

MOCK TEST PAPER- 2
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

- Mars Ltd is a public company having a turnover exceeding Rs 50 crores in the last 3 financial years including the current financial year which is FY 2019-20
- The company comes under the class of companies specified under item (A) Regulated Sectors.
- M/s XYZ & Associates have been appointed as the auditors of Mars Ltd for FY 2019-20.
- Mars Ltd has a branch office in Dubai for which a separate auditor has been appointed.
- M/s XYZ & Associates understand that they need to communicate with the another auditor appointed for the branch office in Dubai.
- Further Mars Ltd has taken a loan from a nationalized bank in 2015 amounting to Rs 1 crore payable in 8 equal instalments of Rs. 12.50 lakhs each starting from 31st March 2016 onwards. It has repaid its 4 instalments, however the company has defaulted in the current financial year. Mars Ltd has sought re-scheduling of loan from the bank.
- The auditors, XYZ & Associates understand that they have certain reporting requirements under Companies (Auditor's Report) Order, 2016.
- Further, the auditors also attended the physical verification of inventory conducted by the management at the year end.

Based on the above facts, answer the following:-

1. With respect to the forms specified by companies (Cost Records & Audit) Rule 2014, which of the following is incorrect combination:-
 - (a) Form CRA 1- Maintenance of cost records by the Company.
 - (b) Form CRA 2- Intimation of appointment of another cost auditor to Central Government.
 - (c) Form CRA 3- Submission of Cost Audit Report to the Board of Directors of the company.
 - (d) Form CRA 4- Submission of Cost Audit Report by the company to the Registrar.
2. Within how many days of the receipt of the copy of Cost Audit Report. Mars Ltd is required to forward the report to the Central Government:-
 - (a) 30 days
 - (b) 60 days
 - (c) 15 days
 - (d) 90days

3. Whether reporting about maintenance of cost records required by Companies (Auditors Report) Order, 2016. If yes, then under which clause and which is the relevant section under the Companies Act 2013:-
 - (a) Yes, Clause vi, Section 148(1)
 - (b) No, - , Section 148(1)
 - (c) Yes, clause v, Section 143(1)
 - (d) No, - , section 143(1)
4. With respect to the branch office of Mars Ltd In Dubai, what is the duty of M/s XYZ & Associates:-
 - (a) M/s XYZ & Associates might discuss with the branch auditor the audit procedures applied by the branch auditor.
 - (b) M/s XYZ & Associates may also visit the branch auditor.
 - (c) M/s XYZ & Associates cannot advise the other auditor of accounting, auditing/ reporting requirement as the other auditor is well versed with such provisions.
 - (d) Both a & b
5. Which of the following is incorrect:-
 - (a) SA 200- Overall objectives of Independent Auditor
 - (b) SA 230- Audit Documentation
 - (c) SA 299- Joint Audit of Financial Statements
 - (d) SA 600- Subsequent Events

(5 x 2 = 10 Marks)

Case Scenario 2

Sun Private Limited is a newly formed private limited company engaged in the manufacturing of solar panels. Company has appointed M&S Associates, a Partnership Firm of Mr Meticulous and Mr Sincere as their First Auditors. M&S Associates accepted the assignment and Mr Meticulous being the engagement Partner, started their Audit.

During the course of Audit, Mr Meticulous asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, Mr Meticulous found that the Gross Margin of the Company is lower than the Industry Standard / Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. Mr Meticulous advised them that he can provide working but cannot give them the working papers as they are the property of the Firm.

Management agreed to that and asked Mr Meticulous to go into detail and tell them the reasons for lower Gross Margin to which he agreed. During the detailed audit, Mr Meticulous came to know about the fact that the company dispatched its solar panels to its Distributors on Delivery Challans and once the goods were accepted, Sales bills were raised. Checking each Challan against Sales Invoices, Mr Meticulous found that there were many challans for which no Invoices were raised and thus Sales was grossly understated and there was no mechanism where unbilled Challans were recorded or tracked. Company employed a person to reconcile all the challans and prepared a list where Bills are yet to be sent to the Customers. In addition, Company was also asked to seek confirmation of balances from all its customers. The Management assured Mr Meticulous that Inventories are physically verified and hence there will be no impact on them.

Multiple Choice Questions:

1. M.r Meticulous asked about other Companies, he was intending to perform which audit p procedure?
 - (a) Analytical Procedures
 - (b) Substantive Procedures

- (c) Random Sampling
 - (d) Statistical Sampling
2. What was the initial procedure carried on by Mr Meticulous?
 - (a) Trend Analysis
 - (b) Ratio Analysis
 - (c) Statistical Modelling
 - (d) Random Sampling
 3. Who has the right to retain the working papers of the Company in current case?
 - (a) Audit Committee
 - (b) Board of Directors
 - (c) Auditor
 - (d) Chairman of the Audit Committee
 4. When Mr. Meticulous decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence?
 - (a) Test of Transactions
 - (b) Test of Balances
 - (c) Both (a) and (b)
 - (d) Analytical Procedures
 5. The impact of the exercise carried on by the Company for unbilled challans will have an impact on
 - (a) Gross Receipts and Debtors
 - (b) Gross Receipts and Inventory
 - (c) Debtors
 - (d) Inventory

(5 x 2 = 10 Marks)

General MCQs

1. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
 - (a) Withdraw from the audit engagement where possible under applicable law or regulation;
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
 - (c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
 - (d) Withdraw from the audit engagement where possible under applicable law or regulation or determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.
2. Audit documentation provides:
 - (a) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

- (b) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
 - (c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
 - (d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
3. 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.
4. Audit risk is a function of the
- (a) risks of material misstatement and detection risk.
 - (b) audit risk and detection risk.
 - (c) control risk and detection risk.
 - (d) inherent risk and detection risk.
5. 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

(5 x 2=10 Marks)

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) There are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being conclusive rather than persuasive.
 - (ii) Audit notes can serve as a guide in framing Audit programme.
 - (iii) The terms of audit engagement can restrict the scope of an audit.
 - (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) Few members of the Board of Directors oppose the appointment of Mr. N, an employee of the company, as an Internal Auditor, stating that Mr. N is not a chartered accountant and further he is an employee 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) It is the function of an audit to establish that payments have been made validly to the persons who are shown to be recipients. **(7 x 2 = 14 Marks)**

2. Discuss the following:

- (a) Name the assertions for the following audit procedures:
- (i) Year end inventory verification.
 - (ii) Depreciation has been properly charged on all assets.
 - (iii) The title deeds of the lands disclosed in the Balance Sheet are held in the name of the company.
 - (iv) All liabilities are properly recorded in the financial statements.
 - (v) Related party transactions are shown properly. **(5 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. **(3 Marks)**
- (c) Expenses which are essentially of a revenue nature if incurred for creating an asset or adding to its value for achieving higher productivity are regarded as expenses of a capital nature. Describe any six such expenses. **(3 Marks)**
- (d) In case of a Bank, explain the meaning of Funded loans. Also give examples. **(3 Marks)**
3. (a) State the matters to be included in auditor's report as per CARO, 2016 regarding:
- (i) Default in repayment of loan or borrowing to a financial institution, bank etc.
 - (ii) Fraud by the company or on the company by its officers or employees. **(4 Marks)**
- (b) "Sampling risk can lead to erroneous conclusions". Justify. **(3 Marks)**
- (c) "An auditor is required to make specific evaluations while forming an opinion in an audit report." State them. **(4 Marks)**
- (d) "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. **(3 Marks)**
4. (a) The auditor's reporting on internal financial control will be applicable with respect to interim financial statements. Discuss **(3 Marks)**
- (b) Provision of CARO, 2016 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves & Surplus of Rs. 50 lakhs, Secured loan from bank of Rs. 90 Lakhs and Turnover of Rs. 5 Crore, for the financial year 2018-19. **(3 Marks)**
- (c) Write any six circumstances of conflicting or missing evidence that indicate the possibility of fraud. **(4 Marks)**
- (d) "Mr. A is offered by ABC Ltd. for appointment as cost auditor and asked to certify certain requirements before such appointment." Discuss those requirements with reference to the provisions of the Companies Act, 2013. **(4 Marks)**
5. (a) From the auditing point of view, the auditor should verify that a proper disclosure about contingent liabilities is made in financial statements as required by AS 29. What type of disclosures should be made for each class of contingent liability as at the balance sheet date? **(4 Marks)**
- (b) Briefly explain the provisions for qualification and appointment of Auditors under the Multi-State Co-operative Societies Act, 2002. **(4 Marks)**

- (c) "CA. NM who is rendering management consultancy service to LA Ltd. wants to accept offer letter for appointment as an auditor of the LA Ltd. for the next financial year." Discuss with reference to the provision of the Companies Act, 2013. **(3 Marks)**
- (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) Applications
 - (ii) Control Deficiency
 - (iii) Data Processing
 - (iv) Enterprise Resource Planning
 - (v) Software **(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) CA Amar wants to verify the payments made by XYZ Ltd. on account of building rent during the FY 2020-21. The rent amounts to Rs.50,000/- per month for the year. The monthly rent payments are consistent with the rent agreement. However, the other companies in the similar industry are paying rent of Rs. 10,000/- per month for a similar location. How will applying the analytical procedures impact the verification process of such rental payments by XYZ Ltd.? **(3 Marks)**
- (e) Banks ask Security or Collateral while lending to assure that the Borrower will return the money to bank in prescribed time. Explain stating clearly the concept of Primary and Collateral Security. Also give examples of most common types of securities accepted by banks. **(3 Marks)**