# ICAI's PRACTICE MANNUAL QUESTION BANK AUDITING AND ASSURANCE

## NATURE OF AUDITING CHAPTER 1

**Question 1** (a) 'After the statutory audit has been completed a fraud has been detected at the office of the auditee.' What is your defence as an auditor?
(b) 'Doing a statutory audit is full of risk'. Narrate the factors which cause the risk.

**Question 2** Write a short note on – Errors of Commission.
**Question 3** Mention briefly the conditions or events, which increase the risk of fraud or error leading to material misstatement in Financial Statements.
**Question 4** Write a short note on - Operational Audit.
**Question 5** "The auditors should consider the effect of subsequent events on the financial statement and on auditor's report" according to SA 560 – Comment.
**Question 6** Mention any twelve title of Statements on Standards on Auditing and the date from which it comes into force.
**Question 7** What are the auditor's responsibilities for detection of Frauds and Errors?
**Question 8** State briefly the qualities of an Auditor
**Question 9** Give your comment on the following:
(a) Auditors of M/s Fortune India (P) Ltd. were changed for the accounting year 2015-16. The closing inventory of the company as on 31.3.2015 amounting to ` 100 lacs continued as it is and became closing inventory as on 31.3.2016. The auditors of the company propose to exclude from their audit programme the audit of closing inventory of ` 100 lacs on the understanding that it pertains to the preceding year which was audited by another auditor.
(b) What are the obvious assertions in the following items appearing in the Financial Statements?
(i) Statement of Profit and Loss
Travelling Expenditure ` 50,000
(ii) Balance Sheet
Trade receivable ` 2,00,000

**Question 10** Write short notes on the following:
(a) General Purpose Financial Statements.
(b) Going Concern Concept.

**Question 11** State the matters which the statutory Auditor should look into before framing an opinion on accounts on finalisation of audit of accounts. Discuss overall audit approach
**Question 12** Write a short note on Audit versus Investigation
**Question 13** "Auditor's professional responsibilities are governed by basic principles which should be complied with whenever an audit is carried out". Comment.
**Question 14** What are the inherent limitations of audit?
**Question 15**
What is the importance of having the accounts audited by an independent auditor?
**Question 16** Discuss the types of audits required under law.
**Question 17** Standards collectively known as the Engagements Standards issued by AASB under the authority of the council of ICAI – Discuss.
**Question 18** Comment on the following:
(a) Selling and distribution cost included in the cost of inventories.
(b) Computer software which is the integral part of the related hardware can be treated as intangible assets or fixed assets?
(c) Define shortly arm's length transaction.

**Question 19** Discuss with reference to SAs:
(a) The auditor shall communicate all significant findings with those charged with Governance.
(b) Factors affecting form, contents and extent of audit.
(c) While planning the audit of S Ltd. you want to apply sampling techniques. What are the risk factors you should keep in mind?
(d) What are the auditor's responsibilities in respect of corresponding figures?

**Question 20** Write short notes on the following:
(a) Identification of significant related party transaction outside business.
(b) Self-revealing errors and four illustrations thereof

.**Question 21** With reference of SA 250, give some examples or matters indicating to the auditor about non compliance of laws & regulations by management.

**Question 22** Discuss the following:
(a) "Statements" and "Guidance Notes" of ICAI- whether mandatory or recommendatory?
(b) Inquiry from Management is helpful for Auditor to evaluate subsequent events. Discuss specific enquiries in reference of SA 560, which might have effect on the financial statements.
(c) The discipline of behavioural science is closely linked with the subject of auditing.

**Question 23** Discuss with reference to SAs:
(a) What do you mean by "Written Representations"? As an auditor, how you will deal if management does not provide requested written representations?
(b) "Operating Conditions" that may cast doubt about going concern assumption.
(c) The auditor is responsible for maintaining an attitude of professional skepticism throughout the audit. Do you agree with the statement?

**Question 24** Write a short note on Defalcation of cash with examples.
Question 25 (a) Mention any four information which assists the auditor in accepting and continuing of relationship with the client as per SA 220.
(b) State the significant difficulties encountered during audit with reference to SA-260 (communication with those charged with governance).
(c) The auditor may exercise his judgement to identify which risks are significant risks. Explain the above in context of SA-315.

**Question 26** What are the objectives and functions of Auditing and Assurance Standards Board (AASB)?
**Question 27** State with reasons (in short) whether the following statement is correct or incorrect:
The basic objective of audit does not change with reference to nature, size or form of an entity.

**Question 28** Discuss the following:
(a) Advantages of independent audit.
(b) Is detection of fraud and error duty of an auditor?

**Question 29** Write a short note on Fraudulent financial reporting
**Question 30** With reference to SA 320, indicate the factors which may affect the identification of an appropriate bench mark in determining materiality for the financial statement as a whole.

# BASIC CONCEPT OF AUDITING CHAPTER 2

**Question 1** What is the importance of having the accounts audited by independent professional auditors?
**Question 2** Write a short note on Fundamental Accounting Assumptions.

**Question 3** (i) What is "Audit Evidence"?
(ii) What are the various audit procedures to obtain audit evidence? Mention the same in brief.
(iii) Discuss the principles, which are useful in assessing the reliability of audit evidence.

**Question 4** Explain the advantages of "Audit Working Papers".
**Question 5** Write a short note on Disclosure of Accounting Policies.
**Question 6** How would you proceed to check the misappropriation of cash in a trading concern?
**Question 7** What are audit working papers and why should they be carefully preserved by the Auditor?
**Question 8** Explain the test of controls and substantive procedures as audit procedure of obtaining sufficient appropriate audit evidence for forming an audit opinion

**Question 9** Discuss the concept of "True and Fair".
**Question 10** Explain with reference to the relevant Standard on Auditing - Appropriateness of going concern assumption.
**Question 11** What are accounting estimates according to the Standards on Auditing 540? Give examples
**Question 12** Write a short note on Auditor's Independence.
**Question 13** Answer the following:
(i) What do you mean by Analytical procedures? How such procedures are helpful in auditing?
(ii) Explain concept of 'Materiality'.
**Question 14** What is meant by external confirmation? Mention four situations where external confirmation may be useful for auditors
**Question 15** State any ten areas in which different accounting policies may be encountered..
**Question 16** What are the various assertions an auditor is concerned with while obtaining audit evidence from substantive procedure?
**Question 17** Distinguish between Internal evidence and External evidence.
**Question 18** "Risk of material misstatement at the assertion level for classes of transactions, account balances and disclosures need to be considered." Explain stating the different categories of assertions used by the auditor.
**Question 19** 'A Joint Auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the report.' Justify this statement in the light of responsibilities of Joint Auditors under SA 299.
**Question 20** Write short notes on the following:
(a) Substantive Procedures
(b) Audit Working Papers.
**Question 21** What do you mean by the term 'Sufficient Appropriate Audit Evidence'? State various factors that help the auditor to ascertain as to what is sufficient appropriate audit evidence.
**Question 22** The auditor of a limited company has given a clean report on the financial statement on the basis of xerox copies of the books of accounts, vouchers and other records which were taken away by the Income Tax Department in search under section 132 of the I.T. Act, 1961. Comment.
**Question 23** Discuss "Inquiry is one of the audit procedure to obtain audit evidence".
**Question 24**
State with reasons (in short) whether the following statement is correct or incorrect:
Teeming and lading is one of the techniques of inflating cash payments.

**Question 25**
Why Tests of Control are performed? Also explain what does they include.

## PREPARATION FOR AN AUDITING                CHAPTER 3

**Question 1** "In cases where audit sample selection has been done on a random basis, no statistical process for selection of samples needs to be followed". Comment.

**Question 2** What is the meaning of Sampling? Also discuss the methods of Sampling. Explain in the light of SA 530 "Audit Sampling".

**Question 3** Write short notes on the following:
(a) Audit Note-book
(b) Continuous Audit – Advantages and disadvantages

**Question 4** State the purpose of a 'Letter of Engagement'.

**Question 5** In performing an audit of financial statements, the auditor should have or obtain knowledge of the business. Explain in the light of SA 315 "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment".

**Question 6** Medical Council of India organised a three-day International Conference of Doctors in Delhi. You are asked to audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. Mention any six points, peculiar to the situation, which you will like to include in your audit programme.

**Question 7** Explain the Inherent Risk with reference to the relevant Standards on Auditing.

**Question 8**
Briefly explain Management Representation.

**Question 9** Write a short note on - Audit Programme

**Question 10** Answer the following:
(a) How does an audit programme help to plan and perform the audit?
(b) Draft an audit programme to audit the receipts of a cinema theatre owned by a partnership firm.

**Question 11** What are audit working papers? Discuss various contents of Permanent Audit File and Current File.

**Question 12** What precautions should be taken by an auditor while applying test check techniques?

**Question 13** Should branch auditor of a company comply with the request of the principal auditor of the company to give photocopy of the working papers pertaining to the branch audit? Explain.

**Question 14** Write a short note on the Surprise checks.

**Question 15** The management of Ankita Limited suggested for quick completion of the statutory audit that it would give its representation about the receivables in terms of their recoverability. The management also acknowledged to the auditors that the management would give their representation after scrutinizing all accounts diligently and they own responsibility for any errors in these respects. It wanted auditors to complete the audit checking all other important areas except receivables. The auditor certified the account clearly indicating in his report the fact of reliance he placed on representation of the management. Comment.

**Question 16** The Vidhwat College, an institution managed by Dayal Trust, has received a grant of ` 1.35 crore from Government nodal agencies for funding a project of research on rural health systems in India. Draft an audit programme for auditing this fund in the accounts of the college.

**Question 17** In a system based audit, test checking approach provides a good base for the auditor to form his opinion on the financial statement. Give your comments.

**Question 18** Explain the Relationship between materiality and audit risk.

**Question 19** Explain in briefly the utility of Working Papers to an auditor.

**Question 20** Comment on the following situations/statements:
(a) Auditor of AAS Ltd. was unable to confirm the existence and valuation of imported goods lying with the transporter and accepted a certificate from the management without obtaining other audit evidence.

(b) M/s Health Zone, a partnership firm, running a nursing home have decided to discontinue you as an auditor for the next year and requests you to handover all the relevant working papers of the previous year.

**Question 21** What does SA 230 says about utility, ownership, custody and retention of working papers?
**Question 22** Mention, any four, areas where surprise checks can significantly improve the effectiveness of an audit.
**Question 23** Write short notes on the following:
(a) Advantages of Statistical sampling in Auditing.
(b) Contents of Audit Note-book.
**Question 24** Write a short note on Knowledge of Client's business.
**Question 25** (a) Explain concept of materiality and factors which act as guiding factors to this concept.
(b) Describe set of instructions which an auditor has to give to his client before the start of actual audit.

**Question 26** (a) X, a Chartered Accountant was engaged by PQR & Co. Ltd. for auditing their accounts. He sent his letter of engagement to the Board of Directors, which was accepted by the Company. In the course of audit of the company, the auditor was unable to obtain appropriate sufficient audit evidence regarding receivables. The client requested for a change in the terms of engagement.
(b) Write a short note "Audit risk at the account balance level and at the class of transactions level".

**Question 27** "The auditor is faced with sampling risk in both tests of control and substantive procedures." Comment on this statement with reference to SA 530 on "Audit Sampling".

**Question 28** Write short notes on the following:
(a) Reliability of external confirmations
(b) Factors governing modes of communication of auditor with those charged with governance.
(c) Procedures to be performed by the auditor in expressing opinion on 'going concern' assumption.

**Question 29** Write short notes on the following:-
(a) Stratified sampling.
(b) Audit Risk and inter-relationship of its components.
(c) Quality control for audit work at firm level.
**Question 30** State briefly Audit Procedures and Audit Techniques.
**Question 31** "It is not mandatory to send a new engagement letter in recurring audit, but sometimes it becomes mandatory to send new letter". Explain those situations where new engagement letter is to be sent.
**Question 32** What is continuous audit? What are the precautions which should be taken to avoid the disadvantages of continuous audit?

**Question 33** Are surprised checks desirable in audit, if so, give important recommendations.
**Question 34** "An auditor who before the completion of the engagement is requested to change the engagement to one which provides a lower level of assurance should consider the appropriateness of doing so." Discuss.

**Question 35** With reference to Standard on Auditing 530, state the requirements relating to audit sampling, sample design, sample size and selection of items for testing.
**Question 36** Write a short note on Random sampling**.**
**Question 37** State with reasons (in short) whether the following statement is correct or incorrect:
Written representation by management as to the quality of inventory is substitute for verification.
**Question 38** Write a short note on 'Matters that the auditor may consider when obtaining an understanding of the nature of the entity'.

# INTERNAL CONTROL CHAPTER 4

**Question 1** "The overall objective and scope of an audit does not change in Computerised Information System (CIS) environment". Comment.
**Question 2** Write a short note on - Examination in Depth.
**Question 3** 'Doing an audit in a Computerised Information System (CIS) environment is simpler since the trial balance always tallies'. Analyse critically

**Question 4** Write a short note on - Audit Trail.
**Question 5** What are the different design and procedural aspects of Computerised Information Systems (CIS)?
**Question 6** Explain the Internal controls in Computerised Information System (CIS) Environment.
**Question 7** Can the External Auditor rely upon the work of an Internal Auditor?
**Question 8** What is an Audit Trail? Briefly state the special audit techniques using the computer as an audit tool.
**Question 9** Explain the important requirements which should be kept in mind to establish or evaluate a system of internal control for application process at Service Bureau.
**Question 10** "Installation of Computer Operating System has created both benefits and problems for auditors". Explain the Statement.
**Question 11** Explain briefly the approaches to auditing in Computerised Information System (CIS) environment.
**Question 12** Write a short note on - Independence of Internal Auditor.
**Question 13** Why are Computer Aided Audit Techniques (CAAT) required in Computerised Information System (CIS) environment? What are the advantages of CAATs?

**Question 14** GR & Co., a firm of Chartered Accountants has been called upon to audit the accounts of Dee Vee Philips Ltd. The auditors are told that Company is not performing well due to weak accounting and administration system in place. Mr. Preet handling the assignment noticed that there are gaps in internal check system of the company. You are required to explain the special steps involved in framing a system of Internal Check.

**Question 15** In a medium size trading organisation the accountant was given additional responsibility of making recoveries from the trade receivables. On one occasion, when an insurance claim of ` 25,000 was received, he credited the same to the account of a trade receivable and misappropriated the cash which he had recovered from the said trade receivable. Pinpoint weaknesses in the internal control system which led to this situation. Comment.

**Question 16** Answer the following:
(a) State any four important elements of input control in processing of data in a computerised accounting system.
(b) What are the disadvantages of the use of an audit programme?

**Question 17** Write a short note on - Statutory Auditor versus Internal Auditor
**Question 18** What are the inherent limitations of Internal Control system?.
**Question 19** What are the aims of internal control so far as Financial and Accounting aspects are concerned?
**Question 20** Explain in brief the Relationship between Statutory Auditor and Internal Auditor.
**Question 21** Distinguish between the Internal Control Questionnaire and Internal Control Evaluation.
**Question 22** State the circumstances where the auditing through the computer must be used.
**Question 23** Why are computer assisted audit techniques (CAAT) needed in a Computerised Information Systems (CIS) environment and how it helps the auditor in obtaining and evaluating audit evidences?

**Question 24** How would you assess the reliability of internal control system in Computerised Information System (CIS) environment?
**Question 25** Mention any six points to be considered for good internal control for collection of tuition fees from students of college.
**Question 26** Write a short note on Letter of Weakness.

**Question 27** (a) Explain briefly the technique of "Internal Control Questionnaire" to facilitate the accumulation of information necessary for proper evaluation of internal control.
(b) State clearly the circumstances where "Auditing through the computer" approach must be used.
**Question 28** Write a short note on the internal control in small business**.**

**Question 29** MWF (P) Ltd. is a private company having ` 50 lacs paid up capital during the preceding financial year. The company had turnover of last three consecutive financial years, immediately preceding the financial year under audit, being ` 210 crores, ` 205 crores and ` 200 crores, but does not have any internal audit system. In view of the management, internal audit system is not mandatory. You are required to state the provisions related to applicability of internal audit as per the Companies Act, 2013 and comment upon the contention of the management of the company.
**Question 30** Write a short note on "Use of flow charts in evaluation of internal control".
**Question 31** Comment on the following statements:
(a) Maintenance of internal control system is responsibility of Statutory Auditor.
(b) Internal control is part of internal check system.
**Question 32** To prepare an audit plan in CIS environment an auditor should gather information. Mention such important information which he has to collect.
**Question 33** State with reasons (in short) whether the following statements are correct or incorrect:
(i) As per section 138 of the Companies Act, 2013 private companies are not required to appoint internal auditor.
(ii) Letter of weakness is issued by the Management**.**

## VOUCHING CHAPTER 5

**Question 1**
How will you vouch and/or verify the following:
(a) Goods sent out on Sale or Return Basis.
(b) Borrowing from Banks.
**Question 2** "No entry is passed for cheques received by the auditee on the last day of the year and not yet deposited with the bank". Give your comments and observations
**Question 3** How will you vouch/verify the following:
(a) Goods sent on consignment.
(b) Foreign travel expenses.
(c) Receipt of capital subsidy.
(d) Provision for income tax.
**Question 4**
'In vouching payments, the auditor does not merely check proof that money has been paid away.' Discuss.
**Question 5**
How will you, as an auditor, vouch and/or verify the following:
(a) Deferred Revenue Expenditure.
(b) Goodwill.
**Question 6**
How will you vouch and/or verify the following:
(a) Sale proceeds of Scrap Material.
(b) Trade Marks and Copyrights.

(c) Machinery acquired under Hire-purchase system.
(d) Work-in-progress.

**Question 7**

State briefly how you will verify the following:
(a) Bank Balances.
(b) Bills Payable.

**Question 8**

Write a short note on “Cut-off arrangement”.

**Question 9**

“It is not essential to verify the sale proceeds of scrap which did not have a significant value if the company had a good accounting and costing systems”. Comment.

**Question 10**

While conducting the audit of the accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply risen in comparison to the previous year. State the steps you would take to satisfy yourself.

**Question 11**

How will you verify/vouch the following:
(a) Sales Commission Expenditure.
(b) Sales Return.

**Question 12**

Write a short note on “Vouching”.

**Question 13**

“Travelling expenses of ` 2.25 lakhs shown in Statement of Profit and Loss of X Ltd., including a sum of ` 1.10 lakhs spent by a Director on his foreign travel for company’s business accompanied by his mother for her medical treatment”. Comment.

**Question 14**

How will you verify/vouch the Purchase return?

**Question 15**

Write a short note on “Scrutiny of General Ledger”.

**Question 16**

While conducting the audit of accounts of a manufacturing company, you discover that the rate of Gross Profit on Sales has sharply decreased in comparison to the previous year. State the steps you would take to satisfy yourself.

**Question 17**

SMT Enterprises entered into a contract for sale of its goods worth ` 24 lacs with ST Ltd. The goods were inspected, approved and finalised by the inspection team of ST Ltd. ST Ltd. made the whole payment of ` 24 lacs. However, it requested SMT Enterprises to dispatch the goods in six equal monthly instalments from October, 2015 to March, 2016. In the month of January, 2016, due to natural calamity, ST Ltd. informed SMT Enterprises to stop dispatches of the remaining three instalments until further notice. At the time of finalising its accounts for the financial year 2015-16, SMT Enterprises booked sales amounting to ` 12 lacs and showed remaining ` 12 lacs as Advance against Sales. Comment.

**Question 18**

How will you vouch and/or verify the Premium paid for insurance of a Motor car?

**Question 19**

How will you vouch/verify the following:
(a) Liability towards gratuity.
(b) Expenditure incurred for promotion of a product.
(c) Balances with excise authority.
(d) Receipt of special backward area subsidy from Government.

**Question 20**

Gear Ltd. is engaged in manufacturing and supply of gear boxes to Indian Automobile Ltd. As per terms of supply, full price of the goods are not released by Indian Automobile Ltd. but 10% thereof is retained and paid after one year, if there is satisfactory performance of the parts supplied. Gear Ltd. accounts for only 90% of the invoice value as sale at the time of supply and balance 10% is accounted as sale in the year of receipt of payment. Comment.

**Question 21**

In the course of audit of a trade, you noticed that although there is no change in either selling or purchase price of the goods, there is considerable increase in Gross Profit Ratio in comparison to previous year. What matters would you examine to assess the reason for such increase?

**Question 22**

How will you vouch/verify the following:

(a) Sale of Investments.

(b) Payment of Revenue Expenses.

**Question 23**

How would you vouch/verify the following:

(a) Rental Receipts.

(b) Assets acquired on Hire-purchase.

(c) Cash Sales

**Question 24**

How would you vouch/verify the following:

(a) Payment of Retirement Gratuity to employees.

(b) Recovery of Bad Debts written off.

**Question 25**

How will you vouch and/or verify payment of taxes?

**Question 26**

State any six important points to be examined by you, as an auditor, in verifying the correctness of bank balance of an Educational Institution which deposits all its collection/receipt in separate collection account of a bank.

**Question 27**

How would you vouch/verify the following:

(a) Advertisement Expenses.

(b) Sale of Scrap.

**Question 28**

How would you vouch/verify the following:

(a) Insurance Claim.

(b) Customs Duty.

**Question 29**

On 31.12.2015, Amudhan Company Limited invested ` 45 lakhs in cumulative fixed deposits of Algar Bank Ltd. The deposits carry interest @10% per annum compoundable quarterly and amount of interest is added to the principal and is due and payable on the maturity date which is 5 years from the date of investments.

For the year ended 31st March, 2016, the company did not book any revenue of interest on the ground that interest amount is not available at their disposal till maturity date of investment. Comment.

**Question 30**

(a) M, Statutory Auditor of ABC Ltd. wants to verify cash on hand as on 31st March, 2016. The Management informs Mr. M. that it is not possible to cooperate, as cashier has been hospitalized. Advise Mr. M. on how to deal with the situation.

(b) As an auditor of a Limited Company, you observe that during the month of March, 2016, sales invoices were not recorded in books of accounts. You also observe that payment of wages was much higher compared to last year. Keeping in mind the above, analyse possible ways of manipulation of accounts

**Question 31**

How would you vouch/verify the following:

(a) Production incentive paid to workers.

(b) Bad debt.

**Question 32**

XYZ Ltd., a manufacturing concern, gave a donation of ` 50,000 each to a Charitable Society running a school and a trust set up for the service of blind during financial year ending on 31stMarch, 2016. The average net profits of the company for the last three years were ` 15 lakhs. Comment.

**Question 33**

How would you vouch/verify the following:

(a) Goods sent out on Sale or Return Basis.

(b) Bank overdraft.

**Question 34**

A trader is worried that inspite of substantial increase in sales compared to earlier year, there is considerable fall in Gross Profit. After satisfying himself that sales and expenses are correctly recorded and that the valuation of inventories is on consistent basis, he wants to ensure that purchases have been truthfully recorded.

How will you proceed with this assignment?

**Question 35**

What points shall an auditor keep in mind while auditing an account of Bought Ledger having a debit balance?

**Question 36**

List out some examples of fraud that can be done by ledger keeper in Bought ledger and sales ledger.

**Question 37**

Give various factors which result in increase in Gross profit.

**Question 38**

What are the factors that determine the extent of reliance that the auditor places on results of analytical procedures? Explain with reference to SA-520 on "Analytical procedures".

**Question 39**

What are the factors to be considered while "Vouching of travelling expenses"?

**Question 40**

How will you vouch and verify the following:

(a) Remuneration paid to directors.

(b) Profit or loss arising on sale of plots held by real estate dealer.

(c) Purchase with invoice.

(d) Wages paid to seasonal labourer.

(e) Refund of General Insurance Premium paid.

**Question 41**

As an auditor, what are the essential points to be borne in mind while examining a voucher?

**Question 42**

Indicate expenses which are essentially of a revenue nature, if incurred for creating an asset, are also regarded as expenditure of a capital nature.

**Question 43**

Casting or totaling is an important tool of audit for an Auditor. Comment.

**Question 44**

What procedure an auditor should adopt to test the authenticity of cash at bank?

**Question 45**
Janta Ltd. has made a contribution of ` 7.8 lacs during the financial year ended 31.3.16 to Samaj Seva Party, a political party, for running a teaching institute situated in the rural area, where most of the workers of the company reside. It is admitted that the benefit of the institute is mostly for the children of the workers of the company. The average net profit of the company during the three immediately preceding financial years was ` 100 lakhs. Comment.
**Question 46**
How will you vouch/verify Repair to Assets?
**Question 47**
Point out any eight areas where external confirmation used as an audit procedure.
**Question 48**
Write short notes on the following:
(a) Remuneration paid to directors in case of a public limited company.
(b) Payment for acquisition of assets.

## VERIFICATION OF ASSETS AND LIABILITIES CHAPTER 6

**Question 1** Comment on "The cash-book showed a huge cash balance on hand consistently throughout the year".

**Question 2** (a) Comment on the "Responsibility for properly determining the quantity and value of inventories rests with the management of the entity".
(b) How would an auditor proceed to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory? Also state reporting requirements for the same in the case of a company.

**Question 3** As an auditor, what would you do in the following situations?
(a) The method of depreciation on plant and machinery is to be changed from SLM basis to WDV basis from the current year.
(b) The company has sent semi-finished goods to third parties for further processing, which is lying with them at the end of the year.

**Question 4** Give your comments and observations on the following:
(a) Balance confirmations from trade receivables/trade payables can only be obtained for balances standing in their accounts at the year-end.
(b) The management has obtained a certificate from an actuary regarding provision of gratuity payable to employees.
(c) Fixed assets have been revalued and the resulting surplus has been adjusted against the brought forward losses.

**Question 5** State briefly the duty of an auditor with regard to each of the following:
(a) No depreciation has been charged for the year ended 31st March 2016, in respect of a spare Bus purchased during the year and kept ready by the company for use as a stand-by on the ground that it was not used during the year.
b) A sum of ` 10,00,000 is received from an Insurance company in respect of a claim for loss of goods in transit costing ` 8,00,000. The amount is credited to the Purchases Account.
(c) Cost of structural alterations amounting to ` 60,000 to self-owned factory premises has been charged to Building Repairs.
(d) A loss of ` 2,00,000 on account of embezzlement of cash was suffered by the company and it was debited to Salary Account.

**Question 6** Explain the difference between Depreciation and Fluctuation in Value.
**Question 7** State how would you verify the Buildings.
**Question 8** (a) Explain the meaning of the term "subsequent events" as used in the SA 560.

(b) Should all type of subsequent events be considered by the auditor in his attest function?
(c) Indicate briefly the procedures to identify subsequent events requiring adjustment of or disclosure in the financial statements.

**Question 9** Write a short note on “Contingent Liability”.

**Question 10** How will you vouch and/or verify the following:
(a) Retirement Gratuity to Employees.
(b) Sale Proceeds of Junk Materials.
(c) Assets Abroad.

**Question 11** How will you vouch and/or verify the following:
(a) Consignment sales.
(b) Royalties received.

**Question 12** Write short notes on the following:
(a) Outstanding Assets.
(b) Extent of Reliance on Analytical Procedures.
(c) Purpose of providing depreciation.

**Question 13** How will you vouch and/or verify the following:
(a) Contingent Liabilities.
(b) Excise Duty.
(c) Endowment Policies.

**Question 14** Write short notes on the following:
(a) Intangible Assets.
(b) Floating Charge.

**Question 15** As an auditor, comment on the following situations/statements:
(a) You are the Auditor of a Manufacturing Company, whose year ends on 31st March. An event occurred after the year ended, but before you complete the audit. The audit report issued by you is dated 20th July. The Sales Ledger balance at 31st March was ` 95, 000. By 20th July ` 65,000 only had been received against this amount as full and final payment.
(b) A Computerised Machinery was purchased by two companies jointly. The price was shared equally. It was also agreed that they would use the machinery equally and show in their Balance Sheets, 50% of the value of the machinery and charge 50% of the depreciation in their respective books of accounts.

**Question 16** How will you vouch and/or verify the following:
(a) Personal expenses of directors met by the company.
(b) Preliminary expenses.
(c) Advances given to suppliers.

**Question 17**
Write a short note on “Analytical review”.

**Question 18** The CC Ltd., a Pharmaceutical Company, while valuing its finished inventory at the year-end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses. Comment.

**Question 19** How will you vouch/verify the following:
(a) Advertisement expenses.
(b) Goodwill.
(c) Capital work-in-progress.
(d) Wages paid to seasonal labourer.

**Question 20** As an auditor, comment on the following:
(a) As on 31.3.2016, there was a claim for damage from one of the customers against the company engaged in selling of accounting software for an alleged failure to provide satisfactory after-sales services in relation to the software purchased from it. Before finalisation of the accounts for the year ended 31.3.2016 (the accounts were finalised on 14th June, 2016), the company won the case and had no liability whatsoever in this regard. The company has made a provision for this contingent liability in its accounts for the year ended 31.3.2016, which, it says, will be reversed in the next year.
(b) SK Ltd. has fully computerised its accounting operations. The inventory records are maintained up to date with timely entries passed for all receipts and issues. The company has hired a professional security agency, which monitors and implements a close vigilance over the operations of the company. As such, the company had dispensed with the practice of taking inventory of their inventories at the year-end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations.
**Question 21** Under what circumstances change in accounting policies is permissible?

**Question 22** How will you verify/vouch the following:
(a) Inventory lying with Third Party
(b) Purchase of Motor Car
**Question 23** State the different types of Analytical Review carried out in verification of inventories.

**Question 24** How will you verify/vouch the following:
(a) Purchase of quoted investment.
(b) Discounted bill receivable dishonoured.
(c) Amount due to subsidiary companies.

**Question 25** As an Auditor, comment on the following situations/statements:
(a) X Ltd. had a major break down in its plant in the month of February, 2016. In the month of March, 2016 it entered into an agreement with an engineering firm for the purpose of repairing its plant for a consideration of ` 180 lacs. The engineering firm started the repairing work in the month of April, 2016 and completed it in the same month. X Ltd. made the provision for said expenditure on repairs in its books of account for the financial year 2015-16 on the plea that the event of break down leading to repair expenditure had taken place in the financial year 2015-16, binding contract for repairs was entered into during the financial year 2015-16 and repair work was also completed before the financial statements were approved by the Board of Directors of the company.
(b) The management tells you that WIP is not valued since it is difficult to know the same in view of multiple processes involved and in any case opening and closing WIP would be more or less the same.

**Question 26** As an auditor, comment on the RT Ltd. received ` 50 lacs as grant from the State Government towards the part cost of a specific machinery. The company credited the above sum of ` 50 lacs as income in its Statement of Profit and Loss for the year. What are your views on the accounting treatment of the above receipt of ` 50 lacs?

**Question 27** Write a short note on "First in First out (FIFO) method"
.**Question 28** As an auditor, comment on the following:
(a) You are a Principal Auditor of Sri Company Limited which has three branches the accounts of which are subject to audit by qualified branch auditors. One of the branch auditors qualified his report for non-provision of doubtful debts which he considered to be material for the company as a whole. Subsequent to their reporting, but before you could sign the audit report on the accounts of the company as a whole, the management informed you that the debt under the subject-matter of qualification in Branch Auditor's report had been fully recovered.

(b) A Ltd. is a holding company of B Ltd. B Ltd. is going to start a new project estimated to cost ` 20 crores. For this A Ltd. made an investment of ` 10 crores in the shares of B Ltd. by borrowing the same from financial institution @10% p.a. As on 31st March, 2016, the project was not completed. The Directors of A Ltd. want to capitalize the interest upto 31st March, 2016 on borrowings amounting to ` 1 crore and add it to the cost of investments.
(c) A contractor entered into a contract for building roads for ` 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be ` 2.40 crores. The accountant transferred ` 0.24 crores i.e., 60% of total loss of ` 0.40 crores to Statement of Profit and Loss in the current year.
(d) Finished goods costing worth ` 10 lacs were damaged due to floods in July, 2014. These goods were included in the closing inventory as on March 31, 2015 at an estimated realisable value of ` 4 lacs. These goods, ultimately, could be sold for ` 3 lacs only in the accounting year 2015-16. The difference of ` 1 lac was debited to prior period expenditure in the accounting year 2015-16.

**Question 29** How will you verify/vouch the following:
(a) Loss of inventory by theft.
(b) Inventory lying with subcontractor for fabrication.
(c) Sale of empties.
(d) Expenditure for advertisement in newspaper.
**Question 30** Write a short note on “Provisions versus Specific Reserves”.
**Question 31** How will you vouch/verify the following:
(a) Advance given to a director of a Company.

(b) Repayment of amount of foreign loan for purchase of an asset.
(c) Grant received for reimbursement of revenue expenditure.
(d) Deferred Tax Liability.
**Question 32** As an Auditor, comment on the following:
(a) Sri Limited is a manufacturing company engaged in manufacture of cement. It had three plants already commissioned in its site at Chennai. The company expanded its plant capacity by contracting with a supplier for the purchase and installation of one additional plant. The project was commenced on 1.7.2015 and the new plant commenced commercial operations on 1.1.2016. The new plant was capitalized and shown as Fixed Asset as on 31.3.2016 at cost which included, besides other things, the following:
(i) Contract price of plant and equipment and installation costs.
(ii) Interest due for the period till 31.3.2016 for the term loan taken from scheduled bank for financing the project which is repayable over five years commencing from 1.7.2016.
(iii) Salaries, welfare expenses of the plant engineers of the company for the period from 1.7.2015 to 31.12.2015 who supervised the contract work.
(b) The Investments of ABC Limited includes 5,000 equity shares of ` 100 each in Amudhan Bank Limited. Amudhan Bank Ltd. declared 20% dividend for the year ended 31.3.2015 at its General Meeting held on 30.6.2015. ABC Limited finalised its accounts for the year ended 31.3.2015 on 30.8.2015 and it includes ` 1,00,000 being the amount of dividend received by it from Amudhan Bank Ltd. in its other income subsequent to its Balance Sheet date before approval by the Board of Directors.
(b) AS Limited purchased on 1.4.2015 a machinery from a foreign country at a price of $ 1,50,000 upon terms of credit that the price should be settled within six months from the date of purchase. The company capitalised the Asset and created Liability for the capital goods converting the foreign currency liability to Indian Rupees at a rate of exchange prevailing as on 1.4.2015. When the company settled the liability on 18.7.2015, it had to incur an additional amount of ` 6,75,000 due to change in foreign exchange rate on the date of settlement. It added this additional amount of exchange variation in the capital cost of the asset andcharged depreciation upon the enhanced amount of asset value from 18.7.2015.
**Question 33** As an Auditor, enunciate the General principles of verification of Assets.

**Question 34** As an Auditor, comment on the following:

(a) Lehar Ltd. installed a new water treatment plant at its factory on 1.10.2015. The company estimated that the new plant will become obsolete after 4 years only and hence charged depreciation at a rate higher than that envisaged in Schedule II to the Companies Act, 2013. During the year 2015-16, the company therefore had written off 1/4th of the cost.

(b) Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2014-15 at a cost of ` 100 lacs. Out of this they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment. During the Financial year 2015-16, Urja Ltd. waived off the balance 10% amount which was credited to Statement of Profit and Loss by Fire Ltd. as discount received.

**Question 35** Distinguish between Reserves and Provisions.

**Question 36** How would you vouch/verify the following:

(a) Trade payables.

(b) Advances to suppliers.

**Question 37** How would you vouch/verify the following:

(a) Borrowings from Bank.

(b) Work in progress.

**Question 38** As an Auditor how would you react to the following situations/comments?

(a) In a company Fixed Assets have been revalued and there has been resulting surplus of ` 2,00,000, which is transferred to revaluation reserve. The Company has a Debit balance in Statement of Profit and Loss ` 1,20,000 as accumulated brought forward losses. The company has adjusted this loss balance against Revaluation reserve.

(b) The Central Government sanctioned ` 20 lakh as Grant to a Hospital for the purchase of certain equipments and paid ` 10 lakh as advance. The hospital took ` 10 lakh as income in the Statement of Profit and Loss for the year.

**Question 39** Write a short note on “Impairment of Assets”.

**Question 40** (a) A Limited Company has filed a suit against trade receivable from whom ` 25 lakhs are receivable. A judgement is received from court in favour of the company after the date of Balance Sheet. Discuss auditors' duty in this regard.

(b) While conducting audit of a bank, you find that the bank has advanced loan for purchase of machinery on the basis of valuation report prepared by a civil engineer. Will you approve the action taken by bank? Justify the answer.

**Question 41** How would you vouch/verify- Goods lying with third party?

**Question 42** Write a short note on “Physical attendance by auditor during inventory taking”.

**Question 43** State the information to be disclosed in the financial statements according to the requirements of AS 6.

**Question 44** As an auditor, comment on the MNR Co. Ltd. did not provide for depreciation during the financial year 2014-15 due to inadequacy of profits. The company declared dividend during the financial year 2015-16 without providing for the previous year's depreciation

**Question 45** How would you vouch/verify “Leasehold property”?

**Question 46** Write a short note on “Verification of credit sales”

**Question 47** What points shall an auditor keep in mind while auditing an account of Bought Ledger having a debit balance?

**Question 48** What procedure an auditor should adopt to test the authenticity of cash at bank?

**Question 49** Mention disclosure requirements of the following in the financial statements (in case of a company):

(a) Trade Receivables.

(b) Bank Balances.

**Question 50** Write short notes on the following:

(a) Audit of sale of Investments.

(b) Verification of assets acquired on lease.

**Question 51** What are the factors that are to be considered while designing a confirmation request?

**Question 52** You are the auditor and examining the book debts of a company. Give some indications which lead to doubt about recovery as uncollectable debts from trade receivables and advances.

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**Question 53** The Finance Manager of Belt Ltd. is of the opinion that before declaration of dividends it would not be necessary to set off the carried forward amount of debit balance in the Statement of Profit and Loss against current revenue profit but the same could be set-off against existing revaluation reserve. Do you agree?

**Question 54** How will you vouch and/or verify the following:

(a) Bank Overdraft.

(b) Patterns, Dies, Loose Tools, etc.

(c) Investment in the Shares and Debentures of Subsidiary.

**Question 55** Describe "Analytical Review Procedures" in Audit. Briefly discuss analytical procedures for verification of trade receivables.

**Question 56** How will you vouch/verify Intangible Assets?

**Question 57** Discuss the recognition principles of contingent liability.

## COMPANY AUDIT -1

**Question 1** Comment on the following situations:

(a) An auditor purchased goods worth ` 501,500 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers.

(b) KBC & Co. a firm of Chartered Accountants has three partners, namely, Mr. K, Mr. B & Mr. C. Mr. K is also in whole time employment elsewhere and Mr. B & Mr. C. do not hold any audits in their personal capacity or as partners of other firms. The firm is offered the audit of a public company 'ABC Ltd.' and is already holding audit of 40 companies

**Question 2** At the AGM of ICI (P) Ltd., Mr. X was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to give up practice and join industry. State, how the new auditor will be appointed by ICI (P) Ltd. and the conditions to be complied for.

**Question 3** Write a short note on Auditor's Lien.

**Question 4** What will be position of the Auditor in the following cases:

(a) A, a chartered accountant has been appointed as auditor of Laxman Ltd. in the Annual General Meeting of the company held in September, 2015, which assignment he accepted. Subsequently in January, 2016 he joined B, another chartered accountant, who is the Manager Finance of Laxman Ltd., as partner.

(b) Y, is the auditor of X Pvt. Ltd. In which there are four shareholders only, who are also the Directors of the company. On account of bad trade and for reducing the expenses in all directions, the directors asked Y to accept a reduced fee and for that he has been offered not to carry out such full audit as he has done in the past. Y accepted the suggestions of the directors.

(c) While conducting the audit of a limited company for the year ended 31st March, 2016, the auditor wanted to refer to the Minute Book. The Board of Directors refused to show the Minute Book to the auditor.

**Question 5** Comment on the following:

(a) Due to the resignation of the existing auditor(s), the Board of directors of X Ltd. appointed Mr. Hari as the auditor. Is the appointment of Hari as auditor valid?

(b) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted?

How would you as an auditor distinguish between Reports and Certificates?

**Question 7** State with reasons your views on the following:

(a) Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as Statutory Auditor of Krishna Ltd. for the accounting year 2015-2016. Mr. Hanuman holds 100 equity shares of Shiva Ltd., a subsidiary company of Krishna Ltd.

(b) Mr. Rajendra, a fellow member of the Institute of Chartered Accountants of India, working as Manager of Shrivastav & Co., a Chartered Accountant firm, signed the audit report of Om Ltd. on behalf of Shrivastav & Co.

**Question 8** As an auditor, comment on the following situations/statements:

(a) The first auditors of Health and Wealth Ltd., a Government company, was appointed by the Board of Directors.

(b) The auditor of Trilok Ltd. did not report on the matters specified in sub-section (1) of Section 143 of the Companies Act, 2013, as he was satisfied that no comment is required.

(c) The members of C. Ltd. preferred a complaint against the auditor stating that he has failed to send the auditor's report to them.

(d) One of the directors of Hitech Ltd. is attracted by the disqualification under Section 164(2) of the Companies Act, 2013.

**Question 9** (a) E and S were appointed as Joint Auditors of X and Y Ltd. What will be their professional responsibility in a case where the company has cleverly concealed certain transactions that escaped the notice of both the Auditors?

(b) Preksha, a member of the ICAI, does not hold a Certificate of practice. Is her appointment as an auditor valid?

(c) 'B' owes ` 5,01,000 to 'C' Ltd., of which he is an auditor. Is his appointment valid? Will it make any difference, if the advance is taken for meeting-out travelling expenses?

**Question 10** Write a short note on Audit enquiry under Section 143(1) of the Companies Act, 2013.

**Question 11** As an auditor, comment on the following situations/statements:

(a) A Ltd. has its Registered Office at New Delhi. During the current accounting year, it has shifted its Corporate Head Office to Indore though it has retained the Registered Office at New Delhi. The Managing Director of the Company wants to shift its books of account to Indore from New Delhi, as he feels that there is no legal bar in doing so.

(b) The Board of Directors of a company have filed a complaint with the Institute of Chartered Accountants of India against their statutory auditors for their failing to attend the Annual General Meeting of the Shareholders in which audited accounts were considered.

**Question 12** Briefly discuss the following with respect to applicable provisions under the Companies Act, 2013 and rules made there under:

(a) Maintenance of Cost Records

(b) Applicability of Cost Audit

(c) Non-applicability of Cost Audit

**Question 13** State the matters to be specified in Auditor's Report in terms of provisions of Section 143(3) of the Companies Act, 2013.

**Question 14** Give your comments on the following:

(a) Mr. X, a Director of KP Private Ltd., is also a Director of another company viz., GP Private Ltd., which has not filed the financial statements and annual return for last three years 2013-14 to 2015-16. Mr. X is of the opinion that he is not disqualified u/s 164(2) of the Companies Act, 2013, and auditor should not mention disqualification remark in his audit report.

(b) Mr. Aditya, a practising chartered accountant is appointed as a "Tax Consultant" of ABC Ltd., in which his father Mr. Singhvi is the Managing Director.

(c) You, the Auditor of A Ltd., have been considered for ratification by the members in the 4th general meeting as the sole auditor, where you were one of the joint auditors for the immediately preceding three years and the said joint auditors are not re-appointed.
(d) No Annual General Meeting (AGM) was held for the year ended 31st March, 2016, in XYZ Ltd., Ninu is the auditor for the previous 3 years, whether she is continuing to hold office for current year or not.

**Question 15** (a) Managing Director of PQR Ltd. himself wants to appoint Shri Ganpati, a practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director.
(b) PBS & Associates, a firm of Chartered Accountants, has three partners P, B and S. The firm is already having audit of 45 companies and none of the partners are holding any audit in their personal capacity or as partners of other firms. The firm is offered 20 public company audits. Decide and advise whether PBS & Associates will exceed the ceiling prescribed under Section 141(3)(g) of the Companies Act, 2013 by accepting the above audit assignments?

**Question 16** Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term?

**Question 17** As an Auditor, comment on the following:
(a) Company has debited ` 1,75,000 to Delivery Van Account received from a customer against credit sales of ` 1,50,000 to him who is now is not able to pay the amount. The Delivery Van has not been registered in the name of the company with R.T.O. till date of Finalisation of accounts.
(b) XYZ Ltd. Co. gave a donation of ` 50,000 each to a Charitable Society running a school and a trust set up for the service of Blind during financial year ending on 31st March, 2016. The average net profits of the company for the last three years were 15 lakhs. Comment.
(c) AAS Limited had provided for doubtful debts to the extent of ` 23 lakhs during the year 2014-15. The amount had since been collected in the year 2015-16. Another debt of ` 25 lakhs had been identified to be doubtful during the year 2015-16. The Company made an additional provision of ` 2 lakhs during the year. The Statement of Profit and Loss for the year ended 31.3.2016 charged the same as provision for doubtful debts ` 2 lakhs.
(d) Alagar Limited is a company engaged in the business of chassis building and bus transportation services. It accounts all expenses and income in Statement of Profit and Loss under various heads explaining clearly the nature of the operations. The auditor of the company requires that the Statement of Profit and Loss should depict the Profit or Loss from the businesses of assembly as well as of operation of bus services separately.

**Question 18** M/s Seeman & Co. had been the company auditor for Amudhan Company Limited for the year 2015-16. The company had three branches located at Chennai, Delhi and Mumbai. The audits of branches-Chennai, Delhi were looked after by the company auditors themselves. The audit of Mumbai branch had been done by another auditor M/s Vasan & Co., a local auditor situated at Mumbai. The branch auditor had completed the audit and had given his report too. After this, but before finalization, the company auditor wanted to visit the Mumbai branch and have access to the inventory records maintained at the branch. The management objects to this on the grounds of the company auditor is transgressing the scope of audit areas agreed. Comment

**Question 20** During the year 2015-16, it was decided for the first time that the accounts of the branch office of AAS Company Limited be audited by qualified Chartered Accountants other than the company auditor. Accordingly, the Board had appointed branch auditors for the ensuing year. One of the shareholders complained to the Central Government that the appointments was not valid as the Board of Directors do not have power to appoint auditors, be they Company Auditor or Branch Auditors?

**Question 21** Give your comments on the following:

(a) Mr. Budha, Statutory Auditors of Secret Ltd. was not permitted by the Board of Directors to attend general meeting of the company on the ground that his right to attend general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed.

(b) M/s Young & Co., a Chartered Accountant firm, and Statutory Auditors of Old Ltd., is dissolved on 1.4.2016 due to differences of opinion among the partners. The Board of Directors of Old Ltd. in its meeting on 6.4.2016 appointed another firm M/s Sharp & Co. as their new auditors for one year.

(c) Mr. Fat, auditor of Thin Ltd., has his office and residence in the building owned by Thin Ltd. Mr. Fat has been given 10% concession in rent by the company as compared to other tenants.

**Question 22** Write short notes on the following:

(a) Responsibilities of Joint auditors.

(b) Process of Judgement formation by Auditor

**Question 23** State the basic elements of the Auditor's Report.

**Question 24** When does an auditor issue unqualified opinion and what does it indicate?

**Question 25** Under what circumstances the retiring Auditor cannot be reappointed?

**Question 26** Write short notes on the following:

(a) Disclaimer of Opinion.

(b) Joint Audit.

**Question 27** Write a short note on responsibilities of Joint auditors.

**Question 28** As an auditor comment on the following:

(a) On 31.3.2016 inventory taking by Identity Ltd. revealed an inventory of ` 50 crores at its godown. Due to a fire on 1st April, 2016, inventory worth ` 30 crores was destroyed. The salvage value and insurance claim were estimated at ` 25 crores before the commencement of audit. No provision was made in the books of company for the year ended 31.3.2016 for ` 5 crores.

(b) T Ltd. gave a guarantee to the court for payment of VAT dues of ` 15 lakhs for its subsidiary Company Y Ltd. According to the company, since the guarantee was given on behalf of its subsidiary Company, no disclosure was required.

(c) Uranus Ltd. has purchased and installed new machinery during the year in expectation of increased sales. However, no production was made by using the new machine. The directors contend that as the machinery was not used, no depreciation needs to be provided.

(d) Mr. D is a director of X Ltd. and Y Ltd. On 30th June, 2015, Mr. D resigned from directorship of Y Ltd. X Ltd. sold goods to Y Ltd., during the entire year at the same price and conditions as to any other customer. X Ltd. discloses only the sales for the first quarter ending 30th June, 2015 as related party transactions.

**Question 29** Comment on the following:

(a) M/s XYZ & Co., auditors of Goodwill Education Foundation, a recognised nonprofit organisation feels that the standards on auditing need not to be applied as Goodwill Education Foundation is a non-profit making concern.

(b) Nickson Ltd. is a subsidiary of Ajanta Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Nickson Ltd. appointed Mr. P as statutory auditor for the year.

(c) Mr. Amar, a Chartered Accountant, bought a car financed at ` 7,00,000 by Chaudhary Finance Ltd., which a holding company of Charan Ltd. and Das Ltd. He has been the statutory auditor of Das Ltd. and continues to be to even after taking the loan.

**Question 30** M.N.P. Company Ltd. purchased a machinery for ` 1.00 crore. The State Government granted the company a subsidy of ` 40 lakhs to meet partial cost of machinery. The company credited the subsidy received from the State Government to its Statement of Profit and Loss for the year ended March 31, 2016. Comment

**Question 31** Comment on the following:

(a) X Ltd. has its Registered Office at Mumbai. During the current accounting year it shifted its Corporate Office to Delhi. The Managing Director of the Company wants to shift company's books of account to Delhi because he holds the view that there is no legal bar in doing so.

(b) A partnership firm revalued its fixed assets like land and building. The firm adequately disclosed the revalued amounts in the Balance Sheet.

Do you, as an auditor, approve the disclosure given by the partnership firm?

(c) R.K. & Company are the auditors of PQR Company Ltd. The Managing Director of the Company demands copies of the working papers from the auditors. Are the auditors bound to oblige the Managing Director?

**Question 32**

Explain the concept of joint audit. Discuss its advantage and disadvantage.

**Question 33** Discuss the following:

(a) Ceiling on number of audits in a company to be accepted by an auditor.

(b) Filling of a casual vacancy of auditor in respect of a company audit.

(c) In Joint Audit, "Each Joint Auditor is responsible only for the work allocated to him".

**Question 34** White Star Ltd. was incorporated on 01.08.2015 and Mr. T, who is a relative to the Chairman & Managing Director (CMD) of the Company, appointed as auditor by the Board of Directors in their meeting on 04.09.2015. Comment

**Question 35** Mr. A was appointed auditor of AAS Ltd. by Board to fill the casual vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The Board filled this vacancy by appointing you through duly passed Board resolution. Comment.

**Question 36** Comment on the following situations:

(a) Mr. X, a shareholder of the company pointed out that:

(i) The goodwill in the Balance Sheet of the company has appeared on same figure during the past three years.

(ii) Premium received on issue of shares prior to the date of Balance Sheet has been transferred to Statement of Profit and Loss for arriving at the figure of commission payable to the managing director.

(b) ABC Company Ltd. removed its First Auditor before the expiry of his term without obtaining approval of the Central Government.

**Question 37** C Ltd. declared dividend amounting to ` 5 lacs out of Profits for the year ended 31.3.2016. Subsequently, it was noticed that company had failed to make provisions for outstanding expenses of ` 7.80 lacs and closing stock was also overvalued, which was not reported by auditors of the company. Management of C Ltd. held auditors responsible for this situation. Comment.

**Question 38** Audit Committee is to be formed by each and every company and the auditor has right to vote in the meeting of such Audit Committee. Comment

**Question 39** Sri & Company, a firm of Chartered Accountants was appointed as statutory auditors of Aaradhana Company Ltd. Aaradhana Company Ltd. holds 51% shares in Sarang Company Ltd. Mr. Sri, one of the partners of Sri & Company, owed ` 1,500 as on the date of appointment to Sarang Company Ltd. for goods purchased in normal course of business. Comment.

**Question 40** What are the various types of companies covered under Companies (Auditor's Report) Order, 2016 [CARO, 2016]?

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**Question 41** Mr. Y was appointed as an auditor of PQR Ltd. for the year ended 31.3.2016 at the Annual General Meeting held on 16.08.2015. Mr. Y has been indebted to the company for sum of ` 5,10,000 as on 01.04.2015, the opening date of accounting year which has been subject to his audit. However, Mr. Y having come to know that he might be appointed as auditor, he repaid the amount on 10.8.2015. One of the shareholders, complains that the appointment of Mr. Y as an auditor was invalid because he incurred disqualification u/s 141 of the Companies Act, 2013. Comment.

**Question 42** State the circumstances which could lead to any of the following in an Auditor's Report:
(a) A modification of opinion (b) Disclaimer of opinion (c) Adverse opinion (d) Qualified opinion.

**Question 43** What are Modified Reports? Discuss disclosure pattern when the auditor includes an Emphasis of Matter paragraph in the Auditor's Report.

**Question 44** "Provisions regarding rotation of auditors affect only specific class of companies". Discuss.

**Question 45** State the disclosure required to be made in the financial statements if these do not comply with the accounting standards.

**Question 46** Explain the following:
(a) Appointment of First Auditor of a Non-Government Company.
(b) Appointment of First Auditor of a Government Company.
(c) Appointment of Subsequent Auditor of a Non-Government Company.
(d) Appointment of Subsequent Auditor of a Government Company

**Question 47** State with reasons (in short) whether the following statements are correct or incorrect:
(i) The auditor shall not modify the opinion in the auditor's report.
(ii) The first auditor of a Government company was appointed by the Board in its meeting after 10 days from the date of registration.
(iii) Director's relative can act as an auditor of the company.
(iv) If an LLP (Limited Liability Partnership Firm) is appointed as an auditor of a company, every partner of a firm shall be authorized to act as an auditor.
(v) AB & Co. is an audit firm having partners Mr. A and Mr. B. Mr. C, the relative of Mr. B is holding securities having face value of ` 2,00,000 in XYZ Ltd. AB & Co. is qualified for being appointed as an auditor of XYZ Ltd.
(vi) The auditor of a Ltd. Company wanted to refer to the minute books during audit but board of directors refused to show the minute books to the auditors.
(vii) Manner of rotation of auditor will not be applicable to company A, which is having paid up share capital of ` 15 crores and having public borrowing from nationalized bank of ` 50 crore because it is a Private Limited Company.
(viii) The auditor should study the Memorandum and Articles of Association to see the validity of his appointment.
(ix) Managing director of A Ltd. himself appointed the first auditor of the company
(x) A Chartered Accountant holding securities of S Ltd. having face value of ` 950 is qualified for appointment as an auditor of S Ltd.
(xi) Mr. N, a member of the Institute of Chartered Accountants of England and Wales, is qualified to be appointed as auditor of Indian Companies.
(xii) The auditor has to report to Central Govt. within 90 days of his knowledge of an offence involving fraud.

**Question 48** State the manner of rotation of auditors on expiry of their term.

**Question 49** The auditor's report is considered to be modified under certain circumstances. Discuss

# COMPANY AUDIT -2

**Question 1** Comment on the following:
(a) The surplus arising from a change in the basis of accounting was set off by X Ltd., against a non-recurring loss.
(b) Z Ltd. gave a guarantee to the Court for payment of excise dues of ` 10 lakhs for one of its subsidiaries. According to the company, since the guarantee was given on behalf of its subsidiary, no disclosure was required.
**Question 2** "Credit for the profit arising out of a hire-purchase sale was fully adjusted in the year of sale". Comment.

**Question 3** As an auditor comment on the following situations:
(a) A company had acquired a 10 Tonner delivery van valued at ` 6.5 lakhs on instalment basis from a dealer. During the year, the company paid ` 1.5 lakhs being the instalment for the year and provided depreciation on the said amount paid.
(b) A company received a subsidy of ` 1 crore for establishing an undertaking in the backward/notified area.
**Question 4** "The interest of a director in a transaction, entered into by the company has not been disclosed in the records maintained by the company". Comment.
**Question 5** Write a short note on Sweat Equity Shares.
**Question 6** As an auditor, what would you do in the following situations?
(a) One customer from whom ` 5 lacs are recoverable for credit sales gives a motor car in full settlement of the dues. The directors estimate that the market value of the motor car transferred is ` 5.25 lacs. As on the date of the Balance Sheet, the car has not been registered in the name of the auditee.
(b) The company had borrowed ` 100 lacs from ICICI, which it is unable to repay on the due date. The accrued unpaid interest on the same is ` 25 lacs. There is a stipulation that on default in repayment, there would be a penal interest payable, which would amount to ` 10 lacs. The company has applied to ICICI for rescheduling the repayment and waiver of a part of the accrued interest and the penal interest. As on the date of audit, the said application is still pending.
Based on this application, the management does not wish to provide for the accrued interest and the penal interest.

**Question 7** State briefly, how you will audit the following in a joint stock company:
(a) Issue of shares for consideration other than cash.
(b) Splitting of one share of the face value of ` 10 into 10 shares of ` 1 each.

**Question 8** In carrying out the "Share Transfer Audit" of your client, what aspects would be required to be examined by you as an auditor?
**Question 9** Explain 'Option on Share Capital'.
**Question 10** Give your comments and observations on the following:
(a) A company has not provided depreciation on machinery on the plea that the machinery has been maintained in excellent condition and is as good as new.
(b) A company, whose accounting year ends on 31st March, 2016 has placed an order with Globe Machinery Limited, Bombay for a machinery costing ` 20 lakhs against cash payment during the month of June, 2016. The company has added a foot-note to the Balance Sheet as at 31st March, 2016 showing separately that a capital contract has been entered into which requires the payment of ` 20 lakhs in cash.
(c) A company has scrapped a semi-automatic part of a machine (not entirely written off) and replaced with a more expensive fully automatic part, which has doubled the output of the machine. At the same time the machine was moved to a more suitable place in the factory, which involved the building of a new foundation in addition to the cost of dismantling and re-erection. The company wants to charge the whole expenditure to revenue.
(d) A company has made additions to its factory buildings by its own workmen, at a cost of ` 4,50,000 for wages and materials. The lowest estimate from an outside contractor to carry out the same work was for ` 6,00,000. The directors contend that as they were fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ` 6,00,000.

**Question 11** Write a short note on the Audit of Capital Reserve.

**Question 12** As a Company Auditor, how would you react to the following situations:
(a) A publishing company undertook repair and overhauling of its machinery at a cost of ` 250 lakhs to maintain them in good condition and capitalised the amount as it is more than 25% of the original cost of the machinery.
(b) Inventories of a Car manufacturing company include the value of items, required for the manufacture of a model which was removed from the production line five years back, at cost price.
(c) Interest on loan borrowed to purchase machinery which has been installed two years back is still debited to Machinery Account.
(d) Sale value of scrap items adjusted against Miscellaneous Expenditure.
(e) Insurance claim of ` 2 lakhs received stands included under Miscellaneous Income.
(f) ` 5 lakhs paid by a pharmacy company to the legal advisor defending the patent of a product treated as Capital Expenditure.

**Question 13**

As an auditor comment on the following situations/statements:
(a) The sale and purchases of investments of A Ltd., was controlled through a committee. Shri B sold some of the investments without discussing the same with the other members of the committee as they were out of station and Shri B believed that its price would falland the company would suffer a loss if it is not sold. A Ltd. earned a profit of ` 1 lakh from such sale.
(b) The company due to liquidity crises sold and leased back the same vehicles from leasing companies. In the notes to accounts, the company stated 'Vehicles taken on lease repayable in 46 instalments of ` 26,650 each'.
(c) No depreciation provided on a machinery costing ` 50 lakhs imported three years back, since it is yet to be put into use.
(d) A portion of Share Premium utilised to declare 40% dividend.

**Question 14** Comment on the following:
(a) Asian Overseas Oil Ltd.'s oil wells were damaged in Iraqi war in November, 2015. Claim preferred with the Insurance Companies for total loss. Pending the settlement by the Insurance Companies for total loss. Pending the settlement by the Insurance Companies neither any provision nor any disclosure has been made in 2015-16 accounts.
(b) Trade receivables of a company as a 31-3-16 include ` 10 lakhs from M/s Unreliable Traders, who have been declared as insolvent on 4-4-2016.

**Question 15**Ganga-Kaveri Project Ltd. was incorporated on 1.7.2015. During the year ended 31.3.2016 there was no manufacturing or trading activity except raising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore, the Chief Accountant of the company contends that for the relevant year there was no need to prepare a Statement of Profit and Loss or any other statement except a Balance Sheet as at 31.3.2016. Comment

**Question 16**Write a short note on Disclosure requirements of bank balances of a limited company.

**Question 17**

Z Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2016:
Amount

(` in lacs)
Securities Premium Account 80
Capital Reserve 60
General Reserve 90
The company had an accumulated loss of ` 40 lacs on the same date, which it has disclosed under the head "Statement of Profit and Loss" on the assets side of the Balance Sheet. Comment.

**Question 18**Write a short note on Capital Redemption Reserve

**Question 19**Bonafide Ltd. has taken a Group Gratuity Policy from an Insurance Company. During accounting year 2015-16 it received a communication from the said Insurance Company informing that premium amount for the accounting year 2015-16 was less charged by ` 75 lacs on account of arithmetical error on the part of Insurance Company. Bonafide Ltd. paid the said sum of ` 75 lacs during the accounting year 2015-16 by debiting the same to Prior Period Expenses. Comment.

**Question 20**As an auditor, comment on the following situations/statements:
(a) The surplus arising from sale of investment was set-off against a non-recurring loss and was not disclosed separately.
(b) The register of members of AP Ltd. has not been written up-to-date and as a result, the balances in the register do not agree with the amount of issued Share Capital.

**Question 21**What are the special considerations in an audit of a Limited Company?

**Question 22**How will you vouch and/or verify Re-issue of Forfeited Shares?

**Question 23**Strong Ltd. holding 60% of the equity shares in Weak Ltd. purchased goods worth ` 50 Lakhs from Weak Ltd. during the financial year 2015-16. The Managing Director of Strong Ltd. is of the opinion that it is normal business activity and there is no need to disclose the same in the final accounts of the Company. Comment.

**Question 24**Explain the Director's responsibility statement in brief.

**Question 25**TT Ltd. has suffered recurring losses due to steep fall in production and has negative net worth. Its production head, an expert, has also left the company. Reply of the management is inadequate to these developments and there is no sound action plan to mitigate these situations. Comment.

**Question 26**Discuss in brief the power of Company to buy backs its own Securities.

**Question 27**Breifly discuss the provisions of the Companies Act, 2013 with regard to issue of shares at a discount.

**Question 28**C Ltd. declared dividend amounting to ` 5 lacs out of Profits for the year ended 31.3.2016. Subsequently, it was noticed that company had failed to make provisions for outstanding expanses of ` 7.80 lacs and Closing stock was also overvalued, which was not reported by auditors of the company. Management of C Ltd. helds auditors responsible for this situation.Comment:

**Question 29**As an auditor, how will you verify application and allotment money received on shares issued for cash?

**Question 30**How an auditor can audit allotment of debentures?

**Question 31**Discuss the audit procedure for verification of payment of dividends.

**Question 32**Anandbhai & Co. Ltd. issued shares to the equity shareholders in the proportion of one bonus share for every three existing shares. As an auditor of the Company, how would you verify this issue?

# CHAPTER -9 SPECIAL AUDIT

**Question 1** Mention the special steps involved in the audit of an Educational Institution.
**Question 2**Write a short note on "Performance Audit".
**Question 3**Mention the special points to be examined by the auditor in the audit of a charitable institution running hostel for students pursuing the Chartered Accountancy Course and which charges only ` 500 per month from a student for his lodging/boarding.
**Question 4**Mention the special points in the case of an audit of the entity from Incomplete Records.
**Question 5**(a) An audit of Expenditure is one of the major components of Government Audit. In the context of 'Government Expenditure Audit', write in brief, what do you understand by:
(i) Audit against Rules and Orders
(ii) Audit of Sanctions
(iii) Audit against Provision of Funds
(iv) Propriety Audit
(v) Performance Audit.
**Question 6**Draft an Audit Programme to audit the accounts of a Recreation Club with facilities for indoor games and in-house eating.
**Question 7**Explain the audit procedure for conducting the audit of a Non-Governmental Organisation (NGO).
**Question 8**Explain in detail the duties of Comptroller and Auditor General of India.
**Question 9**Mention any eight special points which you as an auditor would look into while auditing the books of a partnership firm.
**Question 10**Describe the salient features of Financial Administration of Local Bodies.
**Question 11**What are the special steps involved in conducting the audit of an Educational Institution?
**Question 12** With reference to Government Audit, what do you understand by "Audit of Commercial Accounts"?
**Question 13**What special steps will you take into consideration in auditing the accounts of a hotel?
**Question 14**(a) An NGO operating in Delhi had collected large scale donations for Tsunami victims. The donations so collected were sent to different NGOs operating in Tamil Nadu for relief operations. This NGO operating in Delhi has appointed you to audit its accounts for the year in which it collected and remitted donations for Tsunami victims. Draft audit programme for audit of receipts of donations and remittance of the collected amount to different NGOs. Mention six points each, peculiar to the situation, which you will like to incorporate in your audit programme for audit of said receipts and remittances of donations.
(b) What special steps will you take into consideration in auditing the receipts from entry fees of an amusement part? Mention any four point's specific to the issue.
**Question 15**How the audit is advantageous to Sole Trader?
**Question 16**What special steps are involved in audit of a Cinema Hall?
**Question 17**What are the focus points in doing propriety audits by C&AG as regards government expenditure?
**Question 18**Mention any ten special points to be examined by you in the audit of Income and Expenditure of a Charitable institution running a hospital.
**Question 19**Write a short note on "Audit against Rules and Orders".

**Question 20**
State the background of "Local Bodies". Draft an audit programme for conducting audit of accounts of a Local Body.
**Question 21**
You are approached by a partnership firm to list out the advantages that will accrue to them, if the accounts are audited. State five important advantages.
**Question 22**
State any five special points which you, as an auditor, would look into while examining the income and collection of fund by an NGO engaged in providing relief work for flood victims.
**Question 23**
What steps would you take in to consideration in Auditing the receipts from patients of a Hospital?
**Question 24**
Briefly explain the powers of C&AG in connection with the performance of his duties.
**Question 25**
What are the special audit points to be considered by the auditor during the audit of a Hospital?
**Question 26**
What procedure may be adopted by an auditor while auditing leasing transactions entered into by the leasing company?
**Question 27**
"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.
**Question 28**
State the important objectives of local body's audit.