

WT 1 (Chapters 1 and 11)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1** An audit of financial statements provides _____ assurance to the users of financial statements. It is a _____ level of assurance but it is not _____ assurance. The auditor has to see effect of misstatement(s) _____. Misstatements in financial statements can arise due to frauds or _____ or both. **2**
- Identify appropriate words to be used in blanks to make the sentences meaningful and relevant in context of theme of the topic.
- (a) absolute, high, complete, individually, uncertainties
 (b) reasonable, high, complete, in totality, errors
 (c) reasonable, moderate, low, in totality, errors
 (d) moderate, low, complete, individually, judgments
- Q.2** Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited. The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls. He also carries out appropriate tests and procedures. Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents. However, he is not expected to perform duties which fall outside his domain of competence. Auditor is not an official investigator. Based on this para, which of following statements is false as regards scope of an audit of financial statements is concerned? **2**
- (a) Audit of financial statements should be organized adequately to cover all aspects of the entity relevant to the financial statements being audited.
 (b) The auditor makes a judgment of reliability and sufficiency of financial information by making a study and assessment of accounting systems and internal controls.
 (c) Due to professional training and knowledge acquired by auditor, he can authenticate genuineness of documents.
 (d) Auditor is not an official investigator.

Q.3 The process of audit suffers from certain inbuilt limitations. Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it. The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements. However, future events may affect an entity adversely. Based on this para, which statement needs to be corrected in draft regarding inherent limitations of audit?

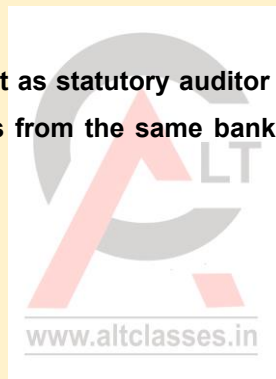
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- (a) Inherent limitations of audit may arise due to nature of financial reporting, nature of audit procedures and need to strike a balance between reliability of information and cost of obtaining it.
- (b) The information being relied upon by the auditor cannot lose its reliability due to historical nature of financial information presented in financial statements.
- (c) Future events may affect an entity adversely.
- (d) The process of audit suffers from certain inbuilt limitations.

Q.4 CA Piyush is offered appointment as statutory auditor of branch of a bank. He has also taken housing loan of ₹ 75 lakhs from the same bank. Identify threat to independence involved.

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- (a) Advocacy threat
- (b) Self-interest threat
- (c) Self-review threat
- (d) Familiarity threat



Q.5 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 _____?

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- (a) Objectivity
- (b) Professional knowledge
- (c) Independence
- (d) Professional skepticism

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any two from the rest.

- Q.1 State with reasons (in short) whether the following statements are correct or incorrect:**
- (a) An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity. 2
- (b) An audit provides advantages of considerable value to enterprises. Its chief advantage lies in safeguarding financial interest of management. 2
- (c) Even if law or regulation prescribes sufficient details of the terms of the audit engagement, the auditor should record them in a written agreement. 2
- Q.2 (a) M Motors Ltd is a leading Indian automobile manufacturer with many offerings across commercial, passenger and electric vehicles. The Company is pioneering India's electric vehicle transition and enjoys considerable advantage in one of the fastest growing automotive markets. GR & Associates have been appointed as its statutory auditors for financial year 2023-24. J and K are newly appointed audit assistants in the firm and are part of engagement team constituted for purpose of audit of M Motors Ltd. However, they are confused about what such an audit tends to achieve. They perceive audit as a guarantee against possible errors or frauds in financial statements. Do you agree with perception of both the assistants? In this context, outline objectives of an independent audit conducted in accordance with Standards on Auditing. 4**
- (b) "SA 220 is premised on the basis that the firm is subject to SQC 1". What do you understand by given statement in context of audit quality? 2
- Q.3 (a) Standards on Auditing (SAs) apply in "audit of historical financial information" whereas Standards on Review Engagements (SREs) apply in "review of historical financial information." Explain in detail giving examples. 3**
- (b) CA X has been offered audit of financial statements of TDK Industries, a partnership firm. Prior to accepting proposed offer, he insists upon obtaining an agreement of management regarding acknowledgment of its responsibility of having a proper process in place to ensure that financial statements prepared are free from material misstatements. However, management is of the view that it is auditor's duty to detect material misstatements in financial statements and such an insistence by 3

auditor is totally uncalled for. Whose view is proper? Also discuss reasons for arriving at your conclusion. What should be likely proper course of action for CA X in above situation?

- Q.4 (a) An audit does not provide absolute assurance. Discuss how nature of audit procedures itself is one of the reasons due to which audit cannot provide absolute assurance. 3
- (b) Professional skepticism refers to an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence. 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. Explain giving examples. 3

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line "Inter Audit Test – WT 1"

Mention the following in the E-mail and answer Sheet:

1. Name:
2. Mobile No.:
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