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Sarthak Aggarwal  
CA Inter May-23

**AIR 19**



Aman Mahajan  
CA Inter Dec-21

**AIR 33**



Sundar B  
CA Inter Dec-21

**AIR 49**



Ria Gupta  
CA Inter May-22

# What Our Students have to Say....

## **Aman Mahajan (CA AIR 19)**

I really liked your classes, especially the practical linkages explained with amazing graphics. The full subject test series helped a lot in improving my writing speed and presentation skills.

## **Sundar Sri Renganathan B (AIR 33)**

I took Accounting from IndigoLearn and the classes were really good. They emphasized on conceptual clarity over getting things done quickly, which is really vital to score good marks in practical papers. Other resources like Notes, Quizzes and Forum was beneficial too.

## **Dwarakesh**

Thank you IndigoLearn team for the guidance and support throughout the past few months. I had great conceptual clarity in all the subjects and the revision classes by Suraj Sir were very helpful. Study planner and Free resources were very useful. Thank you Team IndigoLearn.

## **Yug Manoj Kumar Bhattad**

I have cleared my CA Foundation examination with the total of 286. And this was not possible without the efforts and support of IndigoLearn. The way of teaching with utmost conceptual clarity is the best thing at IndigoLearn.

## **Prakash Bhatt**

Superb, one stop solution for All CA and Accountancy students they serve real Education at very very reasonable price

## **Naveen Kumar S**

Good experience, unlimited views helped a lot in last one month preparation. Looking forward for

## **Bhagyasree Chougule**

It was only because of IndigoLearn that my concepts became very clear, and I was able to crack the exam. I wasn't 100% prepared I needed more practice but luckily I got through. I'm definitely choosing IndigoLearn for group 2 preparation. A big thanks!

## **Mohd Thayyab**

Theoretical subjects made easier through story based examples and charts. Concept clarity 100%. Fully exam+practical oriented classes will help not only to retain the concepts during exams but for the longer duration.

## **Lalit Chetan Sanpal**

IndigoLearn has been fantastic and brilliant. Helped me a lot in my preparations. I cleared both the groups in first attempt with your brilliant classes and notes. Thanks to all the faculties, coordinators, forum admins and everyone at IndigoLearn. Really grateful. Will go for CA Finals at IndigoLearn For sure. Thank you so much IndigoLearn.



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## Abishek M

I'd like to thank IndigoLearn for all the support they've provided me with. Modules were great. They were time saving and straight to the point. I extensively used the materials provided before exams, they were so helpful. Also I'd appreciate them for providing unlimited views as I kept looking into the maths modules till the end.

## Munnur Nandini Sree

Accounting classes I have taken from IndigoLearn. Now I feel that it's a great choice that I have made (after seeing my result ) because only in Accounting I got exemption. Thank you IndigoLearn.

## Harshita G

Thank u so much IndigoLearn for your guidance. This is only possible because of u people.... For my finals also my journey will continue with IndigoLearn.

## Bharathsha PS

I purchased Economics, IT, FM, EIS and Audit from IndigoLearn. All your classes are superb and anyone can easily crack the CA exams. What makes u special is your classes help us to understand the concepts very well. Special thanks to the FM faculty, I studied only 2 chapters in economics, and still managed to score exemption in the 8th paper.

## Nayi Mihir kumar

This platform is very helpful in all activity like mcq practise, notes, teaching activities, revisions and the forum interaction with all students which I like the most. If anybody want to clear their exams in first attempt then IndigoLearn is the best platform for them. My all regards to IndigoLearn. Thank you so much.

## Rajalaxmi CA Inter

Can't believe I cleared. Sathya Sir, Suraj Sir, Yogita Mam ... thanks to all my faculties. Basically an Eng student with zero accounts knowledge. Thanks IndigoLearn for making me clear in first attempt.

## Priyanka Udeshi

All the faculties have excellent knowledge of the subject and deliver it in very crisp & effective manner. Also, quick response at Forums never let any of my doubts go unresolved no matter how small they were. Thank you once again to all the teachers & staff at IndigoLearn!

## Naveen Kumar T

It been a great journey with indigo learn team. Thanks to all the facilities and forum friends who support me a lot.

# AUDITING & ETHICS

## CASE SCENARIO 1

M/S JJ & associates having office in Chennai are statutory auditors under Companies Act, 2013 of a company viz. Sweet Aroma Private Limited engaged in business of obtaining and manufacturing rice from paddy catering to both domestic as well as international market mainly in Gulf nations. The company has a huge plant capacity for rice extraction in one of the states in Northern India. Needless to state that inventories are in huge quantity in such type of business consisting of raw material, work in progress and finished goods. The auditors want to obtain sufficient appropriate audit evidence regarding inventories.

### Question 1

Which of the following is most likely correct in relation to obtaining of sufficient appropriate audit evidence regarding existence and condition of inventory?

- a) It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.
- b) Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.
- c) The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis--vis companies plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.
- d) **The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditors office location vis--vis company's plant location is not a valid basis for skipping physical inventory counting**

### Question: 2

Below are given certain cluster of matters which are relevant in planning attendance of auditor at physical inventory counting. Which of the following clusters consists of a likely inappropriate combination?

- a) Nature of inventory, timing of physical inventory counting and stages of completion of work in progress
- b) **Nature of inventory, timing of physical inventory counting and valuation method of inventory**
- c) Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system
- d) Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system

Question:3

Which of the following is the most likely logical sequence of steps in relation to attendance at physical inventory counting by auditor?

- a) Observance of performance of managements count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting
- b) Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting
- c) Performing test counts, inspection of inventory, Observance of performance of managements count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting
- d) Evaluation of managements procedures for recording and controlling results of physical inventory counting, Observance of performance of managements count procedures, inspection of inventory and performing test counts**

Question:4

During attendance at physical inventory counting, the auditor inspects inventory. Following outcomes stated as I, II & III are given below of this inspection procedure:-

Outcome I - Existence of inventory

Outcome II - Ownership of inventory

Outcome III - Condition of inventory

Which of the following statements is most likely true?

- a) Outcomes I, II and III are all necessarily established after inspection.
- b) Only Outcomes I and III are established after inspection and Outcome II is never established.
- c) Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.**
- d) Outcome II and III are established after inspection. However, outcome I may not be necessarily established.

Question: 5

It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/S PQR, a proprietary concern which had sent paddy to this company's plant for extraction of rice. what would be treatment of this item in financial statements of company?

- a) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the company.
- b) The value of 67 quintals rice would be reflected in company's financial statements as per method of valuation adopted by the proprietary concern.
- c) The value of 67 quintals rice would not be reflected in company's financial statements.**
- d) The value of 67 quintals rice would be reflected in proprietary concerns financial

statements as per method of valuation adopted by the company

## **CASE SCENARIO 2**

A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditors of company UV Private Limited. The financial year for which YZ and Associates were to audit books of accounts of UV Private Limited began on 1 April, 2022 and ended on 31 March, 2023.

YZ and Associates consisted of four partners namely Mr. Y, Mr. Z, Mr. G and Mr. H.

While auditing books of accounts of UV Private Limited for the period ending on 31 March, 2023, one of the assistant of YZ and Associates namely Mr. A took up the expenditure part for the purpose of audit.

The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. A was unable to understand. Some of the issues which Mr. A did not understand are mentioned as follows:

- 1) Machinery Insurance expense paid for one year ending on 31.05.2023 has been included in the Insurance Expense for the financial year 2022-23.
- 2) Personal Rent Expense of the son of one of the directors, Mr. T of UV Private Limited has been shown as Rent Expense of business of UV Private Limited
- 3) Repair and Maintenance Expenses for the months of February 2023 and March 2023 were still outstanding and were not shown in Balance Sheet of UV Private Limited.
- 4) Repair and Maintenance Expenses for the financial year 1 April, 2022 to 31 March, 2023 were very high as compared to financial year 1 April, 2021 to 31 March, 2022. Mr. A asked the appropriate authority about the reasons for such huge differences in amounts of two financial years.

Question:1

As per point number (1) mentioned in the above case, the Machinery Insurance Expense paid for the months of April 2023 and May, 2023 must be shown in the balance sheet of UV Private Limited as on 31st March, 2023 as:

- a) Outstanding Insurance Expense
- b) Prepaid Insurance Expense**
- c) Insurance Expense
- d) Insurance Expense Payable

Question: 2

As per point number (2) mentioned above in the case, the Personal Rent Expense of the son of one of the directors Mr. T was added to Rent Expense of business of UV Private Limited. The amount of personal rent expense of the son of the director Mr. T must:

- a) be subtracted from Rent Expense of business of UV Private Limited**
- b) remain added to Rent Expense of business of UV Private Limited
- c) be added to Rent Expense of business of UV Private Limited
- d) Subtracted twice from Rent Expense of business of UV Private Limited

Question: 3



As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2023 and March 2023 must be shown in the balance sheet of UV Private Limited as on 31 March, 2023 as:

- a) Prepaid Repair and Maintenance Expenses
- b) Repair and Maintenance Expenses
- c) Repair and Maintenance Expenses paid in advance
- d) Repair and Maintenance Expenses Payable**

Question: 4

As per point number (4) mentioned in the case above, Mr. A asked the appropriate authority for reasons of huge differences in the amount of two financial years of repair and maintenance expenses. By appropriate authority Mr. A was referring to:

- a) All employees of UV Private Limited
- b) Management of UV Private Limited**
- c) Members of UV Private Limited
- d) Any one director of UV Private Limited

### **CASE SCENARIO 3**

Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2021-22. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India

Sumant & Co. is appointed as the principal auditor for the entire group. Companies Act 2013 prescribes in detail the terms of this audit engagement. Further, there are many branch auditors appointed for the outlets in the other cities. The company also has an internal audit function conducted on quarterly basis by Ram & Co. Following are the observations during the course of the statutory audit:

(a) One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.

(b) One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around 1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share

(c) The gratuity valuation of the employees of the retail chain is done by an external valuer. The auditor, considering the quantum involved appoints an external auditor's expert for the verification of the actuarial calculation of gratuity

From the above facts, answer the following questions by choosing the correct answer:

Question: 1

As per SA 210-Agreeing the Terms of Audit Engagement, which of the following statement are correct?

- a) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.
- b) Since law prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements**
- c) The auditor has to take an extract of the law prescribing the details of the terms of the audit engagement and obtain the counter signature of the management in it.
- d) Though law prescribes in sufficient detail the terms of the audit engagement, the auditor still needs to record them in a written agreement, however it need not seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements

Question: 2

With respect to the treatment of discount on redemption of points in payback card, what should be the action of the external auditor?

- a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts
- b) The auditor can place reliance on the management's accounting policy as prima facie they are only responsible for preparation of financial statements.
- c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly.**
- d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditors' opinion has higher authority than external auditor opinion.

Question: 3

What is the main objective of the external auditor, when he uses the work of the internal audit function of Ram & Co.?

- a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.**
- b) To appropriately direct, supervise and review the work of the internal audit function
- c) Review the internal audit report and audit the areas not covered by the internal audit function
- d) Enquire from management on the special points that arose during internal audit and follow up on the course of action on those points.

Question: 4

The external auditor finds that the branch auditor of the outlet in the Chennai region, which is in the verge of closing down, is audited by an auditor who is not a member of the Institute of Chartered accountants of India. What should the external auditor do?

- a) Since the professional competence of the auditor is in question, the external auditor should himself visit the premise and audit the accounts.
- b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply**
- c) The auditor can rely on the financial statements of that component by obtaining written representation from management that the branch auditor is otherwise well qualified
- d) Since the professional competence of the auditor is in question, the external auditor should coordinate with the branch auditor and call for the books of accounts and other explanations

Question: 5

Which of these is not a factor affecting the external auditor's evaluation of the objectivity of the internal audit function?

- a) Whether the organizational status of the internal audit function supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgment
- b) whether the internal audit function is free of any conflicting responsibilities
- c) Whether the internal auditors have adequate technical training and proficiency in auditing.**
- d) Whether those charged with governance oversee employment decisions related to internal audit function

#### **CASE SCENARIO 4**

Roop & Co. are the auditors of Onda group of hotels. This is the first time the firm is auditing an industry in food and beverage and it is day one of the audit. The engagement partner along with his team wants to make a thorough understanding of the entity and its environment in order to identify and assess the risks of material misstatements, whether due to fraud or error. The following are some of the points identified by them on Day 1.

1. The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system.
2. The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods receipt note is automatically prepared and approved in the system once the quantity and price



of goods is entered against specific vendor. This entry is on real-time basis and system does not allow back dated entries.

3. The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and error. The auditor finds there is no documented risk assessment process.

With the help of the above facts, answer the following questions by choosing the correct option

Question: 1

What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?

- a) Inherent risk in the class of transaction
- b) Control risk in the class of transaction**
- c) Detection risk in the audit procedures
- d) Audit risk in the opinion on the financial statements

Question:2

What kind of a risk is portrayed in the booking of revenue with respect to Banquet halls?

- a) Inherent risk in the class of transaction
- b) Control risk in the class of transaction**
- c) Detection risk in the audit procedures
- d) Audit risk in the opinion on the financial statements

Question: 3

Which among the following statement is incorrect in the context of Audit Risk?

- a) The more extensive the audit procedures performed, the lower is the detection risk
- b) Greater the risk of material misstatement the auditor believes exist, less is the detection risk that can be accepted and accordingly more persuasive evidence is required by the auditor
- c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are materially misstated when they are actually not.**
- d) Risk of material misstatement at the assertion level is of two kinds control risk and inherent risk.

Question: 4

In the case of procurement of stores, the auditor has tested more than one control for the same assertion. In that given case, what should be his reliance on the control?

- a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.**
- b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures.
- c) Documentation in electronic medium cannot be accepted, hence, he cannot rely

only on system control

- d) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion as well as associated assertions

Question:5

In the context of SA 315, which among the following is not a risk assessment procedure?

- a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity
- b) Analytical Procedures
- c) Observation and Inspection
- d) External Confirmation**

Question:6

What should be the course of action of the auditor for the entity not having a documented risk assessment process?

- a) The auditor should obtain management written representations on how risks are identified
- b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control**
- c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.
- d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial.

#### **CASE SCENARIO 5**

Dhanush, a CA student undergoing articles, is part of an engagement team conducting audit of Test Enterprises Private Limited. The company is engaged in business of conducting aptitude and language tests every fortnight at centres spread all over major cities of country for Indian students desirous of applying to foreign universities. It also sells books containing model test papers for the benefit of students

The company has substantial number of computers at each centre to enable seamless experience for students appearing for standardized aptitude and language tests. The company has acquired new identifiable software involving substantial expenditure for conducting tests during the year which is expected to drive company's revenues in coming years. At the time of taking a test, a CD containing software is run in each system for enabling students to take tests. Cost of CD without software is nominal.

The revenue of the company during the year 2023-24 was 50 crores ('45 crores from fees charged from students and 5 crores from sale of books). Besides, company has also received 10 lacs as interest on certain investments during the year. The company has a history of profitable operations.

During the course of audit, it is noticed by Dhanush that computers form significant

chunk of PPE items in financial statements of company. The company has taken useful life of computers consisting of desktops for 3 years. However, depreciation charged on computers in financial statements of the company is higher than depreciation allowable under Income tax law. It results in lower accounting income as per books of accounts of company as compared with taxable income under Income tax law

During the course of audit, he notices that cost of CDs along with software cost is treated as an intangible asset by company. It is also part of his responsibility to verify PPE register in accordance with audit programme. On perusing details in PPE register, he finds that some computers have moved from one centre to another centre to meet business requirements. Further, many computers were disposed or scrapped in earlier years. However, proper details in relation to movement and disposal/scrapping have not been entered in PPE register. When these items were physically verified by the management during the year, it has resulted in material discrepancies. The management has properly dealt with such discrepancies in books of accounts.

Question:1

Considering description provided in case scenario regarding accounting income as per books of accounts and taxable income under Income tax law, choose appropriate responsibility of Dhanush:

- a) To verify deferred tax liability likely created in financial statements in accordance with AS 22
- b) **To verify deferred tax asset likely created in financial statements in accordance with AS 22**
- c) To verify deferred tax asset likely created in financial statements in accordance with AS 29
- d) To verify deferred tax liability likely created in financial statements in accordance with AS 29

Question: 2

Keeping in view description provided in case scenario, which of following statements is likely to be correct regarding accounting treatment of cost of CDs and software acquired by company to run tests?

- a) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated such costs as revenue expenditure.
- b) **The company's accounting treatment of treating cost of CDs with software costs as intangible assets is proper.**
- c) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as intangible asset,
- d) The company's accounting treatment of treating cost of CDs with software costs as intangible assets is not proper. It should have treated cost of CDs as PPE item and software cost as revenue expenditure.



Question: 3

As regards discrepancies noticed in computer systems on physical verification by management as described in case scenario, which of following statements is most appropriate?

- a) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it may result in modification of auditor's opinion.
- b) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it entails specific reporting requirement for auditor under Companies Act, 2013**
- c) The management has properly dealt with such discrepancies. Therefore, Dhanush should not do anything further.
- d) The management has properly dealt with such discrepancies. However, Dhanush should bring it to light of engagement partner as it is in nature of misstatement which needs to be communicated and documented by auditor

Question:4

Which of following statements meets requirements of law in respect of revenue from operations of the company?

- a) Revenue from operations of 50 crores should be shown in Statement of Profit and loss.
- b) Revenue from operations of 50.10 crores should be shown in Statement of Profit and loss. However, revenue from sale of books, fees charged from students and interest on investments should be disclosed separately in notes
- c) Revenue from operations of 50.10 crores should be shown in Statement of Profit and loss.
- d) Revenue from operations of 50 crores should be shown in Statement of Profit and loss, However, revenue from sale of books and fees charged from students should be disclosed separately in notes**

Question: 5

The company has taken useful life of desktops to be 3 years. Such a requirement is \_\_\_\_\_

- a) prescribed under Schedule III to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule III
- b) is not prescribed under Companies Act, 2013. It depends upon manufacturing specifications of desktops
- c) prescribed under Schedule II to Companies Act, 2013. However, a company can choose useful life different from what is prescribed under Schedule II**
- d) is not prescribed under Companies Act, 2013. It needs to be arrived at mandatorily by a management expert.

#### **CASE SCENARIO 6**

CDL Limited, a company dealing in FMCG goods, is having 50 branches in India. SKC & Associates (referred to as company's auditor) are appointed as statutory auditors of the

company for year 2023-24. Further, company has also appointed Mr. D as branch auditor for 5 of its branches.

Since Mr. D is conducting audit of only 5 branches of company, he has not arrived at materiality level in respect of auditee branches. On the same lines, identification and assessment of risk of material misstatement has not been performed. He is of the view that determination of materiality and identifying & assessing risks of material misstatement is done for financial statements of company as a whole. He has mainly performed substantive audit procedures in respect of financial statements of auditee branches like verification of PPE items, inventories, trade receivables, cash, bank balances and trade payables at auditee branches and maintained documentation of the same

During the course of audit at two branches dealing in same kind of goods, Mr. D has performed analytical procedures pertaining to inventories. He has arrived at and compared inventory turnover ratio (Cost of goods sold/Average inventory) over a period of years of two branches. The results of analytical procedures are summarized in Table I below:

**Table 1**

Particulars	Branch	Year 2021-22	Year 2022-23	Year 2023-24
Inventory turnover ratio	I	15	14	12
Inventory turnover ratio	II	4	6	10

The company's auditor has also decided to use work of Mr. D with respect to financial information of 5 branches included in financial information of the company. During the course of audit company's auditor has advised Mr. D by way of email certain significant accounting, auditing and reporting requirements and has asked him to provide representation as to compliance with them. Irritated and surprised, Mr. D is of the view that such an email is beyond the rights of the company's auditor

Question: 1

As regards audit of a branch of CDL Limited as referred to in case scenario is concerned, which of following statements is most appropriate?

- a) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of the Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to company's auditor**
- b) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch audit report is sent by branch auditor to members of company
- c) The accounts of a branch shall only be audited by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013 except company's auditor. In such a case, branch

audit report is sent by branch auditor to company's auditor

- d) The accounts of a branch shall be audited either by the company's auditor or by any other person qualified for appointment as an auditor of the company and appointed as such under section 139 of Companies Act, 2013. In case branch accounts are audited by a person other than company's auditor, branch audit report is sent by branch auditor to members of company

Question: 2

After reading methodology for carrying out branch audits by Mr. D, which of following statements is likely to be most appropriate?

- a) Separate determination of materiality and identifying & assessing risk of material misstatement is not required in respect of each of the branches. He is required to perform only substantive procedures as described in the case scenario in respect of auditee branches and maintain documentation of the same
- b) Separate determination of materiality and identifying & assessing risk of material misstatement is required in respect of each of branches. However, documentation for these matters regarding branches is not required. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.
- c) **Separate determination of materiality and identifying & assessing risk of material misstatement is required along with documentation thereof in respect of each of branches. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.**
- d) Identifying & assessing risk of material misstatement is required along with documentation in respect of each of branches. However, materiality is required to be arrived at for financial statements of company as a whole. He is required to perform substantive procedures as described in case scenario in respect of auditee branches and also maintain documentation of the same.

Question: 3

Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.

- a) **During year 2023-24, inventories of Branch I have moved faster in comparison to Branch II.**
- b) During year 2023-24, inventories of Branch II have moved faster in comparison to Branch I.
- c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 2023-24 as compared to previous years.
- d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years.



Question: 4

Considering contents of email sent by. company's auditor to Mr. D, which of following statements is likely to be in accordance with Standards on Auditing?

- a) **Company's auditor can advise Mr. D regarding certain significant accounting auditing and reporting requirements and ask him to provide representation as to compliance with them.**
- b) Company's auditor can advise Mr. D certain significant accounting, auditing and reporting requirements. However, asking him to provide representation as to compliance with them is breach of Mr. D's independence
- c) Company's auditor cannot advise Mr. D certain significant accounting, auditing and reporting requirements. It is breach of Mr. D's independence.
- d) Company's auditor can advise Mr. D regarding certain significant accounting, auditing and reporting requirements only when Mr. D makes such a request

Question:5

Choose the correct statement regarding results of analytical procedures performed by Mr. D summarized in Table 1 in case scenario.

- a) **During year 2023-24, inventories of Branch I have moved faster in comparison to Branch II.**
- b) During year 2023-24, inventories of Branch II have moved faster in comparison lo Branch I.
- c) Comparison of inventory turnover ratio of Branch II over a period of years may indicate that branch's sales have likely been weak with higher inventory holdings in year 202324 as compared to previous years.
- d) Comparison of inventory turnover ratio of Branch I over a period of years may indicate that branch's sales have likely been strong with lower inventory holdings in year 2023-24 as compared to previous years

#### **CASE SCENARIO 7**

CA B is conducting statutory audit of branch of a nationalized bank. Saurabh, a CA student, is also part of engagement team conducting statutory branch audit. The field of bank branch audit is new to him and he is following instructions as required by engagement partner.

The engagement partner has asked him to prepare a summary of non-funded credit facilities outstanding as on balance sheet date. The following information is appearing in branch's CBS data/records as on 31st March,2023:

Serial number	Particulars in CBS (Core Banking Solution)/ records	Amount in crores
1	Agricultural term loans	15.00
2	Staff housing loans	3.50
3	Staff vehicle loans	0.20
4	Housing loans – general public	10.00
5	Letters of credit issued	2.50
6	Education loans	1.50
7	Guarantees issued (Fully secured by 100% margin)	1.00

8	Bills purchased and discounted	2.00
9	Bills for collection	0.10

On going through listing of housing loans to general public, CA B notices that branch has sanctioned many housing loans of small ticket size ranging between '10.00 to 20 lakhs. Therefore, he has assessed risk of material misstatements to be high. As a consequence, he has designed procedures to perform tests of controls as well as substantive tests. Saurabh has been further asked to go through SMA (Special Mention Accounts) jotting as on 30th November, 2022. Such reports are available from system on monthly frequency. Being new to such type of assignment, he is unable to understand relevance of above audit procedure mandated by engagement partner

Question: 1

Considering table given in the case scenario, which of the following combinations is appropriate example of non-funded credit facilities provided by branch to its customers?

- a) Bills purchased and discounted; bills for collection
- b) Bills for collection; staff housing loans; letters of credit issued
- c) Bills purchased and discounted; letters of credit issued; guarantees issued (fully secured by 100% margin)
- d) Letters of credit issued, guarantees issued (fully secured by 100% margin)**

Question: 2

CA B's decision to perform both tests of controls as well as substantive tests was taken after he had assessed risk of material misstatement in financial statements to be high due to large number of small ticket size loans. Which Standard on Auditing deals with auditor's responsibility to design such tests?

- a) SA 500
- b) SA 330**
- c) SA 300
- d) SA 315

Question: 3

Saurabh is unable to understand relevance of going through SMA jotting as on 30th November, 2022. Which of following statements is most appropriate in this context?

- a) It would necessarily help auditor in identifying accounts with significant lending exposure.
- b) It would help auditor in identifying accounts which may involve downgrading from Sub-standard asset category to doubtful category
- c) It would help auditor in identifying accounts where substantial recoveries have been received during the year.
- d) It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.**

#### **CASE SCENARIO 8**

Pluto Limited is engaged in manufacturing and distribution of ergonomic furniture, Such

kind of customizable range home office furniture has gained lot of importance in past few years. The company was able to perform well over the years and the same is reflected in their financials

During year 2023-24, audit firm of SJ. and Associates was reappointed as their auditor. The engagement team consisted of CA Sneha (partner) and five articled assistants. One of the assistants was new to this engagement, Considering huge volume of transactions, the partner asked him to go through files of last year and auditor's report to gain an understanding of issues which arose in last year i.e. 2022-23

While going through summary page of file of last year, he noticed that below points were under discussion with the partner before audit finalisation:

Point 1: For employee benefit expenses, following points were verified by the team:

- The employee benefit expenses shown in the books were actually incurred during the relevant period.
- The expenses in respect of all personnel were accounted for
- The expense recognised during year 2022-23 related to this year only

Point 2: It was noted that dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023. As the dividend related to the year 2022-23, the same was recognised as liability in the same year

Point 3: Debtors constitute one of the major components of company's financials, As part of audit procedures, verification was made whether company had made allowance for those debtors which were doubtful. In this regard, list of debtors under litigation was also obtained and scrutinized

Point 4: Asset additions during the year amounted to 50 lakhs. The payment in respect of these assets were made through bank account of the company. However, on scrutiny, it was found that some of invoices were not in the name of the company but in name of one of directors.

Point 5: The company was maintaining few bank accounts including one foreign currency account, There was included in previous year file a paper converting foreign currency amount held in a bank account to Indian Rupees at closing exchange rate

Question:1

In point 1 relating to Employee benefits, which among the following assertions are discussed respectively (in same order as described in point 1)?

i. Valuation ii. Occurrence iii. Cut-off iv. Completeness

- a) (i), (ii) and (iv)
- b) (ii), (iv) and (ii)**
- c) (ii), (iii) and (iv)
- d) (i), (ii) and (iii)

Question: 2

Do you think the amount of dividend recognised as liability in the year 2022-23 as given in point 2 appropriate?

- a) Yes. As the amount of dividend related to year 2022-23, it should be recognised in the same year irrespective of the year of declaration.

- b) No. The amount should be recognised equally between two financial years
- c) No. The amount should not be recognised as liability in year 2022-23. But it needed to be disclosed in the notes to accounts of that year.**
- d) No. The amount should not be recognised as liability. Further, no disclosure was needed in the financials of that year

Question: 3

In relation to matter described in para 3 pertaining to debtors, which of the following assertions was verified by auditors?

- a) **Valuation**
- b) Rights and obligations
- c) Existence
- d) Completeness

Question: 4

Read Point 4 and choose which assertion is not proved in this case.

- a) Existence
- b) Rights and obligation**
- c) Completeness
- d) Measurement/Valuation

Question:5

Choose the correct statement from below pertaining to matter described in Point 5.

- a) The company was required to restate said amount in accordance with requirements of AS 1. By verifying it, auditor had verified existence assertion.
- b) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified completeness assertion
- c) There was no responsibility of company to restate said amount. It was auditor's responsibility to restate said amount in accordance with requirements of AS 11. No assertion was, therefore, verified by auditor.
- d) The company was required to restate said amount in accordance with requirements of AS 11. By verifying it, auditor had verified valuation assertion**

### **CASE SCENARIO 9**

Watch IT India Private Limited is a company engaged in business of manufacturing smart watches. The company had a slow start in the beginning as company's products were gaining traction with customers, However, momentum has picked up during the year. The company wants to appoint M/s Tripathi & Associates, a CA firm as their auditor for year 2023-24 by replacing their existing auditors

M/s Sreepath and Co. M/s Tripathi & Associates are willing to accept the engagement. They communicated with previous auditors before accepting the engagement. However, M/s Sreepath and Co. have failed to respond.

CA Kishan, partner of M/s Tripathi & Associates explained to his team members about importance of Engagement letter. He also arranged a team discussion on matters relating to acceptance of terms of engagement

First point of consideration was concerning preconditions for an audit. Mr. Arun, a team member could recollect few of them. Those included determining whether financial reporting framework used in the preparation of financial statement is acceptable, management providing auditor with access to all relevant information and additional information upon auditor's request, It was further elaborated by Arun that management has to provide unrestricted access to employees within entity as may be required by auditor for obtaining audit evidence. Team members were asked to list factors that may necessitate revision of Engagement letter in case of recurring audits. Mr Kumar, another team member replied that revision may be required in cases involving significant change in ownership, recent changes in senior management, change in financial reporting framework adopted in preparation of financial Statements, modest change in nature or size of the entity's business, change in legal and regulatory requirements etc

Mr. Ram, one of the team members raised a doubt. He enquired regarding recourse available to incoming auditor in case management makes it clear before acceptance of engagement by auditor regarding its inability in providing support to him in respect of certain procedures expected to be performed during course of audit. In this respect, specific question was raised relating to sending of confirmation requests to material trade payables reflecting in financial statements of a company. Trade payables pertain to material input and input services acquired and utilised by company during the year. Lack of support by management in such a case would in effect, signify management's refusal to allow auditor to send confirmation requests at the outset before engagement is accepted by auditor.

Question:1

As regards doubt of Mr. Ram described in last para of case scenario, which of the following statements is likely to be in accordance with Standards on Auditing?

- a) The auditor needs to inquire into management's reasons for the refusal and perform alternative audit procedures to obtain relevant and reliable audit evidence
- b) The auditor needs to evaluate implications of management's refusal on auditor's assessment of risk of material misstatement and perform alternative audit procedures to obtain relevant and reliable audit evidence.
- c) **The auditor should not accept such an engagement**
- d) The auditor needs to evaluate implications of management's refusal on risk of fraud and perform alternative audit procedures to obtain relevant and reliable audit evidence

Question: 2

When CA Kishan, the partner, asked about preconditions for an audit Mr. Arun could recollect only few of them. Read the passage and find out which among the following points were missed.



- I. Obtaining management responsibility on specific legal aspects governing the organisation.
- II. Obtaining management responsibility on Standards on Auditing applicable to the organisation.
- III. Obtaining management responsibility for the preparation of financial statements as per applicable financial reporting framework.
- IV. Obtaining management responsibility on necessary Internal controls to enable preparation of financial statements which are free from material misstatement whether due to error or fraud.

- a) (i), (ii) and (iii)
- b) (ii), (iii) and (iv)
- c) (iii) and (iv)**
- (d) (i) and (iv)

Question: 3

From what Mr. Kumar replied about the factors requiring a revision of Engagement letter one point was incorrect. Read the passage and find that incorrect factor

- a) A significant change in ownership
- b) A recent change in management
- c) A change in financial reporting framework adopted in preparation of Financial Statements
- d) A modest change in nature or size of the entity's business**

Question: 4

M/s Sreepath & Co. have failed to respond to incoming auditors. In this regard choose the most appropriate option:-

- a) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of objectivity governing professional ethics.
- b) It was ethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It does not involve violation of any of fundamental principles governing professional ethics.
- c) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of Professional competence and due care governing professional ethics.
- d) It was unethical on part of outgoing auditors for failing to respond to communication made by incoming auditors. It is violation of principle of professional behaviour governing professional ethics**

#### **CASE SCENARIO 10**

In accordance with requirements of Standards on Auditing, CA Tina (a freshly qualified professional) wants to obtain sufficient appropriate audit evidence in an audit engagement pertaining to financial statements of a partnership firm for year 2022-23.

The firm is trading in FMCG goods. Appointed in May, 2023, she needs evidence to obtain information for arriving at her judgment. Clearly remembering fundamentals that an auditor has to obtain sufficient appropriate audit evidence to draw reasonable conclusions on financial statements, she proceeded in accordance with audit plan prepared by her.

During the year 2022-23, firm was maintaining a current account with a branch of a public sector bank. Her audit plan had included procedure of confirming balance of current account directly from bank. As at 28th March, 2023, the firm had an urgent need to pay its utility bill amounting to '1.00 lacs. However, due to insufficiency of funds, it had requested branch manager to get cheque drawn on utility company cleared. Therefore, balance in current account of firm in books of bank branch stood at '0.92 lacs (Debit). The firm had also issued cheques in evening of 31st March, 2023 in anticipation of funds on next working day i.e. 3rd April, 2023. It had also certain cheques dated 27th March, 2023 from its debtors lying with it which were deposited in afternoon of 31st March, 2023 in bank branch at request of debtors.

Her plan also included performance of certain procedures pertaining to verification of inventories. Inventories of FMCG goods were material to financial statements. Her assistant, Tisha, had her own notion about understanding of sufficient appropriate audit evidence. She further feels that when audit evidence is obtained from available records of an entity, it is known as internal evidence like purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law. She is also of the view that audit evidence obtained by auditor is final and conclusive.

Question: 1

As regards matter of balance in current account and related issues is concerned which of following statements is likely to be most appropriate?

- a) Amount of 0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence
- b) Amount of 0.92 lac is required to be classified under cash & bank balances in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence
- c) Amount of 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is likely to constitute sufficient appropriate audit evidence
- d) **Amount of 0.92 lac is required to be classified under current liabilities in financial statements of firm. Procedure of confirming balance directly from the bank alone is not likely to constitute sufficient appropriate audit evidence**

Question: 2

Considering matter of verification of inventories, which of following statements is based

on facts described in the situation and also in essence of Standards on Auditing?

- a) **She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. Such evidence may constitute sufficient appropriate audit evidence.**
- b) She should verify subsequent sale invoices of inventory items lying in stocks as at year end. Besides, she should also review stock records of year 2022-23 and subsequent period. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence
- c) She should verify purchase invoices of inventory items lying in stocks as at year end. Stock records are not required to be verified. Such evidence is likely to constitute sufficient appropriate audit evidence
- d) She should verify purchase invoices of inventory items lying in stocks as at year end. She should attend physical inventory count at year end in above situation. Such evidence may constitute sufficient appropriate audit evidence.

Question: 3

Identify correct statement on the basis of description provided in case scenario:

- a) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is final and conclusive.
- b) Purchase bills of FMCG goods, debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are all examples of internal evidence. Audit evidence obtained by auditor is persuasive.
- c) **Only debit notes issued by firm on debtors for GST short charged earlier during the year and credit notes issued by firm during the year on debtors to account for extra price charged in accordance with provisions of GST law are examples of internal evidence. Audit evidence obtained by auditor is persuasive**
- d) Only debit notes issued by firm on debtors for GST short charged earlier during the year is an example of internal evidence. Audit evidence obtained by auditor is persuasive.

#### **CASE SCENARIO 11**

DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also,

the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives- The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013. DS & Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

While formulating audit plan for the company, CA D (engagement partner) has planned certain risk assessment procedures and further audit procedures consisting of tests of controls and substantive procedures in relation to different areas.

The following is extract of financial information of the company:

S.No	Particulars	Year 2022-23	Year 2021-22
1	Turnover	30.00	15.00
2	Inventories	5.00	2.00
3	Property, plant & equipment (Gross block)	1.25	1.25
4	Property, plant & equipment (Net block)	1.00	1.25
5	Gross profit	6.00	3.75
6	Trade payables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss. Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.

Question: 1

Keeping in view description provided in the case scenario, which of the following statements is likely to be most appropriate?

- Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves advocacy threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is low.
- Engagement partner is known socially to promoters and directors of the company. The situation mandatorily involves familiarity threat casting a doubt on auditor's independence. Irrespective of this, detection risk in engagement is high.
- The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is low
- The situation reflected in the case scenario may not constitute threat to**

**independence of auditor, Irrespective of this, detection risk in engagement is high**

Question: 2

CA D has included in audit plan certain procedures in respect of PPE items. Which of the following audit procedure included in audit plan is not likely to be relevant?

- a) Inspecting and reviewing company's plan for physical verification of PPE
- b) Assessing depreciation method used
- c) Verifying cost of PPE items acquired during the year with purchase bills**
- d) Recalculation of depreciation charged in statement of profit and loss

Question: 3

Which of the following statements is likely to be most suitable to explain the fact relating to variation in gross profit ratio as compared to last year?

- a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.**
- b) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.
- c) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.
- d) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year

Question: 4

CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of

- a) Ratio analysis forming part of substantive analytical procedures
- b) Trend analysis forming part of substantive analytical procedures**
- c) Reasonable test forming part of substantive analytical procedures
- d) Structural modelling forming part of substantive analytical procedures

Question:5

Considering case scenario in totality, identify which of following combination of Standards is not proper for their likely relevance in performing and completing above engagement?

- a) SQC 1, SA 220, SA 501, SA 505
- b) SA 550, SA 510, SA 220, SA 610**
- c) SA 700, SA 510, SA 220, SA 500
- d) SQC 1, SA 700



Question: 6

CA D has also studied purchases and sales data of the company during the year and has also compared such data with preceding year and earlier years also. It is an example of

- a) Ratio analysis forming part of substantive analytical procedures
- b) Trend analysis forming part of substantive analytical procedures**
- c) Reasonable test forming part of substantive analytical procedures
- d) Structural modelling forming part of substantive analytical procedures

### **CASE SCENARIO 12**

CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard.

He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

Further, during the course of audit, he has noticed as under:

- As required by the management, bank reconciliation is required to be performed monthly  
However, the same is not carried out as stipulated due to time constraints faced by accountant. The entity has a system of procuring its raw material supplies on the basis of valid purchase orders issued by the entity. However, purchase orders are not numbered in a sequence properly.
- Wage sheets are not verified by a responsible official as required by management.
- Staff of the entity is responsible for bringing cash from centers in nearby areas to entity's premises from where it is deposited into entity's bank account. However, concerned officer has not renewed insurance for cash in transit.

Question:1

The auditor has performed procedures to obtain audit evidence about design and implementation of controls. Which of the following procedures is more reliable to obtain audit evidence relating to application of a control?

- a) Observing application of control**
- b) Inspecting documentation pertaining to control
- c) Inquiry about application of control
- d) Studying design of control

Question: 2

Examination and evaluation of internal control is indispensable for CA M. Raja. It provides him necessary comfort relating to completeness of accounting information. However, review of internal controls of the entity will not enable him to know \_\_\_\_

- a) whether errors or frauds are likely to be located in ordinary course of operations of business
- b) whether an effective internal audit department is operating
- c) whether his opinion needs modification**
- d) whether any administrative control has bearing on his work

Question:3

As regards weaknesses identified by the auditor in control system, which of the following represent(s) 'significant deficiencies in internal control'?

- a) Not performing bank reconciliation timely and not verifying wage sheets by responsible official only
- b) Not performing bank reconciliation timely and lack of proper sequence in purchase orders only
- c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit**
- d) Lack of insurance for cash in transit only

Question: 4

Which of the following is most appropriate regarding auditor's responsibility in accordance with SA 265?

- a) To communicate significant deficiencies in internal control to management
- b) To communicate significant deficiencies in internal control along with explanation of their potential effects to management
- c) To communicate significant deficiencies in internal control along with explanation of their potential effects, to provide sufficient information to understand context of communication to management and express opinion on effectiveness of internal control
- d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management**

#### CASE SCENARIO 13

Mohil, Raj, Veer and Giri are friends since their school days based in Surat. They have cleared CA foundation exams in the same attempt and now plan to appear for CA Intermediate exams. All of them are avid news listeners and regularly keep track of business news even on social media

They are trying to understand new subjects including auditing. Mohil, Raj and Veer have also started attending Live Coaching Classes (LCC) being conducted by Board of studies of ICI. Giri has not been able to join Live Coaching Classes yet as she was away on a holiday with her parents. However, she plans to catch it up with her friends very soon. Veer had also joined the classes but he had skipped some lectures.

During one informal get together, their discussions centered around new subject of auditing. They discussed many things regarding its nature, scope, benefits and other

general practical issues. Giri was regular in keeping track of audited results of companies being published in leading newspapers. Her view was that audited financial statements of companies give 100% guarantee to different stake holders. It is the main reason behind so much reliance upon auditing. But she could not understand why wrong doings in financial matters are being discovered after many years have gone by.

Veer also concurred with her view and added that when financial statements are audited, each and every transaction appearing in books of accounts is verified. However, he could not give clarity to Giri.

Raj was of the opinion that audit was conducted on the basis of sample checking. He was also of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of the companies.

Not to be left behind, Mohil also jumped in the fray. He supported Raj and also added something of his own.

Question: 1

Giri told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of following statements seems to be appropriate in this regard?

- a) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.
- b) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.
- c) **Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.**
- d) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare odd cases

Question:2

All of them also discussed about benefits of auditing. Which of the following is not a likely benefit of auditing?

- a) **Since auditing is connected to future events, audited information can be easily relied upon by users.**
- b) Errors or frauds may be discovered during audit.
- c) Government authorities can make use of audited accounts for different purposes
- d) It can help in bringing out deficiencies in maintenance of financial records

Question: 3

Veer had listened in one of the classes that audit covers all aspects of an entity and concluded that each and every transaction of entity is verified by auditor. Giri also seemed to be in agreement with him but she was of the view that besides this, it also

meant that audit should be so organized to cover all areas of an entity. Which of following statements is appropriate in this regard?

- a) Only view of Veer is correct.
- b) Only view of Giri is correct.
- c) Views of both Veer and Giri are correct
- d) Views of both Veer and Giri are incorrect**

Question: 4

Mohil added that auditor can force an employee of the company to provide him required information and documents. Can he do so?

- a) Yes, he can do so. If is necessary to obtain audit evidence.
- b) Yes, he can do so. There are express rights given to him in this respect
- c) No, he cannot do so. He can only request for providing him with necessary information and documents, But it cannot be forced by him**
- d) No, he cannot do so. He has no right of seeking information and documents. Therefore, question of forcing does not arise.

Question:5

Raj was of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of companies. What kind of assurance does audit of financial statements provide?

- a) It provides reasonable assurance meaning a moderate level of assurance.
- b) It provides reasonable assurance meaning a low level of assurance
- c) It provides reasonable assurance meaning a high level of assurance.**
- d) It provides reasonable assurance meaning an absolute level of assurance.

#### **CASE SCENARIO 14**

CA Shruti is conducting audit of a company engaged in manufacturing of towels and Bedsheets. The company is having its own manufacturing set-up. However, it also gets some manufacturing processes outsourced from third parties. The company has three locations having substantial quantities of inventories in the same city. Besides, due to outsourcing of some processes, inventories are also held in premises of third parties in the same city. As part of audit procedures, she is performing many audit procedures required by different Standards on Auditing.

In particular, she is attending physical inventory count process of the company at year end in accordance with requirements of SA 501. The inventory of the company includes raw materials consisting mainly of natural and dyed yarns, work in process in different stages of manufacturing and finished stocks of towels and Bedsheets.

She is also planning sending confirmations to parties to whom the company has sold goods. On reviewing trade receivables list, she finds that the list also contains large number of parties having small balances. She further finds that these receivables have arisen due to sale of Bedsheets to small-time retailers and possibility of difference in balances as per company's records and as per records of these small-time retailers is low. Risk of misstatements in relation to trade receivables has been assessed as low. Besides,

there is nothing to suggest that small-time retailers would disregard such requests. While conducting audit, she is testing controls operating in the company. She is also conducting tests of various items of income and expenditure as well as balances appearing in balance sheet. She intends to rely upon sampling extensively

Question:1

Since she intends to rely upon sampling extensively, which of the following statements is true about sampling risk?

- a) Sampling risk can be eliminated.
- b) Increase in sampling risk would lead to decrease in detection risk.
- c) Decrease in sampling risk would lead to increase in detection risk.
- d) Sampling risk will always be in existence,**

Question:2

As regards inventories lying with third parties, which of following statements meets requirements of SA 501?

- a) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company as well as request third parties to allow her to inspect inventories held by them. Both requirements are necessary to be complied with.
- b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501**
- c) There is no obligation cast upon an auditor in respect of inventories lying with third parties.
- d) She should request confirmation from third parties regarding quantity, condition and value of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these is sufficient for purposes of SA 501.

Question: 3

Which of the following statements is most appropriate regarding inventory count by auditor in accordance with SA 501?

- a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting**
- b) She should inspect the inventory to ascertain its existence at all locations, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert
- c) She should inspect the inventory to ascertain its existence at selected location, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert
- d) She should inspect the inventory to ascertain its existence and condition at all



locations and perform counting of each and every item

Question:4

Keeping, in view description regarding trade receivables, identify the most appropriate statement in context of SA 505?

- a) She should not plan and design confirmation requests for large number of parties having small balances.
- b) She should plan and design positive confirmation requests for large number of parties having small balances.
- c) She should plan and design positive confirmation requests for large number of parties having small balances and meticulously analyze exception rate
- d) She should plan and design negative confirmation requests for large number of parties having small balances.**

Question:5

As regards sampling, which of the following statements is most appropriate in terms of requirements of SA 530?

- a) Sampling is used in tests of transactions as well as tests of controls.
- b) Sampling is used in tests of balances as well as tests of controls.
- c) Sampling is used in tests of details.
- d) Sampling is used in tests of details as well as tests of controls.**

#### **CASE SCENARIO 15**

Financial statements of a firm have been put up for audit before CA Kritika. On going through financial statements, she wants to verify assertions contained in financial statements and has planned certain procedures for carrying out detailed checking.

- A. She plans to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.
- B. She plans to verify that all balances appearing under trade payables are genuine and not fake.
- C. She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.
- D. She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.
- E. The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.

Question:1

Identify which type of assertion she intends to focus when she wants to ensure genuineness of trade payables.

- a) Occurrence
- b) Cut-Off

- c) **Existence**
- d) Accuracy

Question: 2

As regards comparison of wages of current year and last year and comparison of relationship between the number of employees and wages paid in both years, identify what she is trying to do?

- (a) She is intending to perform tests of details
- (b) She is intending to perform tests of transactions
- (c) She is intending to perform tests of balances
- (d) She is intending to perform substantive analytical procedures.**

Question: 3

As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform?

- (a) Tests of Controls
- (b) Tests of transactions**
- (c) Tests of balances
- (d) Risk assessment procedures

Question: 4

She wants to verify whether conversion of foreign currency into Indian rupees is proper or not. Identify what she is trying to do?

- (a) Reperformance
- (b) Recalculation**
- (c) Observation
- (d) Inspection

Question: 5

In case of examination of title deeds of "land", which of the following fits into most appropriate description of such an audit procedure?

- (a) Observation
- (b) Inspection**
- (c) External confirmation
- (d) Enquiry

#### **CASE SCENARIO 16**

Miraj Ltd. is a company engaged in the manufacture of variety of stainless steel household items ranging from hot pot, pressure cooker, cutlery set, bottles and to serving trays. The company has its corporate office in Delhi and its plant in Raigarh, a city in the state of Chhattisgarh. The company is planning to expand its manufacturing activities by setting up two new plants in the Raipur district of the state. For this purpose, the company also raised funds by making a follow-on public offer during the financial year 2023-24.

LMN & Associates are the statutory auditors of the company since the year 2021-22. The engagement team consisted of 5 members, with CA Harish as the engagement partner, CA Nisha as the senior associate and three articled trainees namely, Karan, Tanya and Rahul.

The company raised fresh capital of 5 Crore during FY 2023-24. The shares with the nominal value of 10 per share were issued at a premium of 5 per share.

The company has the Reserves and Surplus totaling to 2 Crore, comprising of securities premium and general reserve.

CA Harish directed CA Nisha to verify the issue of the share capital in detail giving special consideration to the utilization of the securities premium amount.

The audit engagement team discussed with the management about the performance of the company during the year under consideration. To this, the management told the engagement team that the company is performing very well and the company has doubled its revenue during the year as compared to the last year. The management of the company also told the auditors that during the year the company has made majority of its sales on credit basis to its customers.

CA Harish directed Mr. Karan to send balance confirmation requests to debtors having balance in excess of 1 lakh.

During the course of audit, CA Harish, Deepak and Rahul also visited the power plants in Raigarh to get a detailed understanding of the manufacturing process. The team performed analytical procedures to obtain audit evidence with respect to the overall reasonableness of purchase quantity and price of inventory. More specifically, Deepak collected the reports from the management for composition of stock i.e. raw materials as a percentage of total stock and compared the same with the data of the previous year. CA Harish and Deepak thereafter, discussed the reasons for the variations with the management

Also, while considering the presentation and disclosure requirements as per Schedule III to the Companies Act, CA Nisha discussed with CA Harish the disclosure with respect to the following account balances:

- Current maturities to long term borrowings
- Long term maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings

Question:1

Which of the following is not correct with respect to the disclosure requirements of Schedule III to the Companies Act 2013?

- (a) **Current maturities of long-term borrowings is to be disclosed under the head long term borrowings**
- (b) Long term maturities of finance lease obligations is to be disclosed under the head long term borrowings
- (c) Interest accrued but not due on borrowings is to be disclosed under the head Other Current Liabilities
- (d) Interest accrued and due on borrowings is to be disclosed under the head Other

## Current Liabilities

Question: 2

Which of the following is not correct with respect to shares issued at premium and securities premium account in terms of Section 52 of the Companies Act, 2013?

- (a) Where a company issue shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a securities premium account.
- (b) The securities premium account can be applied by the company in paying up unissued equity shares of the company to be issued to members of the company as fully paid bonus shares,
- (c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company.**
- (d) The securities premium account can be applied by the company for the purchase of its own shares or securities under section 68

Question: 3

which of the following is not an example of capital reserve?

- (a) Revaluation reserve arising from revaluation of fixed assets
- (b) Securities Premium
- (c) Capital redemption reserve
- (d) General reserve**

Question:4

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 statements 1&2 are correct**
- (d) Both statements 1&2 are incorrect

Question: 5

Mr. Deepak performed which of the following analytical procedures to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material?

- (a) Consumption Analysis
- (b) Stock Composition Analysis**
- (c) Reasonableness test
- (d) Ratio analysis

## CASE SCENARIO 17

M/S Vishwacharya and Associates, a CA firm based in Orissa, is appointed as an auditor of CBF Bank for the financial year 2023-24. During the course of audit, it came to notice that CBF Bank has sanctioned an overdraft facility of 75 lakh to Times Ltd. However, as per the stock statement furnished for the last quarter, the drawing power was calculated to be 50 lakh. It was observed that few advances were guaranteed by the:

- (i) Central Government as part of 'Make in India' initiative. However, the guarantee was not invoked, and the advances were overdue by 95 days. These advances were classified as standard assets and were regarded as NPA for income recognition purpose.
- (ii) State Government as part of power generation initiative. However, the guarantee was not invoked, and the advances were overdue by 80 days. These advances were also classified as standard assets and were regarded as NPA for income recognition purpose.

Additionally, XYZ Ltd., is a borrower availing cash credit facility of 110 Lakh against security of paid stocks and debtors up to 90 days. Margin stipulated was 25% of stock as and 40% for debtors. Bank has calculated drawing power based on following information provided by XYZ Ltd

Particulars	Amount
Value of stocks (as on 31.12.2023)	130 Lakh
Value of debtors (as on 31.12.2023)	75 Lakh
Value of stocks (Fully damaged and included in (i) above)	7 Lakh
Value of debtors (exceeding 90 days included in (ii) above)	10 Lakh
Value of creditors for goods	60 Lakh

Also, the outstanding balance in one of the Loan accounts was 25 Lakh and the realisable value of the security as assessed by the bank / approved valuers was 2.25 Lakh. Bank identified the same as erosion in the value of security. It was classified as doubtful category and provision was made for the doubtful assets. A discussion also took place among the team members regarding issuance of the audit reports after completion of the bank audit and annexure to the same such as Long Form Audit Report, Report on compliance with SLR Requirements, Report on Treasury Operations - as per RBI guidelines, Report on compliance as per Ghosh committee recommendations and Report on adverse credit - lending ratio in the rural areas, etc.

Question: 1

With respect to the overdraft facility sanctioned to Times Ltd., the account would be termed as out of order if:

- i. The outstanding balance remains continuously in excess of 75 Lakh
- ii. The outstanding balance remains continuously in excess of 50 Lakh
- iii. The outstanding balance in the account is less than 75 Lakh but there are no credits or payments deposited into the account continuously for 90 days as on balance sheet date
- iv. The outstanding balance is less than 50 Lakh.

Choose the correct option from below:

- a) (i), (ii) and (iii)**



- b) (i), (iii) and (iv)
- c) (ii),(iii) and (iv)
- d) (iii) and (iv)

Question: 2

Which of the treatment by the bank on the provisioning and income recognition is correct in case of bank guarantee given by the Central Government and State Government?

- a) Both (i) and (ii) are correct
- b) Only (ii) is correct
- c) Only (i) is correct**
- d) Both (i) and (ii) are incorrect.

Question: 3

In the given case drawing power of the borrower XYZ Limited should be:

- a) 86.25 Lakh**
- b) 76.35 Lakh
- c) 96.25 Lakh
- d) 85.45 Lakh

Question: 4

The Bank has identified an erosion in the value of security and made provision for doubtful assets. Whether the treatment by bank for the doubtful asset is correct?

- a) Yes. The security should be classified under doubtful category. It may be either written off or fully provided by the bank.
- b) No. The existence of such security should be ignored, and the asset should straight away be classified as loss asset. It may be either written off or fully provided by the bank.**
- c) Yes. The security should be classified under doubtful category and provisioning should be made as applicable for doubtful assets
- d) No. The existence of the security should be ignored, and the asset should straight away be classified as loss asset. Provisioning should be made for doubtful assets

Question:5

The Statutory Central Auditors of a bank must furnish, in addition to the main audit report, various other audit reports. From the options, choose the audit reports that M/s Vishwacharya and Associates shall furnish.

- i. Long Form Audit Report
- ii. Report on compliance with SLR Requirements
- iii. Report on Treasury Operations - as per RBI guidelines
- iv. Report on compliance as per Ghosh committee recommendations
- v. Report on adverse credit- lending ratio in the rural areas

Choose the correct answer:

- a) (i), (ii).(iii).(iv) and(v)
- b) Only (i),(ii).(iii) and (iv)**

- c) Only (i),(ii) and (iii)
- d) Only (i), (ii) and (v)

### CASE SCENARIO 18

Priority Limited is a large company engaged in manufacturing of terry towels making steady profits on a year-to-year basis. PMR & Associates, statutory auditors of the company since last two years, are in process of establishing audit strategy for conducting statutory audit under Companies Act, 2013 for year 2023-24.

The company has 5 branches which are audited by independent auditors appointed under Companies Act, 2013. It also has a wholly owned subsidiary company which is audited by another audit firm under name of JKL & Associates. The engagement team has noticed that company has maintained several bank accounts and there is substantial movement in fixed deposits during the year leading to risk of misstatement in cash and cash equivalents. The engagement team has planned procedures regarding the same.

- (i) At planning stage, engagement partner is also trying to set materiality for financial statements as a whole. The following information extracted from financial statements is given as under:-

Particulars	Amount in crores
Revenue	100
Total Assets	40
Profit before tax	8
Total liabilities	30

- (ii) While designing a sample for verifying revenues of company as part of tests of details, engagement partner has determined "tolerable misstatement" for 5.00 Lakh in order to address the risk that aggregate of individual immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements. One of the newly joined engagement team members has little conceptual understanding of "tolerable misstatement" determined by engagement partner. He also has no idea of the effect of change in tolerable misstatement on sample size.
- (iii) During course of audit, while performing tests of details, engagement team has come across certain misstatements in selected sample pertaining to verification of revenues. The team has projected misstatements to population of revenues. The team wants to comply with the Standards on Auditing strictly.

Question: 1

The auditors of company are in process of establishing audit strategy. Which of the following is not a relevant factor in establishing overall audit strategy in the given case scenario?

- a) Consideration of 5 branches which are audited by independent auditors
- b) Consideration of wholly owned subsidiary company audited by another audit firm
- c) Expected time of holding AGM in accordance with provisions of Companies

Act, 2013

- d) **Nature, timing and extent of planned procedures for cash and cash equivalents**

Question: 2

For Priority limited, which benchmark would the engagement partner most likely to use for setting materiality for the financial. statements as a whole?

- a) A percentage of Revenue
- b) A percentage of Total assets
- c) **A percentage of Profit before tax**
- d) A percentage of Total liabilities (excluding equity)

Question: 3

In the given case scenario, assume that the engagement partner has decided to increase tolerable misstatement to 10.00 Lakh while designing sample described. Select the correct statement.

- a) **It would lead to decrease in sample size.**
- b) It would lead to an increase in sample size
- c) It would have no effect on sample size
- d) It is not possible to draw inference on sample size due to increase in tolerable misstatement.

Question: 4

While performing procedures on designed sample, the engagement team identified certain misstatements in selected sample and projected these to the entire population of revenues. According to the requirements of the Standards on Auditing, which statement is correct in this regard?

- a) Anomalous misstatement is auditor's best estimate of misstatement in population.
- b) **The projected misstatement plus anomalous misstatement, if any, is best estimate of misstatement in population.**
- c) When projected misstatement exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.
- d) When projected misstatement plus anomalous statement, if any, exceeds tolerable misstatement, sample provides a reasonable basis for conclusion about tested population.

#### **CASE SCENARIO 19**

Bandhu Charitable Trust is considering appointment of MNO & Associates, Chartered Accountants, as independent auditors of its financial statements. The Trust is engaged in providing affordable healthcare services. It is in interest of both auditor and client to issue an engagement letter so that the possibility of misunderstanding is reduced to a great extent. It is, therefore, important that each party should be clear about nature of engagement. It should exactly specify the scope of work. Such an "engagement letter" is

exchanged between Trust management and auditors.

While performing audit procedures, it is noticed by auditors that bills of two vehicles are not in name of Trust but in name of trustees. However, payment of these vehicles was made from bank account of Trust. The said vehicles are used for activities of Trust.

It is also noticed that a sum of 50.00 Lakh is reflected in Trust's financial statements in name of Gamma Instrument and Equipment in schedule of creditors. The said amount is outstanding since two years. The auditors sent confirmation request to the said supplier and seek management's co-operation in this regard. However, management of the Trust informs the auditor regarding certain dispute going on with the supplier of equipment due to some quality issues. It is further informed that dispute is near settlement and it would not be proper to send confirmation request as it can affect negotiation process

Question:1

As regards exchange of engagement letter between Trust management and auditors is concerned, which of following statements is likely to be true?

- a) **Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to the expected form and content of report to be issued by them and a statement that there may be circumstances in which such report may differ from its expected form and content.**
- b) Engagement letter is sent by Bandhu Charitable Trust to MNO & Associates. It includes reference to the expected form and content of report to be issued by auditors. However, it does not include a statement that such report may differ from its expected form and content.
- c) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It includes reference to expected form and content of report to be issued by them. However, it does not include a statement that such a report may differ from its expected form and content
- d) Engagement letter is sent by MNO & Associates to Bandhu Charitable Trust. It does not include reference to the expected form and content of report to be issued by them.

Question: 2

Considering the issues related to vehicles as described in the case study, identify the most appropriate statement.

- a) Auditors have identified misstatement concerning "Existence" assertion made by Trust management.
- b) **Auditors have identified misstatement concerning "Rights and Obligations" assertion made by Trust management.**
- c) Auditors have identified misstatement concerning "Accuracy" assertion made by Trust management
- d) Auditors have identified misstatement concerning "Completeness" assertion made by Trust management

Question: 3

What course of action should the auditor take regarding the amount payable to the equipment supplier when management has communicated that sending a confirmation request could negatively impact the negotiation process?

- a) The auditor should issue adverse opinion in auditor's report.
- b) The auditor should seek audit evidence as to the validity and reasonableness of the reasons for refusal and perform alternative audit procedures.**
- c) The auditor should withdraw from engagement as Trust management's refusal is a limitation on scope of independent audit.
- d) The auditor should disclaim opinion in auditor's report.

### **CASE SCENARIO 20**

DLP & Associates, a firm of Chartered Accountants, are in midst of conducting audit of Twist and Spin Limited. The company is in business since last 15 years and have appointed DPL & Associates as their auditor for the first time for a term of 5 years beginning from financial year 2023-24. While identifying and assessing the risk of material misstatement at assertion level, the engagement team had assessed risk of material misstatement for revenues and trade receivables to be high.

The team is considering to send negative confirmation requests as sole substantive procedure to some business entities representing trade receivables appearing in the financial statements of the company. The company had made sales to these business entities in January, 2024. Such business entities are few and have quite large balances as on 31st March, 2024. However, team members are not on the same page regarding sending negative confirmation requests.

Besides considering sending of confirmation requests, engagement team has planned certain audit procedures pertaining to trade receivables. These procedures include:-

1. Verification of invoices issued during last 7 days of financial year 2023-24 to verify that goods have been despatched by the company.
2. Selection of a few invoices from ageing report of the month March 2024 for verification of correctness of the billed amounts, to correct customers and on correct dates.
3. Preparation of schedule of movement of bad debts.
4. Review of the process of providing discounts to ensure that it is in accordance with company policy.

Another junior team member, S, observed that "Share Options Outstanding Account" reflected in the financial statements of the company. He started searching classification requirements of Schedule III of Companies Act, 2013 in this regard,

The engagement team wants to ensure that only the inventories held by company have been recorded in the financial statements and do not include any inventories belonging to third parties. They are keen to verify completeness assertion for inventories. The team has planned following audit procedures in this respect:

1. Comparison of inventory turnover ratio of current period with previous years;
2. Vertical analysis of current period with previous years;
3. Comparison of budgetary expectations vis-à-vis actuals;
4. Performing purchase and sales cut-off tests

During the course of audit, R, a team member concluded that company has followed a particular accounting policy for revenue recognition during year 2023-24 which is in accordance with Accounting Standards and applicable financial reporting framework, but it was not consistently applied in preceding period having an impact upon opening balances of trade receivables of current year 2023-24. R is confused regarding the possible implications on auditor's report on this issue.

Question: 1

The engagement team members are not able to take decision on sending negative confirmation requests to some entities described in case scenario. Which of the following statements is in accordance with Standards on Auditing?

- a) It would be appropriate for engagement team to send negative confirmation requests to these business entities
- b) It would be inappropriate for engagement team to send negative confirmation requests to these business entities.**
- c) Sending negative confirmation requests depends upon auditor's professional judgment and Standards on Auditing do not spell out any confirmation requirements in this respect.
- d) Business entities are more likely to respond in case of disagreement. Therefore, sending negative confirmation requests always provides better qualitative audit evidence as compared to other confirmation modes.

Question: 2

Which of the planned audit procedure(s) pertaining to trade receivables described in case scenario is/are not related to verification of "Completeness assertion"?

- a) 2 only
- b) 2 and 3
- c) 3 only**
- d) 1 and 3

Question: 3

Guide team member S by selecting the correct option with respect to "Share Options Outstanding Account":

- a) It is required to be classified under head "Current liabilities"
- b) It is required to be classified under Shareholder funds under "Share Capital". Further it is to be classified separately under "Paid up Share Capital".
- c) It is required to be classified under Shareholder funds under "Reserves & Surplus". Further, it is to be classified separately as such under "Reserves & Surplus"**
- d) It is required to be classified under Shareholder funds under "Reserves & Surplus". However, it is shown as part of Capital Reserve. No Separate disclosure is mandated under Schedule III of Companies Act, 2013.

Question: 4

Which of the planned audit procedures in relation to the inventories described in the case scenario is/are not in nature of analytical procedure(s)?

- a) 2 and 3
- b) 3 only
- c) 2 and 4
- d) **4 only**

#### **CASE SCENARIO 21**

CA J is nearing completion of audit of Cheap Cost Private Limited, a manufacturing company for the year 2023-24. The draft financial statements of the company show a profit before tax of 5 crores. Materiality for financial statements as a whole has been determined @ 5% of Profit before Tax. At the end of June 2024, he is considering following issues flagged during the course of audit which remain uncorrected:-

·A fire took place in one of the premises of the company on 1st May, 2024 resulting in damages to all the inventories lying there amounting to 1 crores. The inventories of affected premises are insured with Quick Bima Limited for 50 lakhs and company has also lodged a claim with it which is still to be settled.

·The company has debited 10 lakhs under "Machinery Account" whereas expenditure relates to normal wear and tear of high-speed automated machinery. The amount has been wrongly capitalised under "Machinery account". (Ignore depreciation effect)

·The company has not properly accounted for necessary elements of cost in arriving at work in progress. Further, estimates regarding various stages of production have not been made properly. All such factors have resulted in overstatement of work in progress inventories by 20 lakhs.

No other issues except as stated above merit attention. Besides, written representation letter has also been obtained on matters concerning management's responsibilities regarding fulfilment of responsibilities for preparation of financial statements and providing access to all information to CA J. However, written representation provided to CA J begins in the below stated manner:

"This representation letter is provided in connection with your audit of the financial statements of Cheap Cost Private Limited for the year ended March 31, 2024, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the applicable accounting standards in India.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves).....

Question: 1

Which of following statements is most appropriate as regards to fire incident?

- a) The auditor should ask management to adjust financial statements for period under audit and book a loss of 50 lakhs in its Statement of Profit and Loss.
- b) The auditor should ask management to adjust financial statements for period under audit and book a loss of 1 crores in its Statement of Profit and Loss
- c) **The auditor should ask management to disclose it in notes to accounts.**
- d) The auditor has no responsibility regarding described fire incident.

Question:2

Identify the correct option regarding materiality of uncorrected misstatements relating to wrong capitalisation under "Machinery Account" and overstatement of inventories of work in progress.

- a) The uncorrected misstatements are not material in context of audit of financial statements as a whole as these are below materiality level determined by auditor
- b) The uncorrected misstatements are material in context of audit of financial statements as a whole and their effect on opinion should be considered by auditor**
- c) The uncorrected misstatements are not material in context of audit of financial statements as a whole as these are in nature of management's judgment
- d) The uncorrected misstatements are material in context of audit of financial statements as a whole and auditor should correct these

Question: 3

The auditor has performed certain audit procedures described in case scenario relating to inventories of work in progress. Such procedures are related to verification of \_\_\_\_\_ assertion.

- a) Completeness
- b) Valuation**
- c) Existence
- d) Rights and obligations

Question: 4

Which of the following statements is correct in respect to manner of providing written representations by management?

- a) The extract of written representations provided in case scenario is proper.**
- b) The use of words "having made such enquiries" is not permitted.
- c) The use of words "to the best of our knowledge and belief" is not permitted.
- d) The use of both kind of words "having made such enquiries" and "to the best of our knowledge and belief" is not permitted

#### **CASE SCENARIO 22**

MPM & Associates, a firm of Chartered Accountants, have received offer letter from PST Bank for carrying out statutory audit of their Chandigarh branch for the financial year 2023-24. The offer letter, inter alia, requests audit firm to give an undertaking in writing that firm is not disqualified under Section 141(3)(d)(ii) of Companies Act, 2013. Such provision relates to disqualification of a person as auditor of a company if he, his relative or partner is indebted to the company subject to certain prescribed conditions. Before accepting the said audit, the firm checks out whether it complies with law requirements. However, there is a difference of opinion among firm personnel whether such an undertaking can be given in case of banks.



The offer letter also contains following declaration to be signed by the auditors in case they choose to accept the appointment:-

"We declare that we will not communicate or allow to be communicated to any person, not legally entitled thereto, any information relating to the affairs of PST Bank or to the affairs of the person having any dealing with the Bank, nor will we allow any such person to inspect or have access to any books or documents belonging to or in possession of the Bank relating to the business of any person having any dealing with the Bank."

The audit firm has also received a document kit provided by Statutory Central Auditors of Bank. It relates to scope of audit, areas of special consideration while performing audit and requires audit firm to confirm certain matters like adherence' to RBI Master Circulars for income recognition, asset classification & provisioning and adequacy of checking of books of accounts based on sample etc. to them by way of a letter.

The document kit received also requires MPM & Associates to consider adverse comments made by stock auditors of borrowers enjoying cash credit facilities in their reports for purpose of reporting. It also contains specific instructions to check foreign letter of credits (FLCS) issued during the year in compliance with sanction terms of the respective borrowers and to verify income recognized in respect of FLCs.

Question:1

Which of the following statements is likely to be most appropriate regarding required undertaking in accordance with the Companies Act, 2013?

- a) **The referred provision mainly addresses self-interest threats to independence of auditors. The audit firm can give such an undertaking after verifying if it complies with such requirements.**
- b) The referred provision mainly addresses self-review threats to independence of auditors. The audit firm can give such an undertaking after verifying if it complies with such requirements.
- c) The referred provision mainly addresses self-interest threats to independence of auditors. However, the audit firm can't give such an undertaking as such provisions are applicable to companies and not to banks
- d) The referred provision mainly addresses self-review threats to independence of auditors. However, the audit firm can't give such an undertaking as such provisions are applicable to companies and not to banks

Question: 2

The declaration relating to non-communication of information related to affairs of Bank is related to adherence to which fundamental principle governing professional ethics?

- a) Objectivity
- b) **Confidentiality**
- c) Independence
- d) Professional Competence and due care

Question: 3

MPM & Associates are required to report on adverse comments made by stock auditors

of borrowers of branch enjoying cash credit facilities. Which of the following statements is most appropriate in this regard?

- a) **Stock auditors make comments in their reports on valuation of security and calculation of drawing power.**
- b) Stock auditors make comments in their reports on valuation of security only. However no comments are made on calculation of drawing power.
- c) Stock auditors make comments in their reports on valuation of security, documentation made by bank in respect of sanctioned credit facilities, leakage of revenue and calculation of drawing power only
- d) Stock auditors make comments in their reports on calculation of drawing power only

Question: 4

Keeping in view matter of foreign letters of credits (FLCS) described in case scenario, consider following statements:-

1. Foreign letter of credit issued by branch is a non-funded loan
2. Branch earns interest on issuance of foreign letter of credit which is credited in interest earned account of profit and loss account of branch
3. The bank which receives foreign letter of credit is known as beneficiary bank.

Which of following statement(s) is/are true?

- a) **Only statement 1 is correct.**
- b) Only statements 1 and 3 are correct
- c) Only statements 1 and 2 are correct.
- d) Only statements 2 and 3 are correct.