GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

IPCC Examination

Group No. II Paper No 6

Subject Auditing

Number of Answer Books used : Main + 4 additional sheets 5

For use by ICAI only

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

14 NOV 2018

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Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (to be filled by Examiner)					
		a	b	c	d	e	Total
1	✓	4 ✓	1 ✓	2 ✓	4 ✓	–	11
2	✓	✓ 8	✓	✓	✓		8
3	✓	3	1	2	2	–	8
4							
5	✓	4	5	4	–	–	13
6	✓	4	5	5	–	–	14
7	✓	4	4	3	x	4	15
8							
9							
10							
Total		27	16	16	6	4	69

Use only Blue / Black Ball Point Pen to write and shade the circles. AVOID RED PEN. Write the marks in the boxes before shading the respective circles.

Total Marks awarded

6 9

Total Marks awarded (in words) Sixty Nine

Examiner's Signature

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NSTRUCTIONS TO THE CANDIDATE

nswers are not to be written on this page

uld be written in figures and words in the allotted space at the right hand corner of the y and nowhere else including additional answer book/s and graph paper.

er should be written in the box in numbers and darken the appropriate circles of the OMR provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page, or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

10. Before submission of answer book to the invigilator after completion of the exam, take care to score out (X) blank pages, if any, that you might have left.

Q7 (a)

Error of Commission

The mis recording of transaction either wholly or partlly are known as error of commission

Various Types of error of commission are:

- Error of posting
- Error of Casting
- Error of duplication
- Error of Carry Forward

Error of Posting :→

Error of posting is ~~is~~ wrong posting of
(i) Wrong Amount
(ii) Wrong Account
(iii) Wrong File.

Wrong Amount → For example Amt received from Mr. A is 630 and recorded 360.

Wrong Account :→ For example Amt received from Mr. A and recorded in Mr. B account.

1 Wrong File :→ For example Sales made but recored in purchase File.

Error of casting :→ It is error of

1 totalling

Error of duplication :→ It is error of recording same transaction twice.

1 It does not affect the trial

balance

Error of carry Forward :→

This kind of error happen during

4 carry forward of amount.

Q 7 (b)

* As Per SA 230 "Audit documentation" Audit notebook is bound book in which large variety of matter which are observed during the course of Audit is recorded.

* Audit notebook constitute the link between client record and audit working paper.

* The Various content which are recorded in Audit notebook are as follow:

Unsatisfactory maintenance of book-keeping arrangement, by the client.

Irregularities observed by the Auditor during the course of performance of Audit

Queries which are cleared i.e explanation obtained by the management as per SA 580 "Written representation" and undisposed queries are recorded for followup.

Special point if any which the Auditor came through during the performance of an Audit.

Significant information about of the entity which are observed during the course of an audit.

Any other important information helpful for the future audit.

Any other information which the auditor think is necessary to form an opinion and draw conclusion.

Q7 C

Disclaimer of Opinion

As per SA 705 " Modification in Auditor report of Financial statement":

~~Medition~~ modification of opinion

- Qualified optnion
- Adverse Opinion
- Disclaimer of opinion.

Disclaimer of opinion

The Auditor should provide disclaimer of opinion in audit report if:

→ Auditor does not able to obtain sufficient and appropriate Audit evidence

→ The It is likely that information to be material and Pervasive

The Following are the situation where the Auditor does not able to obtain sufficient and Appropriate Audit evidence as per SA 500 "Audit evidence".

(i) Restriction in the scope of audit

1

(ii) The Financial information is seized by income tax department.

(iii) Where in case of inventory verification the inventory is held in different city and it is not possible for auditor to verify inventory.

3

Q 7(e)

Setion 148 of the companies Act 2013 deals with: cost Audit

Applicability of Cost Audit

Regulated Sector — Unregulated Sector.

Regulated Sector

(i) If the Aggregate turnover of all goods and services exceeds ₹50 crore. ~~@~~ or more.

(ii) If the Goods or Services for which cost record are the be maintained as per Rule 3 ~~to~~ turnover exceed ₹25 crore or more.

2

Unregulated Sector

(i) If the Aggregate turnover ~~p~~ from all the goods and services exceeds ₹100 crore or more.

(ii) If the total turnover of the goods and services for which cost record are to be required to be maintained ~~exc~~ as per Rule 3 of Cost Audit and Auditor rule exceeds ₹35 crore or more.

Regulated Sector

(i) Sugar and industrial alchol
(ii) ~~Telec~~ Telecommunication services other than brodcasting services
(iii) Drugs and Pharmaceuticals
(iv) Petroleum products
(v) Electricity generation, transmission

Unregulated sector

(i) Tyres and tubes
(ii) Turbojet and Turbo propellor
(iii) Devices used in space, atomic energy.
(iv) medical appliances
(v) Steel and cement.

4

15

Q2(b)

Incorrect

As per SA 265 "Communicating deficiencies to TCWG"

The letter of weakness are issued by the Auditor to the management specifying the deficiencies observed by the Auditor in internal control system and also recomendation provided to solve deficiency.

2

2 (J)

As per SA 580 "Written representation" management representation is the audit evidence provided by the management to the auditor

Management representation is audit evidence but is not an sufficient and appropriate audit evidence, ~~so~~ ~~wri~~

So written representation from management cannot be substitute for other evidence.

1

Q2(h)

Correct

As per AS 1 "Disclosure of Accounting policies" Material item are those item the knowledge of which might influence the decision of user of financial statement.

As per SA 320 "Materiality in planning and performing the Audit" ~~material~~ ~~it~~ The information is material if its misstatement either due to fraud or error could affect the decision of user of financial statement.

If the item is material auditor perform substantive audit ~~proce~~ procedure

Thus concept of materiality is important and relevent consideration, for the Auditor.

Q2 (g)

Incorrect

As per Section 129 of the companies Act, the summarised return of books of account of the company if it is maintained outside India then it shall be sent to the registered office in quarterly interval.

Q2 (i)

Correct

As per AS 26 "Intangible asset" the computer software which is integral part of related hardware it can be treated as intangible asset.

Intangible asset are those asset which cannot be seen or touched.

Q2d

Incorrect

As per SA 700 " Forming an opinion and reporting on financial statement"

Auditor issue unmodified ~~opt~~ opinion if financial statement are as per applicable Financial reporting framework and ~~ture~~ true and fair

However As per SA 705 " Modification of auditor report" The auditor should issue disclaimer of opinion if:

The Auditor does not able to obtain sufficient and appropriate audit evidence and possible effect of mistatement is material and pervasive.

~~Q2(f)~~ Q2 (c)

Incorrect

The qualification and disqualification of auditor for the companies is as per Section 141 of the companies act 2013

Thus validity of appointment of Auditor is as per law as statue requirement.

Q2 (e)

Correct

As per Section 141 of the Compainies Act 2013, the celieng of number of Audit is 20 Audit per person ~~&~~ however this limit does not apply to ~~opc~~ one person company, small company and private limited companies subject to certain limits

Thus government companies are also considered for celing on number of audit.

Q2(a)

Incorrect

The Auditee has to pass the entry the cheque received in bank book and if cheque is deposited and cleared after the end of accounting period a proper cut off transaction to be applied.

2/2
0

8

Q1

(i) Provision regarding appointment of an Audit

(1) First Auditor of Non goverment Company

As per section 139(6) of the companies act ~~2016~~ 2013, the First auditor of non government companies are appointed by the Board of director within 30 days from the date of incorporation

However if Board of director fails then the member will appoint first auditor within 90 days ~~fro~~ in Extraordinary general meeting.

Tenure of the first auditor is upto conclusion of first AGM.

(2) First Auditor of the Government Companies

As per section 139(7) of the Companies Act, the government companies auditor

is appointed by the Comptroller and Auditor general of India within 60 days from the date of incorporation

However if CAG Fails then board of director will appoint a first auditor within next 30 days

If Board of Director fails then members will appoint a board of director within 60 days

Government Companies are those companies in which not less than 51% of paid up share is held by central govt or state government or partially by cental and state government.

(ii) (1) Appointment of Subsequent Auditor in non government companies

As per Section 139(1) of the companies Act 2013, the subsequent auditor should be appointed in the 1st AGM ~~ann~~ annual general meeting the the members.

The tenure will be from from the Conclusion of 1st AGM to Sixth AGM thereafter every sixth AGM

1

(2) Appointment of Subsequent Auditor in Government Companies

As per Section 139(5) of Companies Act 2013, the subsequent auditor in case of non government companies are appointed by the Comptroller and Auditor general of India within 180 days from the end of financial year.

0

Tenure of Auditor till the Conclusion of AGM

4

Q1 (c)

As per SA ~~230~~ 530 "Audit ~~documentation~~ Sampling"

Audit Sampling is the Audit procedure performed to less than 100% item of the population, where each item has equal chance of selection which provide an auditor a basis about entire population on which he draw conclusion.

1

The requirement relating to
- → Sample design
- → Sample size
- → Selection of item for testing

are as follow:

(1) Sample design → Auditor shall design a sample in such a way that every item in a sample has equal chances of selection.

0

(2) Sample size :→

1 Auditor should select a sufficient sample size to reduce the sampling risk at low level.

(3) Selection of item for testing :→

0 The sample should be selected as per judgement, audit procedure and characteristics of population.

2

Q1d

~~a~~ Section 138 of the Companies Act 2013 deals with the provision of internal auditor.

The Companies should appoint internal auditor under Section 138 if the following condition are satisfied.

(i) All Listed Companies

(ii) Unlisted Public company if:

(a) Paidup share capital is ₹50 crors are more during preceeding Financial year

(OR)

(b) outstanding deposit exceed ₹25 crore or more any time during the preceeding Financial year.

(OR)

(c) outstanding borrowing or loan from financial institution or bank exceeds ₹100 crores are more any time during preceeding Financial year

(d) If the total turnover exceeds ~~₹200~~ ₹200 crores are more during preceding Financial year.

(iii) All Unlisted Private Companies

(a) If outstanding borrowing or loan from financial institution or bank exceeds ₹100 crores or more any time during preceding Financial year.

(Or)

1

(b) If the Total turnover exceeds ₹200 crores or more during preceding Financial year.

4

Q1 b

As per Accounting standard "1" "Disclosure of accounting policies" Accounting policies are specific accounting principal and method of applying those principle in prepreparation and presentation of financial statement.

Profit and loss account are significantly affected by chance in accounting policies.

Any Accounting policies which have significant effect on the financial statement should be disclosed.

As per AS 5 "Profit for the period, prior period item change in accounting policies" Proper disclosure of all information which has material effect shall be disclosed.

Thus in the Given XYZ Ltd has charged the depreciation on the asset but it should also have mentioned the useful Life of the Asset

as per Schedule II of the companies act.

1

Thus auditor should modify the report.

1

(11)

Q5

As per SA 230 "Audit documentation"

Audit documentation are the record of audit procedure performed, relevent audit evidence obtained and the conclusion the auditor have reached

The factor that affect the ~~exp.~~ form content and extent of Audit documentation.

1 * The size and complexity of entity.

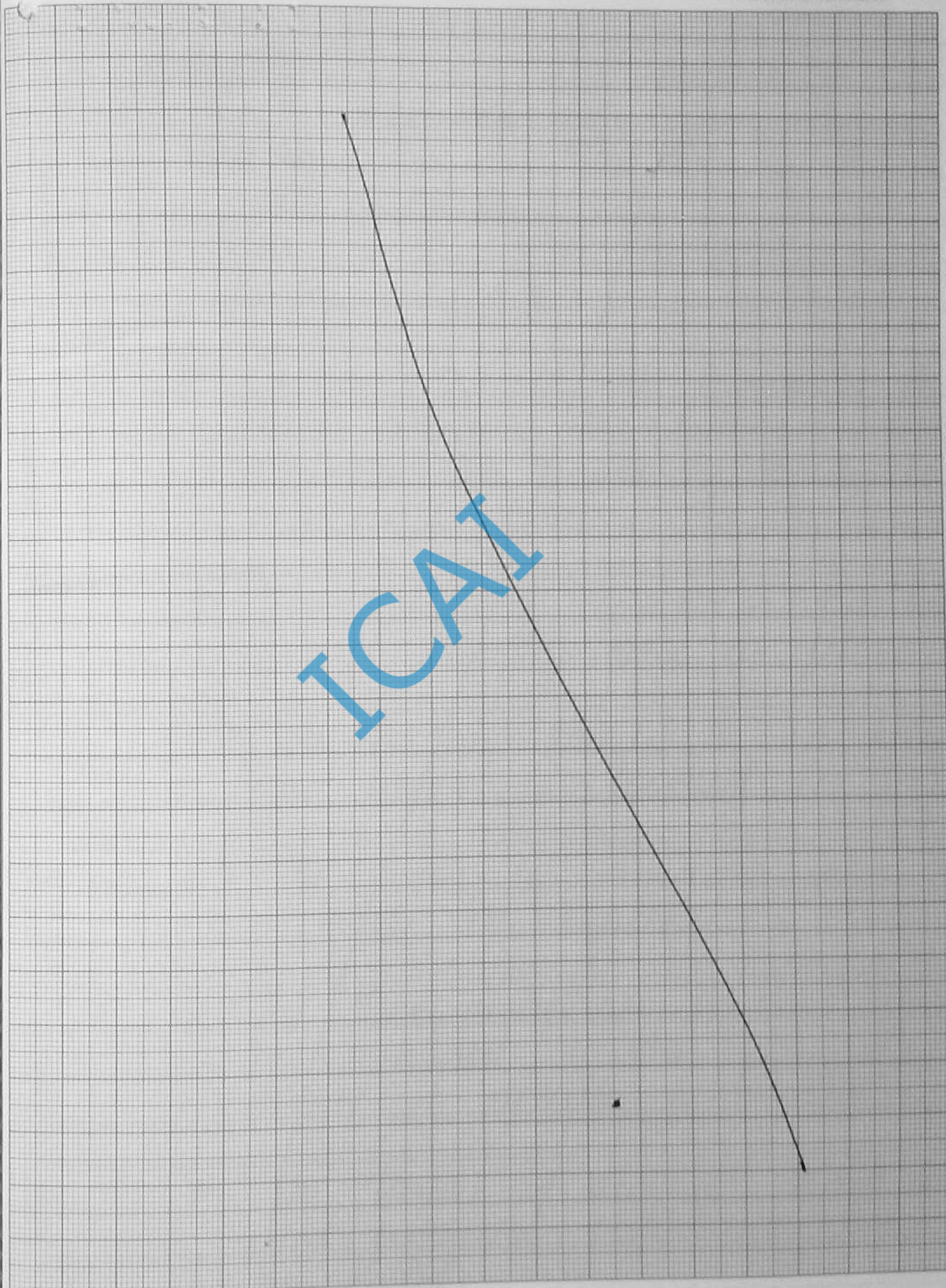
1 * The Risk of material misstatement.

* ~~Aud~~ ~~Ad~~ The Audit procedure
1 performed.

* The relevent audit evidence

1 * Identification of exception item

4



Addl. Book No. ...1...

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

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Q5b

Section 128 of the Companies Act 2013 allows the Companies to maintain the books of accounts in electronic form.

The Following condition the company should comply are as follow:

* The Backup should be on server and server is located in India.

* The Books of account are accessible in India.

* The Document or record should be retained in the format in which it actully genbrated.

* The Books of account and record and financial statement should be legible

The Books of account of account should be complete there is no ommission of item.

There should be proper storage retrival

The company should file the ROC
(i) Name of service provider

(ii) IP address of server

(iii) Location of server

(iv) If it is maintained on cloud then that address.

The ~~B~~ Document or record receive from Branch should be retained as it is.

5/

Q5

As per SA 315 "Identifying and assessing the risk of material misstatement through understanding of nature and its environment"

The Auditor should obtain sufficient and appropriate audit for the following assertion

(a) Classes of transaction
(b) Account balance
(c) disclosure

The assertion for the Fixed asset are as follow:
Assertion For Account balance

(1) Existence ⇒ Asset and liabilities should actually exist on balancesheet date.

(2) Rights and obligation ⇒ Asset are rights of entity and liabilities are obligation.

(3) Valuation ⇒ Asset and liabilities are recored ion correct amount.

Completeness → All asset and liabilities which should have been recorded is actually recorded.

Assertion for class of transaction

Classification → There should be proper classification of heads.

Accuracy → The item should be recorded at accurate price.

~~Consiste~~ Completeness → The item or transaction which should have been recorded is actually recorded.

Occurance → The transaction occurs pertain to entity.

Cut off transaction → Transaction should be recorded in proper Accounting period.

(ii) Specific assertion

Addl. Book No. 2

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ADDL. BOOK

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Plant and machinery is recorded on asset side for ₹ 40,0000 at cost

#

Depreciation for the current year shown as ₹26,000 and should be charged to profit & Loss account.

1

The Accumulated depriciation till current year is ₹1,40,000

The Total depriciation including current year depriciation is ₹1,66,000

The Net book value of the asset is ₹2,34,000 is shown on asset side.

Plant & machinery Actually exist.

1

4

13

Q6 C

The Advantage of Audit of Accounts of partnership firm are as follow:

* It provide a Safeguard to the sleeping partners against the working partners.

1

* Audited accounts are useful during settlement of Amount to be paid to ~~[illegible]~~ Retiring partner and relative of deceased partner

1

* It helps in settling the Books of accounts.

* Audited financial account and useful during the sale or Admission of partners.

1

* Audited financial statement increase the acceptebility by income tax department.

1

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* Audited financial statement are ~~do~~ useful to obtain the loan or financial assistant from Banks

1

* It helps the partnership firm to certify true and fair financial statement.

5

Q6b

During the Audit in CIS environment the Auditor should gather the following information.

* The types of hardware ~~or~~ and software used by the entity.

* Whether there is ~~istal~~ installation of new application or maintainance of existing application.

* Whether the system follows a batch processing or online processing

* Observation of an auditor system which are used in CIS environment in the entity.

* Evaluate the internal control system how system is utilised for day to day ~~per~~ purpose

* Using the Computer assisted audit technique in CIS enviroment

* The input, process, output of transaction in CIS environment.

5

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Addl. Book No. 3

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ADDL. BOOK

14 NOV 2018

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Q6 a

Share option is the share reserved for employees or any other ~~peofe~~ person, if that person exercise his right.

The circumstances in which option on share arise are as follow:

1 * Promoter ~~collaboration~~ agreement

1 * Collaboration agreement

* Debenture deed.

1 * Contract for sale of ~~servic~~ capital goods or ~~no~~ sale of merchandise.

1 * Conversion of Preference share into equity

4 * Employees agreement.

* Deposit

\# The share ~~of~~ issued on option should be authorised in AOA

\# Resolution has been passed.

4

14

Q3 a

Receipt for Capital Subsidy

Ensure that capital subsidy received and recorded as per
1 AS 12 "Government grant"

Verify whether ~~the~~ if any condition to be fulfilled to get capital
1 Subsidy has been actually fulfilled

If the capital subsidy received the amount of capital subsidy received and its treatment and disclosure in books of Accounts

1 # Ensure that Company comply with condition after getting capital subsidy.

~~Prop.~~ Check capital subsidy received by the counterfoil ~~or~~ ~~no~~

3

Q3 c

Sales Commission expenditure

Whethere there is proper authorisation made for sales commission expenditure

Whethere there should not be excessive sales commission give in normal course of business.

Understand the condition or terms to get sales commission percentage

1

Whether there is proper recording of sales commission and check sales commission paid with counterfail

1

Check sales commission paid from cash book or bank book.

2

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Q3d

Advance to Supplier

Check the Proper Accounting entry has been done.

There is authorisation of Advance given to supplier.

Compare the ~~atte~~ advance which are given regularly to supplier as per Analytical procedure SA 520

Obtain ~~Written repre~~ external confirmation as per SA 505 to confirm transaction.

1

2

Q3 b

Bank balance

Check whether bank balance as per bank book matches with bank statement.

The bank balance has been recorded on asset side.

Obtain external confirmation from the banker if there is any doubt involves as per SA 505

Compare the usual bank balance of current year with past year analyse the major deviation if any as per SA 520

Obtain ~~ex~~ management representation as per SA 580 to confirm the bank balance.

~~# Check whether int~~

1

8