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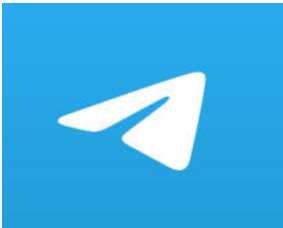
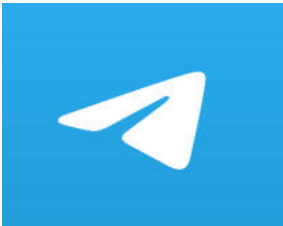


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CA INTER AUDIT

CASE STUDY MCQ

1. Rohit, Gurpreet, Ali and Goreti are friends since their school days based in Mumbai. They have cleared CA foundation exams in the same attempt and now plan to appear for CA Intermediate exams. All of them are avid news listeners and regularly keep track of business news even on social media.

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

During one informal get together, their discussions centred around new subject of auditing. They discussed many things regarding its nature, scope, benefits and other general practical issues. Goreti was regular in keeping track of audited results of companies being published in leading newspaperS. Her view was that audited financial statements of companies give 100% guarantee to different stake holderS. It is the main reason behind so much reliance upon auditing. But she could not understand why wrong doings in financial matters are being discovered after many years have gone by.

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

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

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

Based on above, answer the following questions: -

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

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

Ans- c) It provides reasonable assurance meaning a high level of assurance

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

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

Ans- c) No, he cannot do so. He can only request for providing him with necessary information and documents. But it cannot be forced by him.

iii) Ali had listened in one of the classes that audit covers all aspects of an entity and concluded that each and every transaction of entity is verified by auditor. Goreti also seemed to be in agreement with him but she was of the view that besides this, it also meant that audit should be so organized to cover all areas of an entity. Which of following statements is appropriate in this regard?

- a) Only view of Ali is correct.
- b) Only view of Goreti is correct.
- c) Views of both Ali and Goreti are correct
- d) Views of both Ali and Goreti are incorrect.

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

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

Ans- a) Since auditing is connected to future events, audited information can be easily relied upon by useRs. Goreti told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of following statements seems to be appropriate in this regard? [N]

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

- a) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.
- b) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.

c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately. d) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare odd cases.

Ans- c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to

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

1. The hotel has two banquet halls. The documentation available for verification of banquet hall revenue is only the invoice raised by the hotel and some mail conversations on customer enquiry and finalization of price. On audit trial, it is found that finance approval of the transaction is only after invoice is sent to them for accounting at final settlement. Advance paid by the clients are not vetted through finance team. The auditor suspects a weakness in this system.

2. The auditor also finds a control deficiency in the process of procurement of stores. A goods receipt note is not prepared at the time of receipt of goods. On enquiry with management, the auditor finds that there exists a system control wherein goods receipt note is automatically prepared and approved in the system once the quantity and price of goods is entered against specific vendor. This entry is on real-time basis and system does not allow backdated entries

3. The auditor enquires of the management as to what is risk assessment process followed by the entity for prevention and detection of risk of material misstatement due to fraud and

error. The auditor finds there is no documented risk assessment process. With the help of the above facts answer the following questions by choosing the correct option.

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

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

Ans- b) Control risk in the class of transaction

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

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

Ans- c) Audit risk also includes the risk that the auditor may express an opinion that the financial statements are

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

- a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.
- b) Even though compensating controls are there, since one control is ineffective, the auditor should not rely on control for this assertion and should perform extensive procedures.

c) Documentation in electronic medium cannot be accepted, hence, he cannot rely only on system control.

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

Ans- a) Since compensating controls are identified, if tested and evaluated to be effective, the auditor can rely on the control.

iv.) In the context of SA 315, which among the following is NOT a risk assessment procedure?

a) Inquiries of management, of appropriate individuals within internal audit function and of others within the entity

b) Analytical Procedures

c) Observation and Inspection

d) External Confirmation

Ans- d) External Confirmation

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

a) The auditor should obtain management written representations on how risks are identified

b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.

c) The auditor should advise the management to document the same immediately and accordingly opine on the same in his audit report too.

d) The auditor shall discuss with management on how risks are identified by system and place reliance on the same as documentation in this context is immaterial.

Ans- b) The auditor shall discuss with management on how risks are identified, addressed and determine whether the absence is appropriate in the circumstances or whether it represents a significant deficiency in internal control.

3) A firm of Chartered Accountants by the name of YZ and Associates was appointed to audit the books of accounts of NH Limited for the FY 2021- 22. YZ and Associates consisted of two partners by the name of Mr. Y and Mr. Z.

NH Limited was into manufacturing business of carpets. The demand of carpets manufactured by NH Limited was not just in India, but also in international markets. As a result, the volume of transactions related to the business of manufacturing carpets was also huge. Mr. Y, the engagement partner, knew that it would not be possible to audit each and every transaction, so he decided to use the technique of Audit Sampling for the purpose of audit of NH Limited.

The audit engagement team consisted of four member Rs. One team member, Mr. Rahul, was of the opinion that the population from which the sample was required to be selected for the purpose of audit must have three important characteristics, namely, appropriateness, completeness and reliability. According to opinion of second team member, Mr. Sachin, every individual item that make the population is important from the point of view of creating a sample for the purpose of audit.

For different items of Financial Statements, Mr. Y and his team members used different methods for selecting the sample.

The examples of which are as follows:

(1) For the purpose of creating a sample of Repair and Maintenance Expenses, following information was available: Number of items in Population = 400

Sample Size = 50

Sampling Interval = $[400/50] = 8$

Out of the 400 Repair and Maintenance Expenses transactions during the FY 2021-22, a transaction each from sampling interval of 8 units was selected to create a sample size of 50 units for the purpose of audit.

(2) A sample was created for Power and Fuel Expenses with the help of random number tables.

(3) For the purpose of creating a sample of Printing and Stationery Expenses no structured way was used. A sample was created without following a particular technique.

(4) A sample was created for Travelling Expenses related to business of NH Limited by selecting transactions of amount exceeding Rs.12,000.

i.) With respect to the repair and maintenance expenses incurred by the company during the FY 2021-22, which of the following methods of sample selection was used by the audit engagement team?

- a. Haphazard Sampling.
- b. Systematic Sampling.
- c. Random Sampling.
- d. Block Sampling.

Ans- b. Systematic Sampling.

ii.) For checking the power and fuel expenses which of the following methods of sample selection is used by the audit team.

- a. Systematic Sampling.
- b. Haphazard Sampling.
- c. Block Sampling.
- d. Random Sampling.

Ans- d. Random Sampling.

iii.) By using which method of sample selection did the audit team select the sample for printing and stationery expenses?

- a. Block Sampling.
- b. Systematic Sampling.
- c. Random Sampling.
- d. Haphazard Sampling.

Ans- d. Haphazard Sampling.

iv.) By following which sample selection method did the audit team create the sample for auditing the travelling expenses related to business of NH Limited?

- a. Monetary Unit Sampling.
- b. Random Sampling.
- c. Block Sampling.
- d. Systematic Sampling.

Ans- a. Monetary Unit Sampling.

v.) Mr. Sachin was of the opinion that every individual item that make the population is important from the point of view of creating a sample for the purpose of audit. These individual items making the population are called as:

- a. Population Units.
- b. Transaction Units.
- c. Required Units.
- d. Sampling Units.

Ans- d. Sampling Units.

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

The auditors want to obtain sufficient appropriate audit evidence regarding inventories. In above context, answer the following questions: -

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

- a. It is mandatory for the auditor to attend physical inventory counting on the date of financial statements in all circumstances.
- b. Physical inventory counting may be attended by auditor on the date of financial statement or at a date other than date of financial statements in his discretion mandatorily in all circumstances.

c. The attendance of auditors at physical inventory counting is impracticable due to time and costs involved because of auditor's office location vis-à-vis company's plant location. Hence, attendance at physical inventory counting may be skipped and alternative audit procedures may be performed to obtain sufficient appropriate evidence.

d. The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting.

Ans- d. The auditor shall attend at physical inventory counting unless impracticable. However, issue of time and costs involved because of auditor's office location vis-à-vis company's plant location is not a valid basis for skipping physical inventory counting.

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

a. Nature of inventory, timing of physical inventory counting and stages of completion of work in progress

b. Nature of inventory, timing of physical inventory counting and valuation method of inventory

c. Nature of inventory, timing of physical inventory counting, considerations regarding maintenance of a perpetual inventory system

d. Risks of material misstatements related to inventory, nature of internal control pertaining to inventory, considerations regarding maintenance of a perpetual inventory system

Ans- b. Nature of inventory, timing of physical inventory counting and valuation method of inventory

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

a. Observance of performance of management's count procedures, inspection of inventory, performing test counts and evaluation of management's procedures for recording and controlling results of physical inventory counting

b. Observance of performance of management's count procedures, performing test counts, inspection of inventory and evaluation of management's procedures for recording and controlling results of physical inventory counting

c. Performing test counts, inspection of inventory, Observance of performance of management's count procedures and evaluation of management's procedures for recording and controlling results of physical inventory counting

d. Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts

Ans- d. Evaluation of management's procedures for recording and controlling results of physical inventory counting, Observance of performance of management's count procedures, inspection of inventory and performing test counts

iv.) During attendance at physical inventory counting, the auditor inspects inventory.

Following outcomes stated as I, II & III are given below of this inspection procedure: -

Outcome I --- Existence of inventory

Outcome II ---- Ownership of inventory

Outcome III ----- Condition of inventory

Which of following statements is most likely true?

a. Outcomes I, II and III are all necessarily established after inspection.

b. Only Outcomes I and III are established after inspection and Outcome II is never established.

c. Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.

d. Outcome II and III are established after inspection. However, outcome I may not be necessarily established.

Ans- c. Outcomes I and III are established after inspection. However, outcome II may not be necessarily established.

v.) It was observed by auditors that, out of total rice physically counted on 31st March, 2022 about 67 quintals of rice belonged to M/s PQR, a proprietary concern which had sent

paddy to this company's plant for extraction of rice. What would be treatment of this item in financial statements of company?

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

Ans- c. The value of 67 quintals rice would not be reflected in company's financial statements.

5. i) CA X is nearing completion of audit procedures during course of audit of a company. He has found nothing unusual till now. The company is earning handsome profits since last many years and there is little debt burden on it. It is also in process of expanding its business by taking loan from a bank. The bank has also granted "in-principle" approval for lending money to the company. Which of the following statements is most appropriate in evaluation of going concern assumption being followed by management?

- a) Appropriateness of management's assessment may be made by auditor without performing detailed evaluation procedures.
- b) Appropriateness of management's assessment would be made by auditor by performing detailed evaluation procedures.
- c) Appropriateness of going concern assumption would be made by auditor directly by skipping management's assessment.
- d) Appropriateness of going concern assumption would be made by auditor by necessarily examining cash flow forecast.

Ans- a) Appropriateness of management's assessment may be made by auditor without performing detailed evaluation procedures.

ii.) Whose primary responsibility is to assess an entity's ability to continue as a going concern?

- a) Management
- b) Auditors
- c) Both management and auditors
- d) Regulator

Ans- a) Management

iii.) Going concern is one of the _____

- a) fundamental auditing responsibilities
- b) fundamental accounting assumptions
- c) fundamental auditing assumptions
- d) fundamental accounting reporting frameworks

Ans- b) fundamental accounting assumptions

iv.) Which of following is not an objective of auditor in accordance with SA 570?

- a) To conclude on appropriateness of management's use of going concern basis of accounting in preparation of financial statements
- b) To conclude whether entity would be able to pay its bank loans on due dates
- c) To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.
- d) To report in accordance with SA 570.

Ans- b) To conclude whether entity would be able to pay its bank loans on due dates

v.) Which of the following is not an example of an event or condition that may cast significant doubt on entity's ability to continue as a going concern:

- a) Loss of key management without replacement
- b) Adverse key financial ratios
- c) Inability to pay creditors on due date
- d) Current year profit turns to loss after providing depreciation

Ans- d) Current year profit turns to loss after providing depreciation

6) Best Tea House is a Co-operative society formed as per the provisions of the Co-operative Societies Act, 1912. It runs a chain of restaurants serving mainly tea and snacks in Delhi. RAS & Associates, a Chartered Accountant firm, has been appointed to conduct the statutory audit of the society. None of the partners of the firm, CA R, CA A and CA S have ever conducted a Co-operative Society audit before and so familiarize themselves with the provisions of the particular Act governing the society before starting the audit.

During the audit, Best Tea House informs the auditors that they have been in operation for the last five years, and no audit was required earlier since their turnover had not exceeded the prescribed limit. While examining the books of account of Best Tea House, RAS & Associates notice that as stated under section 43(h) of the Central Act, certain rules were framed prescribing the books and accounts to be kept by Best Tea House.

The auditors also understand that according to section 5 of the Central Act, in the case of a society where the liability of a member of the society is limited, no member of a society other than a registered society can hold such portion of the share capital of the society as would exceed a maximum of a certain percentage of the total number of shares or of the value of shareholding to a specified amount.

RAS & Associates were concerned with this provision so as to watch any breach relating to holding of shares. While examining the loans of Best Tea House, the auditors notice that the society has given a loan to a relative named Mr. P, of a member of the society, Mr. T, of an amount not exceeding Rs.1000. RAS & Associates examined the overdue debts and checked its classification which they are required to report.

During the audit, RAS & Associates notice few transactions for personal profiteering by members of the management committee, which are ultimately detrimental to the interest of the society. RAS & Associates report this matter to the required authority to take necessary action.

After the conclusion of the audit, in addition to the audit certificate in the prescribed form and various schedules, RAS & Associates also answered two sets of questionnaires called

audit memos. The auditors also submitted the audit report in a narrative form addressed to the Chairman of the society which was divided into two parts styled as part I and part II.

Based on the above information, answer the following questions:

i.) According to section 5 of the Central Act, what is maximum percentage of the total number of shares and what is the maximum value of shareholding that RAS & Associates were concerned with, so as to watch any breach relating to holding of shares?

- a) Twenty-five percent of the total number of shares or of the value of shareholding upto Rs.5,000
- b) Twenty percent of the total number of shares or of the value of shareholding upto Rs.5,000
- c) Twenty-five percent of the total number of shares or of the value of shareholding upto Rs.1,000
- d) Twenty percent of the total number of shares or of the value of shareholding upto Rs.1,000

Ans- d) Twenty percent of the total number of shares or of the value of shareholding upto Rs.1,000

ii.) As per Section 29 of the Central Act, Best Tea House cannot give a loan to any person other than:

- a) A member and with the special sanction of the Registrar, relatives of the member not exceeding an amount of Rs.1000.
- b) A member and with the special sanction of the Registrar, another registered society.
- c) A member and with the special sanction of the Registrar, relatives of the member.
- d) A member and with the special sanction of the Registrar, another registered society not exceeding an amount of Rs.1000.

Ans- b) A member and with the special sanction of the Registrar, another registered society.

iii.) Overdue debts for a period from _____ to _____ and more than _____ were classified and reported by RAS & Associates.

- a) 3 months to 6 months and more than 6 months.

- b) 6 months to 3 years and more than 3 years.
- c) 6 months to 5 years and more than 5 years.
- d) 3 months to 5 years and more than 5 years.

Ans- c) 6 months to 5 years and more than 5 years.

iv.) To whom does RAS & Associates report the few transactions noticed during audit?

- a) Registrar of Co-operative Societies
- b) Secretary of Best Tea House.
- c) State Government
- d) Management Committee of Best Tea House

Ans- a) Registrar of Co-operative Societies

7.) Moon Group of companies is a retail chain involved in the selling of daily consumer needs directly to the customer. They are in the process of appointing an audit firm for the audit of their accounts for the financial year 2021-22. Moon Group is a South Indian based consumer store having a total of 16 outlets across 4 cities in South India. Sumant & Co. is appointed as the principal auditor for the entire group. Companies Act 2013 prescribes in detail the terms of this audit engagement. Further, there are many branch auditors appointed for the outlets in the other cities.

The company also has an internal audit function conducted on quarterly basis by Ram & Co. Following are the observations during the course of the statutory audit:

- (a) One of the discounts offered by the store is in the form of payback cards where reward points are accumulated and the customer can redeem the same on subsequent purchase. The management and internal auditors are of the opinion that the points redeemed are to be treated as trade discount. The external auditors are doubtful on the matter.
- (b) One of the outlet in Chennai region is in the verge of getting closed and is only left with low value stock to be cleared before closure. During the year, the sales were only around Rs.1,40,000/- and the auditor considers this component immaterial. All other outlets are performing well with good revenue share.

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

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

i.) As per SA 210 – Agreeing the Terms of Audit Engagement, which of the following statement is correct?

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

Ans- b) Since law prescribes in sufficient detail the terms of the audit engagement, the auditor need not record them in a written agreement except for the fact that law or regulation applies and also seek written agreement from management that it acknowledges and understands that it has responsibility for the preparation of financial statements.

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

- a) The auditor can place reliance and go by the opinion of the branch auditor and internal auditor as they have only done a thorough and detailed audit of the accounts
- b) The auditor can place reliance on the management's accounting policy as prima facie they are only responsible for preparation of financial statements.

c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly.

d) The auditor can advise management on correct treatment but cannot qualify his opinion as branch auditor's opinion has higher authority than external auditor's opinion.

Ans- c) The external auditor has sole responsibility for the audit opinion expressed and hence he should perform procedures to satisfy himself on the correct treatment and issue opinion accordingly.

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

a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.

b) To appropriately direct, supervise and review the work of the internal audit function

c) Review the internal audit report and audit the areas not covered by the internal audit function

d) Enquire from management on the special points that arose during internal audit and follow up on the course of action on those points.

Ans- a) To determine as to which areas, what extent the work can be used and whether that work is adequate for the purposes of the audit.

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

a) Since the professional competence of the auditor is in question, the external auditor should himself visit the premise and audit the accounts.

b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.

c) The auditor can rely on the financial statements of that component by obtaining written representation from management that the branch auditor is otherwise well qualified.

d) Since the professional competence of the auditor is in question, the external auditor should co-ordinate with the branch auditor and call for the books of accounts and other explanations.

Ans- b) Since the financial statement of the component is immaterial, the provisions of SA 600 do not apply.

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

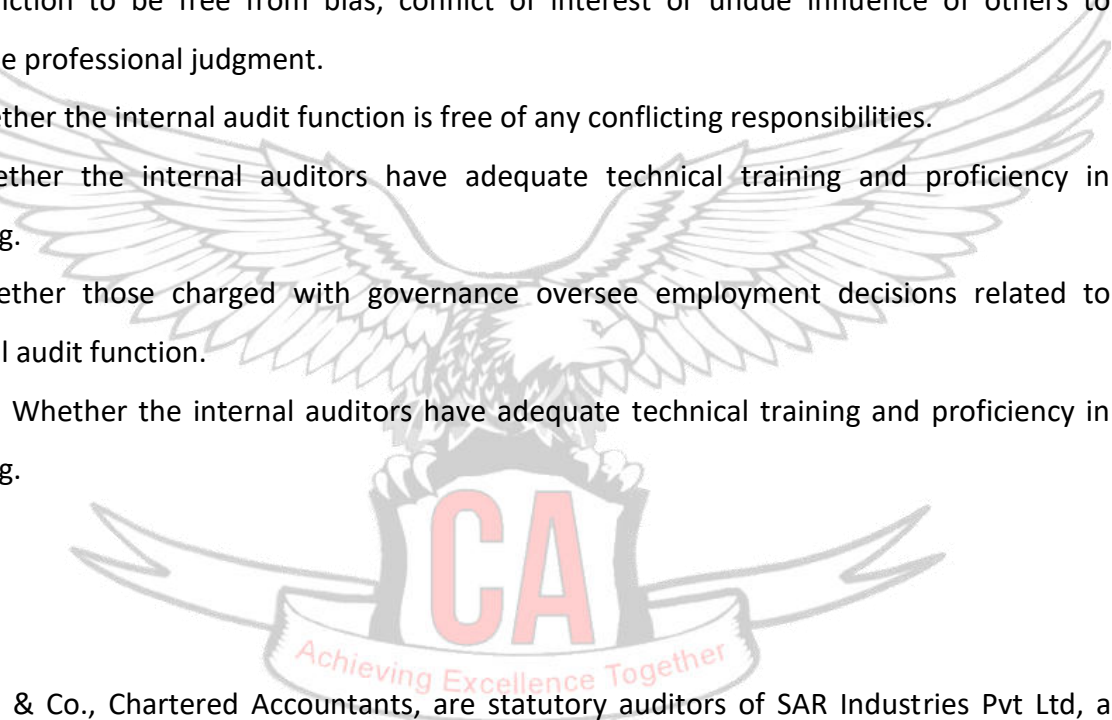
a) Whether the organizational status of the internal audit function supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgment.

b) Whether the internal audit function is free of any conflicting responsibilities.

c) Whether the internal auditors have adequate technical training and proficiency in auditing.

d) Whether those charged with governance oversee employment decisions related to internal audit function.

Ans- c) Whether the internal auditors have adequate technical training and proficiency in auditing.



8.) DS & Co., Chartered Accountants, are statutory auditors of SAR Industries Pvt Ltd, a company engaged in manufacturing business since 2018. The company is operating from rented premises and it does not have building of its own. It had upgraded its machinery last time in 2020. Except interest in this company, promoters, directors, key managerial persons and their relatives do not have interest or ownership in any other entity. Also, the company does not enter into any business dealings with promoters, directors, key managerial persons and their relatives. The directors and key managerial persons get only reasonable remuneration from the company. Though company has an internal control system in place, it has not appointed internal auditor. It is also not mandatorily required to make such an appointment under the provisions of the Companies Act, 2013.

DS & Co. have accepted audit of the above company for year 2022-23 for the first time. Promoters and directors of the company are known to engagement partner only socially for quite some time. However, it is for the first time that any type of professional work related to this company has been accepted by them.

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

The following is extract of financial information of the company: - (figures in rupees crores)

S No.	Particulars	Year 2022-23	Year 2021-22
1.	Turnover	30.00	15.00
2.	Inventories	5.00	2.00
3.	PPE (Gross block)	1.25	1.25
4.	PPE (Net block)	1.00	1.25
5.	Gross Profit	6.00	3.75
6.	Trade receivables	12.50	5.00

The PPE items consist of machinery only. While planning procedures in respect of Property, Plant and Equipment, auditor has included audit procedures like inspecting and reviewing company's plan for performing physical verification of PPE, assessing depreciation method used, verifying cost of PPE items acquired during the year with purchase bills and recalculation of depreciation charged in statement of profit and loss.

Further, while performing risk assessment procedures to identify risk of material misstatements in financial statements., engagement partner has come to notice that there is considerable variation in gross profit ratio as compared to last year. During performance of substantive procedures, he has also studied data of purchases and sales of the company during the year under audit and has also compared such data with preceding year and earlier years also.

Based on above, answer the following questions: -

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

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

Ans-d) The situation reflected in the case scenario may not constitute threat to independence of auditor. Irrespective of this, detection risk in engagement is high.

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

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

Ans- c) Verifying cost of PPE items acquired during the year with purchase bills

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

- a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.
- b) Gross profit ratio has increased in year 2022-23 as compared to year 2021-22. It may be due to the reason that cost of materials purchased by company could have decreased.

c) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that office staff salary engaged in administrative functions and office maintenance expenditure could have increased.

d) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that company has not made an allowance for obsolescence in respect of inventories during the year.

Ans- a) Gross profit ratio has decreased in year 2022-23 as compared to year 2021-22. It may be due to the reason that sales prices may have been reduced by the company to procure more orders.

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

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

Ans- b) Trend analysis forming part of substantive analytical procedures

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

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

Ans- d) SQC 1, SA 700

9.) CA M. Raja has accepted offer of appointment of auditor of an entity. As business carried on by the entity is new to him, he wants to gain an understanding about the entity and its

environment including its internal control. In this regard, he has performed procedures to obtain audit evidence about design and implementation of relevant controls. He has performed various procedures like inquiry, inspection and observation in this regard. He wants reasonable assurance that accounting system is adequate and that all accounting information which should be recorded has, in fact, been recorded.

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

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

Based on above, answer the following questions: -

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

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

Ans- a) Observing application of control

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

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

Ans- c) whether his opinion needs modification

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

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

Ans- c) Not performing bank reconciliation timely, lack of proper sequence in purchase orders,

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

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

Ans- d) To communicate significant deficiencies in internal control along with explanation of their potential effects and to provide sufficient information to understand context of communication to management

10.) Me and You Private Limited has been newly incorporated. The plant of the company has recently started production with the help of funds provided by a bank for purchase and installation of machinery. Further, the company is also utilizing working capital credit facilities from the same bank for meeting its day to day working capital requirements like for purchase of raw materials, labour payment etc. However, just within six months of its operations, the management feels that working capital funds are inadequate and situation is creating liquidity issues in the company.

The management of the company has approached its bankers and requested for enhancement in working capital credit facilities. The bank manager is insisting upon financial statements of the company for half year along with report providing assurance in this respect duly signed by Chartered Accountant as audit is far away. It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management.

The management approaches CA P, who has qualified recently and started practising. Reports providing assurance for half yearly results and projected financial statements are sought from CA P. The Management provides necessary information and records to him in this regard.

Assume, in above case, the company only provides trial balance, financial statements in draft/preliminary form along with accompanying records for the relevant half year to CA P and requests him to provide duly signed financial statements with a report for mutually agreed professional fees.

Based on above, answer the following questions:

i.) The management of company has engaged CA P to issue a duly signed report for half year. Which of the following standards, if any, issued by ICAI are relevant for CA P?

[Author's Note: Language is confusing it's like a Compilation Engagement]

- a) Standards on Review Engagements
- b) Standards on Auditing
- c) Standards on Related Services
- d) There are no standards for issuing report in such situation.

Ans- c) Standards on Related Services

ii.) Which of the following statements is MOST APPROPRIATE in given case situation?

- a) CA P can assist management in preparation of financial statements of the company. However, issue of a report in such a case is outside the scope of work
- b) CA P can assist management in preparation of financial statements of the company and he can issue an audit report.
- c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect.
- d) The responsibility of preparation of financial statement is of company's management. CA P cannot assist management in preparation of financial statements of the company. However, he can issue a review report.

Ans- c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect.

iii.) In the above said scenario for issuance of signed financial statements for half year by CA P, as discussed in last para of Case Study, identify the MOST APPROPRIATE statement:

- a) Standard on Quality control (SQC 1) is not applicable as CA P cannot issue audit report.
- b) Standard on Quality Control (SQC 1) is not applicable as CA P cannot issue review report.
- c) Standard on Quality Control (SQC 1) is applicable in such type of engagement.
- d) Standard on Quality Control (SQC 1) is not applicable as CA P is barred from issuing any report in such type of engagement

Ans- c) Standard on Quality Control (SQC 1) is applicable in such type of engagement.

iv.) The banker of company has also requested for projected FS for coming years along with a report from CA regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?

- a) Standards on Review Engagements
- b) There are no standards for issuing such type of reports.
- c) Standards on Related Services
- c) Standards on Related Services
- d) Standards on Assurance Engagements

Ans- d) Standards on Assurance Engagements

v.) Suppose CA P also accepts work of issuing projected financial statements with a report to be signed by him. The management has projected turnover of Rs. 100 crore for the next year, Rs. 150 crore & Rs. 200 crore for following years respectively as compared to present turnover of Rs.25 crore in current half year. Identify the MOST APPROPRIATE statement in this situation:

- a) CA P has to satisfy himself regarding arithmetical accuracy of projected data.
- b) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover and its consistency with actuals.
- c) CA P has to satisfy himself regarding arithmetical accuracy of data along with its proper presentation to banker.
- d) CAP has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.

Ans- d) CAP has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.

11.) Das & Co, a firm of auditors, is offered appointment as auditor of a company, a prospective new client. CA Sukanya, one of partners, is dealing with new client. While meeting with officers of the company, she comes to know that Sushant, CFO of the company, was her class mate. In fact, both of them had started CA together. However, Sushant had left CA mid-way due to repeated failures and tried his luck to pursue MBA (finance) from one of leading institutions.

During initial discussions, it transpires that company is going to launch new services in the field of "weather- forecasting". Such services would be available on web site of company

and micro weather information would be available on payment of charges. The company requests audit firm to be visibly associated with their marketing blitz.

Assume that firm chooses to accept the offer and writes to previous auditor, Walker & Co., to advise whether there exist any professional reasons for them not to accept the proposed offer. However, Walker & Co. do not reply to the request of Das & Co.

During preliminary discussions, it also became known that the said company has acquired all shares of another company. Under relevant provisions of law, financial statements of both companies needed to be consolidated and audited. Despite this knowledge, Das & Co. failed to advise their client regarding audit of consolidated financial statements.

The company also offers auditors contract for providing IT services pertaining to information system of company.

Based on above, answer following questions:

i). Considering discussion about Sukanya and Sushant, which of the following statements seems most appropriate?

- a) The above discussion is irrelevant in context of proposed offer.
- b) The proposed offer should be accepted by firm. The engagement team may be headed by CA may be CA Sukanya for better coordination and results.
- c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.
- d) The matter is too trivial to be reported by CA Sukanya to other partners of firm.

Ans-c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.

ii.) Keeping in view request of the company to be visibly associated with company's new services, identify which type of threat is being faced by audit firm.

- a) Self-interest threat
- b) Familiarity threat
- c) Self-review threat
- d) Advocacy threat

Ans- d) Advocacy threat

iii.) The previous auditors, Walker & Co., have not replied to communication of Das & Co.

Which fundamental principle of professional ethics is not followed by them?

- a) Objectivity
- b) Professional behaviour
- c) Professional competence and due care
- d) Integrity

Ans- b) Professional behaviour

iv.) Das & Co. have failed to advise the company regarding audit of consolidated financial statements. Which fundamental principle of professional ethics is violated by Das & Co.?

- a) Professional behaviour
- b) Integrity
- c) Objectivity
- d) Professional competence and due care

Ans- d) Professional competence and due care

v.) Which of the following statements is most appropriate regarding providing offer of work of IT services by auditors to the company?

- a) Such offer may create a self-review threat.
- b) Such offer may create an advocacy threat
- c) Such offer does not constitute any threat.
- d) Such offer may create self-review and advocacy threats.

Ans- a) Such offer may create a self-review threat.

12.) Kaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her. She is also taking into account number and location of branches of the company, requirements of Schedule III

of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements. A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

Based on above, answer following questions:

i.) Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?

- a) She is establishing audit strategy.
- b) She is conducting preliminary engagement activities.
- c) She is designing audit plan.
- d) She is checking her compliance of ethical requirements

Ans- b) She is conducting preliminary engagement activities.

ii) Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -

- a) Developing audit plan
- b) Establishing overall audit strategy
- c) Designing audit programme
- d) Designing risk assessment procedures

Ans- b) Establishing overall audit strategy

iii) Taking into account description of planned inquiry and visit, which of the following statements is TRUE?

- a) Planned inquiry and visit fall in area of audit strategy
- b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan
- c) The said description is not related to audit planning.
- d) The said description is not related to audit planning.

Ans- b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan

iv) What is detailed set of instructions given to assistants in engagement team known as?

- a) Audit guidelines
- b) Audit plan
- c) Audit Programme
- d) Audit Procedures

Ans- c) Audit Programme

v) The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?

- a) She should ignore this information as audit has already begun
- b) She should modify earlier set of instructions.
- c) She should leave the matter to wisdom of engagement team.
- d) She should put the ball in court of management as she was not provided with complete information earlier.

Ans- b) She should modify earlier set of instructions.

13.) CA Paritosh is auditor of a company. The financial statements of the company have just been received for audit. Following issues have been flagged pertaining to the financial statements of the company for purpose of risk assessment :-

- (i) The revenue of company has fallen from Rs. 50 crore in last year to Rs. 5 crore in current year (for which financial statements have been received for audit) due to lack of demand in the market for company's products.
- (ii) Due to advent of new products in the market, company's products are fast becoming outdated
- (iii) A large customer having an outstanding balance of Rs. 5 crore has failed to pay to the company despite efforts made by the company.
- (iv) Inventory holding period has increased from 30 days in last year to 90 days.
- (v) The company also gets carried out job operations from third parties. Therefore, parts of inventories are lying with third parties.

Based on above, answer the following questions: -

i.) Regarding drastic fall in revenue of the company, which of the following is an audit risk? [i.e., Due to lack of demand of product]

- a) A fall in revenue would result in fall of profits for the company.
- b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.
- c) The company can explore some new line of activity, if demand of its products is falling.
- d) Fall in revenue would mean lower tax liabilities for the company.

Ans- b) Drastic fall in revenue may imply that company is not able to carry out its operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.

ii.) The company's products are getting outdated in the market. Which of the following is an audit risk?

- a) The company should devise strategies to sell products in the market.
- b) Inventories may be understated in such a scenario.
- c) Inventories may be overstated in such a scenario.
- d) The company should launch a 1+1 free offer for its customers.

Ans- c) Inventories may be overstated in such a scenario.

iii.) A large customer has failed to pay to the company. Identify audit risk from below:

- a) Receivables may be misstated if irrecoverable debt is not written off.
- b) Receivables may be overstated if irrecoverable debt is not written off.
- c) Writing off irrecoverable debt would impact profits of company adversely
- d) Failure to recover outstanding debt would impact cash flows of company adversely.

Ans- b) Receivables may be overstated if irrecoverable debt is not written off.

iv.) Identify audit risk involved when inventory holding period has increased from 30 days to 90 days.

- a) There is a risk of overstatement of inventories.
- b) There is a risk relating to the existence of inventories.
- c) There is a risk that slow movement of stocks would increase tax liability when GST rates are increased.
- d) There is a risk relating to holding and storage cost of inventories.

Ans- a) There is a risk of overstatement of inventories.

v.) Part of inventories are lying with third parties. Identify audit risk involved.

- a) There is a risk that third parties do not manufacture according to specifications of the company.
- b) There is a risk that by getting job work done from third parties, company is increasing its costs.
- c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties.
- d) There is a risk that sufficient and appropriate evidence would not be available for quality control in respect of inventories lying with third parties.

Ans- c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties.

14.) CA Piyush is understanding internal controls as part of audit exercise of a company. It is a new client. He has studied controls in place in various operational areas of the company.

After studying and gaining an understanding of such controls, he has decided to test few controls to actually see whether these are operating as intended by the management. Till now, he has studied controls over inventories and bank. Few of such controls are listed below: -

Nature of Control	Control description
Control over inventories	Inventories of the company lying at each location should be insured.
Control over inventories	There should be inventory counts on a regular basis for each location of the company.
Control over Bank operations	Bank reconciliations are to be performed at regular intervals

Based on above, answer the following questions: -

i.) Which of following most appropriately describes test of control regarding insurance of inventories?

- a) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. The sum insured and period of validity of policy are not relevant.
- b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.
- c) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure policy period has not expired.
- d) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. Ensure policy period has not expired.

Ans- b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.

ii.) Which of the following most appropriately describes test of control regarding inventory counts?

- a) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure.
- b) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count.
- c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.
- d) Attend inventory count and perform test count.

Ans- c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.

iii.) While testing control over bank reconciliations, it has been noticed that bank reconciliations are not being performed at regular intervals. Identify the most appropriate description of "control deficiency" in this regard: -

- a) Bank reconciliations are not being performed regularly as concerned staff is overburdened.
- b) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors.
- c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.
- d) Bank reconciliations are not being performed regularly as concerned staff is overburdened. These should be performed monthly and reviewed by senior accountant.

Ans- c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.

iv.) Since the company is a new client, which of the following statements is most appropriate?

- a) There is reduced detection risk.
- b) There is increased detection risk.
- c) There is no effect on detection risk.
- d) Detection risk should be increased to lower audit risk.

Ans- b) There is increased detection risk.

v.) Which of the following statements is most appropriate regarding auditor's response to assessed risk of a new client?

- a) More substantive procedures would require to be performed.
- b) Less substantive procedures would require to be performed.
- c) There is no effect on substantive procedures.
- d) There is no effect on substantive procedures as audit risk is low.

Ans- a) More substantive procedures would require to be performed.

15.) CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:

- a) Audit programme was prepared assigning responsibilities for different types of work to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- b) The team has determined materiality for financial statements as a whole.
- c) The team has assessed risks of material misstatements to be low.
- d) CA Shobhit is responsible for attending inventory count process and putting down its documentation part
- e) During the course of audit, many related party transactions have come to notice.

i.) Work relating to verification of revenue was assigned to Mohit in audit programme.

However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by

CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?

- a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.
- b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.
- c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.
- d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous.

Ans- c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.

ii.) As regards materiality, which of the following statements is most appropriate in context of audit documentation?

- a) Materiality has already been determined. There is no need to put it into working papers
- b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers
- c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.
- d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.

Ans- c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.

iii.) regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk? (Read language carefully, odd one, means less appropriate)

- a) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.
- b) Details of risk assessment procedures have to be documented
- c) Details about how understanding of each component of internal control was obtained has to be documented.
- d) Precise calculation of risk of material misstatements has to be documented.

Ans- d) Precise calculation of risk of material misstatements has to be documented.

iv.) CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?

- a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.
- b) Detail of test counting undertaken should form part of audit documentation.
- c) Detail of obsolete goods found should form part of audit documentation
- d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.

Ans- d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.

v.) As regards related party transactions, which of the following should not be part of audit documentation?

- a) Management representation letter in this regard
- b) Related party transaction policy of the company
- c) Documentation to show that such transactions are at arm's length basis
- d) Documentation to show that such transactions are at close length basis.

Ans- d) Documentation to show that such transactions are at close length basis.

16.) CA Drishti Khandelwal is conducting audit of a company engaged in manufacturing of towels and bedspreads. The company is having its own manufacturing set-up. However, it

also gets some manufacturing processes outsourced from third parties. The company has three locations having substantial quantities of inventories in the same city. Besides, due to outsourcing of some processes, inventories are also held in premises of third parties in the same city. As part of audit procedures, she is performing many audit procedures required by different Standards on Auditing.

In particular, she is attending physical inventory count process of the company at year end in accordance with requirements of SA 501. The inventory of the company includes raw materials consisting mainly of natural and dyed yarns, work in process in different stages of manufacturing and finished stocks of towels and bedspreads. She is also planning sending confirmations to parties to whom the company has sold goods. On reviewing trade receivables list, she finds that the list also contains large number of parties having small balances. She further finds that these receivables have arisen due to sale of bedspreads to small time retailers and possibility of difference in balances as per company's records and as per records of these small-time retailers is low. Risk of misstatements in relation to trade receivables has been assessed as low. Besides, there is nothing to suggest that small-time retailers would disregard such requests.

While conducting audit, she is testing controls operating in the company. She is also conducting tests of various items of income and expenditure as well as balances appearing in balance sheet. She intends to rely upon sampling extensively.

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

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

d) She should inspect the inventory to ascertain its existence and condition at all locations and perform counting of each and every item.

Ans- a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting.

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

a) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company as well as request third parties to allow her to inspect inventories held by them. Both requirements are necessary to be complied with.

b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.

c) There is no obligation cast upon an auditor in respect of inventories lying with third parties

d) She should request confirmation from third parties regarding quantity, condition and value of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these is sufficient for purposes of SA 501.

Ans- b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.

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

a) She should not plan and design confirmation requests for large number of parties having small balances.

b) She should plan and design positive confirmation requests for large number of parties having small balances.

- c) She should plan and design positive confirmation requests for large number of parties having small balances and meticulously analyse exception rate
- d) She should plan and design negative confirmation requests for large number of parties having small balances.

Ans- d) She should plan and design negative confirmation requests for large number of parties having small balances.

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

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

Ans- d) Sampling is used in tests of details as well as tests of controls.

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

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

Ans- d) Sampling risk will always be in existence.

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

(A) She plans to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.

(B) She plans to verify that all balances appearing under trade payables are genuine and not fake.

(C) She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.

(D) She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.

(E) The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.

i.) As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform? i.e., bills are entered correctly and their classification is proper

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

Ans- b) Tests of transactions

ii.) Identify which type of assertion she intends to focus when she wants to ensure genuineness of trade payables (i.e., Payable are Genuine or Fake)

- a) Occurrence
- b) Cut-off
- c) Existence
- d) Accuracy

Ans- c) Existence

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

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

Ans- d) She is intending to perform substantive analytical procedures.

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

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

Ans- b) Inspection

v.) She wants to verify whether conversion of foreign currency into Indian rupees is proper or not. Identify what she is trying to do? (i.e., sales invoice raised in Euro, properly converted into INR)

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

Ans- b) Recalculation

18.) Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.

Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.

Before concluding audit, he requests written representations from management regarding its responsibilities.

However, it is noticed that such written representations provided by management use qualifying language. He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails. Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.

i.) As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?

- a) The auditor should express an unmodified opinion
- b) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters
- d) Such an issue does not affect auditor's opinion.

Ans- c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters

ii.) As regards going concern basis of A/cing is concerned, which of the following statements is true?

- a) A company showing net loss in its financial statements is essentially not a going concern.
- b) Following going concern assumption of accounting is primary duty of auditor
- c) In case, a company is not a going concern, its FS must be prepared on liquidation basis.
- d) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.

Ans- c) In case, a company is not a going concern, its FS must be prepared on liquidation basis.

iii.) Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?

- a) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report
- b) There is no obligation for an auditor to perform audit procedures after signing of auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.
- c) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events
- d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.

Ans- d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.

iv.) As regards use of qualifying language in written representations, which of the following statement is most appropriate?

- a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.
- b) Written representations should be unconditional. Such a wording is not acceptable.
- c) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances
- d) Qualifying language in written representations is compulsory

Ans- a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

v.) As regards auditor's responsibility regarding matters communicated orally with those charged with governance, which of following is most appropriate?

- a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.

- b) Matters communicated orally need not be put into writing. It is sufficient for auditor to have communicated orally
- c) Matters communicated orally need not be put into writing. It is not practically feasible
- d) Matters communicated orally have to be documented by the auditor stating to whom these were communicated

Ans- a) Matters communicated orally have to be documented by the auditor stating when and to whom these were communicated.

19.) M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:

During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference in depreciation, but M/s Persistent & Co. has stated that they don't want to change the financial statements and if the auditor persists, they may give the effect in the next financial year.

During the audit of M/s Dubious Brothers, Mr. B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into the bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner, and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr. B

During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based on above, answer following questions:

i.) In case of M/s Persistent & Company, what would be an ideal Audit Opinion?

- a) Unmodified
- b) Qualified
- c) Mention the fact in Emphasis of Matter Paragraph
- d) Disclaimer

Ans- b) Qualified

ii.) In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?

- a) Qualified
- b) Adverse
- c) Disclaimer
- d) Unmodified

Ans- c) Disclaimer

iii.) According to you, what would be appropriate course to take in the case of M/s Honest & Associates?

- a) Issue Qualified Opinion
- b) Issue Adverse Opinion
- c) Mention the fact of change in method in Emphasis of Matter Paragraph
- d) Issue Disclaimer of Opinion

Ans- c) Mention the fact of change in method in Emphasis of Matter Paragraph

iv.) When the Auditor, after conclusion of an Audi Audit exercise, is of the opinion that there are material misstatements in the FS, but they are not pervasive, then what should an Auditor do?

- a) Issue unmodified Opinion
- b) Issue Qualified Opinion
- c) Issue Disclaimer of Opinion
- d) Mention it in Emphasis of Matter Paragraph

Ans- b) Issue Qualified Opinion

v.) When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:

- a) Modified Opinion
- b) Qualified Opinion
- c) Disclaimer of Opinion
- d) Unmodified Opinion

Ans- d) Unmodified Opinion

20.) CA M is conducting statutory audit of branch of MMC Bank. During the course of audit, it is noticed as under:-

(i) Loans under "Kisan credit card" are given by Bank to farmers to meet their short-term credit needs for cultivation of crops.

In respect of one agricultural advance classified under "Kisan Credit Card" having an outstanding balance of Rs.20 lacs as at year end, there is no transaction in account since last 90 days. The said loan has been granted for cultivation of paddy which is harvested in a period of 3-4 months from sowing. The branch has classified the said advance as "Standard asset"

(ii) It is also observed that account of one borrower availing cash credit limit of Rs.50 lacs was taken over from another bank. The proposal was sanctioned by branch manager instead of immediate next higher authority as required in "Manual of Delegation of Powers" of Bank.

(iii) It is noticed that head office of bank has flagged a savings account maintained in branch in which interest was wrongly paid at higher rate due to wrong data feeding entry. Now, situation has been rectified by debiting excess interest paid in the account. Since there was little balance in savings account, a debit balance of Rs. 1.50 lac was created in the said savings account due to above reversal. The matter was immediately informed to account holder. However, he has not turned up for payment since matter was informed to him about six months ago.

(iv) There are many cash credit accounts in the branch. Such borrowers are required to submit monthly stock statements to branch showing calculation of drawing power.

(v) One borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet.

Based on above, answer following questions:

i.) As regards description of agricultural advance, which of the following statements is most appropriate in this regard?

- a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset
- b) The classification made by branch is proper. However, there are no transactions in account since last 90 days, it is SMA.
- c) The classification made by branch is proper.
- d) The branch has erred in making classification as per RBI norms. It is a "doubtful" asset.

Ans- c) The classification made by branch is proper.

ii.) Regarding taken over account from another bank, which of following statements is most appropriate?

- a) It is an internal issue of Bank and auditor is not concerned with it.
- b) It is an internal issue of Bank. However, the auditor may, at his discretion, report it
- c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.
- d) There is no issue involved as credit facility was properly sanctioned.

Ans- c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.

iii.) As regards debit balance of Rs.1.50 lacs in Savings account, which of the following is correct from point of view of an auditor?

- a) The situation does not attract RBI norms on asset classification.
- b) The debit balance of Rs. 1.50 lacs should be classified as NPA.
- c) The situation does not attract RBI norms on asset classification as no credit facility was granted.
- d) The bank cannot demand excess interest paid to account holder.

Ans- b) The debit balance of Rs. 1.50 lacs should be classified as NPA.

iv.) Which of the following statements is not true about "drawing power" (DP)?

- a) Drawing Power refers to the amount calculated based on primary security less margin as on particular date.
- b) It is always less than sanctioned limit.
- c) It can be different from sanctioned limit
- d) Creditors for goods are reduced for purpose of calculating Drawing Power.

Ans- b) It is always less than sanctioned limit.

v.) Considering housing loan and car loan availed by a borrower, which of the following statements is appropriate?

- a) Both Housing loan as well as car loan should be classified as "Non Performing Assets" in accordance with RBI norms on asset classification
- b) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset.
- c) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset.
- d) Both Housing as well as car loans should be classified as Standard assets.

Ans- a) Both Housing loan as well as car loan should be classified as "Non Performing Assets" in accordance with RBI norms on asset classification

21.) Consider the following five descriptions:

- a) Audit of "Implementation of Nagpur Metro Rail Project" was conducted by the Comptroller and Auditor General of India.

Following is extract of few audit findings placed on website cag.gov.in.

"The location of New Airport station was not ideal from the viewpoint of ridership due to sparse population in and around the station and also from the accessibility point of view.

Cotton Market station, the second additional station was projected to have high peak hour peak direction trips but the work was kept on hold midway citing fund crunch due to non-

release of pending contribution from stakeholders. However, the situation could have been managed through prioritization of works."

b) Another set of audit findings in respect of audit of Haryana Power Generation Corporation Limited, a wholly owned government company responsible for operation of power generation plants in state of Haryana is as under:

"The main reason for low generation was higher variable cost of thermal power stations which resulted in backing down of plants."

c) A report was tabled in Parliament highlighting main features of direct taxes administration of country as mandated in Constitution of India. This report primarily discussed compliance to the provisions of the Income Tax Act, 1961 and the associated rules and procedures etc. as applied to administration of direct taxes including irregularities noticed in finalizing assessments etc.

d) Radial finance corporation Limited is a government company. The audit of the company is conducted by statutory auditors appointed by Comptroller and Auditor General of India.

e) Bharat Insurance Company Limited is a general insurance government owned company. The statutory auditor is appointed by Comptroller and Auditor General of India.

The annual report for a particular year also contains comments of statutory auditors on matters such as whether company has carried out reconciliations in respect of its inter-company balances with other government owned insurance companies.

Based on above, answer following questions:

i.) Based upon plain reading of audit findings stated at Para (A), identify type of audit carried out by office of the Comptroller and Auditor General of India

- a) Audit against provision of funds
- b) Propriety audit
- c) Performance audit
- d) Compliance audit

Ans- c) Performance audit

ii.) Keeping in view audit findings in respect of Haryana Power Generation Corporation Limited, identify type of audit carried out.

- a) Audit of Government Company

- b) Audit against rules and orders
- c) Compliance audit
- d) Performance audit

Ans- d) Performance audit

iii) Which of the following is the most appropriate statement in context of report tabled in Parliament regarding administration of direct taxes?

- a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India.
- b) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by an independent task force of experts.
- c) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Central Board of Direct Taxes.
- d) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by Central Board of Direct Taxes.

Ans- a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India.

iv.) Who is empowered to conduct "supplementary audit" in case of Radial finance Corporation Limited, a government company?

- a) Central Government
- b) Another independent auditor appointed by CAG
- c) CAG
- d) Another independent auditor appointed by Ministry of Corporate Affairs

Ans- c) CAG

v.) As regards comments of auditors specified in respect of audit report of above insurance company, which of the following is likely to be most appropriate statement?

- a) Such are likely to be comments of test audit carried out by CAG.
- b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work.
- c) Such are likely to be comments of supplementary audit carried out by CAG

d) Such are likely to be comments of statutory auditors in accordance with requirements of Standards on Auditing

Ans- b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work.

22.) Sunsteel Ltd. is a company engaged in the manufacture of variety of stainless steel household items ranging from hot pot, pressure cooker, cutlery set, bottles, to serving trays. The company has its corporate office in Delhi and its plant in Raigarh, a city in the state of Chhattisgarh. The company is planning to expand its manufacturing activities by setting up two new plants in the Raipur district of the state. For this purpose, the company also raised funds by making a follow-on public offer during the financial year 2022-23. R K Maheshwari & Associates are the statutory auditors of the company since the year 2020-21. The engagement team consisted of 5 members, with CA Raman as the engagement partner, CA Madhu as the senior associate and three articled trainees namely, Aman, Chetanya and Depesh.

The company raised fresh capital of Rs.5 Cr during the FY 2022-23. The shares with the nominal value of Rs.10 per share were issued at a premium of Rs.5 per share.

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

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

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

CA Raman directed Mr. Aman to send balance confirmation requests to debtors having balance in excess of Rs.1 lakh.

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

Also, while considering the presentation and disclosure requirements as per Schedule III to the Companies Act,

CA Madhu discussed with CA Raman the disclosure with respect to the following account balances:

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

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

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

Ans- c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company

ii.) Which of the following is not an example of capital reserve?

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

Ans- d) General reserve

iii.) Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client.

Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances

- a) Only statement 1 is correct
- b) Only statement 2 is correct
- c) Both statements 1 & 2 are correct
- d) Both statements 1 & 2 are incorrect

Ans- c) Both statements 1 & 2 are correct

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

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

Ans- b) Stock Composition Analysis

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

- a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings

b) Long term maturities of finance lease obligations is to be disclosed under the head long term borrowings

c) Interest accrued but not due on borrowings is to be disclosed under the head Other Current Liabilities

d) Interest accrued and due on borrowings is to be disclosed under the head Other Current Liabilities

Ans- a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings

23.) A partnership firm of Chartered Accountants, YZ and Associates were appointed as auditor of company UV Private Limited. The financial year for which YZ and Associates were to audit books of accounts of UV Private Limited began on 1 April, 2018 and ended on 31 March, 2019.

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

While auditing books of accounts of UV Private Limited for the period beginning on 1 April, 2018 and ending on 31 March, 2019, one of the partners of YZ and Associates namely Mr. H took up the expenses part for the purpose of audit.

The management of UV Private Limited had adopted various accounting policies and principles related to expenses which Mr. H as auditor of UV Private Limited was unable to understand. Some of the issues which Mr. H was unable to understand are mentioned as follows:

(1) Power and Fuel expenses paid for the months of April, 2019 and May, 2019 have been included and shown as Power and Fuel expenses for the period beginning 1 April, 2018 and ending 31 March, 2019.

(2) Personal Rent Expenses of the son of one of the director, Mr. T of UV Private Limited have been shown as Rent Expenses of business of UV Private Limited.

(3) Repair and Maintenance Expenses for the months of February 2019 and March 2019 were still outstanding and were not shown in Balance Sheet of UV Private Limited.

(4) Repair and Maintenance Expenses for the financial year 1 April, 2018 to 31 March, 2019 were very high as compared to financial year 1 April, 2017 to 31 March, 2018. The auditor Mr. H asked the appropriate authority about the reasons for such huge differences in amounts of two financial years.

(5) While verifying the insurance expenses, the insurance policies were not shown to auditor Mr. H.

The above mentioned five points were some of the issues which Mr. H was unable to understand.

Answer the following questions:

i.) As per the point number (1) mentioned in the above case, the Power and Fuel Expenses paid for the months of April 2019 and May 2019 must be shown under asset side of balance sheet of UV Private Limited as on 31 March, 2019 as:

- (a) Outstanding Power and Fuel Expenses
- (b) Prepaid Power and Fuel Expenses
- (c) Power and Fuel Expenses
- (d) Power and Fuel Expenses Payable

Ans- (b) Prepaid Power and Fuel Expenses

ii.) As per point number (2) mentioned above in the case, the Personal Rent Expenses of the son of one of the director Mr. T were added to Rent Expenses of business of UV Private Limited. The amount of personal rent expenses of the son of the director Mr. T must be:

- (a) Subtracted from Rent Expenses of business of UV Private Limited
- (b) Remain Added to Rent Expenses of business of UV Private Limited
- (c) Again Added to Rent Expenses of business of UV Private Limited
- (d) Subtracted twice from Rent Expenses of business of UV Private Limited

Ans- (a) Subtracted from Rent Expenses of business of UV Private Limited

iii.) As per point number (3) mentioned above in the case, the Repair and Maintenance Expenses outstanding for the months of February 2019 and March 2019 must be shown under liability side of balance sheet of UV Private Limited as on 31 March, 2019 as:

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

Ans- (d) Repair and Maintenance Expenses Payable

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

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

Ans- (b) Management of UV Private Limited

v.) As per point number (5) mentioned in the case above, in verifying insurance expenses the insurance policies would provide auditor Mr. H as:

- (a) Invalid Supporting
- (b) No Supporting
- (c) Lack of proper Supporting
- (d) Valid Supporting

Ans- (d) Valid Supporting

24.) Mr Laxman is appointed as statutory auditor of Best Limited for the Financial Year ended 31st March, 2020.

During the course of audit, it was found that few doubtful transactions had been committed by finance manager who retired in March, 2020.

The fraud was going on since last 4-5 years and the total amount misappropriated is approximately ₹ 75 lacs.

Balance sheet of Best Ltd. reflected a cash balance of ` 7 crores. The company has taken a loan of ` 2 crores from the bank despite of the huge cash balance with the company.

Also, Companies Act bestows some duties on auditors to report matters to Central Government in case of fraud.

On the basis of above facts answer below questions in relation to Mr Laxman's role and duties while conducting statutory audit of Best Limited.

i.) Mr Laxman shall obtain _____ that the financial statements are free from fraud and misstatement.

- (a) Absolute assurance
- (b) Reasonable assurance
- (c) Management's assurance
- (d) Chief Financial Officer assurance

Ans- (b) Reasonable assurance

ii.) Mr Laxman suspects that cash payments were inflated. Out of the below which could be probable reason for such inflated cash payments.

- (a) Not accounting for cash sales completely
- (b) Making payments against purchase vouchers
- (c) Making payments against inflated vouchers
- (d) Teeming and Lading

Ans- (c) Making payments against inflated vouchers

iii.) As per Section 143 (12) of Companies Act, 2013 & Rule 13 of CAAR, 2014; Mr Laxman shall

- (a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.
- (b) report the matter to the audit committee constituted under section 177 within such time and in such manner as prescribed.
- (c) report the matter to the audit committee constituted under section 177 and also to the Board within such time and in such manner as prescribed.
- (d) report the matter to the Board within such time and in such manner as prescribed.

Ans- (a) report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as prescribed.

iv.) Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.

- (a) Inherent, unavoidable
- (b) Inherent, complete
- (c) Management, unavoidable
- (d) Regulatory, control

Ans- (a) Inherent, unavoidable

v.) As an auditor what conclusion can Mr Laxman draw looking at the huge cash reserve of the company and corresponding bank loan?

- (a) Report this matter to the Central Government u/s 143(12) as there is a possibility of fraud
- (b) Obtain sufficient and appropriate audit evidence of existence of fraud
- (c) Report the matter under CARO, 2020
- (d) There is nothing to report as it's a normal financial decision

Ans- (b) Obtain sufficient and appropriate audit evidence of existence of fraud

25.) M/s JK & Associates have been appointed as auditors of Venus Ltd. for the financial year 2019-20. The team consist of Mr. J & Mr. K both Chartered Accountants as also the engagement partners and the audit staff consisting of 2 article assistants. While starting the audit work of Venus Ltd, the engagement partners briefed the audit staff about the audit work, areas to be covered and the various auditing concepts and their application in the audit of Venus Ltd along with applicable Standard on Auditing.

Various topics like audit planning, overall audit strategy, audit programme were discussed in detail. The team was told about the purpose and implication of various statements and guidance notes issued by the Institute of Chartered Accountants of India (ICAI) from time to time. Mr. K also briefed the team about the concept of materiality to be applied while planning and performing audit. The team was also explained in detail about the area where benchmark materiality can be applied in case of Venus Ltd.

Based on the above facts, answer the following:-

i.) sets the scope, timing & direction of the audit and guides the development of the more detailed plan.

- (a) Audit Programme
- (b) Overall Audit Strategy
- (c) Completion Memorandum
- (d) Audit Plan

Ans-(b) Overall Audit Strategy

ii.) Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.

Statement 2: The auditor shall establish an overall audit strategy that guides the development of audit plan.

- (a) Only Statement 1 is correct
- (b) Only Statement 2 is correct
- (c) Both Statements 1 & 2 are correct
- (d) Both Statements 1 & 2 are incorrect

Ans- (a) Only Statement 1 is correct

iii.) means the amount set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatement exceeds materiality for the financial statements as a whole :-

- (a) Benchmark Materiality
- (b) Materiality in Planning
- (c) Performance Materiality
- (d) Materiality.

Ans- d) Materiality.

iv.) Which of the following is not an example of benchmark that can be used in determining the materiality in the case of financial statements:-

- (a) Total Revenue
- (b) Profit before tax
- (c) Net Asset Value
- (d) None of the above

Ans- (b) Profit before tax

v.) Guidance notes issued by ICAI provide guidance to members on matters which may arise in the course of their professional work.

(ii) Statements are issued by ICAI with a view to secure compliance by members on some matters.

(iii) Guidance notes are recommendatory in nature.

(iv) Statements are mandatory in nature.

- (a) All the above statements are correct.
- (b) Statements 1 & 2 are correct
- (c) Statements 1, 2 & 3 are correct
- (d) Statements 1,2 & 4 are correct

Ans- (d) Statements 1,2 & 4 are correct

26.) ABC Ltd. is a company dealing in products namely chocolate and coffee. ABC Ltd. approached audit firm XYZ & Associates for the statutory audit of its financial statements for the year ended 31.03.2021. The Gross turnover of the company is ` 105 crores, out of which turnover from one of its products namely coffee is of ` 95 crores during the immediate preceding Financial Year.

During the course of Audit, XYZ & Associates found certain delay in the payment of the Employees Provident Fund by ABC Ltd. They understand that the same needs to be reported under the relevant provisions of Companies (Auditors Report) Order 2020.

During the FY 2020-2021, Mrs. X, wife of CA Mr. X who is partner in XYZ & Associates acquires certain shares of ABC Ltd. The audit firm is of the opinion that this may call for a disqualification for the firm for being working as the auditor of the company under the relevant provisions of the Companies Act 2013.

Further, ABC Ltd. also approached the auditors to provide them the Investment Banking service to which the auditors denied as per the provisions of Companies Act 2013.

During the course of audit, XYZ & Associates has reason to believe that an offence of fraud involving some amount has been committed in the ABC Ltd. by its General Manager. The auditors understand that there is a requirement for reporting of fraud by the auditors under the Companies Act and the relevant rules.

Based on the above facts, answer the following:-

i.) After the appointment of XYZ & Associates, ABC Ltd. should inform the auditor and file a notice of such appointment with registrar within:-

- (a) 60 days
- (b) 30 days
- (c) 15 days
- (d) 20 days

Ans- (c) 15 days

ii.) If Mrs. X acquires security exceeding the prescribed limit in the ABC Ltd., then XYZ & Associates shall take corrective actions within.....days. What is the prescribed limit:-

- (a) 100 days, Market Value Rs 1,00,000
- (b) 60 days, Face value Rs 1,00,000
- (c) 90 days, Face value Rs 1,00,000
- (d) 15 days, Market Value Rs 1,00,000

Ans- (b) 60 days, Face value Rs 1,00,000

iii.) Under which section reporting of fraud by an auditor to the Central Government is required and what is the amount of fraud:-

- (a) Section 143(12), 1 crore & above
- (b) Section 139(12), 1 crore & above
- (c) Section 143(12), 2 crore & above
- (d) None of the above

Ans- (a) Section 143(12), 1 crore & above

iv.) What is the requirement for ABC Ltd as per the relevant provisions regarding maintenance of cost records:-

- (a) Maintenance of cost records is mandatory, in form CRA 1.
- (b) Maintenance of cost records is mandatory, in form CRA 2.
- (c) Maintenance of cost records is mandatory, in any general format.
- (d) No requirement of maintenance of cost records.

Ans- (a) Maintenance of cost records is mandatory, in form CRA 1.

v.) Under relevant clause of CARO,2020, XYZ & Associates is required to report the extent of arrears of Employees Provident Fund as at the balance sheet date:-

- (a) Exceeding 9 months
- (b) Exceeding 3 months
- (c) Exceeding 6 months
- (d) Exceeding 12 months

Ans- (c) Exceeding 6 months

27.) XYZ Ltd. is a company engaged in the development of computer hardware. The company has purchased a software namely Zenith X in the current financial year i.e. FY 2019-20. This software will be used by XYZ Ltd. for the production of various hardware. M/s. ABC & Associates are working as the auditors of XYZ Ltd. since Financial Year 2017-2018.

Since XYZ Ltd. has purchased the software during the current Financial Year, the auditors are of the understanding that there are certain requirements that the company should follow as per relevant provisions applicable in this case.

Also, the auditors had advised their audit staff to give special consideration to the expenditure being capitalized during the year and those which are charged to revenue during the current financial year.

The auditors, M/s ABC & Associated have directed their audit staff to check the following in detail:

- the provisions relating to the depreciation and amortisation of assets and intangible assets and
- the applicability of various Accounting Standards applicable to the entity.

Based on the above facts, answer the following:-

i.) Which of the following expenses should not be charged to revenue by XYZ Ltd.:-

- (a) Printing & Stationary
- (b) Power & Fuel
- (c) Salary & Wages of employees engaged directly or indirectly in production.
- (d) Major repairs of fixed assets that increases its productivity.

Ans- (d) Major repairs of fixed assets that increases its productivity.

ii.) XYZ Ltd. should recognize Zenith X software as intangible, if such software.....:-

- (a) Is held for use in production or supply of goods or services
- (b) Is held for administrative purpose
- (c) Is held for rental to others
- (d) All of the above

Ans- (d) All of the above

iii.) In case any intangible asset is not in active use by the entity , the auditor should check whether:-

- (a) The deletion with respect to the intangible asset has been recorded in the books of accounts post approval by the entity's management.
- (b) The amortisation charge has ceased beyond the date of deletion.
- (c) Both a & b
- (d) None of a & b

Ans- (c) Both a & b

iv.) With respect to the provisions of impairment of computer software, the following Accounting Standard is applicable:-

- (a) AS 18
- (b) AS 28
- (c) AS 26

(d) AS 10

Ans- (b) AS 28

v.) The following expenditure should not be capitalized with respect to the intangible assets:-

(a) Expenditure during Development Phase.

(b) Expenditure during Research Phase.

(c) None of the above.

(d) Both a & b.

Ans- (b) Expenditure during Research Phase.

28.) Sun Private Limited is a newly formed private limited company, engaged in the manufacturing of solar panels. Company has appointed M/s M&S Associates, a Partnership Firm of Mr Meticulous and Mr Sincere - as their First Auditors. M/s M&S Associates accepted the assignment and Mr Meticulous being the engagement Partner, started their Audit.

During the course of Audit, Mr Meticulous asked the Management for name of the companies operating in similar business so that they can compare the Company's Figures. During this procedure, Mr Meticulous found that the Gross Margin of the Company is lower than the Industry Standard / Fellow Companies. He prepared an Interim Report dealing with this matter and asked the Management about the reasons for this deviation. Management asked him to give all the working along with the Working Papers as they believed it is the Company's Property. Mr Meticulous advised them that he can provide working but cannot give them the working papers as they are the property of the Firm.

Management agreed to that and asked Mr Meticulous to go into detail and tell him the reasons for lower Gross Margin to which he agreed. During the detailed audit, Mr Meticulous came to know about the fact that the company dispatched its solar panels to its Distributors on Delivery Challans and once the goods were accepted, Sales bills were raised. Checking each Challan against Sales Invoices, Mr Meticulous found that there were many challans for which no Invoices were raised and thus Sales was grossly understated and there was no mechanism where unbilled Challans were recorded or tracked. Company employed a person to reconcile all the Challans and prepared a list where Bills are yet to be sent to the

Customers. In addition, Company was also asked to seek Confirmation of Balances from all its Customers. The Management assured Mr Meticulous that Inventories are physically verified and hence there will be no impact on them.

i.) Mr Meticulous asked about other Companies, he was intending to perform which audit procedure?

- (a) Analytical Procedures
- (b) Substantive Procedures
- (c) Random Sampling
- (d) Statistical Sampling

Ans- (a) Analytical Procedures

ii.) What was the initial procedure carried on by Mr Meticulous?

- (a) Trend Analysis
- (b) Ratio Analysis
- (c) Statistical Modelling
- (d) Random Sampling

Ans- (b) Ratio Analysis

iii.) Who has the right to retain the audit working papers of the Company in current case?

- (a) Audit Committee
- (b) Board of Directors
- (c) Auditor
- (d) Chairman of the Audit Committee

Ans- (c) Auditor

iv.) When Mr Meticulous decided to go in detail checking of Sales, which Audit Procedure he applied to obtain the evidence?

- (a) Test of Transactions
- (b) Test of Balances
- (c) Both (a) and (b)
- (d) Analytical Procedures

Ans- (c) Both (a) and (b)

v.) The impact of the exercise carried on by the Company for unbilled challans will have an impact on

- (a) Gross Receipts and Debtors
- (b) Gross Receipts and Inventory
- (c) Debtors
- (d) Inventory

Ans- (a) Gross Receipts and Debtors

29.) M/s Arun Karun & Associates have been appointed as the statutory auditors of HKM Ltd. for the FY 2019-20. HKM Ltd. is a company engaged in the manufacture of computer hardwares. CA Arun is the engagement partner and his team consists of two article assistants, namely Mr. Ram & Mr. Shyam.

While performing the audit procedures, Mr. Ram did production analysis and calculated the expenditure per unit and compared the same with the previous year and the present year industry trends. When Mr. Ram asked the management about the reasons for variations, he was told that such reasons have already been explained to the cost auditors and the statutory audit team need not spend their time on matters which are of concern for the cost auditor. Mr. Ram was convinced and agreed to the suggestions of the management of HKM Ltd.

Further, during the course of audit, CA Arun found that there has been an increase in the paid up share capital of the company. CA Arun obtained a written representation from the management with respect to such increase in the share capital. Also, CA Arun found that in the company there is a cashier, a petty cashier and in addition there are imprest balances with the employees. Further, the audit team verified all the travelling expenses recognised during the period to confirm whether they relate to the current accounting period only.

CA Arun directed Mr. Ram to verify whether the employee benefit expense has been fairly allocated between the operating expenses incurred in production activities and the general expenses. CA Arun also directed his team to check in detail the particulars of Revenue reserve and share premium account of the company.

Based on the above facts, answer the following:-

i.) With respect to the contention of the management of HKM Ltd. regarding the production analysis and the related variances, which of the following is correct?

(a) M/s Arun Karun & Associates need not waste its time in production analysis as the same is the responsibility of the cost auditor of the company.

(b) M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.

(c) M/s Arun Karun & Associates should mention in its audit report regarding the fact of noticed variation in the production analysis. Also they need to mention separately that the management along with the cost auditor is responsible for such analysis.

(d) M/s Arun Karun & Associates should ensure that the cost auditor of HKM Ltd. mentions the fact regarding the production analysis in their cost audit report which is to be filed with the Board of Directors and the Central Government.

Ans- (b) M/s Arun Karun & Associates should perform production analysis and discuss the reasons of variation with the management of HKM Ltd.

ii.) With respect to the audit of cash balance of HKM Ltd. which is the correct course of action for M/s Arun Karun & Associates?

1. The cash balance with the cashier, petty cashier, and imprest balances with the employees should be checked simultaneously.

2. The cashier should be present while cash is being counted and he should sign the statement prepared containing the details of the cash balance so counted.

3. Since the company is having more than one cash balances i.e. with cashier, petty cashier, and imprest balances with employees, CA Arun should ask the management to get the cash balance verified by the main cashier and furnish cashier's report to him.

4. CA Arun should ask any of the cashiers to verify the cash balances and provide him with a report on the same.

(a) Statement 1 & 2

(b) Statement 1 & 4

(c) Statement 1,3 & 4

(d) Statement 1 & 3

Ans- (a) Statement 1 & 2

iii.) Verification of all the travelling expenses of HKM Ltd. by the audit team addresses the following assertion related to the Income Expense account:

- (a) Valuation
- (b) Completeness
- (c) Measurement
- (d) Existence

Ans- (b) Completeness

iv.) Verifying whether employee benefit expense of HKM Ltd. has been fairly allocated between the operating expense incurred in production activities and general expense addresses which of the following assertions?

- (a) Completeness
- (b) Presentation and Disclosure
- (c) Measurement
- (d) Occurrence

Ans- (b) Presentation and Disclosure

v.) Which of the following is correct with respect to the provisions relating to revenue reserves of HKM Ltd?

- i. Revenue Reserves of HKM Ltd. can be used to supplement divisible profits in lean years.**
- ii. Revenue Reserve cannot be used to augment the working capital of the business of HKM Ltd.**
- iii. Revenue Reserve cannot be used to finance an extension of the business of HKM Ltd.**
- iv. Revenue Reserve can be used to generally strengthen the company's financial position.**

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

Ans- (b) i & iv are correct

30.) M/s ANS & Associates have been appointed as the auditors of Star Ltd. for the Financial Year 2019-20.

- During the year under audit, Star Ltd has issued share capital at a premium of Rs 5 per share. The auditors understand that certain provisions as per the Companies Act 2013 related to the issue of shares at premium are applicable to the company.
- Also, Star Ltd. has issued Sweat Equity shares to its employees during the year. M/s ANS & Associates has advised its audit staff to check in particular whether the company has complied with the relevant provisions related to the issue of sweat equity shares as per the Companies Act 2013.
- Further, the auditor understands that the Company Star Ltd. needs to file various forms with different authorities when there is a change in the share capital of the company during the year.
- Also special consideration is given under audit to the treatment of reserves as Revenue vs Capital by the company during the financial year.

Based on the above facts, answer the following:-

i.) As there is a change in the share capital of Star Ltd. during the year, which of the following combination related to the forms to be submitted is not correct:-

- (a) Form SH 7: To be filed with Ministry of Corporate Affairs
- (b) Form CRA 2: To be filed with the Central Government
- (c) Form PAS: To be filed with the Ministry of Corporate Affairs.
- (d) Form FCGPR: To be filed with the Reserve Bank of India.

Ans- (b) Form CRA 2: To be filed with the Central Government

ii.) The Securities Premium Account can be used by the Star Ltd. for various purposes, except one:-

- (a) In writing off the preliminary expenses of the company
- (b) Towards the issue of the unissued shares of the company to the members of the company as fully paid bonus shares
- (c) For purchase of its own shares and other securities under section 68.
- (d) To be used as working capital.

Ans- (d) To be used as working capital.

iii.) With regard to the issue of Sweat Equity shares following conditions have to be complied. Identify the incorrect one:-

- (a) The issue is authorized by ordinary resolution passed by the company.
- (b) The resolution should specify the number of shares, the current market price.
- (c) Not less than one year has at the date of such issue, elapsed since the date on which the company has commenced business
- (d) Where the equity shares of the company are listed on recognized stock exchange, the shares are issued in accordance with requirements by SEBI.

Ans- (a) The issue is authorized by ordinary resolution passed by the company.

iv.) Which of the following is not correct:-

- (a) Section 52- Securities Premium Account
- (b) Section 53- Issue of shares at discount
- (c) Section 54- Issue of Bonus Shares
- (d) Section 68- Buyback of shares

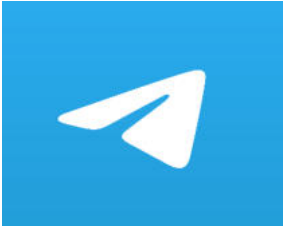
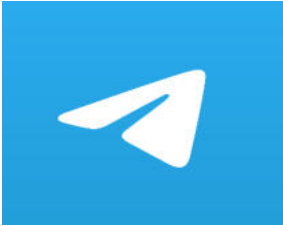
Ans- (c) Section 54- Issue of Bonus Shares

v.) With respect to which of the following, passing of a Special Resolution is required by a company:-

- (a) Issue of Sweat Equity Shares
- (b) Reduction of Share Capital
- (c) Both a & b
- (d) None of a & b

Ans- (c) Both a & b

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