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Paper 3 : Advanced Auditing and Professional Ethics (New Course)

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(Selected) 1 The basic assumption underlying the use of analytical procedures is: 

- (a) It helps the auditor to study relationship among elements of financial information
- (b) Relationship among data exist and continue in the absence of known condition to the contrary
- (c) Analytical procedures will not be able to detect unusual relationships
- (d) None of the above

2. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion

- (a) Right and obligations
- (b) Valuation
- (c) Completeness
- (d) Existence

3 The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements

- (a) Adverse
- (b) Qualified
- (c) Disclaimer of opinion
- (d) clean


4The agreed terms of the audit engagement shall be recorded in an audit engagement letter which shall include the following except-

- (a) Responsibilities of the auditor
- (b) Description of methods to be followed for obtaining audit evidence
- (c) Responsibilities of management
- (d) Objective and scope of the audit of the financial statements

5 The measure of the quality of audit evidence about its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based is:

- (a) Sufficiency of audit evidence
- (b) Appropriateness of audit evidence
- (c) Accounting estimates

(d) Reasonableness of audit evidence

(Selected) 6 The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences. 

- (a) Objectivity
- (b) Independence
- (c) Confidentiality
- (d) Integrity

7 Which of the following company is not exempted from reporting under CARO, 2016?

- (a) Banking company.
- (b) Insurance company.
- (c) Company licensed to operate under section 8 of the Companies Act, 2013.
- (d) Private limited company having paid up capital of Rs. 5 crore.

8 Section 144 of the Companies Act, 2013 does not excludes the statutory auditor of the company to render the services of -

- (a) Investment advisory
- (b) Investment banking
- (c) Branch auditor
- (d) Actuarial

(Selected) 9 As per SA 550 on Related Parties, existence of which relationship indicate the presence of control or significant influence?

- (a) Friend of a family member of a person who has the authority and responsibility for planning.
- (b) Holding debentures in the entity.
- (c) The entity's holding of debentures in other entities.
- (d) The entity's holding of equity in other entities.

10. When does an auditor shall modify the opinion in the auditor's report?

- (a) When, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement.
- (b) When, unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
- (c) (a) and (b) both.

(d) Either (a) or (b).

11 For a given level of audit risk, the acceptable level of detection risk bears _____ relationship to the assessed risks of material misstatement at the assertion level.

- (a) direct.
- (b) Inverse
- (c) Either (a) or (b)
- (d) none of the above

12 Control activities, whether within IT or manual systems, have various objectives and are applied at various organisational and functional levels. Which of the following is an example of control activities:

- (a) Authorization.
- (b) Performance reviews.
- (c) Information processing.
- (d) All of the above

(Selected) 13 If, as a result of a misstatement resulting from fraud, the auditor encounters exceptional circumstances that bring into question his ability to continue performing the audit, he shall-

- (a) Withdraw from the engagement immediately.
- (b) Report to Audit team regarding withdrawal.
- (c) Determine the professional and legal responsibilities applicable in the circumstances.
- (d) Ask the management for his withdrawal.

14 In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained _____ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

- (a) reasonable assurance
- (b) absolute assurance
- (c) Limited assurance
- (d) None of the above

(Selected) 15 When is evidential matter, generally, considered sufficient in case of stock exchange member audit?

- (a) When it constitutes entire population
- (b) When it is objective and relevant

- (c) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
- (d) When auditor collects and evaluates it independently

(Selected) 16 The scope of the audit of Depositories including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the

- i) auditor's report
- ii) engagement letter
- iii) representation letter

- (a) only (i)
- (b) Both (i) and (ii)
- (c) Both (i) and (iii)
- (d) All of the above

(Selected) 17. Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?

- i) Information about integrity of management
- ii) Disagreement with management concerning auditing procedures
- iii) Review of internal control system.
- iv) Organisation structure

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

18. In an investigation relating to possible misappropriation of cash, the cashier says that every day the cash is counted and is reviewed by the Finance Head. Your specimen review indicates that the daily cash summary was not signed off by of the Finance Head. In this situation you should:

- (a) conclude that the cashier is not telling truth
- (b) consider extending investigation procedures like corroborative enquiry with the Finance Head, review of appropriate daily cash summaries etc.
- (c) conclude that the Finance Head is not a responsible person
- (d) conclude that daily cash summary is not relevant for the investigation

19. Current period adjustments are those adjustments that are made:

- (a) only on the first occasion of the preparation and presentation of consolidated financial statements
- (b) only on the first occasion of the audit of consolidated financial statements
- (c) in the accounting period for which the consolidation of financial statements is done

(d) None of the above

20 Which of the following best suits the description – “The susceptibility of an assertion that could be material, either individually or in aggregate, before consideration of any related Internal Controls.”

(a) Inherent Risk

(b) Detection Risk

(c) Control Risk

(d) None of the above

21 CA. D, a chartered accountant in practice availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct .

(a) Clause (6) of Part I of the First Schedule

(b) Clause 2 of Part I of the Second Schedule

(c) Clause 12 of Part I of the First Schedule

(d) Clause 2 of Part IV of the First Schedule

22. As an auditor appointed under section 44AB of the Income Tax Act, 1961, under which clause of Form 3CD, you will report for amounts deemed to be profits and gains under section 32AC, 33AB or 33ABA or 33AC

(a) clause 24

(b) clause 40

(c) clauses 31

(d) clause 23

23. As per CARO, 2016, the auditor is required to report whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. If so, whether the registration has been obtained.

(a) Under Clause (xi) of paragraph 3 of the CARO, 2016,

(b) Under Clause (xvi) of paragraph 3 of the CARO, 2016,

(c) Under Clause (xv) of paragraph 3 of the CARO, 2016,

(d) Under Clause (xiv) of paragraph 3 of the CARO, 2016,

24. As per Clause (i)(c) of Paragraph 3 of the CARO, 2016, the auditor is required to report on :

(a) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.

- (b) whether the company has entered into any non-cash transactions with directors or persons connected with him
- (c) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
- (d) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

25. LM Ltd. had obtained a Term Loan of rupees 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. Under which clause of CARO 2016 the auditor is required to report

- (a) Under Clause (viii) of paragraph 3 of the CARO, 2016,
- (b) Under Clause (xi) of paragraph 3 of the CARO, 2016,
- (c) Under Clause (x) of paragraph 3 of the CARO, 2016,
- (d) Under Clause (ix) of paragraph 3 of the CARO, 2016,

(Selected) 26. NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle.

There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers.

Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

- (a) Management responses look reasonable and this matter should be dropped.
- (b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored.
- (c) Internal auditor need to report this matter.
- (d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

(Selected) 27. DPP Ltd is in the business of software and is in growing phase. The company's turnover has been increasing year on year and profit margins are good. The company is also planning IPO in next 2-3 years depending on the market assessment at that point of time.

It was observed by the internal auditors of the company that it does not have a documented Segregation of Duty (SOD) Matrix. Access controls were tested on basis of leading practices and following observations were identified:

- Users apart from Finance & Accounts team were having access to critical financial transactions.
- Users apart from Quality department were having access to Quality Clearance transaction for raw material and finished goods.
- Multiple users having access to Purchase Order Approval though it should be confined to HODs/Purchase Heads.

Management of the company explained to the auditor that the company is new and this may be required for a well established company. Please advise.

- (a) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. Hence there should be a proper SOD matrix.
- (b) Generic accounts increase the risk associated with accountability and might lead to unauthorized access which could result into impact on financials. It will also affect the transparency and auditing trail that corresponds with the account. There should be a process of SOD though it is not necessary to document that.
- (c) Management is right and accordingly it is not relevant for the internal auditor.
- (d) Since currently the operations of the company are running smoothly, there is no need for complicating the internal business environment by setting up SOD matrix.

(Selected) 28. KSHTZ Ltd, listed company, is in the business of stainless steel and is more than 50 years old. The company's turnover is INR 11000 crores and has good profit margins which have been improving over the last 2 years. The company is also planning to raise funds in another 5-6 months. The company has SAP as its ERP package.

Recently there has been a change in the internal audit team. The new internal auditors observed that there have not been any approved policies and procedure in place in their audit period from 1 April 2018 to 30 September 2018. For e.g.

- Information Security Policy and Procedure
- Change Management Policy
- User Access Management Policy.

Also the policies and procedures do not have any version control, owner and review details, etc.

Management of the company explained to the auditor that the company does not require this and hence this point should be ignored. Please advise.

- (a) Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees and hence there should be approved policies and procedures in place.
- (b) Absence of well defined and approved policies and procedures may lead to management's intended practices and objectives not being clearly communicated to and understood by organization's employees. There should be a process to follow policies and procedures though it is not necessary to document that.

- (c) Management is right and accordingly it is not relevant for the internal auditor.
- (d) Absence of well defined and approved policies and procedures has not impacted the company till date and if the management has reasons not to keep this then the same should not be considered by the internal auditor.

(Selected) 29. ACE Pvt Ltd is a large company and has diverse operations. The company is planning to get listed to raise funds. Over the last years, the company did not use much of technology and with the changing times, the management has also identified the need to bring mechanisms in place to improve upon the use of technology. The internal auditors of the company while review of Business Continuity Planning/ Disaster Recovery Plans observed that the Identified Disaster Recovery Site of the company was in the same seismic zone as the Primary Site. Therefore the effectiveness of the Disaster Recovery (DR) Plan was not verified.

The management discussed this matter with the internal audit team and explained that the present DR plan is to protect against hardware failure and building level exposure. They will plan for city level DR along with Annual Business Plan in another year.

Please suggest which one of the following options is correct.

- (a) DR plan is not of much relevance and should not be focused upon by the internal auditor in his report.
- (b) DR plan is an outdated plan and in today's scenario it is not required. Hence internal auditor should drop this.
- (c) Absence of Disaster Recovery Site in different seismic zone might lead to failed or delayed recovery of business operations in an event of natural disaster. It is important for the management to plan this and hence internal auditor should also report this.
- (d) Since the management has a plan for DR in near future this matter is not relevant to be reported.

(Selected) 30. ASOP Ltd is in the business of trading and manufacturing of FMCG. The turnover of the company has been increasing, however, the company has not been able to maintain its margins constant which are declining. The internal auditors of the company raised observations on the sales schemes of the company. As per the SOP, all schemes are required to be approved by the CEO of the company. However, per process it was observed that all schemes were approved by Chief Sales and Marketing Officer (CSMO). Review of sample 89 support schemes for the months of May 2018 and June 2018 highlighted that 19% (i.e. 17 schemes) were not approved by the CSMO.

Management replied that there is a need for revision of SOP to reflect current paradigm. They shall amend the SOP to reflect the same. Please advise how should these matters be dealt by the internal auditors?

- (a). Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.
- (b) SOPs are not aligned to on-ground practices followed by concerned officials. SOPs should be updated and till then there should be a mechanism to follow the existing SOP.
- (c) SOPs are not aligned to on-ground practices followed by concerned officials and the same should be reported by the internal auditor.

- (d) Internal auditor should look at the materiality and basis that can ignore this as this will not have much impact.

(Selected) 31. BCP Ltd is in the business of manufacturing of cranes. It's a wholly owned subsidiary of a Chinese company and follows policies and procedures of the parent company. The company's annual turnover is INR 1000 crores. The company operates through dealers in India for making sales and pays incentives to them on the basis of delivery based schemes and other schemes which are introduced from time to time.

It was observed by the internal auditors of the company that incentives amounting to INR 10 crores were paid to dealers on account of delivery based schemes for the month of October 2018. Review of cranes installations for the same period highlighted that incentive amounting to INR 30 lakhs had been paid against invalid claims. This was primarily because of absence of verification of the delivery claims with the installation data.

Management replied that disbursement basis 100% verified installations has been defined as per the process. Revision in process has been done to prevent inordinate delays in reimbursements to the dealers. Please advise how should these matters be dealt by the internal auditors?

- (a) Since the management has agreed on the observation of the internal auditor, internal auditor should drop these points.
- (b) The impact of the matter is not significant and hence the same should be dropped.
- (c) Incentive paid against non-genuine claims bear financial implications for the Company. Verified installation data should be taken for considering incentive payout. This matter should be highlighted by the internal auditor in his report.
- (d). Internal auditor should ask the management to take corrective action and basis that drop this point as this is matter which is of financial implication which needs to be considered by the statutory auditors of the company.

(Selected) 32. PRP Ltd is a service company and is in the business of manpower consultancy. The company also has some manufacturing operations based out of Orissa. The annual turnover of the company is INR 1500 crores. The employee base of the company is very big. Please advise what internal audit procedures should be considered by the internal audit team for the audit of labour cost vis-à-vis wages.

- i. Comparing the time booked in the booking sheets with clock cards on a sample basis.
 - ii. For a Piece rated wage job: a. In case of an in-process job, checking that the output booked in the booking sheet is in line with the standard output possible in the stated time. In case of a major variance, enquiring into its justification and authenticity. b. In case of a finished job, checking the output booked in the booking sheet with the actual output generated for the period as per the production sheet. c. In case of variances, enquiring into the same.
 - iii. In case of a person doing more than one piece - rated job during the period, checking that: Total Time Booked – Overtime Hours = Normal Hours Available in the Period.
 - iv. Test checking the following with the master lists: a. Grade booked b. Operator code c. Job code.
 - v. Average Earning Job a. Verifying on a sample basis that the job categorised as "average earning" job does not have any piece rate as per the master file. b. Comparing the standard time required for output booked as per the master file with the actual time booked. In case of a major variance, enquiring into its justification and authenticity. c. Test checking the calculation of wages as per the laid down formula for arithmetical accuracy.
- (a) i, ii, iii, iv and v.

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

(Selected) 33. QQR Ltd is in the business of manufacturing of tractors and cranes. The company has a policy to provide after sales services to the customers in respect of its products. Please advise what internal audit procedures should be considered by the internal audit team for the audit of after sales service.

- i. Assess replacement trends, nature of failures and replacement policies.
- ii. Examine the percentage of replacements of manufacturing defects vis-à-vis off-take.
- iii. Examine which type of products/models has a higher failure record and why.
- iv. Check whether any particular dealer's failure percentage vis-à-vis his turnover higher than the norm. If so, why.
- v. Check whether there are adequate technical audit on awards of replacement.
- vi. Evaluate the effectiveness of after-sales service with regard to its scope and consumer satisfaction. Is this service prompt and timely?

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

(Selected) 34. SX Ltd is in the business of steel manufacturing having a turnover of INR 10,100 crores. The company has many plants. Each plant has a canteen and some income also gets generated in the canteen every year.

Being the internal auditor what internal audit procedures may be applied to audit the canteen income?

- i. Check the records maintained for the canteen operations to support all financial transactions.
- ii. Review the agreements and contracts in case the canteen is run by an outside party.
- iii. Compliance with laws and regulations applicable for operation of canteen - The Prevention of Food Adulteration Act & Rules, 1954, The Shops and Establishment Act, FEMA, GST, Companies Act, etc.
- iv. Verify leakages that may take place, e.g., by way of non-deductions from staff or excessive consumption of food in the mess, despite fixed menus which are helpful in providing some measurement of the likely consumption of food articles.

Which of the above mentioned procedures would be relevant?

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

(Selected) 35. TPL Pvt Ltd is in the business of software and consultancy services. The annual turnover of the company is INR 899 crores and profits are INR 199 crores. The company is planning to get listed in the overseas market within a year. If that doesn't happen then the company may look for funding through private placement.

For some projects the company receives grants from government. These projects run up to 5-10 years. XYZ & Co LLP is the internal auditor of the company. Please advise what internal audit procedures should be considered by the internal audit team for the audit of grants received.

- i. Check the donations received with the copies of receipts.
- ii. Check sanction letters for any conditions attached with the donations.
- iii. Examine the statements submitted for utilisation of grant.
- iv. Verify the grants received from the Government or other authorities with reference to all the correspondences.
- v. Verify all the bank statements of the company to trace the grants received and its utilization.

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

(Selected) 36. ONZ Ltd is in the business of trading of consumer equipments. The company's turnover is INR 347 crores. The company has not been doing well over the last few years due to which its profitability has gone down significantly.

The company charges cartage/freight from its customers. Because there is a huge cost incurred in this respect, the company ensures that this amount is recovered on time.

During the performance of the internal audit procedures, the internal auditors of the company found that in some cases freight was charged in the bills manually, rather than through the automated system of generating an invoice. Internal auditor raised this point to the management. The management replied that it happens only in exceptional cases that the freight is charged manually on automated generated invoice.

How would you deal with this as an auditor?

- (a) Internal auditor should report this matter.
- (b) Internal auditor should discuss with management about way forward and drop this point.
- (c) Internal audit observation is not right.
- (d) Internal auditor should ignore on the grounds of materiality.

(Selected) 37. MNO Ltd borrowed an amount of INR 5 crores from a financial institution during the year. The company had existing borrowings of INR 1800 crores from various banks. However, the company took loan from a financial institution for the first time.

The rate of interest charged on the new loan was based on market rate of interest and there was no security for this loan. During the course of the internal audit, internal auditor could not find the borrowing agreement for the new loan and raised this point with the management. The management explained that new loan was required for a special purpose for which all other documents are available for auditor to verify – disbursement proof in the bank statements,

repayments. However, the agreement was not prepared because the person who arranged the loan from financial institution was known to the company and basis verbal understanding this has been done. Please advise internal auditor.

- (a) Internal auditor should report this matter as this can be a serious deficiency.
- (b). Because all other proofs are available, internal auditor should ignore this point.
- (c). Internal auditor should report this matter to Reserve Bank of India.
- (d). Considering the insignificant amount of this new loan as compared to total borrowings of the company, this may be ignored by the internal auditor.

(Selected) 38. AAS Ltd is in the business of fast food chains. During the internal audit of accruals/ expenses of the company, the internal audit team observed that for some of the entries passed the narration was wrongly written as if the expense is related to the travelling expense. The vouchers were passed by the finance personnel of the company but no review mechanism was seen for this. Management explained that there is a review mechanism but this is only about narration of expenses which should not be relevant for the internal auditor. How should the internal auditor deal with this matter?

- (a) The Company should perform the review of entries to check such cases and same thing should be reported by the internal auditor.
- (b) The Company's management seems reasonable here.
- (c) This matter should be considered on the basis of materiality.
- (d) Internal auditor should further investigate as this is indicative of fraud.

39. Medivision Industries designs and manufactures spectacles. Medivision's year end was 31 March 2018 and its draft financial statements show a profit before tax of Rs.60 lakh. The fieldwork stage for this audit has largely been completed but there are few outstanding issues.

On 1 January 2018, Medivision began the commercial production of a new range of lightweight frames which have been proven to keep their shape regardless as to how roughly they are treated. Up to 31 December 2017, the company had correctly capitalised development costs of Rs.45 lakh relating to this project. The directors believe that the new frames will have a product life of three years. The financial statements show development costs at a carrying amount of Rs.45 lakh. Medivision's accounting policy states that it amortises intangible assets on a straight-line basis.

The auditor's report for Medivision is due to be signed in the next week or so, and you have been unable to resolve a disagreement with the directors concerning the amortisation of the development costs. The directors have refused to include any amortisation on the basis that sales of the product have not yet commenced.

Which of the following options correctly summarises the impact on the auditor's report if the issue remains unresolved?

- (a) The auditor to provide an 'Unmodified opinion', since the directors are correct not to include any amortisation on the basis that sales of the product have not yet commenced.
- (b) The auditor to provide an 'Unmodified opinion' with emphasis of matter paragraph about the amortisation charge on the capitalised development costs.

- (c) The auditor to provide a Modified opinion - Adverse opinion since having obtained sufficient appropriate evidence, concludes that the misstatement is both material and pervasive.
- (d). The auditor to provide a Modified opinion – Qualified opinion due to material misstatement of not recording the amortization charge on the capitalised development costs, which is material but not pervasive.

(Selected) 40 You are an audit supervisor of Swanminathan & Associates and are currently planning the audit of your client, Zonal Co which manufactures elevators. Its year end is 31 March 2018 and the forecast profit before tax is Rs 25.26 Lakhs.

At the beginning of the year, Zonal purchased a patent for Rs. 5.3 lakhs which gives them the exclusive right to manufacture specialised elevator equipment for five years. In order to finance this purchase, the entity borrowed Rs. 4.5 lakhs from the bank which is repayable over five years.

Which of the following is a response to the audit risk identified by you in planning the audit for the reporting year?

- (a) The audit team need to agree the purchase price to supporting documentation and to confirm the useful life is five years. Recalculate the amortisation charge to ensure the accuracy of the charge and that the intangible is correctly valued at the year end.
- (b) The company has borrowed Rs.4.5 lakhs from the bank via a five-year loan. This loan needs to be correctly split between current and non-current liabilities in order to ensure correct disclosure.
- (c) In accordance with Ind AS 38 Intangible Assets, the patent should be included as an intangible asset and amortised over its five-year life.
- (d) Also, as the level of debt has increased, there should be additional finance costs. There is a risk that this has been omitted from the statement of profit or loss leading to understated finance costs and overstated profit.

(Selected) 41. Teamsg International Co is a manufacturer of electrical equipment. It has factories across the country and its customer base includes retailers as well as individuals, to whom direct sales are made through their website. The company's year-end is 31 March 2018. You are an audit supervisor of Suraj & Co and are currently reviewing documentation of Teamsg's internal control in preparation for the interim audit.

In the past six months Teamsg has changed part of its manufacturing process and as a result some new equipment has been purchased, however, there are considerable levels of plant and equipment which are now surplus to requirement. Purchase requisitions for all new equipment have been authorised by production supervisors and little has been done to reduce the surplus of old equipment.

Which of the following control can be recommended to address the internal control deficiency in the respect of the acquisition of new equipment and treatment of the old equipment.

- (a). Regular review of the data on the unused equipment on the master file by a responsible official and the review to be evidenced.
- (b). Supplier statement reconciliations should be performed monthly for all suppliers and these should be reviewed by a responsible official.
- (c). Capital expenditure authorisation levels to be established. Production supervisors should only be able to authorise low value items, any high value items should be authorised by the board.
- (d). Observe the review process by senior factory personnel, identifying the treatment of any old equipment.

(Selected) 42. You are a manager in the audit department of Narang & Co, and you are dealing with several ethical and professional matters raised at recent management meetings, all of which relate to audit clients of your firm:

One of your client Bernwood Co has a year ending 31 March 2018. During this year, the company established a pension plan for its employees, and this year end the company will be recognising for the first time a pension deficit on the balance sheet, in accordance with Ind AS 19 Employee Benefits. The finance director of Bernwood Co has contacted the audit engagement partner, asking if your firm can provide an actuarial valuation service in respect of the amount recognised.

Which of the following options needs to be considered by the audit engagement partner?

- (a) The issue is whether there is a self-review threat, as the valuation of the amount recognised would be recorded in the financial statements. The audit partner should decline the work of valuation service.
- (b) The issue is whether the audit firm would be likely to possess the requisite competence to provide such a valuation service. The audit partner should decline since not professionally qualified to provide the valuation service.
- (c) Narang & Co. needs to assess the materiality of the figure, and the degree of subjectivity involved. If it considers that safeguards like using separate personnel, performing a second partner review, could reduce the threat to an acceptable level, then it can go ahead with both the audit and the valuation service.
- (d) The audit partner could go ahead with the valuation service and disclose the fact in its audit report about the service provided during the period. This will safeguard and reduce the threat to an acceptable level.

(Selected) 43. PR Co. designs and manufactures specialised furniture for offices in and around the city of Mumbai. The revenue has been gradually increasing over the last few years. The main concern for PR Co is finding credit-worthy customers who will make the payment on due dates. You are assigned as the audit team member to test the controls in sales and purchase system of the entity. The year end of the entity is 31 March 2018. One of the control objectives of the sales system of PR Co is to ensure that goods and services are sold to credit-worthy customers.

Which of the following control activities would assist the entity in achieving this objective?

- (a) All sales orders above Rs.10 lakh is based on authorised price lists.
- (b) Credit limits for all the customers are checked before sales orders are accepted.
- (c) Overdue debts are chased each month by the credit controller.
- (d) The aged-debt listing is reviewed by the finance director of PR Co on a monthly basis.

(Selected) 44. You are an audit manager of DC & Co and you are currently responsible for the audit of Beautypal Co, a company which develops and manufactures health and beauty products and distributes these to wholesale customers. Its draft profit before tax is Rs.43 lakhs and total assets are Rs.38 lakhs for the financial year ended 31 March 2018. The final audit is due to commence shortly, and the following matter has been brought to your attention:

Beautypal Co has a large portfolio of property, plant and equipment (PPE). In January 2018, the company carried out a full review of all its PPE and updated the useful lives, residual values, depreciation rates and methods for many categories of asset. The finance director felt the changes were necessary to better

reflect the use of the assets. This resulted in the depreciation charge of some assets changing significantly for this year.

Which of the following substantive procedure should the auditor perform to obtain sufficient and appropriate audit evidence in relation to matter of depreciation on property, plant and equipment?

- (a) Review the capital expenditure budgets for the next few years to assess whether the revised asset lives correspond with the planned period until replacement of the relevant asset categories.
- (b) Inspect non-current asset accounts for a sample of purchases to ensure they have been properly allocated.
- (c) Consider whether the proceeds on disposals of PPE are reasonable and recalculate the profit or loss disposal.
- (d) For a sample of fully depreciated assets, inspect the register to ensure no further depreciation is charged.

(Selected) 45. As an internal auditor of LMN Bank Ltd., you have to verify the vouchers for the quarter ending 30th June 2018 of a branch at Ahmedabad. While verifying the vouchers, your team noticed that many of the bearer cheques processed by the teller have not been stamped as "paid", when discussed with the branch manager he stated the reason as ignorance on the part of official who has been assigned the duty of verifying the vouchers. As an internal auditor, what should be your next course of action:

- (a). Considering the matter as immaterial, ignore it for the internal audit report.
- (b) The Branch manager should be advised to rectify the discrepancy and the observation is closed in the internal audit report noting the corrective action taken.
- (c) The matter should be immediately reported to those charged with governance of LMN Bank Ltd.
- (d) Report the matter in Executive summary paragraph of Internal Audit Report as it is a significant internal control lapse.

(Selected) 46. ALM Ltd. is a trading company engaged in the business of selling readymade garments with a turnover of around Rs. 85 crore in the year 2017-18. Your firm has been appointed as statutory auditors for the year 2018-19. In the process of audit for the half year ending 30th September, 2018 your senior has instructed you to verify the debtors of the company. While verifying the same it came to your notice that the company is not taking balance confirmations from the debtors and the balance shown in the books of company is considered final for the preparation of accounts. As a statutory auditor what should be your decision on the debtors balances:

- (a) Statutory auditor should review the internal audit report and ensure as per section 143 of the Companies Act, 2013 that the company has adequate internal financial controls in place.
- (b) There is no need to take debtors confirmation as it is immaterial for the purpose of Audit Report.
- (c) The auditor is required to take external confirmation independently and wherever the auditor gets negative or no response or the response is doubtful an alternative audit procedure should be followed.
- (d). A management representation letter should be obtained by the auditor.

(Selected) 47. As a Central Statutory auditor of KG Ltd. for the year 2018-19 you need to verify the bank balances for the half year ending 30th September 2018. The company is holding Bank accounts in five different banks, but you found that the bank reconciliation is not complete for some of the bank accounts. When discussed with the management they explained that the number of transactions in these accounts is very

huge on daily basis and there are some old entries (existing in the reconciliation statement from the year 2008 and they are not material in nature) so it is difficult to reconcile these bank accounts. As a Central Statutory Auditor what will be your decision:

- (a) The unusually old outstanding entries, as are not material in nature, should be removed from reconciliation statement and the balance in books of accounts should be considered as the balance for the balance sheet purpose.
- (b) The auditor should confirm the appropriateness of the old outstanding entries by taking bank confirmations for the same to reduce audit risk and obtain a management representation letter on pending reconciliation.
- (c) The auditor should disclose the matter in Notes to accounts of the audit report with respect to incomplete bank reconciliation.
- (d) The auditor should communicate it to those charged with governance as deficiency in internal control.

(Selected) 48. You are an article assistant in PQR & Associates. You are assigned an internal audit of X Ltd., a leading company in business of dairy products. While evaluating internal controls associated with related party relationships and transactions, you come across some discrepancies. What is the basic information to be collected by you related to related party relationships and transactions?

- i. The identity of the entity's related parties including changes from the prior period
- ii. The nature of the relationships between the entity and these related parties
- iii. Understanding of business activities of related parties
- iv. Whether the entity has entered into any transaction with these related parties during the period and, if so, the nature and extent, and the purpose of the transaction
- v. Materiality of related party transactions

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

(Selected) 49. AMS & Co is a computer hardware specialist and has been trading for over 6 years. The company is funded through overdrafts and loans and by several large shareholders. The financial year end is 31 March 2017.

AMS had significant growth in business in previous years; however, in the current year a new competitor BOM & Co, has entered the market and through competitive pricing has gained considerable market share from AMS. One of AMS's customers has stopped trading with them and has moved its business to BOM. In addition, a few specialist developers have left the company and joined the new company BOM. AMS has found it difficult to replace these employees due to the level of their skills and knowledge. AMS has just received notification that its main supplier who provides the company with specialist electrical equipment has ceased to trade.

Which of the following audit procedures should NOT be performed in assessing whether or not AMS is a going concern?

- (a) Evaluating management's plans for the future of the business, by finding out from the financial director whether the company has gained any new customers to replace the customers lost
- (b) Review board meeting minutes for evidence of progress on recruiting specialist developers to replace the ones who have left to join BOM.
- (c) Analyse and discuss the entity's last 2 years of financial statements to determine whether it is consistent with the cash flow forecast.
- (d) Review the correspondence with the shareholders to assess the probability that any of the shareholders choose to increase or sell their investment

(Selected) 50. ASM Motor Cars co. manufactures a range of motor cars and its year end is 31 March 2018. You are the audit supervisor of Khanna & Associates and currently preparing the audit programmes for the year-end audit of ASM. The entity undertakes continuous production of cars, 24 hours a day, seven days a week. An inventory count is to be undertaken at the year end and Khanna & Associates will attend. You are responsible for the audit of work in progress (WIP) and will be part of the team attending the count as well as the final audit. WIP constitutes the partly assembled cars at the year end and this balance is likely to be material. ASM values WIP according to percentage of completion, and standard costs are then applied to these percentages.

Which of the following is **NOT** a substantive procedure the audit could perform to obtain sufficient and appropriate audit evidence in relation to the valuation of work in progress?

- (a) Discuss with management how the percentage completions are attributed to WIP
- (b) Observe the procedures carried out in the count in assessing the level of WIP; consider reasonableness of the assumptions used
- (c) During the count, verify all the percentage completions if they are in accordance with ASM's policies
- (d) Review the level of variances between standard and actual costs

Solution

1	(b)	2	(d)	3	(a)	4	(b)	5	(b)
6	(b)	7	(d)	8	(c)	9	(d)	10	(d)
11	(b)	12	(d)	13	(c)	14	(a)	15	(c)
16	(d)	17	(a)	18	(b)	19	(c)	20	(a)
21	(d)	22	(a)	23	(b)	24	(a)	25	(d)
26	(c)	27	(a)	28	(a)	29	(c)	30	(b)
31	(c)	32	(a)	33	(d)	34	(c)	35	(b)
36	(a)	37	(a)	38	(a)	39	(d)	40	(a)
41	(c)	42	(c)	43	(c)	44	(a)	45	(b)
46	(c)	47	(b)	48	(b)	49	(c)	50	(c)

Paper 3 : Advanced Auditing Professional Ethics (New Course)

- (Selected) 1. XYZ Printers is a medium size printing press with turnover of Rs.100 crore for the financial Year 2015-16. The company buy paper rims for its press from different suppliers. You are the statutory auditor of the company for the year 2015-16 and the management has informed you that the company has bought paper rims from one of the supplier who is related to one of the director of XYZ Printers. What audit evidence do you need to collect for identifying and assessing the risk of material misstatement associated with related party transaction?
- Prior approval of the audit committee/shareholders for the transactions with the supplier, materiality/ significance of the transactions on company's financial statements, agreement entered into with the supplier and internal control for the transactions with the supplier.
 - Only the prior approval of the audit committee/ shareholders for the transactions with the supplier is sufficient.
 - Check whether the company has formulated any policy on dealing with related party transactions and materiality of transactions.
 - As a statutory auditor you should check the internal controls and internal audit reports only.
- (Selected) 2. You are the internal auditor of FCD Bank Limited for the year 2017-18 and the bank maintains all the data on computer. You are instructed by your senior to verify the loan against fixed deposits of the Navi Mumbai branch. As per the scope of audit, you need to ensure that proper lien has been marked on all the fixed deposits against which loan has been issued. Which of the following procedure you will follow for the same:
- Ensure that all the fixed deposit receipts are attached along with the approved loan documents.
 - Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank and check that the lien is marked in the computer software.
 - Discuss the process followed for lien marking with the branch manager.
 - Ensure that all the fixed deposit receipts, against which the loan has been sanctioned, are discharged in favour of bank, check that the lien is marked in the computer software and the fixed deposit should be kept separately with the branch manager.
- (Selected) 3. Mr. Vijay Kapoor, Chartered Accountant, has been appointed the statutory auditor by M/s. XYZ Private Limited for the audit of their financial statements for the year 2015-16. The company has mentioned in the audit terms that they will not be able to provide internal audit reports to Mr. Vijay during the course of audit. Advise, whether Mr. Vijay should accept the proposed audit engagement and on what grounds he can accept/ refuse the proposal?
- As per SA 210 the auditor can refuse to accept the audit engagement as the management is not giving access to internal audit reports which are necessary in determining the internal controls in the company.
 - There is no limitation on the scope of the auditor's work, so the auditor should accept the appointment.
 - The auditor can accept the audit engagement if the management gives representation on its responsibility.

Which of the following option is correct:

- (ii) only

- b) Both (i) and (iii)
- c) Both (ii) and (iii)
- d) (iii) only

(Selected) 4. Best Manufacturers Limited is a manufacturing company and has entered into an agreement In February 2017 with CISCA Brothers for buying land in order to set up their new manufacturing unit. As per the agreement, Best Manufacturers were required to pay Rs.20 Lakhs as signing amount and the balance amount was required to be paid in three instalments of Rs.25 lakhs each in the month of May, July and September 2017. The title deed for the land was to be transferred after the payment of second instalment in July 2017, so in the accounts for the year 2016-17 of the Best Manufacturers the payment of signing amount was booked as an expense. Your firm have been appointed as auditor of financial statements of Best Manufacturers Limited for the year 2016-17. There is conflict between Financial Reporting Framework and Legal requirement, so what will be the duty of your firm in such case?

- a) Incorporate the changes in financial statements as per the legal requirement.
- b) As the title deed has not been transferred in favour of the company in the year 2016-17, there is no need to review the payment in terms of Accounting Standard or any other legal requirement.
- c) Take management representation on the same.
- d) Discuss the matter with management and ensure disclosure of the same in notes to accounts. In the absence of same, the auditor may consider issuing modified opinion.

(Selected) 5. BSF Limited is engaged in the business of trading leather goods. You are the internal auditor of the company for the year 2017-18. In order to review internal controls of the sales department of the company you visited the department and noticed the work division as follows:

- 1) An officer was handling the sales ledger and cash receipts.
- 2) Another official was handling dispatch of goods and issuance of Delivery challans.
- 3) One more officer was there to handle customer/ debtor accounts and issue of receipts.

As an internal auditor do you think that there was proper division of work? If not, why?

- a) There is proper division of work as the despatch and sales ledger maintenance work is allotted to different officials.
- b) Company has not done proper division of work as the receipts of cash should not be handled by the official handling sales ledger.
- c) Delivery challans should be verified by an authorised official other than the officer handling despatch of goods.
- d) Both b and c are correct.

(Selected) 6. Your firm has been appointed as the statutory auditors of GBM Private Limited for the financial year 2017-18. While verification of company's inventories as on 31st March 2018 you found that the significant amount of inventories belonging to the company are held by other parties. However, the company has kept all the records of the inventories maintained by other parties, what is your duty as an auditor in order to ensure that third parties are not such with whom the stock should not be held and the stock as disclosed in company's records actually belongs to them?

- a) Ensure that the total stock including the stock with third party tally with the stock register maintained by the company.

- b) Obtain confirmation from the third party/s with whom the inventories of the company are held and reconcile the same with stock register.
- c) Conduct a physical verification of stock maintained with third party/s.
- d) Obtain a written confirmation from the departmental head of the company for the inventories maintained at other places as audit evidence.

(Selected)

7. Bhishm Limited decided to appoint Mr. Rajvir, chartered accountants as the branch auditor for the audit of its Lucknow branch accounts for the year 2017-18. The decision to appoint branch auditor was taken by way of Board Resolution in the meeting of Board of Directors of the company, held in April 2017, subject to shareholders' approval in AGM of the company scheduled to be held in June 2017. Meanwhile, the Principal Auditor of the company raised an objection that the branch auditor cannot be appointed without his consent. Whether the objection raised by company auditor is valid?

- a) The objection raised by company auditor is not valid as per section 143(8) of the companies Act, 2013 and the Board has authority to appoint branch auditor but should be approved by shareholders in General Meeting.
- b) The objection raised by company auditor is valid as it is necessary to consult/obtain the consent of Principal Auditor before appointing Branch Auditor.
- c) The Board of Directors has no authority to appoint Branch Auditor so the objection raised by Principal Auditor is valid.
- d) The objection raised by company auditor is not valid as it is compulsory to appoint branch auditor as per Sec.139 of the Companies Act, 2013.

(Selected)

8. Prakash & Co. Chartered Accountants are the internal auditor of Textbook Private Limited, for the year 2016-17. You have been instructed by your senior to check the internal controls for the investments done by the company during the year. While verifying the same you noticed that the property documents, share certificates and other investment documents have been kept in a safe custody locker, whose keys are kept with an authorised official of Accounts Department of the company and none other than that official has access to locker. As an internal auditor do you consider as material weakness in internal controls? If yes, how will you report the matter?

- a) It cannot be considered as material weakness in internal control as the company might not have any other reliable employee within in its staff members.
- b) The safe custody locker should always be under the control of two authorised officials. Therefore, the auditor should communicate such material weakness to the management or audit committee.
- c) It is not material weakness to be reported as giving the keys to two or more persons can lead a situation of confusion only.
- d) The auditor should discuss the observation with the management and there is no need of any written communication.

(Selected)

9. DSP Chartered Accountants have been appointed statutory auditors of Flakes Private Limited for the year 2016-17. The company's net profit has declined by 5% as compared to previous year in spite of increase in sales. On verification of company's profit & loss account it is noticed that in the current year a huge amount is debited as loss on sale of fixed assets due to which the profits has reduced. The auditor discussed the matter with management and was told that since the lot of fixed assets were lying idle due to their non-working condition, they have been sold at less than their written down value. As an auditor do you think that the fact regarding disposal of assets should be disclosed in auditor's report/ notes to accounts?

- a) If the assets has been sold as per company's policy and under applicable Financial Reporting framework, then separate disclosure is not required in auditor's report/ notes to accounts.
- b) As the sale of assets has an impact on profit for the current year, it should be disclosed in the notes to account of the Financial Statements.
- c) Even if the assets has been sold as per company's policy and under applicable Financial Reporting framework, the auditor should disclose the facts in Emphasis of Matter Paragraph of Audit Report as the loss booked in Profit & Loss account has a material impact on the net profit of the company.
- d) As the loss on sale of fixed assets is debited in Profit & Loss Account as per Accounting Standard, there is no requirement of disclosure of the same in any report.

(Selected) 10. The auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern.

Certain events/ conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements, the auditor is required to request management to extend its assessment period to at least twelve months from that date. The management of the company would provide the financial support letter extended by its parent company.

In the given case, which one of the following options is correct?

- a) The auditor may obtain the financial support letter from the parent company for a period of 12 months from year end date.
- b) The auditor may obtain the financial support letter from the parent company for a period of 12 months from date of signing of the financial statements.
- c) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from year end date.
- d) The auditor may obtain the financial support letter from the parent company for a period of 12 months or less from date of signing of the financial statements.

(Selected) 11. Auditor's report on prior period i.e. year ended 31 March 2017 included a modified opinion on an unresolved matter. If such matter is not relevant/ immaterial to the current period figures in the financial statements for the year ended 31 March 2018, how should the auditors deal with this matter in his auditors report for the year ended 31 March 2018?

- a) Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
- b) Modify opinion on current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.
- c) Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.

- d) Include an emphasis of matter because of the effects or possible effects of the unresolved matter on the comparability of the current period and corresponding figures in the auditors report for the year ended 31 March 2018.

(Selected) 12. DEF Ltd has outsourced its payroll to a third entity (service organization). What should be the basis followed by the auditor of DEF Ltd in respect of audit of payroll?

- a) The auditor should obtain Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.
- b) The auditor may refer to the work of service auditor in his report containing an unmodified opinion and diminish his responsibility for the audit opinion.
- c) The auditor should obtain Type 1 or Type 2 report as audit evidence to support his understanding of about the design and implementation of controls at the service organisation. Type 2 report would also serve as audit evidence about the operating effectiveness of those controls.
- d) Since the payroll process is outsourced to a service organization, there is nothing much an auditor can do. Auditor should audit the other information for the financial statements and accordingly should issue his opinion.

(Selected) 13. The profits of XYZ Ltd was Rs. 1000 crores for the financial year ended 31 March 2018. While planning the audit of the financial statements of XYZ Ltd, the auditor determined the materiality of Rs. 50 crores. The materiality was taken as 5% of profits of XYZ Ltd. During the course of audit, on becoming aware of information during the audit, audit adjustments were passed which resulted in significant decline in the profits of XYZ Ltd. Post audit adjustments, the profits reduced to Rs. 500 crores. Because of the changes in profits of the company, the materiality may get reduced to Rs. 25 crores.

XYZ Ltd is a large size company having a turnover of Rs. 20,000 crores for the financial year ended 31 March 2018. Considering the size of the company, the auditor believes that materiality amount should not go below Rs. 50 crores as that would result in significant increase in their work and the work of the auditor may not get completed within the required timelines. Accordingly, the auditor wants to change the basis of materiality by increasing the percentage of profits or taking revenue as the basis for computation of materiality. In the given situation, which one of the following options is correct?

- a) Considering the size of the company, the auditor may be appropriate in changing the basis of materiality to save his work.
- b) The basis of materiality cannot be changed to save the increased work of auditor if there has been additional information which resulted in decline of profits during the course of audit.
- c) The auditor need not change the materiality basis. He can complete his audit using the materiality of Rs. 50 crores which was determined initially by him while planning the audit.
- d) Since the profits of XYZ Ltd have got reduced due to audit adjustments, the same cannot be considered to be the basis for computation of materiality. Materiality has to be based on management computed numbers.

- (Selected) 14. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. For the purpose of accepting position as the statutory auditors of WEF Ltd, M/s ABC & Co LLP has sent a written communication to M/s LMN & Co LLP to obtain no objection letter.

In the given case, which one of the following options is correct?

- a) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.
- b) M/s ABC & Co LLP needs to make a communication with LMN & Co LLP and obtain his no objection letter for accepting the position of statutory auditors of WEF Ltd. Once this is done, M/s ABC & Co LLP can be appointed by WEF Ltd. However, in that case it will not be mandatory to follow the provisions of the Companies Act 2013.
- c) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. ABC & Co LLP also needs to make a communication with M/s LMN & Co LLP to obtain his no objection letter.
- d) M/s ABC & Co LLP needs to ensure that his appointment has been made by WEF Ltd as per the provisions of the Companies Act 2013. Once that is done, ABC & Co LLP need not make any communication with LMN & Co LLP.

- (Selected) 15. The auditor is required to audit a complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS by the management solely for preparation of consolidated financial statements of the holding company. Is the auditor required to include 'Other Legal and Regulatory Requirements' to comment on matters such as maintenance of proper books of accounts, compliance with accounting standards etc. in the audit report?

- a) Since the auditor is required to audit complete set of annual financial statements for the year ended 31 March 2018 prepared under Ind AS, it will be mandatory for the auditor to include 'Other Legal and Regulatory Requirements' in his audit report.
- b) The audit report is not issued pursuant to requirement of section 143 and hence 'Other Legal and Regulatory Requirements' is not required to be included in the audit report.
- c) The audit report is not issued pursuant to requirement of section 143 and hence some of the requirements related to 'Other Legal and Regulatory Requirements' may be included in the audit report as per the discretion of the management of the Company.
- d) The auditor may include 'Other Legal and Regulatory Requirements' in the audit report but he would need approval of the Board of Directors for doing so.

- (Selected) 16. A Ltd. is a company in the business of buying and selling modern and contemporary Indian arts.

Following are the assets (in millions) of the Company on 31 March 2017:

- Fixed assets: INR 10
- Investments: INR 20
- Loans and advances: INR 40
- Inventories: INR 400
- Trade receivables: INR 10
- Cash and cash equivalents: INR 20

The management has not obtained valuation of inventories as at 31 March 2017 from a valuation expert in art forms. The auditors could not perform alternate procedures for

valuation of inventories. Therefore, auditors were not able to comment on the carrying value of inventories. However, the auditors were able to obtain sufficient appropriate audit evidence in respect of all other captions of financial statements. The auditors qualified their opinion in the auditor's report. What are your views on auditors qualifying their report?

- a) The auditors were able to obtain sufficient appropriate audit evidence in respect of all captions of financial statements other than inventories. The auditors may qualify their opinion in the auditor's report considering only one caption of the financial statements could be misstated.
- b) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should issue adverse opinion.
- c) Total assets amount to Rs. 500 million, out of which, Rs. 400 million pertaining to inventories comprises of 80% of total assets. This signifies that the auditors are not able to obtain sufficient appropriate audit evidence on 80% of the assets. Hence, possible misstatement, if any, could be pervasive. Therefore, the auditors should disclaim their opinion.
- d) Inventory is considered to be an important component of the financial statements. This is one of the items wherein significant risk may exist from the audit's perspective. Auditor should take cognizance of this fact and accordingly decide his opinion – qualified/ adverse/ disclaimer.

(Selected) 17. X Ltd is in the business of trading of industrial equipments. The Company's operations are based out of India and Germany. For the purpose of hedge, the company has taken forward contracts. The Company is Phase 1 company as per the requirements of Ind AS and hence forward contracts have been fair valued for the purpose of preparation of financial statements. The Company also got its property, plant and equipment fair valued. The Company has shown its fair valuation reports in respect of above items to the auditors. What should be the responsibility of the auditors in this case?

- a) The auditor may refer to the work of the valuer in his report containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- b) The auditor may refer to the work of the valuer in his report for forward contracts but not for property, plant and equipment, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- c) The auditor may refer to the work of the valuer in his report for property, plant and equipment but not for forward contracts, containing an unmodified opinion and accordingly reduce the his responsibility for the audit opinion.
- d) The auditor may involve his own expert for the purpose of audit of fair valuation of forward contracts and property, plant and equipment. But in any case he cannot reduce his responsibility for the audit opinion by referring to the work of the valuer in his report.

(Selected) 18. PQR Ltd has three subsidiaries, two associates and five joint ventures. The standalone and consolidated financial statements of PQR Limited are audited by M/s Jain & Co LLP (Group auditors) for statutory reporting in India. The standalone financial statements of other group companies of PQR Ltd are audited by some other audit firms (component auditors). For the purpose of consolidation, the instructions sent by M/s Jain & Co LLP to component auditors state that the principal auditors would be working on the principle of division of responsibility.

The instructions further state that the Group auditor may review selected working papers of the component auditors covering identified areas of emphasis, if required.

Considering the local regulatory requirements, the component auditors do not agree to get their working papers reviewed from the Group auditors. Please choose the course of action for the Group auditors in the given case.

- a) As per the Standards of Auditing in India, "When the principal auditor has to base his opinion on the financial information of the entity as a whole relying upon the statements and reports of the other auditors, his report would be stating the division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components audited/reviewed by the component auditors have been included in the financial information of the entity." The Group auditor is not required to audit the financial statements of the components.
- b) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components and hence the Group auditor is required to audit the financial statements of the components.
- c) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor may either audit the financial statements of the components or review the work of the component auditors.
- d) For the purpose of consolidation, the Group auditor would have to issue his opinion on the consolidated financial statements which would comprise the financial statements of the components. Hence the Group auditor would be required to review the work of the component auditors. If the component auditors do not provide access to their working papers to the Group auditors, the Group auditors may qualify his auditors report.

(Selected) 19. M/s ABC & Co LLP has been appointed as the statutory auditors of WEF Ltd. Previous auditor of WEF Ltd was M/s LMN & Co LLP. WEF Ltd is subsidiary of WEF Holding Ltd, UK. For the purpose of consolidation, WEF Ltd is required to send financial information of the company for the year in the Reporting package comprising of balance sheet, statement of profit and loss, statement of cash flow and notes to accounts. Since WEF Holding Ltd has many group companies across the globe, to ensure consistency in reporting of numbers under various heads, a standard reporting package is used by all the group companies. The group companies do not have any provision to change the groupings/ classifications which need to be reported as per the Group accounting manual which is prepared as per the Group's accounting policies. Group follows IFRS.

ABC & Co LLP is also required to audit the reporting package of WEF Ltd as per IFRS. During the course of audit, the auditor observed that some classifications are not in line with IFRS, however, due to the limitation of the reporting package no such corrections can be made. How should the auditor deal with this?

- a) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report.
- b) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything and should issue clean report. However the auditor may also include a note separately in respect of the corrections required.
- c) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor cannot change anything. However, the auditor is

required to issue to report as per IFRS wherein the classifications are wrong and hence the auditor should issue qualified report if the amount is material.

- d) Since all the classifications are in line with the requirements of the Group as per the Reporting package, the auditor need not change anything. However the auditor should issue his report as per the Group accounting manual instead of IFRS.

(Selected) 20. AKB Ltd is a large sized company having diversified business activities. The company's operations are spread across various locations within India and outside India. The company has many units and plants. The no of transactions of the company is large and it uses SAP as its ERP package. The company appointed LLM & Associates as their new tax auditors for the current year. Tax auditors were reviewing the statutory compliances and observed that currently there is no process of the company to check whether TDS has been correctly deducted on all transactions or not. Since the transactions of the company may be running in thousands and covers various provisions of TDS, the management believes that such a process cannot be established. Also in the past this exercise was never done and no case of any short/non-deduction of TDS has been reported in Form 3CD in the past. How should the tax auditor deal with this matter in his report?

- a) Management is right and hence it should be ignored by the tax auditor.
 b) Tax auditor should test check and basis that he should close this point.
 c) Management should provide a reconciliation to the auditor reconciling the accruals/ expenses with TDS deducted during the year to ensure TDS is deducted appropriately. If the same is not available, tax auditor should qualify his report.
 d) Management should set up a process as per the requirement of the tax auditor. For the current year, tax auditor should obtain management representation on this matter and should close this accordingly.

Solution

1	(a)	2	(b)	3	(b)	4	(d)	5	(d)
6	(b)	7	(a)	8	(b)	9	(c)	10	(a)
11	(b)	12	(c)	13	(b)	14	(c)	15	(b)
16	(c)	17	(d)	18	(a)	19	(c)	20	(c)

Advanced Auditing & Professional Ethics (New Course)

- (Selected) 1. This year you were included in the audit team with portfolio of few not-for- profits organisations. MJ Hospital was one such non-for-profit organisation with the year end 31 March 2018. MJ Hospital was government funded organisation and was obliged to deliver value for money. As a result, you were aware that many of the internal controls in MJ Hospital will be focused on providing the best service possible at the lowest price. Which of the following controls may not be implemented by MJ Hospital?
- Time card clocking in to ensure that the employees including resident doctors are only paid for those hours worked
 - Strict controls over the authorisation of overtime to ensure it is only worked where really needed
 - There are any restrictions imposed by the objectives and powers given by hospital's governing documents
 - A recognised plan of the organisation's structure clearly showing the areas of responsibility and lines of authority and reporting.
- (Selected) 2. The management of ABC Recruitment Ltd has approached RK & Associates to conduct the audit for the year ended 31 March 2018. Being a recruitment company, it has vital personal information of prospective candidates who are looking for job opportunities through this company. Also, ABC keeps information about the various job offers from different companies. You are currently looking at the controls present to protect the company's vital information. Which of the following is the best program for the protection of a company's vital information resources from computer viruses?
- You verify the policy document which has stringent corporate hiring policies for staff working with computerized functions.
 - You observe that there is an existence of a software program for virus prevention.
 - You also verify that there are prudent management policies and procedures instituted in conjunction with technological safeguards.
 - You identify that there are physical protection devices in use for hardware, software, and library facilities.
- (Selected) 3. As the external auditor of Olive Co, you have performed analytical procedures which have highlighted a 36% increase in purchases compared to the previous period. Olive Co manufactures tools required for heavy machinery and the year under audit is 31 March 2018. Which further audit procedures would you perform in response to this?
- (1) For a sample of purchase invoices around the period end, inspect the dates and compare with the dates of goods received notes and the dates recorded in the purchases and payables to confirm the application of correct cut-off.
 - (2) Trace a sample of shipping documentation to purchases invoices and into the purchases and payables ledger.
 - (3) For a sample of purchase transactions recorded in the ledger, vouch the purchase invoice back to supplier orders and shipping documentation.
 - (4) For a sample of purchase invoices, examine for proper classification into purchase accounts.
- Procedure (1) and (2)
 - Procedure (1) and (3)
 - Procedure (2) and (4)
 - Procedure (3) and (4)

- (Selected) 4. You are the middle of the audit of one of your client Amy & Co for the year ended 31 March 2018. Following is the bank reconciliation statement for the month end 31 March 2018.

	Rs.	Rs.
Balance per bank statement 31 March 2018		
1,35,111.00		
Add: deposits outstanding		
30 March (ref 112)	1,10,222.00	
31 March (ref 113)	25,000.00	<u>1,35,222.00</u>
		2,70,333.00
Less: outstanding cheques		
240	20,250.00	
272	12,300.40	
274	25,000.00	
276	21,345.25	
280	19,000.00	
281	22,200.00	
		<u>1,20,095.65</u>
Balance per bank in the general ledger 31 March 2018		<u>1,50,237.35</u>

Which of the following procedures would not be followed to verify the bank reconciliation statement?

- Verify by checking paying-in slips that the uncleared bankings (deposits outstanding – ref (112 and 113) were paid in prior to the year end, and review whether they cleared quickly after the year end. Any that have not cleared soon after the year end should be investigated.
- Verify that the year-end balance per the general ledger according to the reconciliation (Rs.1,50,237.35) agrees with the general ledger account balance at 31 March 2018 and that this has been properly reflected in the financial statements.
- Scrutinise the cash book and bank statements before and after the period end for exceptional entries or transfers which have a material effect on the balance shown to be in hand.
- Agree the balance per bank statement at 31 March 2018 as shown on the reconciliation (Rs.1,35,111.00) to the bank statement and to the amount for that account shown on the bank letter.

- (Selected) 5. You are an audit senior at Ghaisas & Co and are currently performing the final audit of Bingham Co. for the year ended 31 March 2018. The company is a manufacturer and retailer of table lamps. The current audit senior is ill, and you have been asked to complete the audit of payroll in their absence. On arrival at the head office of Bingham Co, you determine the following data from a review of the current year and prior year audit files:

- As at 31 March 2017, the company had 350 employees
- On 1 April 2017, 10% of staff were made redundant, effective immediately, due to discontinuation of a product line
- On 1 June 2017, all remaining staff received a 5% pay rise

- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.8,000 being paid to each employee on 31 March 2018.

The following audit evidence has been gathered relating to the accuracy of wages and salaries for Bingham Co.

- (1) Proof in total calculation performed by an audit team member
- (2) Written representation from the directors of Bingham Co confirming the accuracy of wages and salaries
- (3) Verbal confirmation from the finance director of Bingham Co confirming the accuracy of wages and salaries
- (4) Recalculation of the gross and net pay for a sample of employees by an internal audit team member of Bingham Co.

What is the order of reliability of the audit evidence starting with the MOST RELIABLE first?

- a. Audit evidence - 1, 2, 3, 4
- b. Audit evidence - 1, 4, 2, 3
- c. Audit evidence - 4, 1, 2, 3
- d. Audit evidence - 4, 1, 3, 2

- (Selected) 6. Your firm has been appointed as the auditors of Stuart Limited, a well-established consumer goods manufacturing company. During the audit you were provided with various oral representation during meetings and discussions. While finalizing the audit you requested the management to provide such representations in writing. The management has however informed you that they are not accustomed to providing any representations to the external auditor in writing. The management is of the view that it has provided full access to whatever records, documents and evidences were available with it without any exception and that now it is the auditor's responsibility to correlate the same with the oral representations.

What would be your response to the above?

- a. Agree with management since you have been provided full access to whatever records, documents and evidences were available with management without any exception
- b. Document that management gave oral representation in audit working paper and issue unmodified opinion.
- c. After corroborating the audit evidences, consider this as a scope limitation and then consider to express a qualified opinion or disclaimer of opinion or re-assess the continuation of engagement with the audit client if integrity of the management is in question.
- d. Give unmodified opinion and include the observation in "other matter" paragraph, stating that the written representations of the concerned matters could not be obtained.

- (Selected) 7. The year-end audit of your client Alpha Co began shortly after the reporting period 31 March 2018. Alpha Co deals in manufacture and retailer of stationery items. Last year, you had worked on the non-current assets. This year you requested your manager to give you the work on revenue. You have been given a list of procedures to carry out on revenue and you have decided to prioritise those which deal with the key assertion of occurrence. The revenue for the current year has increased by 10% from the previous year. Which of the following substantive procedures provide evidence over the OCCURRENCE assertion for revenue?

- (1) Compare the reported revenue figure to the budget and to the previous year, investigating any significant differences
 - (2) Select a sample of goods despatched notes (GDNs) and agree to invoices in the sales day book
 - (3) Select a sample of invoices from the sales day book and agree to GDNs of Alpha Co
 - (4) Select a sample of invoices and recalculate the invoiced amount agreeing to price list shared by the finance director of Alpha Co.
- a. Procedure 1 and 3
 - b. Procedure 1 and 2
 - c. Procedure 2 and 4
 - d. Procedure 3 and 4

- (Selected) 8. You are an audit senior of Pendse Accountants and are currently conducting the audit of Stalwart Co for the year ended 31 March 2018. Below is an extract from the list of supplier statements as at 31 March 2018 held by the company and corresponding payables ledger balances at the same date along with some commentary on the noted differences:

	Supplier Statement balance	Payables ledger balance
	Rs.	Rs.
AB Co	90,000	70,000
CD Co	1,85,000	1,15,000

AB Co: The difference in the balance is due to an invoice which is under dispute due to faulty goods which were returned on 29 March 2018.

CD Co: The difference in the balance is due to the supplier statement showing an invoice dated 27 March 2018 for Rs.70,000 which was not recorded in the financial statements until after the year end. The payables clerk has advised the audit team that the invoice was not received until 3 April 2018.

The audit manager has asked you to review the full list of trade payables and select balances on which supplier statement reconciliations will be performed. Which of the following statement is correct in respect of including or excluding from your sample?

- a. Exclude with material balances at the year-end.
- b. Exclude suppliers which have a high volume of business with Stalwart Co
- c. Include major suppliers with nil balances at the year-end.
- d. Include suppliers where the statement agrees to the ledger.

- (Selected) 9. The audit work of Amrut & Co is underway for the year ended 31 March 2018. Your audit manager asked you to look at the completeness of trade payables. The supplier statement balance for one of entity's supplier PR Co showed a difference of Rs.62,000 higher than recorded in the payables ledger balance. Which of the following audit procedures should be performed in relation to the balance with PR Co to determine if the payables balance is understated?

- a. Inspect the goods received note to determine when the goods were received
- b. Inspect the purchase order to confirm it is dated before the year end
- c. Review the post year-end cashbook for evidence of payment of the invoice
- d. Send a confirmation request to PR Co to confirm the outstanding balance

- (Selected) 10. One of your team members has taken leave for her final exams due in 15 days. She was working on the accruals balance of Karce & Co which could not be completed before she went on study leave. The audit manager has asked to complete the task on accruals. For the current year ended 31 March 2018, there has been an increase in the accruals by 15% as compared to the previous years. Which of the following procedures should be performed to determine if the accruals are accurate, valued and allocated correctly?
- Test transaction around the year end to determine whether amounts have been recognised in the correct financial period.
 - For a sample of accruals, recalculate the amount of the accrual to ensure the amount accrued is correct.
 - Confirm payment of net pay per payroll records to cheque or bank transfer summary for the accruals on salaries.
 - For a sample of vouchers, compare the dates with the dates they were recorded in the ledger for application of correct cut-off.

- (Selected) 11. The draft financial statements of Tex Co for the year ended 31 March 2018 show the following information:

	Rs.
Revenue	52,00,000
Cost of sales	37,00,000
Gross profit	15,00,000
Trade receivables	18,00,000
Trade payables	10,00,000

The auditor has confirmed the trade payables payment period with the Tex Co staff as 98 days during the current year. This was compared with the payment period with the last year records and found out there has been a decrease of 20 days in average. Which of the following audit procedures will provide the auditor with the assertion of valuation of trade payables at the year end?

- Review the trade accounts payables listing to identify any large debits which should be recorded as trade receivables or deposits
- For a sample of vouchers, inspect supporting documentation, such as authorised purchase orders.
- Test transactions around the year end to determine whether amounts have been recognised in the correct financial period.
- Compare the amounts owed to a sample of individual suppliers in the trade accounts payables listing with amounts owed to these suppliers in the previous year.

- (Selected) 12. The main operations of PT Co are conducting training programs for the newly qualified commerce graduates to make them ready for the jobs available. The company owns a 2-storey building in the centre of the city, where they could attract lot of students for the courses offered. Currently, the trainings are provided in-house. PT has plans to expand and offer online courses as well. You are the audit senior for PT Co for the year ended 31 March 2018 and in charge of audit work on non-current assets. New furniture and white boards have been purchased during the current year. The total non-current assets shown in the financial statements stands at Rs.289.5 lakhs. Which of the following audit procedures are appropriate to test the VALUATION assertion for non-current assets?
- Ensure disposals are properly accounted for and recalculate gain/loss on disposal

- (2) Recalculate the depreciation charge for a sample of assets ensuring that it is being applied consistently and in accordance with Ind AS 16 Property, Plant and Equipment
- (3) Review the repairs and maintenance expense account for evidence of items of a capital nature
- (4) Review board minutes of PT for evidence of disposals during the year and verify that these are appropriately reflected in the non-current assets register
- (5) Agree a sample of additions included in the non-current assets register to purchase invoice and cash book. Mainly the new furniture purchased during the year by PT Co.
- (6) Review physical condition of non-current assets for any sign of damage.

- a. Audit Procedures 1, 2, 5 and 6
- b. Audit Procedures 1, 3, 4 and 6
- c. Audit Procedures 2, 3, 4 and 5
- d. Audit Procedures 3, 4, 5 and 6

- (Selected)** 13. The audit team has obtained the following results from the trade receivables circularization of Oak Co for the year ended 31 March 2018.

Customer	Balance as per sales ledger	Balance as per customer confirmation	Comment
	Rs	Rs	
M Co	2,25,000	2,25,000	
N Co	3,50,000	2,75,000	Invoice raised on 28 March 2018
O Co	6,20,000	4,80,000	Payment made 30 March 2018
P Co	5,35,000	5,35,000	A balance of Rs.45,000 is currently being disputed by P Co.
R Co	1,78,000	No reply	

Which of the following statements in relation to the results of the trade receivables circularisation is TRUE?

- a. No further audit procedures need to be carried out in relation to the outstanding balances with M Co and P Co
- b. The difference in relation to N Co represents a timing difference and should be agreed to a pre-year-end invoice
- c. The difference in relation to O Co represents a timing difference and should be agreed to pre-year-end bank statements
- d. Due to the non-reply, the balance with R Co cannot be verified and a different customer balance should be selected and circularised

- (Selected)** 14. For the current year audit of Beta Co for the year ended 31 March 2018, your manager suggested that we could use computer-assisted audit techniques. He asked you to plan the audit work on trade receivables. The financial statements of Beta Co showed trade receivables of Rs.243 crores in the current year. Which of the following procedures could not be performed by using computer-assisted audit techniques?

- a. Selection of a sample of receivables for confirmation
- b. Calculation of receivables days

- c. Production of receivables' confirmation letters
- d. Evaluation of the adequacy of the allowance for irrecoverable receivables

(Selected) 15. Top Pizzas Co operates a large chain of fast food restaurants. You are an audit supervisor of Shivam & Associates and are currently preparing the audit programmes for the audit of Top Pizza's financial statements for the year ended 31 March 2018. You are reviewing the notes of last week's meeting between the audit manager and finance director where two material issues were discussed. One of the issue was on Property, plant and equipment of the entity.

In the past Top Pizza has received negative press reports over the condition of its fast food restaurants, with comments suggesting they are old fashioned and tired looking. Therefore during the year the company undertook a full review of all its assets and carried out extensive refurbishments to the majority of its restaurants. This review resulted in a significant amount of ageing fixtures and fittings being disposed of and a significant amount of capital expenditure was invested in all remaining restaurants.

Which of the following is not a substantive procedure to be used by the auditor to obtain sufficient and appropriate audit evidence on property, plant and equipment?

- a. Obtain a breakdown of additions, cast the list and agree included in the non-current assets register to confirm completeness of fixtures and fittings.
- b. Select a sample of additions and agree cost to supplier invoice to confirm valuation.
- c. Verify rights and obligations by agreeing the addition of fixtures and fittings to a supplier invoice in the name of Top Pizza.
- d. Review the evidence for recalculation of depreciation charge on the additions and disposals made in the year of acquisition according to the company policy.

(Selected) 16. RK Co is a retailer in stationery items and runs 10 shops in and around South Mumbai. In the audit plan prepared for the current year ended 31 March 2018, you have included statistical sampling method for testing the accounts payable balance. You asked your audit senior to review the results of some statistical sampling testing, which resulted in 20% of the payables balance being tested.

The testing results indicate that there is a Rs. 58,000 error in the sample:

Rs. 30,000 which is due to invoices not being recorded in the correct period as a result of weak controls and additionally there is a one-off error of Rs. 28,000 which was made by a temporary clerk.

What would be an appropriate course of action on the basis of these results?

- a. The error is immaterial and therefore no further work is required
- b. The effect of the control error should be projected across the whole population
- c. RK Co should be asked to adjust the payables figure by Rs. 58,000
- d. A different sample should be selected as these results are not reflective of the population

(Selected) 17. Sula Hotels Co operates a number of hotels providing accommodation, leisure facilities and restaurants. You are an audit supervisor of Pai & Co, conducting the audit of Sula Hotels Co for the year ended 31 March 2018. The following information has been brought to your attention:

Non-current assets: Sula Hotels Co incurred significant capital expenditure during the year updating the leisure facilities at several of the company's hotels. Depreciation is charged on all assets monthly on a straight line basis (SL) and it is company policy to

charge a full month's depreciation in the month of acquisition and none in the month of disposal. The rates are as per Schedule II of the Companies Act, 2013.

The audit team has obtained the following extract of the non-current assets register detailing some of the new leisure equipment acquired during the year.

Extract from Sula Hotels Co's non-current assets register:

Date	Description	Cost	Depreciation policy	Charge for the year	Carrying amount
		Rs		Rs	Rs
01/08/2017	8 treadmills	3,60,000	36 months SL	80,000	2,80,000
15/08/2017	10 exercise bikes	1,50,000	3 years SL	50,000	1,00,000
17/11/2017	10 rowing machines	2,00,000	36 months SL	44,444	1,55,556
19/11/2017	8 cross trainers	1,20,000	36 months SL	16,667	1,03,333
		8,30,000		1,91,111	6,38,889

In order to verify the depreciation charge for the year, the audit team has been asked to recalculate a sample of the depreciation charges. The audit team has also been asked to carry out detailed testing on the valuation of non-current assets.

Which of the following correctly calculates the depreciation charge for the new assets for the year ended 31 March 2018 and the resultant impact on non-current assets?

- Depreciation should be Rs.1,57,777, assets are understated
- Depreciation should be Rs. 2,76,667 assets are understated
- Depreciation should be Rs.1,34,722 assets are overstated
- Depreciation should be Rs.1,74,444, assets are overstated

(Selected) 18. You are an audit manager with Shah & Associates and are currently performing the final audit of Kapoor Industries for the year ended 31 March 2018. The company is a manufacturer and retailer of shoes and boots. The audit senior has provided you with the following information from the review of the current year and prior year audit files, to complete the audit of payroll

- As at 31 March 2018, Kapoor Industries had 450 full time employees and 50 part time employees.
- One of the product lines was discontinued during the year, and on 1 May 2017, 10% of full-time staff and all the part time employees were made redundant. This was from immediate effect.
- 10% of the employees were promoted and they received a 8% rise in their salaries.
- Over the course of the year, sales levels met performance targets which resulted in a fixed bonus of Rs.15,000 being paid to each employee on 31 March 2018.

Which of the following are substantive ANALYTICAL PROCEDURES to be performed to complete the audit work for wages and salaries of Kapoor Industries?

- (1) Trace and agree the total wages and salaries expense per the payroll system to the draft financial statements of Kapoor Industries.
 - (2) Recalculate the gross and net pay for a sample of full time and part time employees, agree to payroll records and investigate any discrepancies.
 - (3) Compare the current year total payroll expense to the prior year and investigate any significant differences
 - (4) Perform a proof in total calculation and compare expected expense to actual expense within the draft financial statements
- a. Analytical procedure 1 and 2
 - b. Analytical procedure 1 and 3
 - c. Analytical procedure 2 and 4
 - d. Analytical procedure 3 and 4

(Selected) 19. You are the audit manager responsible for the audit of AB & Co. AB specializes in the manufacture of electricals goods for domestic use, such as irons, kettles, toasters, vacuum cleaners, coffee makers. The external audit of AB for the year ended 31 March 2018 is at the review and finalisation stage. The draft financial statements show a profit after tax of Rs.52.5 crores and a total assets of Rs. 190 crores. The following issue has been noted by the audit senior. The company has set up a provision for warranty costs of Rs.3.45 crores in the financial year. These costs are not deductible for tax purposes until AB pays the claims. The company has not made any adjustments for the provision in the financial statements. The tax rate is 20%.

Which of the audit evidence would not be appropriate to be added in the audit working papers relating to the above provision?

- a. Copy of the assumptions and calculations from the management of AB to arrive at the figure of Rs.3.45 crores.
- b. The provision amount seems to be material since, 6.6% of the profit after tax. Auditor need to consider qualifying the audit report.
- c. Calculation of the deferred tax asset as per Ind AS 12 Income Tax, since there is a deductible temporary difference arising on the provision.
- d. Written representation point from the management of AB confirming the amount of provision in respect of warranties.

(Selected) 20. Your audit firm has been appointed as auditors of Red White Limited a manufacturing entity. The year under audit is 31 March 2018. While verifying account heads with high risk areas like revenue and inventory, you identify certain issues for which you are not provided satisfactory replies and documents by the client. At the same time Red White Limited approaches you to change the scope of the engagement. They give you the reason that they have misunderstood the scope of assignment earlier. What course of action would you adopt in this situation?

- a. Accept the revised terms of engagement, as the change is resultant of change in circumstance which affect entity's requirements or misunderstanding concerning nature of service originally requested and consider aforesaid as reasonable basis for requesting change in the engagement.
- b. Accept the revised terms of engagement and record justification of the change in the engagement letter.

- c. Disagree to the revised terms and withdraw from the engagement where possible under applicable law and regulations and determine whether there is any obligation, either contractual or otherwise, to report the circumstance to other parties such as those charged with governance, owners or regulators.
- d. Disagree to the revised terms of the engagement and have your terms of increased fees since the scope of the engagement has changed.

Answers for MCQs for Examiners for the Audit

1.	c.	6.	c.	11.	d.	16.	b.
2.	c.	7.	a.	12.	a.	17.	a.
3.	b.	8.	c.	13.	b.	18.	d.
4.	c.	9.	a.	14.	d.	19.	b.
5.	b.	10.	b.	15.	d.	20.	c.

PART – II : QUESTIONS AND ANSWERS**QUESTIONS****PART A: MULTIPLE QUESTIONS**

1. AJ & Co LLP is a firm of Chartered Accountants. The firm has 10 Partners. The firm has a good portfolio of clients for statutory audits but the same clients had some other firms as their tax auditors. In the current year (FY 2018-19), many existing clients for whom AJ & Co LLP happens to be the statutory auditor have requested the firm to carry out their tax audits as well. The firm is expecting the no of tax audits to increase significantly this year. One of the partners of the firm has also raised a point that the firm can accept tax audits upto a maximum limit. However, other partners are of the strong view that limits on audits is applicable in case of statutory audits and not for tax audits. This needs to be decided as soon as possible so that the appointment formalities can also be completed.

You are requested to advise the firm in this matter.

- a. There is no limit on no of tax audits in case of LLP.
- b. All the partners of the firm can collectively sign 450 tax audit reports.

(Selected)

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- c. All the partners of the firm can collectively sign 600 tax audit reports.
- d. All the partners of the firm can collectively sign 450 tax audit reports. However, one partner can individually sign maximum 60 tax audit reports.

(Selected)

2. Ram & Shyam Co LLP is an old firm of Chartered Accountants with Ram and Shyam as the audit partners. The firm has various statutory audit and internal audit engagements which are looked after by Ram and Shyam respectively. In the previous year ended 31 March 2018, one of the audit engagements of the firm was picked up for peer review and peer reviewer raised various observations regarding the audit documentation. Some of the information regarding audits were missing from the audit files as per the observation of the peer reviewer.

Ram & Shyam are in the process of establishing a robust mechanism for audit documentation so that the same is available for a long duration and would lead to audit efficiencies also in the future years. Ram and Shyam would like to understand the period for which audit documentation should be maintained by them as per the Standard on Auditing 230. Please advise.

- a. 10 years.
- b. 9 years.
- c. 8 years.
- d. 7 years.

(Selected)

3. KJA Ltd is in the business of manufacturing of tiles and sanitaryware. The company has a large inventory every year. Annual turnover of the company is INR 3000 crores. The company has 7 plants across India. The management of the company carries out physical verification of inventory every year at the time of reporting date. During the year ended 31 March 2018, it was found by the management that the inventory sheets of 31 March 2017 did not include five pages containing details of inventory worth INR 24.5 crores. Management has included this inventory in the valuation of inventory as of 31 March 2018. Management has also explained that considering the size of the company this may happen at times as the inventory is huge and lying at various locations. Moreover, the amount of the inventory is insignificant if considered as a percentage of revenue or inventory. State how you will deal with this matter as an auditor in the accounts of the company (towards substantive audit procedures and excluding the impact on auditor's assessment under Internal Financial Control Framework) for the year ended 31 March 2018.
- a. Since the matter is not relevant/ material to current period figures, no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
 - b. Management should restate the financials to adjust the error. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.

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- c. Considering the matter is not relevant/ material to current period figures, the management may include a note in the financial statements and basis that no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
- d. Include an emphasis of matter because of the effects or possible effects of the error in the auditors report for the year ended 31 March 2018.

(Selected)

4. IRC Ltd is in the business of construction and infrastructure. The company is listed in India having an annual turnover of INR 2500 crores. The company has various projects offices/ operations in India and outside India. The functional currency of the company and its project offices is INR. The company has five joint ventures and various jointly controlled operations. The company has been audited by Luthra & Associates, a firm of Chartered Accountants, since beginning. During the year ended 31 March 2018, new auditors were appointed as the statutory auditors of the company for the audit of the financial statements for the year ended 31 March 2018. New statutory auditors have raised various points related to the consolidation procedures followed by the company. Management did not agree to the observations of the auditors as they have been following this since many years now and there was no observation of previous auditors in respect of the same. Auditors have highlighted a point that joint ventures have been consolidated by the company in its standalone financial statements. However, management has an argument that those are in the nature of its operations and hence to reflect the true and fair view it would be appropriate to consolidate the same in the standalone financial statements.

Please advise as auditors how would you deal with this matter.

- a. Since the matter is related to consolidation which is more relevant for consolidated financial statements, hence no reporting in respect of this matter would be required in the auditors report for the year ended 31 March 2018.
- b. Auditor should look at the materiality and conservatism principle. Company has included extra information in the financials which can be considered by the auditors and basis that clean audit report should be given.
- c. Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
- d. As per the requirements of accounting standard, joint venture if consolidated in standalone financial statements should not be consolidated again in the consolidated financial statements. Basis that this point should be dropped by the auditor.

(Selected)

5. WCO Private Ltd is a joint venture of WCO GmbH and MSON Ltd. WCO GmbH is a company based out of Germany and is also listed in Germany. WCO GmbH prepares its financial statements as per IFRS. MSON Ltd is a company based out of India and is also listed in India. MSON Ltd prepares its financial statements as per Ind AS. For the purpose of reporting of financial information to WCO GmbH and MSON Ltd for consolidation

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purposes, WCO Private Ltd uses reporting package (which comprises of balance sheet, profit and loss and other notes to accounts). WCO Private Ltd prepares its financial statements as per Ind AS.

WCO Private Ltd has taken useful life of some fixed assets in its Ind AS financial statements based on their useful lives which is different from the useful lives of similar nature fixed assets taken by WCO GmbH (in line with their accounting policies). The reporting package of WCO Private Ltd is audited before reporting to WCO GmbH. The auditor audits the reporting package which is prepared in line with the Group accounting policies of WCO GmbH and mentions in his report that the reporting package has been prepared as per the Group accounting policies of WCO GmbH.

WCO Private Ltd makes an adjustment for changes in useful lives in the reporting package on the basis of Group accounting policies of WCO GmbH. The auditor has asked the management to take same useful lives of fixed assets in the reporting package which have also been taken by them in its Ind AS financial statements. Management has not agreed with the view of the auditor. Please suggest the right course of action.

- a. Position taken by the management is correct.
- b. Position suggested by the auditor is correct and if the management does not agree then auditor may have to modify his report on the basis of materiality.
- c. The matter relates to an estimate (i.e. useful life) which may be subject to changes under different GAAPs and hence auditor should ignore this point.
- d. The report would be for special purpose which should always be a clean report.

(Selected)

6. DCHI Ltd is in the business of optics and imaging products. It is a wholly owned subsidiary of Japanese company, DCHJ Ltd. DCHI Ltd has many expatriates (Expats) working in the company whose tenure range from 2 to 5 years. During the course of audit of financial statements of the company, the statutory auditors observed that the company has not been deducting and depositing the TDS (tax deducted at source) on salaries of expats. The auditors assessed that the impact of this can be significant as the company has many expats and salary amount is significant. Management explained that TDS on salary of expats would lead to unnecessary hassles to the expats and they serve the company only for a short period. How should the auditors of DCHI Ltd deal with this matter?
 - a. Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should report the same in CARO.
 - b. Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO.
 - c. The auditor should agree to the management's view as the expats are temporary workers and this may not be convenient for the management.

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- d. Since the matter relates to statutory liability only, the reporting requirements do not arise till the time this becomes disputed.

(Selected)

7. You have only eight working hours for raw material inventory verification. Based on your observation during these eight hours, you have to form an opinion with respect to the correctness of inventory value calculated by the management. The company uses ERP system for updating and recording raw material inventory. The ERP system of the company has passed all the ITGC checks and inventory rates are calculated by ERP on moving average price (MAP) basis. The company has done ABC analysis of all raw material inventory items and has vast number of items in each category. You will form your opinion based on

- Based on ABC analysis, check physical inventory of all "A" class items during allotted time and matching it with ERP stock.
- Understand the process of recording of inventory in ERP to ascertain potential weaknesses and checking physical inventory of mostly "A" class items, some "B" class items and some "C" class items.
- Check physical inventory of "A" class items as much as possible along with certain "B" class items and certain "C" class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
- Check physical stock of only those items, which have standard packaging so that verification is faster considering the eight hour time limit.

(Selected)

8. ABC Pvt Ltd had turnover of ₹ 39 crores as at 31 March 2018. The Company had taken a loan of ₹ 39 crores from various banks and financial institutions during the year ended 31 March 2018. These loans were paid by the Company before 31 March 2018. The Company is of the view that the auditors' reporting on adequacy and operating effectiveness of internal financial controls (IFC) under Section 143(3)(i) of the Companies Act, 2013 would not be required. The auditors of the Company have a different view. What should be correct option?

- The turnover of ABC Pvt Ltd is below required threshold and hence IFC will not be applicable.
- The turnover of ABC Pvt Ltd is below required threshold and loan amount was fully paid before year end i.e. 31 March 2018. Hence IFC will not be applicable.
- The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.
- In the given case because of the repayment of the loan before year end i.e. 31 March 2018, applicability of IFC becomes optional.

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9. Which of the following is an example of Direct Entity level control
- a. Ethics policy
 - b. Human resource policy
 - c. Business performance reviews
 - d. Job roles & responsibilities of employees

(Selected)

10. The Advances Bank Ltd. has sanctioned overdraft limit of Rs. 44 crore to ASG Ltd. on the working capital of the company as on 31st March 2015. As per bank norms the drawing power in the overdraft account need to be reviewed on quarterly basis as per the audited stock statement of the company. As a central statutory auditor for the year 2016-17, while verifying the advances for the year ending 31st March 2017, you noticed that the bank has not obtained the stock statement of ASG Ltd. for the two quarters ending 31st December 2016 and 31st March 2017 and no provision of NPA has been made for this account in the financial statements for the year 2016-17. What will be your decision as a central statutory auditor?
- a. Classify the borrower's account as NPA as the borrower's financial position cannot be determined due to non-submission of stock statement.
 - b. Instruct the bank to obtain the audited stock statement for both the quarters and review the credit limit accordingly.
 - c. As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular.
 - d. You should give a qualificatory note in the audit report as per SA700.

PART A : ANSWERS TO MULTIPLE QUESTIONS

1	c	All the partners of the firm can collectively sign 600 tax audit reports.
2	d	7 years.

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3	b	Management should restate the financials to adjust the error. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
4	c	Management should restate the financials to adjust the error related to consolidation of joint ventures in standalone financial statements. Otherwise auditor may modify his opinion on current year's financial statements considering the materiality.
5	a	Position taken by the management is correct.
6	b	Considering this as a statutory non-compliance, the auditor should look at the significance of the matter and accordingly should consider reporting this in the main report along with CARO.
7	c	Check physical inventory of "A" class items as much as possible along with certain "B" class items and certain "C" class items on sample basis in value wise descending order, compare the physical stock with ERP system, and tabulate the result. The exercise should be continued till the end of allotted eight hours.
8	c	The turnover of ABC Pvt Ltd is below required threshold but loan amount was above required threshold. Irrespective of the fact that loan was outstanding as at 31 March 2018 or not, IFC would be applicable.
9	c	Business performance reviews
10	c	As per bank norms the drawing power need to be determined on the basis of stock statement and it was more than three months old as on 31st March 2017, so the outstanding in the account will be deemed as irregular.

Level 2: INTERNAL AUDIT

(Selected) Q1. Your firm is the internal auditor of XYZ Ltd. In the Financial year 2018-19, you are a part of the audit team for carrying out the internal audit of the purchase department for the quarter ending 30.06.2018. You have started the internal audit of the said department and while scrutinizing purchase orders you came across some cases where material was ordered and received as per the requirement of the user department according to the delivery by date mentioned in P.O, however the same was consumed by the indenting department after a long time gap ranging even more than 500 days. More than 150 cases were observed by you where time gap between 'Required By Date' and 'consumption date' was more than 100 days. The department has explained to you that most of the indents are raised with notional 'Required by Date'. Whether the said observation is required to be reported in the internal audit report? If yes, how will you report the same?

- a) Yes, the cases of time gap between 'Required By Date' and 'consumption date' should be reported in the internal audit report as this shows that material was not actually required by User department for such a long time, still delivery was asked earlier. Such approach of user department may result in unnecessary blockage of company's funds.
- b) No, the cases of time gap between 'Required By Date' and 'consumption date' should not be reported in the internal audit report as consumption of material depends upon many factors such as breakdown maintenance, planned shutdowns etc.
- c) No, the cases of time gap between 'Required By Date' and 'consumption date' should not be reported in the internal audit report as most of the indents are raised with notional 'Required by Date' due to which the time gap between 'Required By Date' and 'consumption date' becomes obvious.
- d) Both (b) and (c).

Response:

The correct option is (a)

Justification for answer:

Due to the mentioning of notional "required by date" by the user department, there is a huge time gap between the "required by date" and "consumption date". As the time gap is material and it results in blockage of company's funds for a long period of time that has ranged upto 500 days, the observation is required to be reported in the internal audit report so that it comes to the notice of the management and results in efficient fund management. Hence, option (a) is correct.

(Selected) Q2. You are conducting an internal audit of the Finance and Accounts Department of PQR Ltd. While carrying out the audit procedure, you have been instructed by your senior to obtain evidence regarding proper segregation of duties for receiving and depositing cash in the bank account by the available personnel. Evidence concerning the proper segregation of duties for receiving and depositing cash in the bank account ordinarily is obtained by:

- a) Completing an internal control questionnaire that describes the control activities.
- b) Observing the employees who are performing the control activities.

- c) Performing substantive tests to verify the details of the bank balance.
- d) Preparing a flow chart of the duties performed and the entity's available personnel.

Response:

The correct option is (b)

Justification for answer:

Option (b) is correct. Evidence concerning proper segregation of duties is generally obtained through inspection and observation.

Option (a) is incorrect. Completing an internal control questionnaire might aid the auditor in understanding how controls are supposed to work, but it does not provide evidence with respect to whether controls are actually functioning as designed.

Option (c) is incorrect. Performing substantive tests to verify details about a bank balance provide evidence as to whether the balance is fairly stated, not whether controls surrounding the account are operating effectively.

Option (d) is incorrect. Preparing a flow chart of the duties performed and the entity's available personnel might aid the auditor in understanding how controls are supposed to work, but it does not provide evidence with respect to whether controls are actually functioning as designed.

(Selected) Q3. For the quarter ending 30.06.2018, you are a part of the audit team which has been assigned the internal audit of Fixed Assets. You have been informed by one of the employees that in the month of May, 2018, there was a theft of an asset. Now, while examining the Journal entries and Ledger accounts in relation to fixed assets, you came across various kinds of fraudulent entries. Which of the following fraudulent entries is most likely to be made to conceal the theft of an asset?

- a) Debit the asset, and credit another asset account.
- b) Debit revenue, and credit the asset.
- c) Debit another asset account, and credit the asset.
- d) Debit expenses, and credit the asset.

Response:

The correct option is (d)

Justification for answer:

Option (a) is incorrect. Debiting the stolen asset account would be going in the wrong direction to conceal an asset theft.

Option (b) is incorrect. An entry decreasing revenue would be unusual and would stand out.

Option (c) is incorrect. This entry would not permanently conceal the fraud. It would simply shift the irreconcilable balance to another asset account.

Option (d) is correct. Most fraud perpetrators would attempt to conceal their theft by charging it against an expense account.

(Selected) Q4. Which of the following statements are true regarding audit workpaper documentation for a fraud investigation?

1. All incriminating evidence should be included in the workpapers.
2. All important testimonial evidence should be reviewed to ensure that it provides sufficient basis for the conclusions reached.
3. If interviews are held with a suspected perpetrator, written transcripts or statements should be included in the workpapers.

- a) 1 and 2 only
- b) 1 and 3 only.
- c) 2 and 3 only.
- d) 1, 2, and 3.

Response:

The correct option is (d)

Justification for answer:

All workpapers should contain pertinent information to support observations and recommendations. Hence, option (d) is correct.

(Selected) Q5. ABC Ltd. is engaged in the business of manufacture of traditional indian clothing/apparel. The management of ABC Ltd. is planning to enter in the market of manufacturing western apparel due to high demand from the consumers. X is the internal auditor of ABC Ltd. When X was conducting the internal audit of various departments, the management discussed its plan of introducing western apparel under the brand name of the company from the coming financial year. The management is concerned about the costs that are required to be considered and has enquired X to suggest them regarding which of the following costs should be considered while introducing the said new product in the market:

1. Costs of retraining employees.
2. Costs of acquiring new ancillary equipment.
3. Write-offs due to undepreciated investment in old technology.
4. Capital requirements for changeover.

- a) 1 and 3 only.
- b) 1, 2, and 4 only.
- c) 1, 2, 3, and 4.
- d) 2, 3, and 4 only.

Response:

The correct option is (c)

Justification for answer:

Costs that management should consider would include costs of retraining employees; costs of acquiring new ancillary equipment; write-offs of undepreciated investments in the old technology; capital requirements and research and development costs of the changeover; and costs of modifying interrelated stages of production or related aspects of the business. Hence, option (c) is correct.

(Selected) Q6. While carrying out internal audit of Finance and Accounts Department, you have been told by your senior to examine and assure that each voucher is submitted to the Accounts department and is paid only once. While examining the same, you would most likely examine a sample of paid vouchers and determine whether each voucher is:

- a) Returned to the vouchers payable department.
- b) Stamped "paid" by the check signer.
- c) Supported by a vendor's invoice and purchase order.
- d) Pre-numbered and accounted for.

Response:

The correct option is (b)

Justification for answer:

Option (a) is incorrect. Paid vouchers should be returned to the accounting department for posting of the payment and filing of the documents, but this does not prevent the voucher from inadvertently being paid twice before it is returned to accounting.

Option (b) is correct. To provide assurance that each voucher is submitted and paid only once, an auditor should verify that each voucher was stamped "paid" by the check signer.

Option (c) is incorrect. Vouchers should be supported by a vendor's invoice and purchase order, but this does not prevent the same voucher from inadvertently being paid twice.

Option (d) is incorrect. Vouchers should be pre-numbered and accounted for, but this does not prevent the same voucher from inadvertently being paid twice.

(Selected) Q7. The internal auditor has noted down its observations and findings pertaining to the audit and shared with the management of the Auditee. The management has responded to all requests for corrective action in a timely manner. Which of the following is the next step for the auditor?

- a) Close all those findings in which the response is accompanied by adequate objective evidence.
- b) Evaluate the adequacy of the responses.

- c) Schedule a follow-up audit to verify corrective action.
- d) Schedule a follow-up audit for critical items and schedule verification for other routine items at the next scheduled audit.

Response:

The correct option is (b)

Justification for answer:

Option (b) is correct as immediately after receiving the response from management to all requests for corrective actions, the first and foremost step to be followed by the auditor is to evaluate the acceptability of proposed corrective actions and schedule for completion. Further, if certain plans are unacceptable to the management, then the auditor should identify and apply strategies for negotiating changes to unacceptable plans.

(Selected) Q8. During an internal audit, the client learns that the auditor has recently completed an internal audit of a major competitor. The client then questions the auditor about the competitor's audit results. The best action for the auditor to take is to:

- a) discuss the results of the audit with the client, only if the competitor agrees
- b) go offline with the client, explain that the question is unethical, and that if the client persists, additional action by the auditor will be taken
- c) explain to the client that it would be inappropriate and unethical to discuss the results of that audit
- d) obtain permission from the competitor to use the results of the audit as examples for future clients, provided that the examples are not specific to business affairs or technical processes

Response:

The correct option is (c)

Justification for answer:

As disclosing the results of audit of the competitor is not as per Code of Ethics and may give rise to Conflicts of Interest, the auditor should explain the client that it would not be appropriate and ethical to discuss the results of the competitor's audit, hence, option (c) is correct.

(Selected) Q9. During an internal audit of a client, you have observed that there are a high number of production delays caused by equipment breakdown and repair. In the internal audit report, you have to suggest the client the best strategy for limiting the said production delays. Which of the following is the best strategy for limiting production delays caused by equipment breakdown and repair?

- a) Establish a preventive maintenance program for all production equipment.
- b) Schedule production based on capacity planning.
- c) Plan maintenance activity based on an analysis of equipment repair work orders.
- d) Preauthorize equipment maintenance and overtime pay.

Response:

The correct option is (a)

Justification for answer:

Option (a) is correct. A preventive maintenance program will reduce equipment breakdowns and repairs.

Option (b) is incorrect. Scheduling production based on capacity utilization ignores other important factors such as demands.

Option (c) is incorrect. Budgeting maintenance department activities based on previous work orders will not prevent equipment breakdowns and repairs.

Option (d) is incorrect. Standing authorizations of work orders and overtime will not address the problem posed.

(Selected) Q10. You have been appointed as an internal Auditor of A Ltd. While going through the financial statements of A Ltd. during the course of carrying out the internal audit, you noticed that the company has various pending litigation. Which of the following procedures would you most likely perform regarding litigation?

- (i) Confirm directly with the clerk of the court that the client's litigation is properly disclosed.
- (ii) Inspect the legal documents in the client's lawyer's possession regarding pending litigation.
- (iii) Discuss with management its policies and procedures for identifying and evaluating litigation.
- (iv) Confirm the details of pending litigation with the client's legal department.
- e) (i) & (ii)
- f) (ii), (iii) & (iv)
- g) (iii) & (iv)
- h) (i) & (iv)

Response:

The correct option is (c)

Justification for answer:

As it is out of the scope of activities to be carried out by an internal auditor during an internal audit to contact the clerk of the court and inspect the legal documents in the client's lawyer's possession, option (c) is correct.

(Selected) 1. EPP Ltd is listed on New Delhi Stock Exchange. It also has a holding company in US, EPP Inc, which is also listed on New York Stock Exchange. EPP Inc has a very stringent policy in respect of fraud prevention for which they have detailed FCPA (Foreign Currency Practices Act) policy to be followed across the Group. To check No Insider Trading, for EPP Ltd, what could be the relevant documents for an internal auditor?

- (a) FCPA manual.
- (b) Retainership contracts.
- (c) Contracts between EPP Inc and EPP Ltd.
- (d) Employee code of conduct.

(Selected) 2. ONZ Ltd is a small sized company and is in the business of retail. Company has a plan for expansion and is looking towards acquisitions for the same. Once the same is achieved, the company may also plan to get listed within/ outside India which has not been finalized as of now. Management will have a strategic discussion in respect of this matters after 4-5 years. Currently the process of internal audit is in-house and there is a separate internal audit department which takes care of this process.

During the performance of the audit procedure, the internal audit team noticed that the working-sheets (detail sheets) supporting the payment of ex-gratia were not signed and verified by any of the authorized persons. Management explained that the ex-gratia payments have got reduced to a very nominal amount and soon it will be discontinued. Please advise the internal auditors.

- (a) Internal auditor should ignore this considering this is immaterial.
- (b) Internal auditor should ignore this considering the fact that such transactions are going to be discontinued in future.
- (c) Internal auditor should report this matter in his final report.
- (d) Internal auditor has a choice either to report or to ignore considering the matter in the given situation.

(Selected) 3. CPA Ltd is an MNC with great focus on the internal controls. The parent company has its base in Germany. The Group also has an in-house internal audit team which audits the specific areas of the Group companies. Along with this, another firm of internal auditors has also been appointed by CPA Ltd to focus on all the areas. Internal auditors observed few points related to payroll which were also discussed with the management which included non-issuance of appointment letters to few employees and no mechanism to capture in-time and out-time of these employees. Management explained that company also has employees some management trainees for 2-3 months to whom appointment letters are not issued, instead a communication is given over the call. Also because these interns are not paid only a small amount as stipend, their in-time and out-time is not recorded.

Please suggest as to how the internal auditor should deal with this matter?

- (a). Considering the matter being insignificant as this related to appointment of few interns to whom a small amount is paid as stipend, it should be ignored by the internal auditor.
- (b). Internal auditor should report the matter related to non-issuance of appointment letter, however, time capturing may be ignored.
- (c). Internal auditor should ignore the matter related to non-issuance of appointment letter, however, time capturing should be reported.
- (d). Internal auditor should report this matter.

(Selected) 4. BFD Ltd has been newly acquired by a large group based out in UK. The Company was earlier operating in the premises on old Group management on a sharing basis. Post acquisition the company was required to move to a new location and there was a transition time of 3 months to move all the records of the company to the new location. A new internal audit firm was also appointed for BFD Ltd which was required to start its work after the transition period of 3 months and was required to issue report on a quarterly basis to the new management. This being a new acquisition, the parent company was also quite focused on the internal controls of BFD Ltd.

After the first assigned reporting cycle, the internal auditor could not complete majority of his work. As per the internal auditor the reason for the same was non-availability of required information. Management of BFD Ltd explained that the transition process has been taking long due to which most of the information was not available.

How should this matter be dealt by the internal auditors?

- (a) Internal auditors should discuss the revised time plan with the management and basis that approach him work.
- (b) Internal auditors should complete the work on the basis of information available. Any left over item should be planned for next cycle.
- (c) Internal auditors should issue the report on the basis of information reviewed.
- (d) Internal auditors should try to speak to the management so that the access to the information can be done at the old premises and accordingly work can be completed by him.

(Selected) 5. SK Ltd is in the business of software. The company is medium sized and has got 15 banks accounts. The internal auditors of the company observed that the company does not have any robust system of obtaining bank confirmations for the purpose of bank reconciliations although the company is preparing the monthly bank reconciliation statements on the basis of the bank statements. During the audit, internal auditor found appropriate to obtain independent bank balance confirmations. It was observed by the internal auditor that in some cases the internal auditors obtained independent bank balance confirmations thrice from the same bank of the same period stating the wrong balances in every confirmation. Management explained that the monthly bank statements are already being sent by the bank which is sufficient enough for the company for performing the reconciliation on monthly basis. Monthly process of bank reconciliation is working very effectively.

Independent confirmations sent by the bank to the auditors had some clerical errors which the management will discuss with the bank. Please advise.

(a) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. However, the management should ensure that bank confirmations, if any, sent by the bank are accurate. Internal auditor should ignore this.

(b) Even though monthly reconciliations are prepared on the basis of bank statements, management should obtain bank confirmations on a regular basis. Such instances where bank is confirming wrong balance can be a serious matter of concern and should be reported by the internal auditor in his report.

(c) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. Internal auditor should ignore this.

(d) Management's process of preparation of monthly bank reconciliations on the basis of bank statements is reasonable. Internal auditor shouldn't have gone to the extent of obtaining independent balance confirmations.

(Selected) 6. GUZU Ltd is a medium-sized company and has been in existence for over 20 years. The company has been subject to various litigations related to various legal matters – income tax, GST, sales tax, service tax, excise, others. The company also has a plan to get listed outside India in the next 2-3 years. On review of the procure to pay and sales to collection cycles of the company, it was observed that the Managing Director of the Company is authorized to approve all the payments and invoices, but there is no document authorizing him to approve all the payments and invoices. It was also observed that there are certain expenses like travelling which have been incurred for Managing Director of the Company but the invoices for the same have also been approved by him only. Management explained that going to the Board of Directors for approval of regular business related expenses of Managing Director will not be feasible and the company will work on some alternative. Please advise.

(a) In this case, the company should have the written document for all authorisation and approval should be made as per the authorization and that should cover approval of expenses of MD by himself. Accordingly, internal auditor should address the matter in his report.

(b) MD's approval on all the payments and invoices looks reasonable however, his approval for own expenses should be reported by the internal auditor.

(c) These matters appear to be related to documentation only and hence the internal auditor may ignore these points.

(d) Internal auditors should report both the matters in his report.

(Selected) 7. S Ltd is in the business of generation of power through wind energy. The company's annual turnover is INR 300 crores and is currently into losses. The internal auditors of the company had some observations on review of travelling expenses:

- i. Internal auditors were not able to trace the employee request for travel and approval for the same.
- ii. Invoices received for hotel accommodation were not approved by the appropriate person as per the authority matrix.
- iii. Boarding passes were not attached as a proof of travel with the vouchers.

Management explained that these are matters related to documentation and hence are not significant. Please advise.

(a) Management is correct.

(b) Management is correct but it should look towards setting up a process for documentation of the same and basis discussion with the management, internal auditor should ignore this.

(c) Internal auditor should consider reporting matters (ii) and (iii).

(d) Internal auditor should report all these matters in his report.

(Selected)

8. AVV Ltd is a cable operator & listed on Bombay stock exchange. The turnover of the company has been decreasing over the last 2 years, however, the company has been able to maintain its margins constant and plans to change its business model. The internal auditors of the company raised two observations (i) it was noticed that the purchase orders (PO) against the expense bills are not raised by the Company and (ii) there was no standard company policy for writing off debtors as bad debts.

Management replied that for all kinds of purchases above INR 1 lakh, it would be made mandatory to purchase through purchase order but in respect of writing off debtors management requested for some more time to think about this matter. Please advise how should these matters be dealt by the internal auditors?

(a) Since the management has agreed for both the matters, internal auditor should drop these points.

(b) Management should set up a process of PO for all purchases and should have a documented policy for writing off debtors and same should be reported by the internal auditor in his final report.

(c) Since the management has an action plan for matter related to PO, it may be dropped but the matter related to writing off of debtors should be reported by the internal auditor.

(d) As suggested by the management, there should be process of PO for all purchases above INR 1 lakh and along with that there should be a documented policy for writing off debtors and same should be reported by the internal auditor in his final report.

(Selected)

9. PKJ Ltd is the business of manufacturing and trading of bottles and is listed on New Delhi Stock Exchange. The annual turnover of the company is INR 1100 crores and net worth is INR 3291 crores. The market capitalization of the company decreased significantly recently due to some transactions reported by the media.

Any freight expense incurred by the company is charged back to the customer for which the company prepares a control register and records the freight amount charged in the invoice to the customer. Against this, actual freight amount is recorded as an expense when the transporter bills are received and at the period end the provision for cartage is made as per this register which is also captured in an excel file for control purposes.

During the checking of the control register by the internal auditors, it was noted that some of the entries related to the freight were missing. The Company was not updating the register periodically.

Management replied that all the transactions are accurately captured in the register and there could be only few instances where it might have got missed inadvertently. How should the above matter be dealt by the internal auditor?

- (a) Internal auditor should suggest that the Company should review the manual control register on periodical basis and report the same.
- (b) Internal audit team should discuss the matter with the senior management and should agree on the way forward so that such instance does not arise again.
- (c) Considering the fact that there were only few instances where recording got missed it should be ignored by the internal auditor.
- (d) Internal auditor should suggest that the Company should review the manual control register on periodical basis and not report the same.

(Selected) 10. ICM Pvt Ltd is in the business of trading of chemicals. The annual turnover of the company is INR 5000 crores. It is wholly owned subsidiary of ICM Ltd, based out in Tokyo. The company enters into lot of high sea sales contracts. Internal auditor of the company observed that in respect of high sea sales contracts, some of the contracts require the company to take delivery of the goods, however, in most of the contracts, sales takes place in transit. Currently the company does not have any mechanism to track such contracts for the purpose of financial reporting. As and when the collection is received from the customer, the same is recorded in the financial books. Management has explained that all the collections are tracked and basis which financial reporting is also done. Please advise.

- (a) Internal auditor should discuss with the management and consider the impact of the same. If the impact is not significant, the same may be ignored.
- (b) Internal auditor should report this matter in his report because the mechanism to control inventory and collection is impacted because of this.
- (c) Since the management is able to track all the collections the current practice of the company looks reasonable and hence there is no need to report.
- (d) The matter is more related to financial reporting and hence internal auditor should ignore this.

Answer :

1	(d)
2	(c)
3	(d)
4	(a)
5	(b)
6	(d)
7	(d)
8	(b)
9	(a)
10	(b)

- (Selected) 1. Pvt Ltd is a dealer of cars. The business is quite old which is into dealing of premium cars. As per the industry practices, it is required to offer two free car services to the customers on purchase of a new car. Any service after first 2 services is chargeable. The cars sold by the company have a warranty period of 3 years. The company also has authorized service centres where car service is provided to the customer.
- Currently there is no mechanism to track whether the free services offered to the customers are limited to two or not. Internal auditor of the company has raised this point in his report. Please suggest your views on the observation of internal auditor.
- The management currently does not have any control on the services offered. The management already has a plan to put a process in place to track and control this and hence the internal auditor may consider not reporting the same.
 - The management believes that such type of instances would be very few and overall impact of the same would not be significant. Considering this the observation of the internal auditor is of no significance.
 - The management currently does not have any mechanism for tracking free and chargeable services. The company may be spending significant amount of money on this which should be tracked and accordingly this matter should be reported by the internal auditor.
 - The management agrees with the observation of the internal auditor but has also explained that such instances arise in exceptional cases for which approvals were obtained. Hence the management believes that this observation should be ignored by the internal auditor.
- (Selected) 2. DDD Ltd is in the business of bauxite mining. The company has got various lease operations. The annual turnover of the company is INR 5789 crores and profits are increasing significantly. Please advise in respect of bauxite mining and lease operations, the internal auditor would need to verify which of the following:
- The period of validity of the various mining leases obtained by the company.
 - Steps taken to renew the existing leases. Where the expiry dates are near and in case deposits/ reserves of the existing mines are near exhaustion, whether application has been made for new leases.
 - Where backfilling of waste rocks in the area excavated during mining operations is not feasible, whether a separate site has been created for dumping the waste and whether such waste dumps have been suitably created, terraced and stabilised through vegetation or otherwise.
 - The records in respect of each earth moving equipment, showing the hours worked, idle hours, consumption of fuel and lubricant and output of the machine during such working hours.
 - The written contracts and compliance with the terms and conditions thereof where the mining activities of leasehold mines have been outsourced.
- i, ii, iii, iv and v.
 - i, ii, iii and iv.

c) i, iii, iv and v.

d) i, ii, iii and v.

(Selected)

3. ESC Ltd is a listed company and has annual turnover of INR 4000 crores. The company needs to strengthen GST (Goods and Services Tax) application as per Goods and Services Tax Act, applicable from 1 July 2017, Integrated Goods and Services Tax (IGST) is levied in case of inter-state supply of goods and services. In case of intra-state supply of goods and services, CGST and SGST is levied. During review of the tax liabilities on goods received in the period 1 July 2017 to 31 Oct 2017 by the internal auditors, following gaps were observed:

- A) On review of the tax liabilities on 1,231 transactions (total value INR 5 Crores) processed in the period 1 July 2017 to 31 Oct 2017, it was noted that incorrect GST rates were applied on goods, resulting in an excess deposit of tax amounting to INR 46 Lacs.
B) In 8 instances it was noted that tax was computed at multiple rates for the same material code.

The internal auditors highlighted that above observations had potential risk/ impact of financial loss and possible statutory non-compliance with tax laws.

Please suggest which one of the following is correct.

a) Internal auditor should report this matter.

b) Internal auditor should discuss with management about way forward and drop this point.

c) Internal audit observation is not right.

d) Internal auditor should ignore on the grounds of materiality.

(Selected)

4. ACI Ltd is in the business of textiles and its imports are significant. The company is in the growing phase and plans to expand its operations significantly. For doing this the company is also evaluating to procure the items locally which are currently imported. This would lead to decreased procurement costs and may help in increasing profitability. In respect of the current operations of the company, the management would like to have your views in respect of imports where the internal auditor should focus. Please suggest.

- i. Check whether import orders are properly authorised and in-house authority limits are being followed.
- ii. Check whether requisitions are received in time within the validity period of the import license.
- iii. Check ordering date in relation to the import license validity and examine license utilisation.
- iv. Analyse refund claims of penalty and duty and check whether any claim has been rejected.
- v. Check whether there is a proper system for checking of demurrage, wharfage, clearing expenses on imports.
- vi. Check whether purchases made through agents are properly approved with reasons/ benefit for such purchases.

a) i, ii and iii.

b) i, iii and iv.

- c) i, ii, iv, v and vi.
- d) i, ii, iii, iv, v and vi.

(Selected)

5. As per the process of the company, Non Disclosure Agreements (NDA) need to be obtained before a request for quotation is sent to the vendor. The standard NDA is valid for 3 years and any information vendor receives after the expiry of the NDA is not covered under the agreement.

During the internal audit of controls around vendor selection and vendor code creation, it was observed by the internal auditors that currently there is no mechanism to track and monitor the expiry dates of such NDAs.

On a review of 20 sample vendors for direct materials, it was noted that:

- In 2 instances, the NDAs were not obtained from the vendor.
- In 2 instances the NDAs were expired at the time of review.
- In 2 instances the NDAs were dated post the vendor creation date.

Further it was also observed that the background check for director/ key management personnel was not performed for vendors before empanelment.

Please suggest the internal auditors in respect of this matter.

- a) Internal auditor should recommend that the monitoring mechanism needs to be introduced for ensuring timely renewal of NDAs and background checks should be conducted for all new vendors added in the empanelment list.
- b) Internal auditor should recommend that the monitoring mechanism needs to be introduced for ensuring timely renewal of NDAs. Performing background checks is not so important and internal auditor should ignore this.
- c) Internal auditor should recommend background checks to be conducted for all new vendors added in the empanelment list and should drop the matter related to NDA as that is not important.
- d) Internal auditor should look at the significance of both matters and looking at that can ignore both these points.

(Selected)

6. AARK Ltd is a manufacturing company having turnover of Rs 230 crores. The company has 3 plants and all of them are operating at full capacity. The inventory levels of the company have increased quite a lot in last 3 years. In respect of issues of materials to manufacturing process/ production shop, please suggest the procedures of the internal auditor.

- i. Checking that the requisitions from the production shops are duly authorised.
- ii. Ensuring that deliveries from material handling shop/ stores are the exact quantities as per the requisitions.
- iii. Checking whether shop is over-indenting leading to store build-up at shop-floor level.
- iv. Checking whether spares requisitioned by engineering department are duly supported by authorised signatures and capital items are not being requisitioned for maintenance.

- a) i, ii and iii.
- b) i, iii and iv.
- c) ii, iii and iv.

d) i, ii, iii and iv.

(Selected)

7. AKR Ltd is in the business of trading and manufacturing of readymade garments. The company's annual turnover is Rs. 1100 crores. The company's management wants to strengthen its processes in next 2 years. Before a blanket PO is raised to a vendor for direct material, a signed agreement is obtained that binds the vendor with crucial terms such as timely delivery, quality standards, penalties etc. The standard vendor agreement is valid for 3 years. On a review of 20 sample vendors for direct material, it was observed by the internal auditor that in some instances - a signed vendor agreement had not been obtained, the vendor agreement had expired and the vendor agreement was dated post vendor creation. The root cause was there was no monitoring mechanism to track the validity of vendor agreements. Management explained that it will ensure that vendor agreements are obtained from vendors before RFQs (Request for Quotation) are sent to them. Management will put in place a monitoring mechanism to ensure timely renewal of vendor agreements for existing vendors. In this case, please suggest the internal auditor.

- a) Internal auditor has discussed the way forward with management and should drop this point.
- b) Internal auditor should report this matter.
- c) Internal audit observation is not right.
- d) Internal auditor should ignore on the grounds of materiality.

(Selected)

8. NMP Ltd is in the business of retail and has been suffering losses. The turnover of the company has been same over the last 3-5 years. The company has Oracle as its ERP package. The internal auditor of the company observed that there is no process to review the supplier master on a periodic basis to identify the cases of incorrect updation / redundant supplier codes, key fields were not made mandatory in Oracle at the time of vendor empanelment and maker checker mechanism was also not enabled in Oracle. There is no mechanism to track redundant supplier codes and block them for further transactions. For 5,750 out of 9,076 active suppliers (63.3%), no transaction had occurred in the past 180 days. For 4,972 out of these 5750, no transaction occurred in the past 1 year. For 35 out of 9,076 active suppliers, the state code in the GST Identification Number (GSTIN) updated in the supplier master did not match the state mentioned in supplier's address. Payments valuing INR 27 crores have been made to such suppliers.

Management explained that for redundant supplier codes, annual review will be conducted by the purchase team to identify such codes and, post an approval from finance, purchasing will be blocked for the respective vendors. For GSTIN and State mismatch, management has already commenced assessment to identify the reasons for such errors and all such inconsistencies will be rectified in next 6 months. Please suggest in terms of reporting.

- a) Management responses look reasonable and this matter should be dropped.
- b) The matter is more of related to hygiene and may not have any impact on the financial reporting and hence should be ignored.
- c) Internal auditor need to report this matter.

d) Internal auditor should look at the significance of the matter. Material and on the basis of the same should decide about reporting this matter.

(Selected) 9.

During the expense review of a company, the auditor noted that interest on loan is wrongly calculated by the finance company for the previous years. It was already verified as correct by the statutory auditors and forms part of their balance confirmation process. Furthermore, the accountant has already identified the error and has planned to correct it in the next month by taking it up with the finance company. What should be the best course of action for the auditor?

- a) Ignore the error as it is already verified by the statutory auditors with confirming balances.
- b) Report the error as it affects financial reporting.
- c) Ignore the error as it is already being taken up with the finance company by the accounts team.
- d) Ignore the error as accuracy of interest calculation is not part of the scope of internal audit.

(Selected) 10.

Aalhad & Co sells cars, car parts and petrol from 25 different locations in one country. Each branch has up to 20 staff working there, although most of the accounting systems are designed and implemented from the company's head office. Aalhad has an internal audit department of six staff, all of whom have been employed at Aalhad for a minimum of five years and some for as long as 15 years.

Which of the following will limit the independence of the chief internal auditor of the company?

- a) The chief internal auditor reports to the Finance director of the company.
- b) The scope of work of the internal audit department decided by the chief internal auditor, with the assistance of an audit committee.
- c) All the accounting systems are designed and established by the management, the internal audit department audits the controls in the system.
- d) The existing staff should be rotated into different areas of internal audit work and the chief internal auditor independently review the work carried out.

Answer Keys

1.	(c)	2.	(a)	3.	(a)	4.	(d)	5.	(a)
6.	(d)	7.	(b)	8.	(c)	9.	(b)	10.	(a)

1. As per Ind AS 108 'Operating Segments', if a financial statement contains both the consolidated financial statements of a parent, as well as parent's separate financial statements, segment information is required:
 - a) Only in the consolidated financial statements.
 - b) Only in the parent's separate financial statements.
 - c) Both sets of financial statements.
 - d) Either in the consolidated financial statement or in the parent's separate financial statements.

Answer- a) Only in the consolidated financial statements.

2. Which of these is an allowable cost of an asset under Ind AS 16 'Property, Plant and Equipment'?
 - a) Professional fees
 - b) General overheads
 - c) Initial operating losses
 - d) Administration expenses

Answer- a) Professional fees

3. Commission on reinsurance ceded appears as
 - a) An expense in revenue account.
 - b) An income in revenue account
 - c) A liability in the balance sheet.
 - d) An asset in the balance sheet.

Answer- b) An income in revenue account.

4. As per Ind AS 37, 'Provisions, Contingent Liabilities and Contingent Assets' warranty claims normally generate:
 - a) A contingent liability.
 - b) A provision.
 - c) A contingent asset.
 - d) An onerous contract

Answer- b) A provision.

5. As per Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations', which of the following is not allowed as a "cost to sell"?
 - a) Finance costs
 - b) Auctioneers commission
 - c) Advertisements
 - d) Legal fees for drafting contract of sale

Answer- a) Finance costs

6. How often should the useful life of an intangible asset with a finite useful life be reviewed as per Ind AS 38 'Intangible Assets'?
 - a) Every six months

- b) Every year
- c) Every five years
- d) At management's discretion

Answer - b) Every year

7. As per Ind AS 23 'Borrowing cost', when activities to prepare an asset for its sale or use are suspended, borrowing costs must be
- a) Capitalised
 - b) Expensed
 - c) Charged to equity
 - d) Ignored

Answer - b) Expensed

8. In respect of an entity which is a first time adopter of Ind AS, Ind AS 102 would not necessarily be required to be applied to which of the following equity instruments?
- a) Equity instruments that vested before date of transition to Ind AS
 - b) Equity instruments that vested after date of transition to Ind AS
 - c) Equity instruments that vested on the date of transition to Ind AS
 - d) All equity instruments that vested before, on and after date of transition to Ind AS.

Answer- a) Equity instruments that vested before date of transition to Ind AS

9. As per Ind AS 38 'Intangible assets', amortization of an intangible asset should commence when
- a) Expenditure is first incurred on that asset
 - b) The asset is available for use
 - c) Economic benefits start to realize from that asset
 - d) reasonable time passes.

Answer - b) The asset is available for use

10. As per AS 26, which one of the following is not a development activity?
- a) Search for alternatives for materials, devices, products,
 - b) Construction of pre-production prototypes and models
 - c) Design of tools, jigs and dies involving new technology
 - d) Design, construction and operation of a new plant.

Answer - a) Search for alternatives for materials, devices, products,

Question 1

'X' Company has prepared a Bank reconciliation statement (BRS) for a bank as at year end for which audit is under progress which contains the following facts :-

Balance as per bookS- 1000

Add Cheque deposited but not cleared- 200 (a)

Add : Amount credited to bank due to customer collections but not debited in the books – 150 (b)

Less : Interest charges on loan taken by the Company recorded by the bank and not by the

Company- 300 (c)

Closing balance as per bank- 1,050

Please identify the correct option based on the following facts :-

- (i) No observation noted in the BRS
- (ii) (a) should be reversed in the books of the Company and (b) should be recorded in the books
- (iii) (b) and (c) should be recorded in the books
- (iv) (a) should be reversed in the books and (c) should be recorded in the books

Response

Option (iii) is the correct answer as these entries should be recorded in the books of the Company considering the fact that these relates to the financial year.

(Selected) Question 2

A , a first year article trainee has been asked by Audit senior to go and perform the physical verification of stock lying in the warehouse of a Company. He has been instructed to perform stock count of 100 items considering A, B , C analysis and also review the working papers of management stock count and see if any observations are noted by them.

A is performing the stock count of the warehouse and requested the client to show the number of quantities for three products which are of highest value. The client was unable to respond to the request and informed that these items are packed due to which these items cannot be counted. The client requested A to pick any other sample and perform the stock count.

A agreed to the client request and picked other sample and completed the stock count and concluded that there are no observations.

Following are the various options available for 'A' to respond to this situation.

- (i) No additional work as he has performed the stock count as per the instructions
- (ii) Ask the client to open the box and count the items and record the actual quantities in his working papers.

- (iii) Ask the client to open the box and count the items and record the actual quantities in his working papers and reconcile the quantities with the management count. In case of any difference, obtain the reasons for the same and satisfy the underlying rationale for the same.
- (iv) In case the client refused to show the items, A should inform his senior, discuss with the client to understand the reason for the same and identify the resolution of the issue including impact on the audit opinion.

Considering the following options, identify the appropriate response what should have been done by 'A' ?

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

Response

(b) is the correct option. In case the client agrees to open the box, he should have observed the count, reconciled with the management count and in case of any difference, appropriate reason and reconciliation should be obtained and audited by him in order to satisfy that the stock is physically available. In case, the client disagreed for opening the box, he should inform the senior and raise this matter as an issue for appropriate resolution including the impact on the audit opinion.

Question 3

(Selected)

'C' has been asked to perform the cash count of a Company as at year end. The Company has significant amount of cash since their day to day operations involve lot of cash dealing as most of the transactions are settled in cash. C goes to the client and requests to get the cash counted. The client prepared a cash statement amounting to Rs. 1 crore. C decided to count the cash on sample basis and after counting cash amounting to Rs. 52 lakhs, he decided to conclude that there are no issues in cash balances.

'C' has following options to respond to the situation.

- (i) Perform no further audit procedures to obtain comfort on cash balance.
- (ii) C performs the cash count of Rs. 1 crore and identify if there are any differences or observations noted.
- (iii) C performs the cash count of Rs. 1 crore, ensure the completeness of cash and reconcile the cash count with the books of the accounts.
- (iv) C confirms from the management that whether they have counted the cash, obtain their confirmation over email, ensure the completeness of cash and reconcile the cash count with the books of the accounts.

Considering the following options, identify the appropriate response what should have been done by 'C' ?

- (a) (i)
- (b) (ii)

(c) (iii)

(d) (iv)

Response

Options (iii) is the right option as the auditor planned to perform the cash count of 100% of the cash and only doing cash count on sample basis/through client confirmation is not the appropriate design of audit procedures to be performed. He should also ensure that whether all the cash has been counted at that location and obtain reconciliation with the books of the accounts.

(Selected)

Question 4

'A' a first year intern has been entrusted to perform the vouching of indirect expenses. He decided to perform the testing of mobile phone expenses as these were material. The client provided a schedule of mobile phone expenses for each number and the amount billed in each month. A decided to pick few sample testing of bill and requested the client to provide the bills against these sample. He tested the same along with appropriate treatment of GST/service tax receivable for financial year 2017-18.

Has 'A' performed sufficient audit procedures or he should have performed few more audit procedures to verify the communication expense ?

Below are the options

- a) No further audit procedure required
- b) A should have performed variation analysis of the expenses, obtained the agreement with mobile operation to ensure the necessary compliance and also compare the number of mobile numbers with number of employees.
- c) A could have only performed scanning procedures and variation analysis to obtain comfort on mobile phone expenses
- d) Based on underlying risk assessment and internal control testing performed at the time of planning procedures, A needs to tailor the audit plan with a mix of audit sampling, analytical or other adequate procedures as per standard of auditing to obtain comfort on the expenses.

Response

(d) is the right response

(Selected)

Question 5

'X' a CA firm has been appointed to perform the audit of a Company. The engagement partner allocated 'A', a field incharge for the audit along with 'B' a first year article clerk. During the discussion of the audit plan within the team, it was decided that B will perform testing of Cash and Bank, statutory dues, revenue and expense vouching and rest will be preformed by A. The client provided all schedules to the auditor and B started with the vouching and analysis of legal and professional analysis. B remember that during the team discussion and client meeting as well, it

was noted that the client has no legal disputes and hence there are no contingent liabilities. B was provided the breakup of legal and professional expenses as stated below:-

Nature	Amount
ABC consultancy	1000
Jain lawyer	100000
Mohit tax consultant	20000
ERP implementation by Wipro	40000
Payroll outsource cost services provided by Z	30000
Total	191000

Based on the review of the schedule mentioned below, B performed the vouching and concluded that there are no observations.

Is the conclusion reached by 'B' appropriate ?

- (a) B should have inquired about the legal cases handled by Jain lawyer and conclude if there any indications about any outstanding litigations which need further evaluation ?
- (b) B should evaluate the work done by ABC consultancy, Mohit tax consultant and Jain lawyer and conclude if there any indications about any outstanding litigations which need further evaluation ?
- (c) Nothing needs to be done
- (d) B should obtain comfort on all type of services and identify the services which could lead to potential litigations /any other issues and perform further evaluation to conclude the impact on the audit procedures and the financial statements ?

Response

(d) is the right answer

(Selected) Question 6

A is required to perform testing of repairs and maintenance expense account. The Company provided him the GL dump of the expense item and A decided to perform the following audit procedures:-

- Vouching of expense account by matching of invoice with the amount captured in the GL dump
- Variation of expense between current year and previous year
- Ensure the appropriate classification of expense in the right General Ledger
- Reconcile the GL dump with the trial balance

An external reviewer was entrusted to review the audit procedures done by the audit firm where in he decided to perform the review of the work done by the audit team and picked work done for the audit of repair and maintenance account. The reviewer identified the following gaps in the testing:-

- (a) The work paper has not captured how the engagement team ensured the capital expenditure has been debited to Profit and Loss Account
- (b) Appropriate deduction of withholding taxes while booking the amount in the books.
- (c) Any issue in the useful life of fixed assets if there is too much expenditure incurred on the fixed assets.
- (d) Whether expenditure was authorized and approved as well

Below are the options to pick out of the above mentioned options which the engagement team should have performed while testing repairs and maintenance expenses testing

- (i) (a) and (c)
- (ii) All of the above
- (iii) (b) and (d)
- (iv) (a), (c) and (d)

Response-(ii)

All of the above as all the procedures are relevant to be performed while testing the repairs and maintenance expenses. With respect to withholding taxes, the engagement team could have performed the procedures differently as well while reviewing the entire expense dump along with the TDS entries but in this example, it has been assumed that the withholding taxes testing was performed in conjunction with the testing of the expense.

(Selected)

Question 7

A is working in an audit firm who are the auditors of 'Y' Company. A is part of the audit team who is doing the audit of this Company and he has been allocated to handle cash and bank. As part of the audit procedure, he also needs to circularize bank confirmation letters for all the bank. A decided to perform the following audit procedures :-

- (a) Obtain the list of banks from the Company with the account number.
- (b) Prepare a confirmation request and requested the Company to sign the confirmation letters.
- (c) The Company signs the letter and share one copy of the letter with A.
- (d) The Company sends this confirmation letter to the bank seeking their confirmation on the bank balances.

Out of the audit procedures stated above, which one are the right audit procedures performed by A.

- (i) All of the above
- (ii) (a), (b) and (c)
- (iii) (a), (c) and (d)
- (iv) (b), (c) and (d)

Response

The option no. (ii) is correct as A should have sent confirmation letter request under his supervision and control. As per SA 505- External confirmations, it is stated that "When performing confirmation procedures, the auditor should maintain control over the process of selecting those to whom a request will be sent, the preparation and sending of confirmation requests, and the response to those requests".

Since the auditor didn't perform this procedure under his control, therefore this is not in line with the guidance stated in SA 505.

(Selected)

Question 8

The Company has appointed an external internal auditor for conducting the internal audit of various financial statement line items. The internal audit firm conducted the internal audit of fixed assets and shared the final report containing various observations. 'Z' audit firm are the external auditors who are completing the internal audit of the Company. The engagement team of external auditors became aware of the internal audit report and requested the Company to share the internal audit report with them. The audit team receives the internal audit report and requested one of their team member 'Ashish' to prepare the internal audit synopsis of the issues having material financial implication or reporting implication on the audit carried out by the audit firm. Below are the list of observations noted in the internal audit report.

- (a) Physical verification of the fixed assets was carried out by the management and differences amounting to Rs. 10 cores are not explained by the management.
- (b) The Company has incorrectly capitalized the borrowing cost amounting to Rs. 2 crores and wrongly applied AS 16.
- (c) Approval of purchase of a Computer amounting to Rs. 50,000 was not obtained from the authorized personnel.
- (d) The Company should review their policy of obtaining five quotes for each purchases done by the Company.
- (e) FA vs GL reconciliation was performed by the Company and difference amounting to Rs. 10,000 was noted.

What are the observations which needs to be highlighted by Ashish for further evaluation ?

- (i) (a) and (b)
- (ii) All of the above
- (iii) (a), (b), (d) and (e)

- (iv) (a), (b), (c) and (d)

Response

- (i) Is the correct option and the balance observations are not having material financial impact or having insignificant impact on the audit.

(Selected) Question 9

A is allocated to perform the audit of statutory dues wherein he needs to verify the challan payments made by the Company for its material statutory dues and identify issues if any. The Company has prepared the statutory dues schedule capturing the date of deposit and the due date of deposit along with the amount. A verified the payment for all the material statutory dues and reconciled the same with the schedule prepared by the Company and noted no issues.

Based on the work done, A concluded that all the payments were made on regular basis. What are the potential audit procedures missed by A while doing verification of the statutory dues

However, A didn't perform the following audit procedures or consider the following matters in his audit plan.

- a) The due date of deposit is correctly captured in each schedule as per the statutory law.
- b) Any interest payment/penalty paid by the Company while making payment also indicates regularity of the payment of the statutory dues.
- c) Inquired with the client personnel about the regularity of the payment of statutory dues.
- d) Considering the results of last year audit which had exception in regularity of the payment of statutory dues of Income tax and service tax.

What are the matters which should have been considered by A ?

- (i) All of the above
- (ii) (a), (b) and (c)
- (iii) (a), (b) and (d)
- (iv) (b), (c) and (d)

Response

Option (i) is the correct option

(Selected) Question 10

'A' was allocated to audit the rent expense of the Company. The client prepared a schedule capturing the rent expense incurred against each lease. There were few leases which were discontinued after a certain period. There was a gap of Rs. 1 crore between rent expense as per schedule and general ledger for which no explanation was given by the Company. A decided to perform sample testing of rent expense by doing testing of high value leases and concluded that no further audit procedure is required to be performed.

What are the potential audit issues which should have been followed up by A while performing testing of rent expense.

- (a) Difference of Rs. 1 crore between GL and rent schedule, documentation regarding reason for discontinuation of lease expense and corresponding impact on other receivables like security deposit etc.
- (b) None
- (c) Difference of Rs. 1 crore between GL and rent schedule
- (d) Documentation regarding reason for discontinuation of lease expense

What are the matters which should have been considered by A ?

- (i) All of the above
- (ii) (c) and (d)
- (iii) (a)
- (iv) (b)

Response

(iii) is the appropriate option as A's responsibility is to obtain comfort on rent expense and not only perform sample testing of schedule provided by the client.

1. An entity has losses in its operations and would need immediate cash to fund its operations. Hence to get immediate cash it sold one of its property appearing in the books at depreciated value of Rs. 8,50,000. The property is sold at a price of Rs. 8,00,000. However, the normal market price of the same property is Rs. 10,00,000. What would be the fair value of the property as per Ind AS 113?
 - (a) Rs. 8,00,000
 - (b) Rs. 10,00,000
 - (c) Rs. 8,50,000
 - (d) Rs. 10,00,000 less Rs. 8,00,000

2. PQR Ltd. wants to make a change in the accounting policy which is being followed for last 10 years. However, it was impracticable to find out the impact of change in policy for the last 10 years. The maximum number of years for which company can find out the impact practically is only current year. What shall company do in such a case?
 - (a) It can disclose the effect for current year only in case of impracticability to find the impact in the earlier years.
 - (b) It has to give effect to current year and last comparative year, as the effect needs to be given for latest prior period presented also.
 - (c) It can approximate the retrospective effect by doing a backward calculation in the light of present information.
 - (d) It can apply the new policy prospectively from the start of the earliest period practicable.

3. ABC Ltd. initially estimated that the useful life of the plant and machinery will be 10 years. However, after a period of 5 years, it found due to technological changes it will be impossible to continue with the same machine for another 5 years. The maximum number of years for which it can be used further is 3 years. Which of the following treatment will be correct for the change in useful life in such a situation?
 - (a) ABC Ltd. will give the retrospective effect to the plant and machinery and depreciation assuming estimated life of plant and machinery of 8 years instead of 10 years.
 - (b) ABC Ltd. will change the estimated life for the future to 3 years instead of 5 years.
 - (c) ABC Ltd. will change the estimated life from the immediately preceding year (i.e. the latest prior period presented) to 4 years.
 - (d) ABC Ltd. need not make any change till it actually discards the plant and machinery.

4. ABC Ltd. is in the process of finalisation of accounts for 2017-2018. The financial statements for the year ended 31st March 2018 has already been prepared but not yet approved. The Accountant found that there is a mistake in the accounts of the year 2014-2015. Which of the following would be the right action?
 - (a) Rectify and change the accounts retrospectively from the year 2014-2015.
 - (b) Rectify the mistake retrospectively but incorporate the effect only in the opening balances of assets, liabilities and equity of 2015-2016.
 - (c) Rectify the mistake retrospectively but incorporate the effect only in the opening balances of assets, liabilities and equity of 2017-2018.

- (d) Rectify the mistake retrospectively but incorporate the effect only in the closing balances of assets, liabilities and equity of 2017-2018.
5. A Ltd. has invested in debentures whose interest rate is floating in nature and as per the terms of the instrument interest will be reset every month. Terms of interest is $0.5 \times (\text{MIBOR} + 2\%)$. Classify the financial asset and determine the subsequent measurement for the aforesaid instrument.
- Financial asset measured at amortised cost.
 - Financial asset measured at FVOCI without recycling.
 - Financial asset measured at FVTPL.
 - Financial asset measured at FVOCI with recycling.
6. An entity has entered into a factoring arrangement with the bank and accordingly sold all its debtors without recourse arrangement. However, as per the bank policy the company has guaranteed a bad debt loss of 2%. Historically, the entity has had only 1% bad debt. What will be the treatment of it under Ind AS 109?
- The debtors can be derecognised fully.
 - The debtors cannot be derecognised.
 - The debtors can be derecognised for 98% value.
 - The debtors cannot be derecognised to the extent of continuing involvement only.
7. Entity A has issued preference shares to the investors which has similar voting rights and dividend rights and will be converted into one is to one equity shares at the time of IPO. As per the terms of the agreement, if the IPO does not happen by the end of the 7th year, then the Company will have to buy back the shares from the investors. The Company is growing very fast and is confident of going through the IPO within 3 years itself. How will the company classify the above instrument in the financial statement?
- Equity
 - Liability
 - Hybrid
 - Compound.
8. An entity has written a foreign currency call option. The aforesaid derivative was designated as a hedge of the highly probable forecasted transaction. The aforesaid hedge:
- Will qualify as Cash flow hedge
 - Will qualify as Fair value hedge
 - Will qualify as Net investment hedge
 - Is not permitted.
9. In which of the following cases can temporary differences arise?

- (a) The identifiable assets acquired and liabilities assumed in a business combination are recognised at their fair values in accordance with Ind AS 103, Business Combinations, but no equivalent adjustment is made for tax purposes.
 - (b) Assets are revalued and no equivalent adjustment is made for tax purposes.
 - (c) Goodwill arises in a business combination.
 - (d) All of the above.
10. Entity A has calculated taxable temporary differences of Rs. 50,00,000 and deductible temporary differences of Rs. 20,00,000 on separate items. The tax rate of the current year is 35%. However, tax rate in the previous year is 30% and it is expected that in future the tax rate would be 40%. What basis should be used for measurement of deferred tax assets and liabilities?
- (a) 30%
 - (b) 35%
 - (c) 40%
 - (d) 5%
11. The carrying amount of deferred tax assets and liabilities may change even though there is no change in the amount of the related temporary differences. This can result from which of the following?
- (a) A change in tax rates or tax laws
 - (b) A reassessment of the recoverability of deferred tax assets
 - (c) A change in the expected manner of recovery of an asset
 - (d) Any of the above
12. S Ltd. is reviewing one of its business segments for impairment. The carrying value of its net assets is ₹ 40 million. Management has produced two computations for the value-in-use of the business segment. The first value of ₹ 36 million excludes the benefit to be derived from a future reorganization, but the second value of ₹ 44 million includes the benefits to be derived from the future reorganization. There is not an active market for the sale of the business segments.
- Whether the business segment needs to be impaired and if yes then why what amount?
- (a) Yes, the business segment will be impaired by ₹ 4 million.
 - (b) Yes, the business segment will be impaired by ₹ 8 million.
 - (c) No, the business segment will be impaired by ₹ 36 million.
 - (d) No, the business segment will be not be impaired.
13. A company to present condensed interim financial statements for six months period 30th September 2017 would have a comparative balance sheet as of-
- (a) 30th September, 2016
 - (b) 30th June, 2017
 - (c) 31st March, 2017

- (d) Comparative may not be given.
14. A company to present condensed interim financial statements for the quarter ended 30th June, 2017 would have a comparative statement of profit and loss for which of the following period?
- Quarter ended 30th June, 2016
 - Quarter ended 31st March, 2017
 - Both a & b
 - Comparative may not be given
15. What will be the rounding off requirements in the financial statements for a company with a turnover of Rs.300 crores?
- Round off to the nearest lakhs
 - Round off to the nearest millions
 - Round off to the nearest crores
 - Any of the above
16. A Ltd. has following assets in its Balance Sheet:
- Property, plant and equipment of Rs. 5 crore
 - Brand with indefinite useful life of Rs. 10 crore
 - Trade receivable of Rs. 50 lakhs
 - Inventories of Rs. 80 lakhs
- Which of the above assets are required to be tested for impairment at least on an annual basis irrespective of whether there is any indication of impairment?
- (i) and (ii)
 - (ii) only
 - (iii) and (iv)
 - (i), (ii) and (iv)
17. P Ltd. has a plant with the normal capacity to produce 5,00,000 unit of a product per annum and the expected fixed overhead is ₹ 15,00,000. Fixed overhead on the basis of normal capacity is ₹ 3 per unit ($\text{₹ } 15,00,000 / 5,00,000 \text{ unit}$). However, actual production is 3,75,000 units. Amount of fixed overhead to be included in the cost of inventory would be
- Rs. 15,00,000
 - Rs. 11,25,000
 - Rs. 3,75,000
 - Nil
18. V Ltd. purchases cars from several countries and sells them to Asian countries. V Ltd. incurred many expenses during the period on such cars from their purchase to sale. Out of

those expenses, the accountant of V Ltd. is not sure about following expenses for inclusion in the cost of inventory. Which of the following cost is allowed for inclusion in the cost of inventory?

- (a) Rs. 20,00,000 as Salaries of accounting department
- (b) Rs. 15,00,000 of Sales commission paid to sales agents
- (c) Rs. 30,00,000 as after sales warranty costs
- (d) Rs. 10,00,000 as Insurance of purchases

19. Moon Ltd has acquired a heavy road trailer at a cost of ₹ 2,00,000 (with no breakdown of component parts). The estimated useful life is 10 years. At the end of the sixth year, the engine requires replacement, as further maintenance is uneconomical due to the off-road time required. The remaining parts of the vehicle is perfectly road worthy and is expected to last for the next four years. The cost of the new engine is ₹ 90,000. The discount rate assumed is 5% and the discount factor is 0.746.

What should be the cost of old engine to be deducted from the cost of the trailer on recognition of replaced new engine as per Ind AS 16?

- (a) Rs. 90,000
- (b) Rs. 2,00,000
- (c) Rs. 67,140
- (d) Rs. 22,860

20. PN Ltd. prepared its draft financial statements for the year ended 31st March, 2018 by 28th May, 2018. The audit took place during June and July and the Management authorised them for issue to the Board on 7th August, 2018. The Board approved the financial statements on 23rd August, 2018, with one amendment requested. Financial statements were sent to shareholders on 30th August, 2018.

On what date did PN Ltd. authorise the financial statements for issue?

- (a) 28th May, 2018
- (b) 7th August, 2018
- (c) 23rd August, 2018
- (d) 30th August, 2018

Answers

1.	(b)		2.	(a)
3.	(b)		4.	(b)
5.	(c)		6.	(b)
7.	(d)		8.	(d)
9.	(d)		10.	(b)
11.	(d)		12.	(a)
13.	(c)		14.	(a)
15.	(d)		16.	(b)
17.	(b)		18.	(d)
19.	(c)		20.	(c)

1. Adrien is a foreign national residing in Nice, France. In the month of August, 2018 he is visiting India for the purpose of incorporating a private limited company along with his resident Indian friend Aakaash. He wants to know about a certain document which he is required to hold so that he may be allowed to incorporate a company in India. Advise.

- (a) He should hold an affidavit duly certified by Embassy of India in France stating his intention to incorporate a company in India.
- (b) He should hold a valid Tourist-cum-Working Visa.
- (c) He should hold a valid Business Visa.
- (d) He should hold a valid a valid Conference Visa

2. Mr. X, a director of the company, intimated of his participation in the meeting scheduled on August, 2018. He declared his participation through electronic mode, in June 2017. State whether Mr X is entitled to participate in the meeting to be conducted in August 2018 –

- (a) Yes, intimate about such participation was made at the beginning of the calendar year
- (b) No, because intimation was made in previous calendar year
- (c) Yes, because company was intimated of its participation in the meeting.
- (d) No, because valid period of declaration (i.e., 1 year) of his participation expired.

3. In compliance to the Companies Act, 2013, at least one woman director shall be on Board of such class or classes of companies as may be prescribed. Ms. Riya is keen to hold the office of woman director in a company. She has selected some companies in which there is a vacancy for the woman director. Advise Ms. Riya in selecting the companies which are mandatorily required to appoint a woman director:

- a. PQR Limited which is a unlisted company and having paid up share capital of one 50 crore rupees as per the last date of latest audited financial statements.
- b. ABC Limited which is a listed company and having a turnover of 150 crore rupees as per the last date of latest audited financial statements.
- c. XYZ Limited which is a unlisted company and having a turnover of 350 crore rupees as per the last date of latest audited financial statements.
- d. Both in ABC Limited and XYZ Limited

4. Rukmani, a fresh science graduate, wants to make available the farmers good quality seeds and manure. For her business she is contemplating to form a company and is weighing various options. Sometimes before, she came to know that a 'one person company' has minimum one member and one director whereas a private company has minimum two members and two directors. As regards a public company, she has vague idea that there should be minimum three directors but she does not know about the minimum members required in this case. Advise.

- a) When there is requirement of minimum three directors, the public company can be formed by minimum three persons.

- b) There should be minimum five persons for formation of a public company though requirement of minimum directors shall remain three.
- c) There should be minimum seven persons for formation of a public company though requirement of minimum directors shall remain three.
- d) There should be minimum nine persons for formation of a public company though requirement of minimum directors shall remain three.

5. Ravi is the owner of a grocery store. In March 2018, he got the idea of forming a 'One Person Company' and convinced his sister Ruchika, an Indian citizen who resides in London but visits India from time to time, to become nominee in his OPC. In the year 2017, Ruchika first came to India on 10th January and left for London on 26th February. Thereafter, she again visited India on 7th June and remained here till 10th October and boarded an evening flight for London on the same day. From then onward she did not visit India in the year 2017 but on 2nd January 2018 she came to India for a short duration and left for London on 14th February, 2018. Is it possible for Ravi to appoint Ruchika as nominee?

- a) Ruchika can be appointed as nominee by Ravi because she is a natural person, an Indian citizen and resided in India for more than 90 days during the year 2017.
- b) Ruchika can be appointed as nominee by Ravi because she is a natural person, an Indian citizen and resided in India for more than 182 days during the years 2017 and 2018 i.e. prior to March 2018 when Ravi contemplated to form his OPC.
- c) Ravi cannot appoint Ruchika as nominee in his OPC because she did not reside in India for 182 days or more during the year 2017 though she is a natural person and also an Indian citizen .
- d) Since Ravi is the sole member of his OPC who will look after all its affairs and the appointment of nominee is just a formality, a visit to India during 2017 for any number of days would make Ruchika eligible to be appointed as nominee.

6. A director of XYZ, a Pvt. Ltd. takes a loan from its company. Due to some reasons, he fails to repay the debt within the given time period. He request board of directors to give him time for repayment of debt. State which of the below statements is correct with respect to the exercise of the power in the given situation as per the Companies Act, 2013-

- (a) Power to fix the time limit for repayment of any debt due from director can be exercised only by members by special resolution at a general meeting.
- (b) Power to fix the time limit for repayment of any debt due from director can be exercised by Board of the company itself.
- (c) Power to fix the time limit for repayment of any debt due from director can be exercised with the prior permission of the company in general meeting while taking debt.
- (d) Board shall not exercise this power if the provision related to repayment of debt is contained in the articles of the company.

7. On 30th June 2017, the liability side of Balance Sheet of X Ltd. showed balance of paid up share capital of Rs. 65 lacs, free reserve of Rs. 10 lacs, share premium account of Rs. 20 lacs, deposits of Rs. 25 lacs, repayable in the current financial year, during the month of September 2017. In July 2017, the

company was in need of some short term funds to the tune of Rs. 20 lacs for a period of 6 months. The maximum amount which the company may hold as deposit together with existing deposits will be—

- (a) Rs. 33.25 Lacs
- (b) Rs. 11.25 lacs
- (c) Rs. 95 lacs
- (d) Rs. 9.5 lacs.

8. Ruchir Marcons Ltd. which provides marketing and consultancy services is keen to have a 'significant influence' in Ruchika Marketing Ltd. so that it becomes its 'associate company'. For having 'significant influence' Ruchir Marcons Ltd. needs to control certain percentage of total voting power of Ruchika Marketing Ltd. What is that?

- a) For creating 'significant influence' Ruchir Marcons Ltd. must control at least five per cent of total voting power of Ruchika Marketing Ltd.
- b) For creating 'significant influence' Ruchir Marcons Ltd. must control at least ten per cent of total voting power of Ruchika Marketing Ltd.
- c) For creating 'significant influence' Ruchir Marcons Ltd. must control at least fifteen per cent of total voting power of Ruchika Marketing Ltd.
- d) For creating 'significant influence' Ruchir Marcons Ltd. must control at least twenty per cent of total voting power of Ruchika Marketing Ltd.

9. Jatin is desirous of forming a 'One Person Company (OPC)' for which he wants to nominate his wife Jasmin who in the event of his death shall become the member of OPC. However, he is not aware of as to which document should contain the name of the nominee. Advise him in the matter.

- (a) Name of the nominee should be mentioned in the Articles of Association after the names of the directors.
- (b) Name of the nominee should be mentioned in the Memorandum of Association
- (c) Either Articles of Association or Memorandum of Association may contain the name of the nominee.
- (d) There is no need to mention the name of the nominee in either Articles of Association or Memorandum of Association; a simple consent letter obtained from the nominee and kept in the records is sufficient.

10. Priyank and Priyanka, got reserved a name and thereafter a private limited company was formed using the reserved name on 1st June, 2018. Later on, a registered proprietor of a trade mark noted that the name of this private limited company was identical to the trade mark he had earlier got registered under the Trade Marks Act, 1999. Advise as to latest by which date, the proprietor of the registered trade mark can move an application to the Central Government against this anomaly.

- (a) Latest by 30th November, 2018, the registered proprietor of trade mark should move an application to the Central Government for rectification of this anomaly.
- (b) Latest by 30th May, 2019, the registered proprietor of trade mark should move an application to the Central Government for rectification of this anomaly.

- (c) Latest by 30th May, 2020, the registered proprietor of trade mark should move an application to the Central Government for rectification of this anomaly.
- (d) Latest by 30th May, 2021, the registered proprietor of trade mark should move an application to the Central Government for rectification of this anomaly.

Answer Keys

1(c)	2(d)	3(d)	4(c)	5(c)
6(b)	7(a)	8(d)	9(b)	10(d)

MCQs for Practical Training Accounting +Auditing+ Law – Level 2

- (Selected) 1. Marvin Ltd. is a renowned food chain supplier in a posh area providing restaurant facility along with food delivering. CA. Felix was appointed as an auditor of the company for the Financial Year 2017-18. While examining the books of account of the company, CA. Felix came to know about one of the major expenses of the company i.e. rent expense of ₹ 1,20,000 per month, for which he applied substantive analytical procedure for verification purpose. Explain, how would CA. Felix perform substantive analytical procedure in the given scenario?
- CA. Felix would inspect every single rent invoice per month of ₹ 1,20,000 and verify other elements appropriately.
 - CA. Felix would compare the rental expense of the company with that of another nearby company having corresponding dimensions, for high degree of accuracy.
 - CA. Felix would select the first month rent invoice of ₹ 1,20,000 and appropriately verifying other elements would predict that the rent for the whole year would be ₹ 14,40,000 (i.e. ₹ 1,20,000 * 12). Thereafter, he would compare the actuals with his prediction and follow-up for any fluctuation.
 - (a) and (b), both.

Answer (c) **Reason:** As provided under SA 520 'Analytical Procedures', substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. Analytical procedures involving, for example, the prediction of total rental income on a building divided into apartments, taking the rental rates, the number of apartments and vacancy rates into consideration, can provide persuasive evidence and may eliminate the need for further verification by means of tests of details, provided the elements are appropriately verified.

- (Selected) 2. Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario?
- Unmodified opinion.
 - Qualified opinion.
 - Adverse opinion.
 - Disclaimer of opinion.

Answer (b) **Qualified opinion.**

Reason: According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', the auditor shall express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

- (Selected) 3. While auditing the books of accounts of QHMP Ltd., CA. Ranker, the statutory auditor of the company, came to know that the management of the company has recognized internally generated goodwill as a fixed asset. CA. Ranker discussed with the management that according to accounting standards, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, the management is quite rigid to the accounting treatment followed for internally generated goodwill and not paying attention to the auditor. Thus, through an example, CA. Ranker explained which type of goodwill may be recognized as a fixed asset for which the management got justified. State which of the following examples the auditor must have given to the management?
- If an item meeting the definition of an intangible asset is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.

- (b) Only those goodwill needs to be recognized as a fixed asset which can be touched like physical assets, for example, land and buildings.
- (c) Goodwill is recognised only when there is a contractual or other legal rights for a physical asset which shall not be amortized over the period.
- (d) All of the above.

Answer (a) Reason: Goodwill is of intangible nature which either arises on acquisition or is internally generated. Internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost. However, if the item is acquired in a business combination, it forms part of the goodwill to be recognized at the date of the amalgamation.

- (Selected) 4. Eeyore Pvt. Ltd. is incorporated on 1st July, 2017. During the Financial Year ending on 31st March, 2018, the company did not opt for any borrowing at any point of time and have a total revenue of ₹ 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus-

Particulars	Amount (in ₹)
Paid-up Capital	
- Consideration received in cash for equity shares (including unpaid calls of ₹ 5,00,000)	40,00,000
- Consideration received in cash for preference shares	25,00,000
- Bonus shares allotted	7,00,000
- Share application money received pending allotment	10,00,000
Sub-Total	82,00,000
Reserve & Surplus	
- Balance in Statement of Profit and Loss	15,00,000
- Capital Reserves	10,00,000
Sub-Total	25,00,000
GRAND TOTAL	1,07,00,000

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2016, (CARO, 2016) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than ₹ 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding ₹ 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding ₹ 10 crore during the financial year.

Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2016?

- (a) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of ₹ 1.07 crore i.e. more than ₹ 1 crore as on the Balance Sheet date.
- (b) Reporting under CARO, 2016 shall be applicable as the company is having a paid up capital and reserves and surplus of ₹ 1.02 crore i.e. more than ₹ 1 crore as on the Balance Sheet date.
- (c) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of ₹ 0.92 crore i.e. not more than ₹ 1 crore as on the Balance Sheet date.
- (d) Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of ₹ 0.82 crore i.e. not more than ₹ 1 crore as on the Balance Sheet date.

Answer (c) Reason: Reporting under CARO, 2016 shall not be applicable as the company is having a paid up capital and reserves and surplus of ₹ 0.92 crore [(40-5) +25+7+0+15+10] i.e. not more

than ₹ 1 crore as on the balance sheet date, and the other conditions relating to borrowings & total revenue are also within the limits of exemption.

- (Selected) 5. CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?
- In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
 - In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
 - In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
 - In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

Answer (a) Reason: According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', when the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework].

- (Selected) 6. Mincy Ltd. appointed CA. John for auditing complete set of consolidated financial statements of the company. CA. John need to perform group audit along with its subsidiaries. CA. John is unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements, i.e., unable to obtain audit evidence about the financial information of a joint venture investment that represents over 92% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements. State what type of opinion CA. John must have provided in the given scenario?
- Unmodified opinion.
 - Qualified opinion.
 - Adverse opinion.
 - Disclaimer of opinion.

Answer (d) Disclaimer of opinion.

Reason: According to SA 705 'Modifications to the Opinion in the Independent Auditor's Report', the auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive

- (Selected) 7. XoXo Ltd. is a newly incorporated mediocre company running a store dealing in readymade garments. The company has huge amount of accounts payable. While examining the accounts payable, CA. Tasmanian, the auditor of the company, verified each and every invoices shown under the head accounts payable and made a decision that the balance shown has no material misstatement. However, test for segregation of duties between person handling payments and person updating accounts is not possible due to newly incorporated mediocre company. Thus, CA. Tasmanian misinterpreted the verification results which enhanced the risk instead of reducing the audit risk to an acceptably low level that he would fail to detect a misstatement in the purchasing process which could be material, either individually or when aggregated with other misstatements. What type of risk is this?
- (a) Audit risk.
 - (b) Inherent risk.
 - (c) Control risk.
 - (d) Detection risk.

Answer (d) Reason: Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

- (Selected) 8. Infringe Ltd. appointed CA. Bugs as an auditor of the company for the current Financial Year. After 3 months of the appointment, the company arranged a small get together between all the staff, officers and members of the company along with their family to celebrate company's last 5 years achievements, where CA. Bugs introduced Mr. Felix, his Father-in-Law, to the Board of Directors of the Company. Discovering that Mr. Felix has created a niche in the field of book keeping, the Board of Directors offered him the service of book keeping of the company, which was also accepted later on. Which of the following statement is best fitted in the given scenario?
- (a) CA. Bugs shall not continue holding office of the auditor of Infringe Ltd. as his relative, Mr. Felix, shall be providing book keeping service to the company which is restrained as per section 144 of the Company.
 - (b) CA. Bugs shall not continue holding office of the auditor of Infringe Ltd. as the Board of Directors shall first ask for his permission before offering the book keeping service to his relative, Mr. Felix.
 - (c) CA. Bugs may continue holding office of the auditor of Infringe Ltd. as the restrained service accepted by his relative, Mr. Felix, is after his appointment as auditor of the company.
 - (d) CA. Bugs may continue holding office of the auditor of Infringe Ltd. as Mr. Felix is not his relative as per the provisions of the Companies Act, 2013.

Answer (d) Reason: Section 144 of the Companies Act, 2013 restrains, in the case of an individual, the auditor or his relative, from providing certain services to the company which includes the book keeping service. However, the term 'relative' as defined under the Companies Act, 2013 does not include Father-in-Law. Thus, Mr. Felix, Father-in-Law of CA. Bugs, is allowed to provide any services as restrained under section 144 of the said Act.

- (Selected) 9. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non- consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further

determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. State whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

- (a) M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.
- (b) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
- (c) SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
- (d) M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non- consolidation of a subsidiary.

Answer (c), Reason: SA 701 is mandatory in the case of audit of listed entities and according to the same, if the auditor has determined that there are no key audit matters to communicate, the auditor shall state under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Qualified (Adverse) Opinion section, we have determined that there are no [other] key audit matters to communicate in our report.'

(Selected) 10. Mitshubish Ltd. is a worldwide automotive manufacturer. The company appointed CA. Knight after retirement of pervious auditor on completion of 5 consecutive years due to rotational provisions. While preparing for audit plan, CA. Knight discovered that the company has huge amount of other income in the name of interest from fixed deposits in bank. Thus, for verification of fixed deposits shown in the Balance Sheet, he obtained the list of fixed deposits matured and running during the year and prepared a reconciliation chart like opening balance + additions made during the year - matured = closing balance. While for vouching the interest income from fixed deposits, state what audit procedure shall he follow?

- (a) Obtain a copy of Form 26AS (TDS withholding by the bank) and reconcile the interest reflected therein to the income recognized.
- (b) No need for confirmation from third party. Calculate the accrued interest income yourself and cross verify the same from the accounts.
- (c) Verify that only interest from outstanding fixed deposits in Balance Sheet has been recognised as income.
- (d) Obtain the calculation sheet from the management and verify that the same has been recorded as an income.

Answer (a) Reason: While vouching for interest income from fixed deposits, the auditor may obtain a copy of Form 26AS (TDS withholding by the bank/ financial institution) and reconcile the interest reflected therein to the income recognized.

1. Oasis Water solutions Limited ("Company") have finalized an arrangement with its members. To initiate the process Company has to make an application to tribunal. A creditor's responsibility statement is a mandatory attachment for that application. Which format is to be used as creditor's responsibility statement?

- (a) Form No. CA1
- (b) Form No. CAA1
- (c) Form No. BA1
- (d) Form No. BAA1

2. You are a consultant of Omega Watches Private Limited, subsidiary of Omega SA, Swiss Company. Omega Watches Private Limited have three shareholders based in Switzerland and one resident shareholder based in India. All shareholders are directors of the Company. Board has started maintaining register of members in Switzerland. As their consultant you have to make sure relevant compliance requirements are being fulfilled. Within how many days Registrar has to receive an intimation of such foreign register being maintained in Switzerland?

- (a) 15 days
- (b) 30 days
- (c) 45 days
- (d) 60 days

3. You are conducting a session of corporate law for CA students. One of the students asked you about special notice required for certain resolutions. You explained the meaning of special notice and how notice of the intention to move such resolutions is required. As per the provision of the Act, who is eligible to give special notice to the Company?

- (a) members holding not less than one percent of total voting power or holding shares on which an aggregate sum of not less than five lakh rupees has been paid up on the date of the notice;
- (b) members holding not less than five percent of total voting power or holding shares on which an aggregate sum of not less than five lakh rupees has been paid up on the date of the notice;
- (c) members holding not less than one percent of total voting power or holding shares on which an aggregate sum of not less than ten lakh rupees has been paid up on the date of the notice;
- (d) members holding not less than five percent of total voting power or holding shares on which an aggregate sum of not less than ten lakh rupees has been paid up on the date of the notice;

4. Annual General Meeting (AGM) of Mogale Private Limited shall be held before 30th September, 2018. Twenty one days' notice of the meeting has to be given either in writing or in electronic mode. However management missed this time limit. Now they want to call Annual General Meeting on shorter notice. AGM cannot be called on shorter notice unless consent is received by members for the same. How many members have to give their consent for holding AGM on shorter notice?

- (a) Seventy-one per cent of the members ;
- (b) Seventy-five per cent of the members ;
- (c) Ninety-one per cent of the members ;
- (d) Ninety-five per cent of the members ;

5. You are part of the internal audit team appointed for QRS Bank Ltd. for the financial year 2017-18 and your senior has instructed you to verify the cash vouchers for the quarter ending 30th September 2017 of a branch located in Mumbai. While verification you noticed that most of the vouchers have been signed by the teller only i.e. the official responsible for cash receipts and payments over the counter, however in the system they have been authorised by one more official. As an internal auditor you should :

- (a) Report the matter in Executive summary paragraph of your Internal Audit Report.
- (b) Considering the matter as immaterial it should be ignored.
- (c) The Branch manager should be advised to rectify the discrepancy and the observation is closed.
- (d) If the same discrepancy has not been reported in any other audit report then it should be rectified by the management for the vouchers of the audit period and the auditor should verify the compliance of the same.

6 AD Chartered Accountants have been appointed central statutory auditors for the branches of Efficient Bank Ltd. for the year 2017-18. You are part of the audit team for Varanasi branch of the bank and have been instructed by your senior to verify the exception report for the audit period. While verifying the same you noticed that exception report is printed on daily basis but the report of some dates have not been signed by some officials, though the reports have been seen and verified by the branch manager. The same observation was there in previous internal audit reports also. As a statutory auditor what will be your decision for disclosure of discrepancy in audit report?

- (a) Discuss the matter with the management and request for a written representation as audit evidence.
- (b) Get all the exceptions reports rectified within the audit period and give a clear report.
- (c) Ignore the discrepancy as it is not material in nature.
- (d) Give a qualified opinion in the audit report.

7. Coyote Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under the custody of third party). CA. Star, the auditor of the company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Star to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party?

- (a) Attend third party's physical counting of inventory.
- (b) Calculate inventory turnover ratio.
- (c) Analyse how fast Coyote Ltd. is selling its inventory and compare it to the industry.
- (d) Evaluate the discounts provided by Coyote Ltd. to its customers.

8. Kothari Industries Ltd is engaged in business of manufacturing cement pipes. Under the new legislation, the company is required to install safety equipment in its premises by 31 December 2017 after which there will be a penalty for non-compliance of INR 20,000 per month. The cost of the equipment was INR 600,000.

At 31 March 2018, the company failed to install the safety equipment.

What provision should be made in accordance with Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets' at 31 March 2018?

- INR 60,000
 - INR 6,60,000
 - INR 6,00,000
 - No provision is required
9. The accountant of Ponto Ltd wants to calculate the net deferred tax expense for the year ended 31 March 2018. The following information is available:

	Deferred tax liability	Deferred tax asset
31 March 2017	INR 2,80,000	INR 80,000
31 March 2018	INR 4,00,000	INR 88,000

The net deferred tax expense for the year ended 31 March 2018 is:

- INR 3,12,000
 - INR 88,000
 - INR 1,12,000
 - INR 8,000
10. During the year ended 31 March 2018, Zee Ltd has acquired 60% shares of Global. In accordance with Ind As 103 Business Combinations, goodwill arising on acquisition of subsidiary amounted to INR 20 lakh. The tax rate applicable for Zee Ltd is 30%

The deferred tax liability relating to goodwill will be:

- INR 6,00,000
- INR 36,000
- INR 3,60,000
- Zero

Answer Keys

1.	(b)	2.	(b)	3.	(a)	4.	(c)	5.	(d)
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 - b) INR 6,60,000
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