

MOCK TEST PAPER- 2
INTERMEDIATE GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Time Allowed – 3 Hours

Maximum Marks – 100

Division A- Multiple Choice Questions

Total 30 Marks

Case Scenario 1 carries 8 Marks

Case Scenario 2 carries 10 Marks

General MCQs carry 1 Mark each

Case Scenario 1

Aastha Ltd. has published its audited financial statements for the year ended 31st March, 2023. A shareholder of Aastha Ltd. raised a point to the promoter of the company questioning the authenticity of the financial statements. The Management of the Company conveyed the shareholder that the same have been audited by a Chartered Accountant as per the provisions of Companies Act,2013.

The same shareholder then noticed that in the last year's financial statements, there was a disclosure regarding a legal dispute with its competitor. But in the current year's financial statements, there is neither such disclosure nor there is any update on the resolution of the dispute. However, the management did not give any convincing answer regarding lack of disclosure in current year's financial statements.

The Management also revealed in the meeting that there were few fictitious vendors to whom payments worth ₹ 50 lakhs were made by an employee who has been suspended from the office with immediate effect and a case to that effect has been filed in the court of law. The same has also been appropriately disclosed in the financial statements. The Company transferred ₹ 75 lakhs from current year's profit to asset replacement reserve for making another building for the operations of the company.

Based on the above facts, answer the following:

1. The financial statements audit is a report by the auditor:
 - a. attesting to the truth and fairness of presentation of the financial statements and related disclosures.
 - b. attesting to the truth and fairness of presentation of the financial statements.
 - c. attesting to the truth, transparency and fairness of presentation of the financial statements and related disclosures.
 - d. attesting to the truth, completeness and fairness of presentation of the financial statements and related disclosures.
2. Non-disclosure of the legal dispute with the competitor of Aastha Ltd. is:
 - a. Misappropriation of assets
 - b. Recording fictitious Journal Entries
 - c. Manipulation of accounts
 - d. Misrepresentation in or intentional omission from financial statements.

3. Payment to fictitious vendors by the employee of Aastha Ltd. Is:
 - a. Misappropriation of assets
 - b. Intentional misapplication of accounting principles
 - c. Manipulation of accounts
 - d. Misrepresentation in or intentional omission
 4. The appropriation of ₹ 75 lakhs from the revenue profit to asset replacement reserve is:
 - a. Revenue Reserve
 - b. Capital Reserve
 - c. Capital Redemption Reserve
 - d. Capital Revenue Reserve
- (4 x 2 = 8 Marks)**

Case Scenario 2

As per SA 210 "Agreeing the Terms of Audit Engagements", preconditions for an audit may be defined as the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise on which an audit is conducted.

Mridul & Co, a firm of Chartered Accountants agreed on the Terms of Audit Engagements of a Private Limited Company, Jayshree Private Limited. Jayshree Private Limited has conveyed to Mridul & Co that they want the firm to undertake the statutory audit as well as to examine the life of its plant and machinery at Indore which is in existence for 10 years. While finalizing the scope of the audit, the auditors agreed to cover all the units of the company based at Delhi and Indore. Mridul & Co has asked Jayshree Private Ltd to make all the relevant disclosures in the financial statements. The auditors were vigilant to inquire about any audit evidence that contradicts the other audit evidence.

The auditors decided to cover following aspects under audit:

- (i) An examination of the system of accounting and internal control
- (ii) Reviewing the system and procedures.
- (iii) Checking of the arithmetical accuracy of the books of account.
- (iv) Verification of the authenticity and validity of transactions.
- (v) Classification between capital and revenue expenditure.
- (vi) Comparison of the balance sheet and profit and loss account or other statements with the underlying record.
- (vii) Verification of the title, existence and value of the assets.
- (viii) Verification of the liabilities stated in the balance sheet.
- (ix) Checking the results shown by the profit and loss and to see whether the results shown are true and fair.
- (x) Reporting to the appropriate person/body whether the statements of account examined do reveal a true and fair view of the state of affairs and of the profit and loss of the organisation.
- (xi) Where audit is of a corporate body, confirming that the statutory requirements have been complied with.

While testing the accounts receivables of Jayshree Private Limited, the auditor decided to divide the accounts receivables by age of receivables in the following manner:

- Below 15 days
- 15 days -30 days
- 31-60 days
- 61-90 days
- 91 days and beyond

Based on the above facts, answer the following:

1. According to you, what is the scope of the audit which Mridul & Co should cover in the audit of financial statements of Jayshree Private Limited?
 - I. to examine the life of its plant and machinery at Indore which is in existence for 10 years.
 - II. to cover all the units of the company based at Delhi and Indore.
 - III. to check whether the relevant disclosures are properly made in the financial statements.
 - a. I,II,III
 - b. I,II
 - c. II,III
 - d. I,III
2. What is the name of the method used by the auditor for segregation of accounts receivable?
 - a. Value weighted selection
 - b. Stratification
 - c. Systematic method of Sampling
 - d. Tests of Control
3. The aspects covered by auditor should be:
 - a. i,ii,iii,x,vi,vii
 - b. i,ii,iv,v,vi,vii.
 - c. i,ii,iii,iv,v,vi,vii,viii,ix,x,xi.
 - d. ii,iii,viii,x,xi
4. The auditor's vigilance to question the audit evidence that contradicts the other audit evidence is called as:
 - a. Professional Skepticism
 - b. Vigilant Skepticism
 - c. Professional Judgement
 - d. Judgement and Skepticism

5. With respect to the preconditions for an audit, which one of the following is correct:
- I. The use by Management of an acceptable financial reporting framework in the preparation of financial statements.
 - II. Management's responsibility for the internal control
 - III. Giving auditor access to all information and access to the Entity's premises.
- a. I, II
 - b. I, II, III
 - c. II, III
 - d. I, III
- (5 x 2 = 10 Marks)**

General MCQs

1. Auditor Compares Gross Profit Ratio with that of previous year and it is discovered that there has been a fall in the ratio. This is an example of:
 - (a) Analytical Procedure
 - (b) Test of Controls
 - (c) Walk through Test
 - (d) Audit Sampling
2. Cut-off testing is performed during audit of sales to address the following assertion:
 - (a) Occurrence
 - (b) Measurement
 - (c) Cut-off
 - (d) Accuracy
3. The relationship between tolerable error and sample size is
 - (a) Inverse
 - (b) Direct
 - (c) Close
 - (d) There is no relationship.
4. The LFAR is to be submitted before _____ every year
 - (a) 30th April
 - (b) 31st May
 - (c) 30th June
 - (d) 30th September
5. 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.
6. _____ are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy
- (a) Contingent Liabilities
 - (b) Provision
 - (c) Securities Premium Reserve.
 - (d) Liabilities
7. If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:
- (a) the original engagement; or any procedures that may have been performed in the original engagement.
 - (b) the original engagement;
 - (c) any procedures that may have been performed in the original engagement
 - (d) SAs applicable in revised engagement.
8. Public enterprises are required to maintain commercial accounts and are generally classified under three categories. Which of the following is not a category relating to above:
- (a) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;
 - (b) statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and
 - (c) government companies set up under the Companies Act, 2013.
 - (d) Charitable Trusts.
9. _____ are needed to support the functioning of _____
- (a) General IT Controls; Application Controls
 - (b) Application Controls; General IT Controls
 - (c) IT Dependent Controls; General IT Controls
 - (d) Application Controls; IT Dependent Controls
10. The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes-
- (a) evidence identified during the audit
 - (b) the significant matters identified during the audit and how they were addressed
 - (c) the significant evidence identified during the audit
 - (d) the significant matters identified during the audit
11. With respect to auditing, which of the following statement is correct:
- (a) Audited financial statements are absolutely free from all material misstatement due to fraud or error.

- (b) An audit is an official investigation into alleged wrongdoing and auditor has specific legal powers to conduct investigation
 - (c) The auditor can obtain only a reasonable assurance about whether the financial statement as a whole are free from material misstatement and report on it.
 - (d) An auditor's opinion is an assurance as the future viability of the enterprise or the efficiency or effectiveness of the management.
12. Mr. A, auditor and Mr. B, Finance Manager of XYZ Pvt Ltd are friends. Mr. A prepares the audit report according to the wishes and directions of Mr. B. In this situation which essential quality of the auditor has been compromised:
- (a) Professional Competence
 - (b) Independence
 - (c) Professional Skepticism
 - (d) Due care
- (12 x 1 = 12 Marks)**

Division B- Descriptive Questions

Question No. 1 is compulsory.

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

Total 70 Marks

1. Examine with reasons (in short) whether the following statements are correct or incorrect: (Attempt any 7 out of 8)
- (i) For an auditor, the Risk assessment procedure provides sufficient appropriate audit evidence to base the audit opinion.
 - (ii) Classification as NPA should be based on the availability of security and asset classification would be facility wise and not borrower wise.
 - (iii) When inventory under the custody and control of a third party is material to the financial statements, the auditor can obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by taking written representation from management.
 - (iv) The Complexity of a business environment depends on the level of automation i.e., if a business environment is more automated, it is likely to be less complex.
 - (v) The auditor's reporting on internal financial control will be applicable with respect to interim financial statements.
 - (vi) Statistical sampling being more scientific and without personal bias will always be appropriate to use under all circumstances.
 - (vii) Once the audit plan has been drafted and communicated, it is obligatory on the auditor to follow the same.
 - (viii) Materiality is not a matter of size.
- (7 x 2 = 14 Marks)**
2. Discuss the following:
- (a) CA Jatin is the auditor of JP Ltd. The auditor expressed his opinion on the financial statements without ascertaining as to whether the financial statements as a whole were free from material misstatements. Explain w.r.t SA 200.
- (3 Marks)**

- (b) In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. Elucidate those cases by which auditor can ascertain the reporting objectives of the engagement. **(4 Marks)**
- (c) Discuss the various points which auditor needs to consider in determining whether it is appropriate to use audit evidence about operating effectiveness of controls obtained in previous audit, and if so, the length of the time period that may elapse before retesting a control. **(4 Marks)**
- (d) Magical Limited is a company dealing in mobile spare parts and having its showrooms in almost all the states in the country. For FY 2021-22, the company transferred its accounts from manual to computerized system (SAP). PJ & Co., Chartered Accountants have specialization in the system audit and have been appointed as the system auditor. PJ & Co., at the end of the audit concludes that there are certain findings or exceptions in IT environment and IT controls of the company which needs to be assessed and reported. Mention those points of consideration. **(3 Marks)**
3. (a) "Theft of an entity's assets is often perpetrated by employees in relatively small and immaterial amounts." Explain and also state the various ways in which the misappropriation of assets can be accomplished? **(4 Marks)**
- (b) CA Amrit, an auditor was removed by Kritika Ltd. before the expiry of his term. Discuss the procedure to be taken by Kritika Ltd to appoint an auditor other than retiring auditor under Sec. 140(4) of the Companies Act, 2013. **(4 Marks)**
- (c) The auditor's responsibility includes reporting on Internal Financial Controls over Financial Reporting which includes an understanding IT environment of the company and relevant risks and controls. Mention any three situations where IT will be relevant to an audit. **(3 Marks)**
- (d) Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term? **(3 Marks)**
4. (a) The practice of appointing Chartered Accountants as joint auditors is quite widespread in big companies and corporations. Explain stating the advantages of the joint audit. **(4 Marks)**
- (b) Mayank Ltd. is covered u/s 135 of the Companies Act, 2013 i.e. Corporate Social Responsibility (CSR). What matters shall be disclosed by the company with regard to CSR activities done by the company? **(4 Marks)**
- (c) CA Mehta is the statutory auditor of ABC Ltd. While performing testing of additions during the year, he wanted to verify that:
- (i) All PPE (property, plant and equipment) are in the name of the entity he is auditing.
 - (ii) For all additions to land and building in particular, the auditor desires to have concrete about the ownership.
 - (iii) The auditor wants to know whether the entity has valid legal ownership rights over the PPE, where it is kept as security for any borrowings.
- Advise the auditor on the audit procedure to be undertaken by him to establish the Rights and Obligations of the entity over the PPE. **(3 Marks)**
- (d) You are an auditor of Jagat Ltd. which has spent ₹ 15 lakhs on Research activities of the product during period under audit. Board of Directors want to recognize it as an internally generated

intangible asset. Advise and discuss the conditions necessary to be fulfilled to recognize the intangible assets in the financial statements. **(3 Marks)**

5. (a) The newly appointed auditor of Parag Limited wants to obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements. What audit procedures should he perform for this purpose? **(3 Marks)**
- (b) The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain. **(4 Marks)**
- (c) As an auditor, explain the areas of consideration while auditing the element of ROOM SALES during the audit of a 5-Star Hotel. **(4 Marks)**
- (d) Discuss the powers of C & AG in Government audit. **(3 Marks)**
6. (a) Explain the audit approach you would follow to check the Operating Expenses of a Bank. **(4 Marks)**
- (b) In a bank, all accounts should be kept within the drawing power and the sanctioned limit. The accounts which exceed the sanctioned limit or drawing power should be brought to the notice of the management regularly. Analyse the following points to be considered in the computation of drawing power in case of bank audit.
- (i) Bank's Duties
 - (ii) Auditor's concern
 - (iii) Computation of DP
 - (iv) Stock audit **(4 Marks)**

OR

- (c) As an Auditor of NGO, how do you check/verify at least four receipts of income during the year? **(4 Marks)**
- (d) Central Govt. holds 55% of the paid up share Capital in Kisan Credit Co-operative Society, which is incurring huge losses. Advise when the Central Government can direct Special Audit under Section 77 of the Multi State Co-operative Society Act. **(3 Marks)**
- (e) What is meant by sufficiency of Audit Evidence? Explain the factors affecting the auditor's judgement as to the sufficiency of audit evidence. **(3 Marks)**