

(4)

## DBY1

1. The method suggested by second team member in which a complete and exhaustive description of internal control in operation is recorded. This method is known as

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- (A) Narrative Record
- (B) Flow Chart
- (C) Questionnaire
- (D) Check List

2. The third team member suggested a method in which comprehensive series of questions concerning internal control is used to collect information. These questions are usually issued to the client and the client is requested to fill it. This method of gathering information so that internal control can be evaluated is called as :

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- (A) Internal Control Questionnaire ✓
- (B) Flow Chart
- (C) Narrative Record
- (D) Check List

3. In initial stage of conducting audit of HT Private Limited, CA Mr. D decided to evaluate internal control of the company. Evaluation of internal control is very important part of

2

- (A) Audit Report
- (B) Audit Evidence
- (C) Audit Documentation ✓
- (D) Audit Programme



(5)

DBY1

4. The method suggested by first team member according to which, a series of instructions and/or questions which a member of the auditing staff must follow and/or answer. When he completes instruction, he initials the space against the instruction. This method is called as

(2)

- (A) Flow Chart  
 (B) ~~Check List~~  
 (C) Narrative Record  
 (D) Questionnaire

5. Which of the following statements is inappropriate ?

(2)

- (A) Once the overall audit strategy is established, an audit plan can be developed to address the various matters identified in the overall audit strategy. ✓
- (B) The establishment of an overall audit strategy as well as detailed audit plan are not necessarily discrete or sequential process. ✓
- ✓ (C) Audit Strategy and Audit plan are not inter-related as changes in one may not result in consequential changes to the other.
- (D) The Audit plan is more detailed than the Audit Strategy that includes the nature, timing and extent of audit procedures to be performed by engagement team members. ✓

6. ABC Ltd. is undergoing an audit, and the auditors are evaluating the reliability of different types of audit evidence. External evidence is generally considered to be more reliable than internal evidence.

The following is NOT an example of internal evidence :

External ?

(2)

- ✓ (A) Inspection report ✓  
 (B) Purchase invoice ✓  
 (C) Goods received note ✓  
 (D) Bank reconciliation statement ✓

BRS

DBY1



(c) The auditor

Options  
low consultation  
for (B)

(6)

DBY1

7. Which of the following statement is incorrect with regard to written representations ?

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- (A) Written representations are an important source of audit evidence.
- (B) Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements.
- ✓ (C) Written representations not only provide necessary audit evidence, but also provide sufficient appropriate audit evidence on their own about any of matters with which they deal.
- (D) Written representations only provide necessary audit evidence but do not provide sufficient appropriate audit evidence on their own about any of matters with which they deal.

### Integrated Case Scenario – II

M/s Rama & Associates, Chartered Accountants, have been appointed as the statutory auditors of a Government company H Ltd. by the Comptroller & Auditor General of India for F.Y. 2024-25. H Ltd. is engaged in the manufacturing of metro train coaches.

CA Rama, the engagement partner, had to conduct audit of expenditure as well of receipts.

During the course of the audit, CA Rama also found that the company has constructed its new stockyard for parking its metro coaches and maintenance of its metro coaches. However, the newly constructed stockyard was not being used by the company for the designated purpose and the company continued using the rented stockyard. CA Rama considered such expenditure as infructuous and avoidable expenditure.

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The engagement partner also discussed with his team regarding the areas to be covered while conducting the audit of receipts. The reporting responsibilities of the engagement team were also discussed by the engagement partner with his team.

Based on the above facts, answer the following Q. Nos 8 to 10 :

8. Which type of the expenditure audit covers the scrutiny of the expenditure incurred on the construction of stockyard by the company which is considered as infructuous and avoidable by CA Rama ? 2
- (A) Propriety Audit  
(B) Audit against provision of funds  
(C) Audit of sanctions  
(D) Performance Audit
9. \_\_\_\_\_ is conducted to ensure that the various programmes, schemes, and projects where large financial expenditure have been incurred are run economically and are yielding results expected of them. 2
- (A) Propriety Audit  
(B) Audit against Rules and Orders  
(C) Performance Audit  
(D) Audit against Provision of funds
10. While conducting an audit against provision of funds, the statutory auditors, M/s Rama & Associates must check 2
- (A) that each item of expenditure is covered by a sanction either general or special of a competent authority. X  
(B) that the expenditure incurred has been on the purpose for which the grant and appropriation has been provided and the amount of such expenditure does not exceed the appropriation made.

DBY1



(c) The auditor shall take engagement

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### DBY1

- ✓ (C) that the expenditure conforms to the relevant provision of the constitution and of the laws and rules made thereunder.
- (D) that the expenditure is in accordance with the financial rules, regulations and orders issued by the competent authority.

### Integrated Case Scenario – III

M/s AB & Co., Chartered Accountants, have been appointed as the statutory auditors for Financial Year 2024-25 of PQ Ltd., which is a textile company. Mr. X, the engagement partner, assigned the task of auditing the various items of financial statements to the articled clerks. Mr. X explained to the articled clerks that financial statement purports to present something as a whole in addition to its component details. An income statement purports to present "the results of operations," whereas the balance sheet purports to present "financial position." He further clarified that the auditor's opinion is typically directed to these overall representations.

However, before formulating and providing an opinion on the overall truthfulness of these statements, the auditor must first examine the truth of various specific assertions that make up each of these statements. By evaluating these individual assertions, the auditor can then form a judgment regarding the financial statement as a whole.

To verify the assertions presented in the financial statements, the auditor must perform variety of procedures.

Articled clerks looking after different areas seek your advice as regards their different concerns.

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DBY1

Based on the above facts, answer the following Q. Nos 11 to 15 :

11. Mr. D, an Articled Clerk, was performing audit procedures related to Reserves and Surplus in PQ Ltd. tell him that which statement are correct in respect of Reserves and Surplus ?

- (I) Reserves are the amounts appropriated out of profits for commitment. ✓  
 (II) Securities premium is a capital reserve. ✓  
 (III) A debit balance in the statement of profit and loss account shall be shown as a negative figure under the head 'surplus'.  
 (IV) All reserves can be used to augment the working capital of the Company.
- (A) I & II above ✗ (B) II & III above ✗  
 (C) III & IV above (D) II & IV above ✗

2

12. Mr. E, an Articled Clerk, was not sure about which items should be considered as intangible assets in PQ Ltd. According to AS-26, which of the following items should not be recognized as intangible assets ? ✗

2

- (I) Internally generated Goodwill ✓  
 (II) Compact disk in the case of computer software ✓  
 (III) Copyrights ✓ → Int  
 (IV) Computer software for computer-controlled machine tools that cannot operate without that specific software, which is an integral part of the related hardware. ✓

- (A) I & II above  
 (B) II & III above  
 (C) III & IV above  
 (D) I & IV above

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(8)

(c) The auditor shall take into consideration the engagement so as to

DBY2

(10)

DBY1

13. Mr. F, an Articled Clerk, wants to know that which of the below statement is incorrect while auditing Depreciation and Amortization expenses in PQ Ltd. ? 2

(A) Depreciation and amortization have been charged as per the useful life of PPE and intangible assets. ✓

(B) Depreciation on the revalued amount should be accounted from the revaluation reserve. ✓

✓ (C) Depreciation should be charged on assets from the date of actual usage and not when they are ready to use.

(D) Depreciation and amortization should be computed prospectively whenever there is any change in useful life of PPE and intangible assets. ✓

14. Mr. B, an Articled Clerk responsible for the audit procedures concerning inventory, found that the inventory amounting to ₹ 38 lakhs, after excluding ₹ 2 lakhs of inventory that was held by PQ Ltd. as a consignee, has been recognized in the Balance Sheet. Which of the following assertions related to inventory are applicable in this situation ? 2

(I) Occurrence ✓

✓ (II) Completeness ✓

✓ (III) Rights & Obligations ✓

(IV) Measurement ✗

(A) I & II above

✓ (B) II & III above

(C) III & IV above

(D) I & IV above

DBY1



(11)

DBY1

15. Mr. C, an Articled Clerk responsible for the audit procedures regarding the share capital, found that during the year under audit, PQ Ltd. had issued sweat equity shares amounting to ₹ 10 Lakhs. Which of the following statements regarding the issue of sweat equity shares are correct?

2

- (I) It can be issued to employees.
  - (II) It can be issued to directors. ✓
  - (III) It can be issued at a discount. ✓
  - (IV) It should be of a class of shares already issued by PQ Ltd. ✗
- (A) I & III above
  - 4 (B) I, II & III above
  - (C) I, II & IV above
  - ✓ (D) I, II, III & IV above



(2)

DBY2

## PART - II

1. <sup>(a)</sup> M/s YZW & Co., Chartered Accountants, have been appointed as the statutory auditors of First Health Private Limited for the financial year 2024-25. CA Y is the engagement partner for this assignment. First Health Private Limited operates in the business of hospitals and pharmaceuticals, with 60 hospitals and 200 pharmacy stores across the country. The company has a turnover of ₹ 680 crores and PAT of ₹ 32 crores in the current year.

O → claim  
C → compare  
C → cut up  
C → complete  
A → account

While verifying the assertions about <sup>→ Debtors</sup> (book debts), CA Y was informed about the availability of the client's ledger invoices, debit notes, and credit notes as audit evidence. CA Y accepts these documents as audit evidence, considering them to be "available."

- (i) Is this decision correct, based on the meaning of the term "available" ? 3
- (ii) Also, explain how an auditor should select the most appropriate evidence when testing the accuracy of any assertion to form an opinion. 2
- <sup>(b)</sup> Mention the types of control in an automated environment. 1

Identify the type of control in the following table in Column B against Column A which contains areas where controls are to be implemented in an automated environment.

Column A	Column B	
Access security	?	IT Controls.
Sequence number checks	?	Creates IT Cont.
Data centre and network operations	?	
Mandatory data fields	?	


DBY2



(3)

DBY2

(c) M/s BPA & Associates, Chartered Accountants, was appointed as the auditors of Nissan Ltd., a company with PAN-India presence, for the financial year 2023-24. The audit report was issued on August 20, 2024. Following the issuance of audit report, CA P instructed junior team member Mr. Y to assemble the final audit file and prepare the Completion Memorandum.

- (i) Explain the meaning and significance of a Completion Memorandum. *Significant Change in A/R*
- (ii) Team Member Y completed the assembly of the final audit file in *with 60 days from 2* *date of B/R* *2* *March 2025* and handed it over to CA P. Was team member Y  correct in his approach ?

2. (a) Mention any three standards issued under authority of ICAI Council which are collectively known as 'Engagement Standards'. 3  
Also mention the purpose of issue of these standards. 2
- (b) Give five examples of operating events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. 5
- (c) TS Ltd. has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. The company had clearly outlined in its board resolution that these funds will be used for business expansion and diversification purposes only. 4

DBY2

P.T.O.



(4)

DBY2

However, the company utilised these funds for repayment of long-term loans and advances rather than for the intended purpose of business growth and expansion.

State the reporting responsibility of the auditor under paragraph 3, clause (x) of the Companies Auditor's Report Order, 2020 (CARO 2020).

3. (a) LMN Ltd., a mid-sized manufacturing company, generates revenue primarily through the sale of consumer electronics in domestic and international market. The company reported sales of ₹ 2 crores in the Financial Year 2024-25. The company generates revenue through sale of standard electronics devices, customized product orders with specific delivery terms and extended warranties and after-sales services.

The auditor has to verify that all sales are accurately measured as per applicable accounting standards and correctly journalized, summarized and posted in the financial statements.

Explain the audit procedures to ensure the same.

- (b) SA 701 "Communicating Key Audit Matters in the Auditor's Report"

deals with the auditor's responsibility to communicate key audit matters in the auditor's report.

Explain the definition of Key Audit Matter and how an auditor will determine the Key Audit Matters ?

→ those matters on per auditor's judgement is important to user's attention and size of entity and complexity assessed ROM Materiality.

DBY2



(5)

DBY2

✓ (c) Luck Ltd., a mid-sized manufacturing company, has approached CA S, a qualified Chartered Accountant, to conduct the audit for the financial year ended March 31, 2025. The company requests CA S to give acceptance for the audit so that audit can be commenced within time. With reference to SA 210, how the auditor will establish that whether the preconditions for an audit are present ? 4

4. (a) CA Pari is conducting the audit of Heavy Ltd., a company with large number of customers which are generally small retail shop owners. While verifying sundry debtors, CA Pari assesses the risk of material misstatement (ROMM) as low and internal control is operating effectively. 4

With reference to SA 505 (External Confirmations): 3rd Party mgmt. Firm

- (i) Which type of confirmation request is most likely to be used by CA Pari in this scenario ? 1
- (ii) What are the conditions necessary for using such a confirmation request effectively ? 4

✓ (b) M/s ABC & Co., Chartered Accountants, have been appointed as the statutory auditors of DEF Ltd., which is a listed company, for the Financial Year 2024-25. CA X, a seasoned Chartered Accountant with over 15 years of experience has been assigned as the engagement partner for this audit. CA X takes responsibility for maintaining overall quality on this audit engagement in accordance with SA 220. 5

✓ What do the actions of engagement partner and appropriate messages to the other members of the engagement team, in taking responsibility for the overall quality on audit engagement emphasize ?

ET to identify important areas.



(6)

DBY2

- (c) While auditing the accounts of PQR Ltd., a member of the audit team wants to carry out test of controls for checking the effectiveness of internal control over sales as a part of debtor's audit procedure. State any four points that need to be considered in respect of trade receivables.

Statement of Amount receivable. → Cred. ✓  
 Statement sales receipts  
 cash sales  
 goods → delivery Invoice

5. (a) As per SA 299 "Joint Audit of Financial Statements", Joint audit basically implies pooling together the resources and expertise of more than one firm of auditors to render an expert job in a given time period which may be difficult to accomplish acting individually. Explain by stating any five advantages of joint audit.

work load manage  
 Sharing of expertise. ✓  
 Faster work. ✓

- (b) The Management of Sun Shine Ltd. has provided the auditor with a written representation regarding its responsibilities for the preparation of the financial statements. In addition to this, the auditor may request other written representations about the financial statements.

Sharing Responsibility. ✓

Mention such other representations which may supplement but do not form part of the written representation relating to management's responsibilities regarding preparation of financial statements.

FS Statement ✓  
 Fair ✓  
 Acc Comply ✓  
 SA ✓  
 Applicable FRF ✓  
 Representations ✓  
 Statement ✓



DBY2

- (c) Compute the Drawing power for Cash Credit limit granted to S Ltd. by Trust Bank for the month of March 2025 from the following information :

Particulars	Amount in (₹)
Value of stocks	50,000
Value of debtors (including debtors of ₹ 5,000 for an invoice dated 17.11.2024)	45,000
Value of creditors for goods	15,000
Sanctioned limit	45,000

Margin on stock is 20% and on debtors is 50%.

**Note :** Debtors older than 3 months are ineligible for calculation of D.P.

6. (a) T Ltd. has appointed NFO & Co., Chartered Accountants, as statutory auditors. Since inventory is a material component of the financial statements, CA F plans to attend the physical inventory counting.

Provide any five matters that CA F should consider when planning their attendance at the physical inventory counting. S A S O I

- (b) M/s PQ & Co., Chartered Accountants have been appointed as statutory auditors of CBD Multiplex Cinema Ltd. The audit team started the audit and verified the ledger and other books of accounts for the F.Y. 2024-2025. However, one of the team members is of the view that the internal control mechanism of the company should also be verified.

Can you guide the audit team about the areas that will be covered in verifying the internal control mechanism ?

DBY2

P.T.O.



(8)

DBY2

- (c) The auditor shall take into consideration the reporting objectives of the engagement so as to plan timing of different audit procedures and also nature of communications while establishing audit strategy. Give any four instances of reporting objectives.

OR

CSR

- (c) As an auditor of Star Ltd., a company covered under Section 135 of the Companies Act, 2013, what matters should auditor verify to ensure that proper disclosures regarding Corporate Social Responsibility (CSR) activities is made in Additional Information to notes to account. Mention any four such matters.

→ amount use for that purpose  
 → unspent CSR within 6 m  
 → div after etc.