

Gurukripa's Guideline Answers to May 2016 Exam Questions CA Inter (IPC) Auditing and Assurance

Question No.1 is compulsory ($4 \times 5=20$). Answer any 5 from remaining 6 Qns ($16 \times 5=80$). [Any 4 out of 5 in Q.7]

Note: Page References given here are from "Padhuka's Students' Handbook on Auditing & Assurance" Students' may also refer to **Padhuka's Auditing & Assurance – A Ready Referencer for CA IPC**, for quick revision.

Q	Question	Hint Answer/Reference	M
1	Discuss the following:		
(a)	With reference to SA-550, "Identification of Significant Related Party Transaction outside the Entity's normal course of Business".	See SA-550, Page 119, Q.No.12, N 13 Qn. Principles in Page 117	5
(b)	With reference to SA-350, meaning of Audit Sampling and Requirements relating to Sample Design, Sample Size and Selection of Items for Testing.	See SA-530, Page 104, Q.No.6, N 13 Qn. Principles in Page 98	5
(c)	How does an Audit Programme help to plan and perform the Audit?	See Page 3.13, Q.20,21, Page 3.6, Para 3.2.2 [M 81, M 88, M 91, N 06, N 07, Qn.]	5
(d)	What are the specific risks related to Internal Control in an IT Environment?	See SA-315, Page 61, Q.No.10, M 08 Qn. Principles in Page 56	5
2	State with reasons (in short) whether the following statements are Correct or Incorrect (Answer any Eight):		
(a)	The scope of work of an Internal Auditor may extend even beyond the Financial Accounting.	Correct. Apart from Fin. A/cing verification, it extends to Operating Activities. Also See SA-610.	2
(b)	An Auditor has nothing to do with Prudence or Profitability of a Company.	Correct. Objective of Audit is to express an opinion on the Financial Statements. See Page 12.2, Para 12.1.2, Point 2.	2
(c)	Evaluating Responses to Enquiries is an integral part of the Inquiry Process.	Correct. See SA-500, Page 83, Para A.22.]	2
(d)	Internal Control Questionnaires are a good source of identifying weakness in Internal Control System.	Correct. See Page 4.5, Para 4.1.6, Pt. 3(c)	2
(e)	Cluster Sampling is less effective than Random Sampling.	Correct. See SA-530, Page 101 Cluster Sampling	2
(f)	Errors of Duplication affect the Trial Balance.	Incorrect. One-sided errors of Commission or Omission lead to difference in the Trial Balance. See Page 1.6, Para 1.2.2.	2
(g)	Substantive Procedures do not test the Balances of Accounts.	Incorrect. They are intended to verify accuracy of account balances. See Page 2.3, Para 2.1.7.	2
(h)	The First Auditors of a Government Company was appointed by the Board of Directors.	Incorrect. First Auditors of Govt. Co. should be appointed by C&AG, within 60 days from the date of registration of the Company. In case of such failure, BOD can appoint, within next 30 days. See Page 10.6, Para 10.2.1.	2
(i)	The Members of XYZ Ltd preferred a complaint against the Auditor stating that he has failed to send the Auditor's Report to them.	Incorrect. Sending Auditors' Report to Members is Co's responsibility, not Auditors' Duty. See Page 10.20, Illustration.	2
(j)	Mr. Pawan, a practicing CA, is appointed as "Tax-Consultant" of ABC Ltd, in which his father. Mr. Singh is the Managing Director.	Answer: Appointment is prima facie Valid. See Page 10.28, Illustration, N 13 Qn.	2
3	How you will vouch / verify the following?		
(a)	Preliminary Expenses	See Page 7.26, Q.50, Page 7.19, Para 7.4.3 [N 95, N 98, N 08, N 04, M 12, M 14 Qn.]	4
(b)	Customs & Excise Duties	See Page 7.26, Q.18, Page 7.6, Para 7.1.11 [N 92, N 08, M 96, M 99, M 04 Qn.]	4

Q	Question	Hint Answer/Reference	M
(c)	Floating Assets	See Page 3.26, Q.8, Page 3.17, Para 3.5.6 + Verification Principles in Chapter 7	4
(d)	Recovery of Bad Debts Written-Off	See Page 6.14, Q.11, Page 6.6, Para 6.2.1 [RTP, N 91, M 04, N 07, M 14 Qn.]	4
4 (a)	Mention the disclosure requirements of Current Investments as per Schedule III of the Companies Act, 2013.	Refer Page 11.19, Point N of Sch.III	6
4 (b)	What are the significant matters observed during the course of audit, a record of which should be kept in the Audit Note Book?	See SA-230, Page 27, Q.17, Points in Page 25, M 89, M 91, M 93, M 08 Qn.]	6
4 (c)	Write short notes on the use of Flowcharts in evaluation of Internal Control.	See Page 4.28, Q.12, Page 4.5, Para 4.1.6 [N 13 Qn.]	4
5 (a)	Mention any 6 special points which you as an Auditor would look into while auditing the books of a Partnership Firm.	See Page 15.24, Q.6, Page 15.1, Para 15.1.2 [RTP, N 90, M 03, M 13 Qn.]	6
5 (b)	Draft an Audit Programme for conducting audit of accounts of a Local Body.	See Page 14.13, Q.31, Page 14.7. Para 14.3.3 [Similar to RTP, M 10, M 14 Qn.] Note: Students may draft an Audit Programme, covering the major audit points in Local Bodies, viz. Revenue, Expenses, Special Funds, Assets, Loans from various Agencies, etc.	6
5 (c)	What precautions should be taken by an Auditor while applying Test Check Techniques?	See Page 2.9, Q.25, Page 2.6, Para 2.2.8 [N 91, M 97, N 07, N 08, M 10, M 14 Qn.]	4
6 (a)	What are the matters to be included in Director's Responsibility Statement?	See Page 11.9, Para 11.1.8, Point 4	6
6 (b)	Discuss the provisions of Section 134 of the Companies Act, 2013 regarding the authentication of Financial Statements.	See Page 11.8, Para 11.1.7	6
6 (c)	State the factors to be considered to verify the validity of any transaction.	See Page 3.13, Q.11, Page 3.4, Para 3.1.7 [M 94, N 05, M 14 Qn.]	4
7	Write short notes on any four of the following:		
(a)	Provisions for applicability of Internal Audit as per Companies Act, 2013.	See Page 4.24, Point 8	4
(b)	Prohibition to Buy-Back its own Securities in certain circumstances.	See Page 13.17, Q.No.19 [N 00 Qn.] Also refer Points below.	4
(c)	Advantages of CAAT.	See Page 5.11, Q.23, Page 5.10, Para 5.3.3 [M 06, N 07 Qn.]	4
(d)	Changes in Accounting Policies.	See Page 3.27, Q.8 – Refer AS-1, 5 [M 94, N 02, N 05, N 07 Qn.]	4
(e)	Recognition of Interest on Deposits	Refer AS-9 / Recognition on Time basis.	4

Q.7(b) See Padhuka's Law, Ethics and Communication – A Referencer – For CA Inter (IPC) – Prohibition for Buy-Back [Sec. 70]: A Company **should not**, directly or indirectly, purchase its own Shares or other Specified Securities –

- (a) Through any **Subsidiary Company** including its own Subsidiary Companies, or
- (b) Through any **Investment Company** or Group of Investment Companies, or
- (c) During the **continuance** of default in –
 - Repayment of Deposits or Interest thereon, or
 - Redemption of Debentures / Preference Shares, or
 - Payment of Dividend, or
 - Repayment of a Term Loan or interest thereon to any Financial Institution or Bank,

Buy-Back is not prohibited, if the default is remedied, and a period of **3 years has elapsed** after such default ceased to subsist.

- (d) **Non-compliance** with – (i) Sec.92 – Filing of Annual Return, (ii) Sec.123 – Declaration of Dividend, (iii) Sec.127 – Distribution of Declared Dividends, (iv) Sec.129 – Financial Statement.

Q.7(d) & (e): See Padhuka's Ready Referencer on Accounting for CA Inter (IPC) – Accounting Standards