



CA Inter Audit Test-1 Ch-1 (Initial Topics)

Time: 1 Hour

Marks: 30 Marks

Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name wherever applicable

MCQs [10 Marks (5Q * 2 Marks each)]

1. An auditor is concerned with the reporting on financial matters of business and other institutions. Financial matters inherently are to be set with the problems of human fallibility; errors and frauds are frequent. Which of the following is not correct about qualities of auditor?

- Tact, caution, firmness, good temper, integrity, discretion, industry, judgement, patience, clear headedness and reliability are some of qualities which an auditor should have.
- All those personal qualities that go to make a good businessman contribute to the making of a good auditor.
- In addition, he must have the shine of culture for attaining a great height. He must have the lowest degree of integrity backed by adequate independence.
- He is called upon constantly to critically review financial statements and it is obviously useless for him to attempt that task unless his own knowledge is that of an expert. An exhaustive knowledge of accounting in all its branches is the sine qua non of the practice of auditing. He must know thoroughly all accounting principles and techniques.

2. A Chartered Accountant finds during the course of statutory audit of a company that management is not serious about findings of internal audit reports. No action has been taken on findings of internal auditor and reports for last two quarters are gathering dust. He has further found that management has not disclosed information relating to transactions with another company. However, he has assiduously gathered that it is a related party by going through annual reports of past years and searching online database on MCA portal.

The described situation most appropriately denotes _____?

- Objectivity
- Professional knowledge
- Independence
- Professional skepticism

3. During course of audit of a company, it is noticed by auditor that Profit before tax of company is Rs. 5 lakhs. Depreciation on building reflected in Schedule of PPE forming part of financial statements has been computed for Rs.10 lacs. The correct depreciation, according to him, should be Rs.25 lacs. The above description as a whole is an example of _____?

- Misstatement



- b) Assertion
- c) Sampling method
- d) Audit risk

4. Which of the following is incorrect about professional skepticism.

- a) The auditor shall plan and perform an audit with professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.
- b) Maintaining professional skepticism throughout the audit is necessary if the auditor is to reduce the risks of overlooking unusual circumstances
- c) Professional skepticism includes being alert to audit evidence that contradicts other audit evidence obtained.
- d) The auditor can disregard past experience of the honesty and integrity of the entity's management and those charged with governance.

5. ZETA Private Limited is a recently established start-up formed with objective for promoting use of polyhouses and offering farmers necessary know-how for setting up such structures. Polyhouses enable farmers to grow good quality crops like vegetables throughout the year. At a meeting, directors discuss about pros and cons of independent audit of financial statements in a start-up like theirs. Which of following statements is false in this regard?

- a) It is mandatory requirement for their start-up. There are no choices.
- b) Audited financial statements may be used by start-up for obtaining funds from prospective investors.
- c) Such an audit can point out deficiencies in internal control system of start-up's business.
- d) Such an audit would necessarily result in reflection of higher profits leading to higher income tax liabilities for start-up.

Descriptive Questions [20 Marks]

1. Nature of financial reporting itself is one of causes of inherent limitations of audit of financial statements. Explain. [3M]
2. The auditor carries out his work by obtaining audit evidence through performance of audit procedures. However, there are practical and legal limitations on ability of auditor to obtain audit evidence. Give one example each for such practical and legal limitations. [3M]
3. CA N is the auditor of SR Ltd. The auditor expressed his opinion on the financial statements without ascertaining as to whether the financial statements as a whole were free from material misstatements or not. In your opinion, whether CA N has complied with objectives of audit considering the applicability of relevant SA? [4M]
4. CDE Private Limited, a manufacturing company, had made investment in shares of some blue-chip companies. Additionally, it had temporarily deposited some of its extra funds in fixed deposits with a scheduled bank. Dividend from shares amounting to ₹ 1.80 lakhs (net of TDS, TDS = ₹ 0.20 lakhs) and bank interest of ₹ 2.70 lakhs (net of TDS, TDS = ₹ 0.30 lakhs) were credited in bank account of the company. During the year 2023-24, it has also sold some shares resulting in net gain of ₹ 5 lakhs. The company has



shown above incomes under head “Other income” for consolidated amount of ₹ 9.50 lakhs in the statement of Profit and Loss. No other information is furnished in the financial statements put up for audit. As the auditor of the company, discuss whether the above situation constitutes “misstatement” in the financial statements of the company. Also state, few examples of misstatements. [5M]

5. “An audit is independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.” Explain stating clearly how the person conducting this task should take care to ensure that financial statements would not mislead anybody. [5M]