Lower workload.
 - (d) Displacement of the auditor of the company taken over in a take - over often obviated.
16. A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue—
- (a) a qualified opinion
 - (b) an adverse opinion
 - (c) a disclaimer of opinion
 - (d) emphasis of matter paragraph.
17. Which of the following is correct as per section 143(10) of the Companies Act, 2013 :
- (a) IFAC may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
 - (b) the International Auditing Standards Board may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

- (c) the MCA may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
 - (d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.
18. Which of the following is not a duty of auditor to report under section 143 (1)
- (a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
 - (b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
 - (c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
 - (d) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
19. Which of the following is correct :
- (a) Under section 128 of the Act, books of account of a company must be kept at the registered office.
 - (b) Under section 128 of the Act, books of account of a company must be kept at the corporate office.
 - (c) Under section 128 of the Act, books of account of a company must be kept at the Head office of the company.
 - (d) Under section 128 of the Act, books of account of a company must be kept at the usual place of business.
20. An Audit report is :
- (a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.
 - (b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent.
 - (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.
 - (d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent. (20 X 1 = 20 Marks)

Questions (21-25) 2- Mark

21. Which of the following is not a Specific Evaluations by the Auditor :
- (a) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The sufficient appropriate audit evidence has been obtained;

22. Which of the following is correct :
- Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a Firm of Chartered Accountants only.
 - Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.
 - Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a CAG Auditor only.
 - Sub-section (1) of section 30 of the Banking Regulations Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a by a person duly qualified under Banking Law.
23. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,
- the auditor shall express a qualified opinion in accordance with SA 705.
 - the auditor shall express a disclaimer of opinion in accordance with SA 705.
 - the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705.
 - the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
24. which of the following is correct :
- Different types of analytical procedures provide different levels of assurance.
 - Different types of analytical procedures provide similar levels of assurance.
 - Similar type of analytical procedures provide different levels of assurance.
 - All are correct
25. According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement with :
- management
 - those charged with governance
 - management or those charged with governance, as appropriate.
 - Audit committee

(5 x 2 =10 Marks)

Division B- Descriptive Questions-70 Marks

Question No. 1 is compulsory.

Attempt any four questions from the Rest.

- Examine with reasons (in short) whether the following statements are correct or incorrect : (Attempt any 7 out of 8)
 - If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion.
 - 'Test of Control' may be defined as an audit procedure designed to detect material misstatements at the assertion level
 - The method which involves dividing the population into groups of items is known as block sampling.

- (iv) It is necessary for the auditor to maintain professional skepticism throughout the audit.
 - (v) Teeming and lading is one of the techniques of inflating cash payments.
 - (vi) Managing director of A Ltd. himself appointed the first auditor of the company.
 - (vii) The scope of work of an internal auditor may extend even beyond the financial accounting.
 - (viii) There is no relation between Inherent risk, Control risk and Detection risk. **(7 x 2 = 14 Marks)**
2. Discuss the following:
- (a) "An audit is independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."
Explain stating clearly how the person conducting this task should take care to ensure that financial statements would not mislead anybody. **(4 Marks)**
 - (b) The relationship between auditing and law is very close one. **(4 Marks)**
 - (c) The firm's system of quality control should include policies and procedures addressing each and every element of system of quality control. State those elements. **(3 Marks)**
 - (d) Materiality for the financial statements as a whole may need to be revised as a result of a change in circumstances that occurred during the audit. Explain with the help of example. **(3 Marks)**
3. (a) "The auditors should consider the effect of subsequent events on the financial statement and on auditor's report" – Comment according to SA 560. **(4 Marks)**
- (b) Auditors of M/s Tender India (P) Ltd. were changed for the accounting year 2016-17. The closing inventory of the company as on 31.3.2016 amounting to Rs. 100 lacs continued as it is and became closing inventory as on 31.3.2017. The auditors of the company propose to exclude from their audit programme the audit of closing inventory of Rs. 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor. **(4 Marks)**
- (c) What are the obvious assertions in the following items appearing in the Financial Statements?
- (i) Statement of Profit and Loss
Travelling Expenditure Rs. 50,000
 - (ii) Balance Sheet
Trade receivable Rs. 2,00,000 **(3 Marks)**
- (d) "Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users." Discuss. **(3 Marks)**
4. (a) In performing an audit of financial statements, the auditor should have or obtain knowledge of the business. Explain in the light of SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment". **(4 Marks)**
- (b) Audit against the propriety seeks to ensure that expenditure conforms to certain principles. Explain **(4 Marks)**
- (c) Discuss which class of companies are specifically exempt from the applicability of CARO 2016. **(3 Marks)**
- (d) What audit points are to be borne in mind in case of issue of "Sweat Equity Shares" by a limited company? **(3 Marks)**

5. (a) Understanding the entity and its automated environment involves understanding how IT department is organised, IT activities, the IT dependencies, relevant risks and controls.

Explain stating the points that an auditor should consider to obtain an understanding of the company's automated environment. **(4 Marks)**

- (b) XYZ Ltd is engaged in trading of electronic goods and having huge accounts receivables. For analysing the whole accounts receivables, auditor wanted to use sampling technique. In considering the characteristics of the population from which the sample will be drawn, the auditor determines that stratification or value-weighted selection technique is appropriate. SA 530 provides guidance to the auditor on the use of stratification and value-weighted sampling techniques. Advise the auditor in accordance with SA 530. **(4 Marks)**

- (c) Ratio analysis is useful for analysing asset and liability accounts as well as revenue and expense accounts. An individual balance sheet account is difficult to predict on its own, but its relationship to another account is often more predictable (e.g., the trade receivables balance related to sales).

Explain stating the techniques available as substantive analytical procedures. **(3 Marks)**

- (d) The auditor A of ABC & Co.- firm of auditors is conducting the audit of XYZ Ltd and while performing testing of additions wanted to verify that all PPE (Property Plant and Equipment) purchase invoices are in the name of the entity he is auditing. For all additions to land, building in particular, the auditor desires to have concrete evidence about ownership. The auditor is worried about whether the entity has valid legal ownership rights over the PPE claimed to be held by the entity and recorded in the financial statements. Advise the auditor. **(3 Marks)**

6. (a) The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.

This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.

Advise about qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. **(4 Marks)**

- (b) Your firm of Chartered Accountants has been appointed as the Auditor of two branches of OBC which are located in the Industrial area. Considering that the location of the branches of bank in industrial area, these would be "advances oriented branches and audit of advances would require the major attention of the auditors. Advise how would you proceed to obtain evidence in respect of audit of advances. **(4 Marks)**

OR

- (c) The general transactions of a hospital include patient treatment, collection of receipts, donations, capital expenditures. You are required to mention special points of consideration while auditing such transactions of a hospital? **(4 Marks)**

- (d) CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs. 30,000. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation.

How much fine may he be punishable with under section 140(3) for non-compliance of section 140(2) of the Companies Act, 2013? **(3 Marks)**

- (e) "The remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein." Explain with reference to provisions of the Companies Act, 2013. **(3 Marks)**