

**87 marks**

Good Luck comes to you as your hand is full of commitment and courage along with good qualities. Best wishes for your exam, Good Luck! These exams are your opportunity at proving your worth to everyone around you. Grab it and do your best, don't let it pass through. Luck is a funny thing because sometimes it can be good and sometimes it can be bad. So take matters in your own hand, study hard and stop relying on something so fickle. All the best.

Full Test - I  
Division - II (Descriptive)

DATE \_\_\_\_\_  
**4 marks**

Q.2] A)

- i) As per SA 620 'Using the work of an Auditor's Expert', an auditor shall determine whether to use the work of an auditor's expert and whenever used, whether that work is adequate for the auditor's purposes.
- ii) The auditor shall not refer to the work of an auditor's expert in the auditor's report with an unmodified opinion, unless required by law.  
**You have done this question well.**
- iii) Where such reference is made, it shall not reduce the auditor's responsibility for that opinion.
- iv) Further, where auditor makes a reference for the better understanding of a modification in the auditor's report, he shall also refer that such a reference does not reduce auditor's responsibility for that opinion.
- v) In the given case, the auditor has issued a clean report and included the name of the expert in his report to reduce his responsibility for opinion.
- vi) Thus, other than required by law, such reference shall not be made by the auditor. Where such reference, it shall not reduce the responsibility of the auditor for such opinion.

Q. 2] B)

**give specified heading to each point.**

- i) A well defined set of standard operating procedures helps in understanding and communicating controls.

**Enterprise Risk Management**

- ii) where a company has procedures to identify and mitigate risks and early identification of issues, it can help establish effective controls.

**Segregation of Job Responsibilities**

- iii) Multiple important activities should not be allocated to a single person. For the effective controls, segregation of duties can be vital.

**Job Rotation in Sensitive Areas**

- iv) Job rotation at regular intervals is necessary as a person doing a particular job for a long time can lead to misstatements and familiarity.

**Delegation of Financial Powers Document**

- v) To establish an overall control, the delegation of responsibilities shall be surely documented.

**Information Technology based Controls**

- vi) IT Based controls can reduce the risk of material misstatements occurring due to the manual work. Such technology can improve efficiency.

**3 marks**

Q.2] (c)

- i) As per clause (11) of Part I the First Schedule to the Chartered Accountants Act, 1949, a chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he engages in a business activity other than the profession of the Chartered Accountant unless permitted.
- ii) Nothing in this clause shall deny the auditor from becoming the director of a company (other than a Managing Director or whole time director).
- iii) Under the general permission granted by the council, a Recovery consultant for a bank is permissible.

**Good conceptual clarity.**

- iv) In the given case, Mr. D has been offered to be a director (other than MD/whole time director) of M/s. HH Limited and to act as a Recovery Consultant for a bank.
- v) Mr. D is one of the partners of M/s. DD & Co., which has been appointed as the statutory auditors of M/s. SS Limited, which is a partly owned subsidiary of M/s. HH Limited. Thus, Mr. D cannot be appointed as the director of M/s. HH Limited.
- vi) However, Mr. D can become the Recovery Consultant for a bank as per the provisions.

In general, the covered areas are those of investment decisions, project

Q. 3 (A) The focus was on issues of comprehensive and needs of equipment, plant and machinery, production performance, use of materials, productivity of labour, idle capacity, costs and prices etc.

i) How does the overall capital cost compare with the approved planned costs? 3 marks

ii) Whether the estimated production output achieved?

iii) Whether the project formulation and implementation system is adequate or does it require any changes?

iv) Whether there are proper purchase policies?

**little bit you can elaborate some points.**

v) Whether there exists a Research & Development

**What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?**

vi) Whether any repairs and maintenance have been carried out and the system is adequate?

vii) Whether the policies and procedures applied are efficient?

viii) Whether the expected rate of return has been achieved?

Q.3] B) Credit Card Operations :**3.5 marks**

i) Check whether effective screening of applications has been made before issue.

ii) Existence of control system for issue and storage of credit cards is effective.

iii) Before accepting the payment, ascertain the unutilised credit limit of the customer.

iv) Ascertain whether prompt reporting is made to the bank by the merchants.

v) Payment to merchants shall be made only after verifying the authenticity of the transaction.

vi) After the payment, the customer's account shall be immediately debited.

vii) Regular monitoring and follow up is made regarding the payment of dues by the customers.

**add this relevant point.**

viii) Periodic review of the accounts of customers holding credit cards shall be made to ensure regularity. Items overdue beyond a reasonable period should be identified and attended to carefully. Credit should be stopped by informing the merchants through periodic bulletins, as early as possible, to avoid increased losses.

Q.37 c)

**3 marks**

i) As per Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949, a chartered Accountant shall be deemed to be guilty of professional misconduct if he fails to comply with any of the requirements of the Act or the Council General Guidelines.

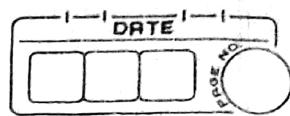
ii) One of the guidelines of the Council requires the practising Chartered Accountant to impart proper practical training to an articled assistant, and in the stipulated time as per the guidelines.

**you described it well.**

iii) In the given case, a Chartered Accountant in practice certified that an articled assistant was undergoing training with him, whereas he was employed in a company between 9:30 am and 5:30 pm and attended the office of the Chartered Accountant thereafter until 7 pm.

iv) The contention that the articled assistant was on audit of the company shall not be valid as the articled assistant is in employment of a company during normal working hours.

v) Thus, the Chartered Accountant in practice shall be deemed to be guilty of professional misconduct.

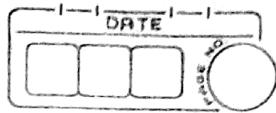


Q.4] B)

- i) As per Clause (vii)(a) of Para 3 to the Companies (Auditor's Report) Order, 2020, the auditor shall be required to report, in case of undisputed statutory dues, whether the company is regular in payment of such dues.
- ii) If not, the details of arrears of statutory dues outstanding for more than 6 months at the end of the financial year shall be reported.
- iii) SA 250 'consideration of Laws and Regulations in an Audit of Financial Statements', auditor shall determine whether the management has ensured that all the applicable laws and regulations have been complied with.

**You have done the whole concept nicely, well-done.**

- iv) In the given case, for the financial year 20-21, M/S CT Ltd. is required to deposit ₹ 2 Lakhs of employee contribution and ₹ 9.5 Lakhs of employer contribution towards employee state insurance corporation. However, only ₹ 4 Lakhs have been deposited during the year.
- v) The contention of the Finance Manager that amount due has not been paid due to financial crunch shall not be tenable and auditor shall be required to report under Para 3(vii)(a) of Companies (Auditor's Report) Order, 2020.



Q.1] (C)

The quality reviewer may qualify the report for any of the following reasons:

- i) Non-compliance with technical standards.
- ii) Non-compliance with applicable laws and regulations.
- iii) Non-compliance with policies of quality control.
- iv) Deficiency in quality control system.
- v) Inadequate or no staff training programmes conducted.

Thus, where Reviewer of Quality Review Board is required to qualify the report, it may be for any of the above stated reasons.

(Q.5] A)

**3.5 marks**

- i) In the given case, M/S. RB Ltd., during F.Y 2018-19, has claimed a deduction of bad debts of ₹ 100 Lakhs.
- ii) However, it has recovered ₹ 75 Lakhs out of the bad debts in F.Y 2020-21 and correctly credited to its profit and loss account. Such income shall be taxable as per Section 41(4) of the Income Tax Act, 1961.
- iii) The tax auditor shall be required to report such income under Section 41(4) under clause 25 of Form 3CD.
- iv) Under Clause 25, the tax auditor shall report any amount chargeable to tax under Section 41 and shall report the amount along with the description and computation if any.
- v) The auditor shall verify the correctness of the income credited to profit and loss account give format provided in the e-filing utility.

**Sr. No.****Name of person****Amount of income****Section**

Q.5] B)

- i) Performance guarantees and counter guarantees are transactions which are undertaken to necessitate the obligation of payment. For this purpose, the company issues a "counter-guarantee" to its Bankers. Such "counter-guarantee" is not really a guarantee at all, but is an undertaking to perform what is in any event the obligation of the company, namely, to pay the insurance premia when demanded or to make deferred payments when due. Hence, such performance guarantees and counter guarantees should not be disclosed as contingent liabilities.

- ii) All other expenses clubbed under the head 'Other Expenses' are required to be recorded as 1% of total revenue or ₹ 100,000, whichever is higher.

Thus, the basis of 1% of total revenue of ₹ 5000 whichever is higher is not correct.

- iii) Deferred Tax Liability and Deferred Tax Asset shall be shown as a net amount. The net difference, if Deferred Tax Liability, to be shown as Current Liability, and if Deferred Tax Asset, to be shown as Current Asset.

Thus, separate disclosure is not correct.

Q.5] (c)

**3 marks**

i) As per SA 315 'under Identifying and Assessing the Risk of material Misstatement through Understanding the Entity and its Environment', an auditor shall be required to obtain the understanding of the automated environment of the entity.

**Good attempted.**

ii) Under such understanding, it shall include

- a) Applications used by the company -
- b) Details of IT infrastructure components
- c) Organisation structure -
- d) Organisation policies and procedures.
- e) IT risks and controls.

iii) In the given case, CA Vipin is of the view that understanding and using auditor's automated environment is optional and not required.

iv) Thus, as per SA 315, the contention of CA Vipin is not correct.

(Q.6) A)

a) When parent's Auditor is also Auditor of all Components -

i) The principal auditor shall verify that principles and procedures as per relevant accounting standards and auditing framework is followed across all the components.

Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.

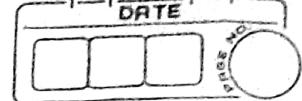
ii) The auditor shall then report for the affairs of the group as a whole on the date of end of the financial year.

b) When Parent's Auditor is not the Auditor of all of its components -

i) The principal auditor shall make a reference of SA 600 'Using the work of Another Auditor'.

This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor. Total assets, revenues and cash flows not audited by the parent's auditor should be presented before giving effect to permanent and current period consolidation adjustments.

iii) It shall not be construed as a qualification but shall just be a reference in the report.

**4 marks**

(Q.6) B)

i) As per SA 57D 'going concern', the auditor shall be required to ascertain the appropriateness of management's assertion of the entity's ability to continue as a going concern.

ii) Where the auditor concludes that entity shall not be able to continue as a going concern, and even though management has prepared financial statements on a normal basis, it shall verify appropriateness of the same.

**You have good conceptual knowledge of this question**

iii) Where such facts have not been stated in the financial statements, the auditor shall give a qualified or adverse opinion, as per SA 705, based on the materiality and persuasiveness.

iv) In the given case, there are significant indicators which cast a doubt on Sun Moon Ltd's ability to continue as a going concern, the facts of which have not been provided by the management in its financial statements.

v) Thus, the auditor shall be required to give an adverse opinion and mention the indicators of inability to continue as a going concern in the basis of opinion paragraph.

**3 marks**

Q. 6] C)

i). As per clause (7) of Part I of ~~Second Schedule to the Chartered Accountants Act, 1949~~, a chartered Accountant in practice shall be guilty of professional misconduct if he fails to exercise due diligence or is grossly negligent in the conduct of assignment.

**Well explained.**

ii) In the given case, Mr. Dhuw, a practicing chartered Accountant, did not complete his work relating to audit and had not submitted his audit report in due time to enable the company to comply with the statutory requirements.

iii) Thus, CA Dhuw shall be held to be grossly negligent and hence shall be deemed to be guilty of professional misconduct.

**3.5 marks****Q.1] A)**

i) As per SA 330 'Auditor's Response to Assessed Risks', the auditor shall be required to perform substantive procedures to ascertain accounting estimates that give rise to significant risks-

ii) The auditor shall check whether management has considered any alternative assumptions for the estimates.

iii) The auditor shall verify whether the assumptions used by the management are appropriate.

**Concept is clear but little bit more content is required.**

iv) The auditor shall verify the intent of the management to carry out appropriate actions against such significant assumptions.

v) If, in the auditor's judgment, management has not adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks, the auditor shall, if considered necessary, develop a range with which to evaluate the reasonableness of the accounting estimate assumptions are not adequately effected

**3.5 marks**

Q.1] B)

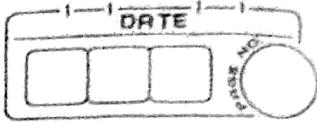
(1) As per SA 501 'Audit Evidence - Specific Considerations for Selected Items', where inventory is material, the auditor shall perform following procedures to obtain sufficient and appropriate audit evidence regarding existence and condition of inventory -

- Attend physical inventory counting to observe the management's inventory policies and inventory counting procedures and also to perform test checking
- Additional procedures to determine whether inventory records reconcile with physical inventory counting.

(II) where attendance to physical inventory counting is not practicable, auditor shall

**give further content as per SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing",**

- perform alternate audit procedures to reconcile inventory records with inventory on the physical counting day.
- where sufficient and appropriate audit evidence cannot be obtained even after performing alternate audit procedures, the auditor shall modify the opinion in audit report.

**3 marks**

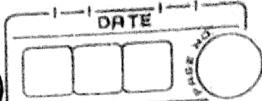
Q.1] C)

- i) As per SA 570 'going concern', where events indicate material uncertainty that may cast a significant doubt on entity's ability to continue as a going concern, and financial statements do not disclose such events, the auditor shall be required to give an adverse opinion in the audit report.

**You have correctly described this.**

- ii) The auditor shall give an adverse opinion and provides the events causing the material uncertainty in the basis of opinion paragraph.

- iii) Thus, CA Prakash shall be required to express an adverse opinion in case of ABC Ltd.



## Division - I : MCQ

Q.1] Option (c)

Q.2] Option (d)

Q.3] Option (c)

Q.4] Option (a)

Q.5] Option (d)

Q.6] Option (d)

Q.7] Option (d)

Q.8] Option (c)

Q.9] Option (d)

**10 marks**

Q.10] Option (a)

Q.11] Option (c)

Q.12] Option (d)

Q.13] Option (a)

Q.14] Option (c)

Q.15] Option (b)

Full Test - I

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DATE

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Q.16] Option (a)

Q.17] Option (b)

**20 marks**

Q.18] Option (c)

Q.19] Option (a)

Q.20] Option (c)