

Test Series: March, 2016

MOCK TEST PAPER – 2
INTERMEDIATE (IPC) GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Question No. 1 is compulsory.

Attempt any five questions from the Rest.

Time Allowed – 3 Hours

Maximum Marks – 100

1. Discuss the following:
 - (a) Matters indicating auditor about non-compliance of laws & regulations by management. *(5 Marks)*
 - (b) "Disclosure of significant accounting policies followed is necessary if the view presented is to be properly appreciated." *(5 Marks)*
 - (c) Guidance Notes issued by the ICAI are mandatory in nature. *(5 Marks)*
 - (d) "Inquiry is one of the audit procedures to obtain audit evidence." *(5 Marks)*
2. State with reason (in short) whether the following statements are correct or incorrect (Answer any **eight**):
 - (i) When the auditor concludes that misstatements are material, but not pervasive, to the financial statements, he should express disclaimer of opinion.
 - (ii) A company shall disclose by way of notes additional information regarding aggregate expenditure and income for an item which exceeds Rs. 1,00,000.
 - (iii) Where at any AGM, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.
 - (iv) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
 - (v) As per SA 570, the objective of the Auditor is to obtain sufficient appropriate audit evidence about the appropriateness of management's use of consistency assumption in the preparation and presentation of the financial statements.
 - (vi) A company can issue its sweat equity shares at discounted price.
 - (vii) 'Errors of commission' is where a transaction has been omitted either wholly or partially.
 - (viii) Section 138 of the Companies Act, 2013 deals with the provisions relating to cost audit.

- (ix) The overall objective of audit does not change in Computer Information System (CIS) environment.
- (x) A company having average net profit during the three immediately preceding financial years of Rs. 100 lakh can make a political contribution of Rs. 5 lakh.
(2 x 8 = 16 Marks)
3. How will you vouch/verify the following:
- (a) Sale of Scrap
- (b) Advertisement Expenses
- (c) Assets acquired on Lease
- (d) Investment in Shares and Debentures of Subsidiary. (4 x 4 = 16 Marks)
4. Discuss with reference to SAs:
- (a) What auditor shall do after the identification of significant related party transactions outside the entity's normal course of business? (4 Marks)
- (b) What are the factors that may influence the degree of estimation uncertainty associated with an accounting estimate? (6 Marks)
- (c) What are the factors that may influence the auditor's decision on whether to use an auditor's expert, when management has used a management's expert in preparing the financial statements? (6 Marks)
5. (a) Internal Control System can provide only reasonable but not absolute assurance that its objective relating to prevention and detection of errors/frauds, safeguarding of assets etc., are achieved. Briefly explain the inherent limitations that the system suffers. (6 Marks)
- (b) The auditor of X Ltd. did not report on the matters specified under sub-section (1) of section 143 of the Companies Act, 2013, as he was satisfied that no comment is required. However, the management of the company wanted the auditor to disclose the findings of enquiry thinking that it would provide a good impression on the stakeholders. Now, agreeing with the thought of the management, the auditor is thinking to disclose his findings of enquiry. Comment. (4 Marks)
- (c) Mention any eight special steps involved in conducting the audit of an Educational Institution? (6 Marks)
6. (a) As an auditor what are the essential points to be borne in mind while examining a voucher? (4 Marks)
- (b) "Y Ltd. utilised its securities premium to declare 45% dividend." State the provisions related to application of securities premium account and comment on the statement given. (6 Marks)

- (c) "Audit of the accounts of stores and inventories has been developed as a part of expenditure audit with reference to the duties and responsibilities entrusted to C&AG." Discuss. *(6 Marks)*

7. Write short notes on any **four** of the following:

- (a) Audit Note Book.
- (b) Self-revealing Errors.
- (c) Companies exempted from reporting under Companies (Auditor's Report) Order, 2015.
- (d) Verification procedure for Splitting of one share of the face value of Rs. 10 into 10 shares of Re. 1 each.
- (e) Assertions used by auditor to consider potential misstatements about presentation and disclosure at the period end. *(4 x 4 = 16 Marks)*