



CA Inter Audit Test-5 (Ch-6 Sampling & SA 450)

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 only wherever applicable.

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

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 2023- 24. 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 members. 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 ₹ 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.

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.

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.

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.

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.

Descriptive Questions [20 Marks]

1. Audit testing done through Statistical sampling is more scientific than testing based entirely on the auditor's own judgment because it involves use of mathematical laws of probability in determining the appropriate sample size in varying circumstances. State advantages of Statistical sampling?

[3M]



2. The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement but this projection may not be sufficient to determine an amount to be recorded. Explain.

[3M]

3. With reference to SA 530 “Audit Sampling”, explain briefly the following factors that the auditor may consider when determining the sample size for the Test of Details –

(i) The desired level of assurance (ii) Stratification of the population.

[4M]

4. CA Shubham, the auditor of Sigma Limited, is performing tests of controls and tests of details using audit sampling. During these procedures, he observed deviations in compliance with management's prescribed procedures for sales transactions of small values of a product at one location during tests of controls. Additionally, misstatements were identified in the sample related to these small-value sales transactions during tests of details. How should he proceed to analyse the nature and cause of the deviations and misstatements observed in the sample results?

[5M]

5. CA Raj accumulated misstatements during audit. However management refused to correct them, How the auditor will deal with such case?

[5M]