EAC2

Roll No. Total No. of Printed Pages – 6

Total No. of Questions – 6 Maximum Marks – 70

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The barcoded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No barcode sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises **6** questions. Answer Question No. **1** which is compulsory and any **4** out of the remaining **5** questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

P.T.O.

PART – II

1. State with reasons (in short) whether the following statements are correct or incorrect : (Answer any seven) **2 × 7 = 14**

   (i) CA X is the auditor of Parth Ltd. He recovers his fees from the company on progressive basis, as and when the work is done without waiting for the completion of the whole job. Thus, he is said to be indebted to the company.

   (ii) R Ltd. has asked for email responses for the purpose of external confirmation. The auditor, however, feels that external confirmation received electronically involves the risk of its reliability.

   (iii) Reliability of manual elements in internal control may be less reliable than automated elements.

   (iv) Electronic payment of Income Tax cannot be made by an assessee from the account of any other person.

   (v) The engagement quality review should be completed on or before the date of auditor's report.

   (vi) Every buyback of shares requires a special resolution passed in general meeting of the Company authorising the buyback.

   (vii) Money transferred to the unpaid dividend account of a Company is not available for payment as and when claimed.

   (viii) It is advisable that the position of all amounts deposited in the bank, which were outstanding for realisation at the close of the year, should be ascertained.

2\. (a) The auditor has to form an opinion on the financial statements within a reasonable period of time and at a reasonable cost. Explain the above statement with reference to "Timeliness of Financial Reporting and the Balance between Benefit and Cost". 3

(b) CA X is not sure about the kind of Sampling method to be used for audit of a company. Advise him the method of Sampling to be used. Also explain briefly the advantages of the Sampling to be used by him in auditing. 3

(c) Management of Z Ltd. wants to include all the cost incurred by the Company in valuing the cost of its inventories. The Accountant is, however, of the view that certain costs should be excluded from the cost of inventories and should be recognised as expenses for the period in which they are incurred. What are such costs that should be excluded while determining the cost of inventories ? 4

(d) Define the term "Pervasive" in the context of misstatements. What are the effects of pervasive misstatements on the financial statements of an enterprise ? 4

3\. (a) IAASB facilitates the convergence of international and national standards. Comment. Also state, how it achieves its objectives ? 3

(b) Discuss in brief the factors that may effect auditor's judgement as to the sufficiency of audit evidence. 4

(c) "An enterprise should disclose its current investments and long term investments distinctly in its financial statements". Explain. How the current investments and long term investments should be valued with reference to AS -13 "Accounting for Investments" ?. **4**

(d) Harry Limited appointed a CA Lakshman as an auditor of the company for a term of 5 years. Further, the company offered him the services of actuarial which were also approved by the board of directors. As an auditor, how would you deal with such situation ? **3**

4\. (a) Write a short note on revolving fund. **3**

(b) Comment on the following in relation to SA : **3**

Information regarding the competence, capability and objectivity of the management's expert may come from a variety of sources.

(c) Newton Ltd. wants to fully convert their books of accounts from manual to IT. Give four examples of specific risks that IT poses to an entity's internal control. **4**

(d) (i) List out the types of Revenue Grants received by local bodies from the State administration. **2**

(ii) PQR Ltd., a government company, constructed a building in conformity with rules and regulations for installing a telephone exchange but not used for the same purpose resulting in the infructuous expenditure. **2**

Considering the above case, explain the type of expenditure audit to be performed to curb the situation.

5. (a) Procedural test simply mean testing of the compliance with the procedures laid down by the management in respect of initiation, authorisation, recording and documentation of transaction at each stage through which it flows. Explain with an example for sales procedure. 4

(b) Section 71 of the Companies Act, 2013 lays down the requirement of appointment of debenture trustee by the company to protect the interest of debenture holders. Mention the duties of debenture trustee in this regard. 3

(c) Discuss the problems mostly faced by an auditor of a small company in the application of auditing principles and procedures. Also discuss the major difference between the small and large company from the audit point of view. 4

(d) What is the meaning of 'The scheme of auditing process'? What does the scheme of auditing process envisage ? 3

6. (a) Discuss in brief the design and procedural characteristics of CIS systems that are different from those found in manual systems. 4

OR

CA David was the auditor of Wood-pack Ltd. for the year 2018-19. The company has failed to pay the dues of CA David; hence he is contemplating on retaining the books & documents of the company that are in his possession. Is the action of CA David valid? If yes, what are the conditions that should be looked into before retaining the books and documents of the client ?

(b) While auditing the books of M/s PQR Ltd., the auditor notices certain deviations from the controls. What are the specific inquires that should be done by the auditor when deviations from controls are detected ? 3

(c) In terms of the revised Preface, rename the Auditing and Assurance Standards based on the type of assurance, provide also list of Standards with their numerical series. 4

(d) PQR Ltd. wants to buy-back its own securities in the following manner : 3

(i) Buy-back equal to 8% of the paid-up share capital + free reserves in the current year.

(ii) Buy-back equal to 20% of the paid-up share capital + free reserves in the next year.

(iii) Buy-back equal to 30% of the total paid-up share capital + free reserves in the 3rd year.

They want your advice as to the kind of resolution to be passed and by whom in all the cases.
