

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

Question No.1 is compulsory (4 × 5=20). Answer any 5 from remaining 6 Qns (16 × 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.	<b>Correct.</b> 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.	<b>Correct.</b> 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.	<b>Correct.</b> See SA-500, Page 83, Para A.22.]	2
(d)	Internal Control Questionnaires are a good source of identifying weakness in Internal Control System.	<b>Correct.</b> See Page 4.5, Para 4.1.6, Pt. 3(c)	2
(e)	Cluster Sampling is less effective than Random Sampling.	<b>Correct.</b> See SA-530, Page 101 Cluster Sampling	2
(f)	Errors of Duplication affect the Trial Balance.	<b>Incorrect.</b> 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.	<b>Incorrect.</b> 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.	<b>Incorrect.</b> 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.	<b>Incorrect.</b> 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.	<b>Answer:</b> 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.] <b>Note:</b> 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**