

Question 1

A Company has significant amount of transactions in foreign currency. The financial statements are prepared in Indian Rupees and accordingly all these transactions are required to be translated into the Indian currency.

Purchase of Goods- 10,000,000 US dollar

The Company decided to record these transactions considering the average rate of past three years which works out to be Rs. 50 per US dollar.

The exchange rate prevalent in the market is Rs. 60 per US dollar.

Out of the following options, what is the appropriate exchange rate for recording the transaction :-

- a) Rs. 50
- b) Rs. 60
- c) Rs. 62
- d) Rs. 58

Response

(b) is the correct option as this is the present rate in the market.

Question 2

A Company is into manufacturing of goods. Every month, the Company values the goods as per First in first out policy adopted by the Company. While considering the costs required to be loaded on the finished goods, the Company considers raw material, freight cost, marketing cost, depreciation of plant and machinery etc. as part of the cost of goods. Out of the following options, tick the correct option which would be considered in calculation of the cost of goods :-

- (a) Raw material cost, Freight cost and marketing cost
- (b) Raw material, freight cost, marketing cost, depreciation of plant and machinery etc.
- (c) Raw material, freight cost, depreciation of plant and machinery etc.
- (d) Any of the above

Response

(c) is the correct option

Q3. A is allocated to audit payroll expense in a Company. He decided to perform the following procedures while checking the payroll expense.

- a) Verification of personnel file and with HR record payroll expense
- b) Variation analysis
- c) Ratio analysis between direct cost and payroll expense
- d) Statutory dues payment and reconciliation with the books.

Please confirm the correct option

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

Response

(iv) is the correct option

Q 4. A is performing audit procedures with respect to bank reconciliation and its confirmation for a Company. The Company provided the reconciliation with a difference of Rs. 1 lakhs which is below materiality limits.

Please tick the appropriate option to identify the subsequent action from A

- (i) Perform inquiry procedures and conclude the matter
- (ii) Ignore on account of materiality
- (iii) Request the client for reason of those differences and test those differences
- (iv) Take this matter to Management Representation letter

Response

(iii) is the correct option.

Q 5. X is performing the audit procedure for provision of expenses made at the year end. The client provides the list of open purchase orders along with the amount and mentions that based on best estimate, they have created provision of 50% against all these open purchase orders. X validates the open PO list and took the 50% estimate to Management Representation letter. Please tick the appropriate option out of the following options

- (a) No action is required
- (b) X to perform sample testing of the PO along with rationale of the management estimate regarding 50%.
- (c) Take an appropriate management representation letter
- (d) Ask the client to re perform its working as it is unlikely that all PO's are 50% complete and perform the testing of these provisions.

Response

The correct option is (d).

Q 6. ABC Limited has taken a loan from a bank and they also have cash and bank balance as at year end. While finalizing the financial statements, the Company has net off this loan against cash and bank balance. A is the auditor of this Company and out of the following option, what should he do ?

- (i) Accept the position taken by the Company
- (ii) Net off the loan and the bank balance of the same bank

- (iii) Disclose borrowing and cash and bank balance separately
- (iv) Any of the above

Response

The correct option is (iii)

Q.7 "X" Company took a premises on rental basis where the terms and conditions are as follows :-

Terms of the lease- 5 years

Rental per month- 1,000,000

Rental escalation every year – 12%

Lock in period – 5 years

The Company is doing the accounting of rental expense considering the amount of payment made by the Company and accordingly accruing the expense in the books of the accounts.

Out of the following options, please select the right option with respect to accounting of rental expense

- (i) Accounting done by the Company is appropriate
- (ii) The Company should straight line the entire lease amount over the entire 5 years period and book the rental expense for each year on equal basis
- (iii) Rental escalation should be accrued at the end of every year along with the rent expense amount paid on monthly basis
- (iv) None of the above

Response

Option (ii) is the correct option.

Q. 8. 'ABC' is the auditor of a Company. As part of the audit procedures, the auditor decides to perform circularization of Account receivable balances. The Company argued that this procedure is not necessary as based on the historical experiences, no confirmation has been received in the past. What is the next step required to be done by 'ABC' auditor :-

- (a) Agree with the Company's assessment and perform other audit procedures
- (b) Disagree with the Company and insist for sending the independent confirmation
- (c) Validate the rationale of Company's assessment of no receipt of the confirmations from the customers, evaluate its impact on the auditor's risk assessment of the Company and perform alternative audit procedures
- (d) None of the above

Response

(c) is the correct option

Q.9 A 'an auditor' is performing the physical verification of inventory of a Company. While performing the physical verification, A requested the Company to visit a particular warehouse where stock is kept. The Company explained that this stock has been already sold to the customer and hence it is not part of their inventory. What should 'A' do in such situation ?

(i) No further action required

(ii) Request the Company to provide audit evidence to demonstrate that this stock is sold to the other party along with copy of contract to conclude that this stock is sold by the Company.

(iii) Obtain management representation from the Company on this matter.

(iv) Report to those charged with governance.

Response

(ii) is the correct option

Q 10. A Company has taken various premises on lease for their office and warehouse from various parties spread across India. As part of the contractual commitment, security deposit has been given to these parties which is refundable after the completion of the lease agreement, unless and until contract is renewed for future period. A is performing the audit of rental expense and security deposit of the Company. During the testing of these areas, there were few cases where no rental expense was paid to the vendors and security deposit was coming in the loans and advances. The Company explained that these premises are vacated by the Company and hence no rental expense is payable.

(i) Perform inquiry procedures with the client to understand why security deposit has not been collected.

(ii) Check the underlying contracts to see if these were revokable or non revokable leases to evaluate the implication of any penalties payable to these parties.

(iii) Verify the communication regarding the cancellation of these leases.

What should 'A' do ?

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

(b) (i)

(c) (i) and (iii)

(d) (ii) and (iii)

Response

(a) **Is the correct option**