MOCK TEST PAPER 1

INTERMEDIATE (IPC) GROUP – II

PAPER – 6: AUDITING AND ASSURANCE

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

Division A- MCQ's-30 Marks

Questions (1-20) 1- Mark

1. Planning an audit involves
   (a) establishing the overall audit strategy for the engagement and developing an audit plan.
   (b) establishing the overall audit plan for the engagement and developing an audit strategy.
   (c) establishing the overall audit plan for the engagement
   (d) developing an audit strategy.
2. Which of the following is correct :
   (a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
   (b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
   (c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.
   (d) The auditor shall not assemble the audit documentation in an audit file.
3. _____refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
   (a) Audit documentation
   (b) Audit File
   (c) Audit Note Book
   (d) Completion Memorandum
4. Audit evidence includes
   (a) information contained in the accounting records underlying the financial statements
   (b) both information contained in the accounting records underlying the financial statements and other information.
   (c) other information.
   (d) information contained in the accounting records underlying the financial statements or other information.

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5. Most of the auditor's work in forming the auditor's opinion consists of :

   (a) obtaining audit evidence.

   (b) evaluating audit evidence.

   (c) obtaining or evaluating audit evidence.

   (d) obtaining and evaluating audit evidence.

6. A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework is :

   (a) Misstatement

   (b) Error

   (c) fraud

   (d) Any of the above

7. Risk of material misstatement may be defined as the risk

   (a) that the financial statements are materially misstated after audit.

   (b) that the financial statements are materially misstated during audit.

   (c) that the financial statements are materially misstated prior to audit.

   (d) All of the above

8. Professional skepticism is necessary to the critical assessment of

   (a) audit documentation

   (b) audit evidence.

   (c) audit procedures

   (d) All of the above

9. The assessment of the risks of material misstatement may be expressed in

   (a) quantitative terms, such as in percentages, or in non-quantitative terms.

   (b) quantitative terms, such as in percentages,

   (c) non-quantitative terms.

   (d) None of the above

10. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -

    (a) at the financial statement levels only.

    (b) at the assertion levels only.

    (c) at the financial statement and assertion levels.

    (d) at the financial statement or assertion levels.

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11. According to SA 300,

    (a) planning is not a continual and iterative phase of an audit, but rather a discrete process

    (b) planning is not a discrete phase of an audit, but rather a continual and iterative process

    (c) planning is not continual and iterative process

    (d) planning is not a discrete phase of an audit

12. Which of the following is not an analytical procedure?

    (a) Tracing of purchases recurred in the purchase book to purchase invoices.

    (b) Comparing aggregate wages paid to number of employees

    (c) Comparing the actual costs with standard costs

    (d) All of them are analytical procedure

13. Audit evidence is necessary to support the auditor's opinion and report. It is_____in nature and is primarily obtained from audit procedures performed during the course of the audit.

    (a) cumulative

    (b) regressive

    (c) selective

    (d) objective

14. Under **sub-section (3) of section 141** along with **Rule 10** of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), the following persons shall not be eligible for appointment as an auditor of a company, namely-

    (i) a limited liability partnership registered under the Limited Liability Partnership Act, 2008;

    (ii) an officer or employee of the company;

    (iii) a person who is a partner, or who is in the employment, of an officer or employee of the company;

    (iv) a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. It may be noted that the relative may hold security or interest in the company of face value not exceeding Rs. 1,00,000.

    Which of the above is incorrect :

    (a) All statements are incorrect.

    (b) (i) and (ii)

    (c) (i) only

    (d) (iv) only

15. Which of the following is not an advantage of Joint Äudit :

    (a) Sharing of expertise.

    (b) General superiority complexes of some auditors.

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(c) Lower workload.

(d) Displacement of the auditor of the company taken over in a take - over often obviated.

16. A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue–

(a) a qualified opinion

(b) an adverse opinion

(c) a disclaimer of opinion

(d) emphasis of matter paragraph.

17. Which of the following is correct as per **section 143(10)** of the Companies Act, 2013 :

(a) IFAC may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(b) the International Auditing Standards Board may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(c) the MCA may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

(d) the Central Government may prescribe the standards of auditing as recommended by the Institute of Chartered Accountants of India, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.

18. Which of the following is not a duty of auditor to report under section 143 (1)

(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;

(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;

(c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

(d) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditors has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;

19. Which of the following is correct :

(a) Under **section 128** of the Act, books of account of a company must be kept at the registered office.

(b) Under **section 128** of the Act, books of account of a company must be kept at the corporate office.

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(c) Under **section 128** of the Act, books of account of a company must be kept at the Head office of the company.

(d) Under **section 128** of the Act, books of account of a company must be kept at the usual place of business.

20. An Audit report is :

(a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.

(b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent.

(c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.

(d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent. **(20 X1 = 20 Marks)**

Questions (21-25) 2- Mark

21. Which of the following is not a Specific Evaluations by the Auditor :

(a) The financial statements adequately disclose the significant accounting policies selected and applied;

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The sufficient appropriate audit evidence has been obtained;

22. If law or regulation prescribes in sufficient detail the terms of the audit engagement,

(a) the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

(b) the auditor need not record them in a written agreement

(c) the auditor needs to record them in a written agreement

(d) None of the above

23. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,

(a) the auditor shall express a qualified opinion in accordance with SA 705.

(b) the auditor shall express a disclaimer of opinion in accordance with SA 705.

(c) the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705.

(d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.

24 which of the following is correct :

(a) Different types of analytical procedures provide different levels of assurance.

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(b) Different types of analytical procedures provide similar levels of assurance.

(c) Similar type of analytical procedures provide different levels of assurance.

(d) All are correct

25. According to SA 210 "Agreeing the Terms of Audit Engagements", The auditor shall agree the terms of the audit engagement with :

(a) management

(b) those charged with governance

(c) management or those charged with governance, as appropriate.

(d) Audit committee **(5 x 2 = 10 Marks)**

Division B- Descriptive Questions-70 Marks

Question No. **1** is compulsory.

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

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

(i) If financial statements are misstated, and in the auditor's judgment such misstatement is material and pervasive, he should issue a qualified opinion.

(ii) 'Test of Control' may be defined as an audit procedure designed to detect material misstatements at the assertion level

(iii) The method which involves dividing the population into groups of items is knows as block sampling.

(iv) It is necessary for the auditor to maintain professional skepticism throughout the audit.

(v) Teeming and lading is one of the techniques of inflating cash payments.

(vi) Managing director of A Ltd. himself appointed the first auditor of the company.

(vii) The scope of work of an internal auditor may extend even beyond the financial accounting.

(viii) There is no relation between Inherent risk, Control risk and Detection risk. **(7 x 2 = 14 Marks)**

2 Discuss the following:

(a) "An audit is independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon."

Explain stating clearly how the person conducting this task should take care to ensure that financial statements would not mislead anybody. **(4 Marks)**

(b) The relationship between auditing and law is very close one. **(4 Marks)**

(c) In the course of audit of Steadfast Ltd., a manufacturing company, you find that there is a sharp fall in the rate of gross profit in comparison to the previous year. State the steps you would take to verify the same. **(3 Marks)**

(d) Materiality for the financial statements as a whole may need to be revised as a result of a change in circumstances that occurred during the audit. Explain with the help of example. **(3 Marks)**

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3. (a) "The auditors should consider the effect of subsequent events on the financial statement and on auditor's report"– Comment according to SA 560. **(4 Marks)**

(b) Auditors of M/s Tender India (P) Ltd. were changed for the accounting year 2016-17. The closing inventory of the company as on 31.3.2016 amounting to Rs. 100 lacs continued as it is and became closing inventory as on 31.3.2017. The auditors of the company propose to exclude from their audit programme the audit of closing inventory of Rs. 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor. **(4 Marks)**

(c) What are the obvious assertions in the following items appearing in the Financial Statements?

(i) Statement of Profit and Loss

Travelling Expenditure Rs. 50,000

(ii) Balance Sheet

Trade receivable Rs. 2,00,000 **(3 Marks)**

(d) "Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users." Discuss. **(3 Marks)**

4. (a) In performing an audit of financial statements, the auditor should have or obtain knowledge of the business. Explain in the light of SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment". **(4 Marks)**

(b) Audit against the propriety seeks to ensure that expenditure confirms to certain principles.

(4 Marks)

(c) Discuss which class of companies are specifically exempt from the applicability of CARO 2016.

(3 Marks)

(d) What audit points are to be borne in mind in case of issue of "Sweat Equity Shares" by a limited company? **(3 Marks)**

5. (a) Auditor's job becomes simpler in CIS environment, where trial balance always tally. **(4 Marks)**

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

(c) State the disclosure requirements in respect of Statement of profit and Loss as per Schedule III of Companies Act, 2013, in case of Employee benefits expenses. **(3 Marks)**

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

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6. (a) Discuss the provisions of Section 134 of the Companies Act, 2013 regarding the authentication of financial statements. **(4 Marks)**

(b) What is an Emphasis of Matter paragraph, when it is used, and manner of its use in an audit report? **(4 Marks)**

OR

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

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

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

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

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