

Date: _____

Full Name: _____

Email Id: _____

Test No: _____ Subject: _____

Marks Scored: Total _____/_____

Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained	Que. No.	Marks Obtained

Remarks:

Subject Strategy:

CA FINAL – NEW SYLLABUS
ADVANCED AUDITING, ASSURANCE & PROFESSIONAL ETHICS

MARKS: 50

TEST NO. 1
QUESTION PAPER
INSTRUCTIONS :

- Mention your name, subject name & Test No on your first page of the Answer Sheet.
- Paper will only be accepted when uploaded on the Students dashboard.
- Login in to your dashboard, and upload your answers under “**My Answer sheet**” tab
- You can Use **Adobe Scan app or Other**, available in Play Store / App Store for scanning your answer sheet.
- Scan your answer sheet as a single pdf in order to avoid rejection or delay in evaluation.
- Upload your pdf copy in a clear format which is legible to read.

OMR SHEET

Q.N.		Q.N.		Q.N.	
1.	(A) (B) (C) (D)	11.	(A) (B) (C) (D)	21.	(A) (B) (C) (D)
2.	(A) (B) (C) (D)	12.	(A) (B) (C) (D)	22.	(A) (B) (C) (D)
3.	(A) (B) (C) (D)	13.	(A) (B) (C) (D)	23.	(A) (B) (C) (D)
4.	(A) (B) (C) (D)	14.	(A) (B) (C) (D)	24.	(A) (B) (C) (D)
5.	(A) (B) (C) (D)	15.	(A) (B) (C) (D)	25.	(A) (B) (C) (D)
6.	(A) (B) (C) (D)	16.	(A) (B) (C) (D)	26.	(A) (B) (C) (D)
7.	(A) (B) (C) (D)	17.	(A) (B) (C) (D)	27.	(A) (B) (C) (D)
8.	(A) (B) (C) (D)	18.	(A) (B) (C) (D)	28.	(A) (B) (C) (D)
9.	(A) (B) (C) (D)	19.	(A) (B) (C) (D)	29.	(A) (B) (C) (D)
10.	(A) (B) (C) (D)	20.	(A) (B) (C) (D)	30.	(A) (B) (C) (D)

MCQ Marks Scored: /

Note: Kindly mention the question number and sub-question properly.

- Questions with incorrect question number/sub question number will not be evaluated.
- Start new questions on new page.



TEST PAPER- 1

MARKS - 50

QUESTION PAPER

DURATION- 1.5 HOURS

INSTRUCTIONS:

1. All the questions are compulsory.
2. Properly mention Test no. on First Page and Page no. on every answer sheet.
3. In case of multiple-choice questions, mention option number only.
4. Multiple-choice questions carry 15 marks, and Descriptive questions carry 35 marks.
5. Working Notes are compulsory wherever required in support of your solution.
6. Do not copy any solution from material.
7. Attempt as much as you know to fairly judge your performance.
8. Please upload your Answer Sheet Horizontally.
9. Copy once get evaluated by Evaluator cannot be re-uploaded by the student.
10. Always check correct Test No. of your subject while uploading answer sheet.
11. Handwriting should be clean.

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PART I
MULTIPLE CHOICE QUESTIONS (15 Marks)

1. VMC & Co., a firm of Chartered Accountants, has been auditing the financial statements of Reyox Ltd., a listed company, for the last 10 years. CA Rajat, an engagement partner, has led the audit team throughout this period. A recent quality control review raised concerns regarding a familiarity threat, as CA Rajat had developed a close relationship with key management personnel of the client. Which of the following would be the most appropriate course of action for VMC & Co. to mitigate the threat of independence and objectivity in this case as per SQC 1 in this scenario?

[2 Marks]

- (a) Continue with the same engagement partner, as long as documentation evidences independence in mind and appearance
 - (b) Appoint a second partner to assist CA Rajat, but allow him to continue as the lead engagement partner
 - (c) Rotate the engagement partner and appoint another qualified partner to lead the audit engagement.
 - (d) Request Reyox Ltd. to change their finance team to reduce familiarity threats from the client's side.
2. Shripal Company got a show cause notice from State Pollution Control Board for the contravention of the provisions of Hazardous and waste Management Rule. As per SA 250, the auditor shall perform the audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. As the audit team of the company became aware of information concerning an instance of non-compliance with law, what would NOT be the audit procedure to be performed?

[2 Marks]

- (a) Understand the nature of the act and circumstances in which it has occurred and obtain further information to evaluate the possible effect on the financial statement.
- (b) Discuss the matter with management and if they do not provide sufficient information, and if the effect of non-compliance seems to be material, legal advice may be obtained.
- (c) Monitoring legal requirement and compliance with code of conduct and ensuring that operating procedures are designed to assist in the prevention of non-compliance with law and regulation and report accordingly.
- (d) Evaluate the implication of non-compliance in relation to other aspects of audit including risk assessment and reliability of written representation and take appropriate action.

3. The following table shows a summary of identified misstatements:

1.		Profit & Loss ₹ (in Lakh)	Balance Sheet ₹ (in Lakh)
1.	Accumulated depreciation		20
	Depreciation	20	
	Incorrectly calculated depreciation on a straight-line basis		
2.	Bad debt expense	45	
	Allowance for doubtful debts		45
	Identified risk over bad debts based on ageing profile of the trade receivables balance		

Overall materiality for this audit was calculated and agreed to be ₹ 50 lakh. Which of the following scenarios would be the best approach to be taken by the audit team and most likely outcome?

[2 Marks]

- (a) The audit team does not need to communicate this summary of identified misstatements to management, as individually the misstatements are not material.
- (b) The audit team should ask a member of the accounts team to make journal entries to correct the misstatements identified immediately, without notifying senior management.
- (c) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Management does not see that the accumulated misstatements would lead to the financial statements being materially misstated and therefore, request them to be uncorrected and noted in the written representation.
- (d) The audit senior communicates all the identified misstatements to the appropriate level of management of the entity on a timely manner. Then management can assess the findings and confirm they are in agreement. Assuming management agrees, they will be requested to make the necessary corrections.

4. CA. Arvind and CA. Deepak were jointly appointed as auditors of Pull Cord Ltd. to ensure efficient audit and proper identification and Depalx took the following steps:

- i. After identification and allocation of work among themselves, the work allocation document was signed by both of them. Since in any case they were jointly responsible, they did not think it necessary to inform those charged with governance about the allocation.
- ii. They decided to obtain a common engagement letter since their appointment was common.
- iii. Since their area of work was different, they decided to obtain a separate management representation letter so as not to mix up the matters.

Which of the above were not correct in view of SA 299?

[2 Marks]

- (a) i, ii and iii
- (b) i and iii
- (c) i and ii
- (d) ii and iii

5. XYZ Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third-party organization and requests for audit access to such data center. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organization is regularly being conducted. What the auditor should do?

[2 Marks]

- (a) Do not ask for anything else since the Third Party is ISO certified.
- (b) Insist on conducting audit in the Third Party.
- (c) Take the ISO certificate.
- (d) Take the Service Organization control audit report to review.

6. The primary objective of the Peer Review Board, as stated in the material, is to ensure that while carrying out assurance engagements:

[2 Marks]

- A. Audit reports are issued within prescribed timelines.
- B. Technical, professional and ethical standards including regulatory requirements are complied with by members of ICAI.
- C. All assurance engagements are subjected to statutory review.
- D. Members comply only with ethical standards prescribed by ICAI.

7. Which of the following situations would most appropriately be classified as a fraud risk factor based on the material?

[2 Marks]

- A. Strong internal controls reducing operational errors.
- B. An event or condition indicating an incentive, pressure, or opportunity to commit fraud.
- C. Preparation of annual financial statements.
- D. Appointment of an external auditor.

8. During the audit of XYZ Ltd., the auditor identifies that management is under pressure to meet earnings expectations. Based on this assessment, the auditor believes there is a risk that sales may have been inflated through sales agreements containing terms that preclude revenue recognition or by invoicing sales before delivery.

Which of the following audit responses is most consistent with the material provided?

[1 Mark]

- A. Obtain external confirmations only to verify outstanding receivable balances and rely exclusively on those confirmations.
- B. Design external confirmations to confirm outstanding amounts as well as details of sales agreements, including dates, rights of return, and delivery terms, and consider supplementing them with inquiries of non-financial personnel regarding changes in sales agreements and delivery terms.
- C. Restrict audit procedures to inquiries of management because the risk has already been identified.
- D. Focus only on verifying whether sales invoices were issued before year-end and avoid obtaining corroborative information from other sources.

PART – II Descriptive Questions (35 Marks)

Question 1

XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuance of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the viewpoint of quality control system in audit firm in terms of requirements of SQC 1? Guide the firm in establishing the policies and procedures in respect of an engagement partner.

[5 Marks]

Question 2

PQR Associates are the statutory auditors of a large un-listed company, which is engaged in manufacturing of auto components. Subsequent to re-appointment of auditors in the Annual General Meeting, the Company shared the appointment letter with PQR Associates, seeking acknowledgement and acceptance letter. CA R is the engagement partner and is planning to issue the acceptance letter. During the current financial year, there was a search by the Income-tax Authorities on the company, and certain accounting records were seized for verification. Based on the information available on social media, CA. R noted that the promoters' brother, is contemplating to contest in the ensuing elections, under the banner of a political party. One of the current senior engagement team manager, who has been doing the audit engagement till last year, has left PQR Associates and is planning to provide some accounting services to one of the associate companies. PQR Associates are yet to recruit another senior manager having adequate experience in the audits of clients engaged in automotive sector.

Elaborate the matters to be considered by PQR Associates with respect to acceptance & continuance of client relationship considering the above issues.

[5 Marks]

Question 3

Camlan Manufacturing Ltd. (CML) is engaged in the production of speciality machinery for the automotive industry. The company operates in a competitive market and is under pressure to meet determined revenue and profitability targets to secure additional funding from the investors. The audit firm AJN LLP has been engaged to conduct CML's statutory audit for the financial year 2024-25. AJN LLP performed risk assessment procedures and related activities towards obtaining information in identifying risk of material misstatement due to fraud and also evaluated whether there is an indication that one or more fraud risk factors are present. Analytical procedures reveal unexpected relationships potentially indicating fraudulent activities, such as sales inflation by management to meet earnings targets. Management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.

Guide AJN LLP to decide on the course of action in determining overall responses to address assessed risks of material misstatement due to fraud at the (i) Financial Statement Level and (ii) Assertion Level.

[5 Marks]

Question 4

AJ Private Limited is a company involved in the business of textile manufacturing and having its factory at NOIDA. The business of the company is spread across India. Due to the recent fire incidents, the local authority of NOIDA passed a regulation wherein it is compulsory for any organisation at its jurisdictional area to have a valid Fire No Objection Certificate (Fire NOC) issued by the regulatory authority. You are appointed as the statutory auditor of the company for the financial year 20X1-X2. During initial risk assessment phase, you observed that the company is not in possession of Fire NOC as stipulated by the regulatory authority. You approached those charged with governance regarding this matter and requested them to provide their justification on the same. They are of the opinion that obtaining Fire NOC is outside the purview of the financial statements, hence, you are not required to look after this aspect. What are the auditor's responsibilities in relation to compliance with laws and regulations?

[5 Marks]

Question 5

M/s Manidhari & Associates have been appointed as an auditor of JIM Limited, a multinational company dealing in spare parts. During the course of audit, CA Manidhari is facing many problems including the problem of not getting the desired information from the management. Accordingly, he decided to communicate with those charged with the governance about significant difficulties encountered during the audit. CA Manidhari seeks your guidance on matters which can be considered as significant difficulties as per SA 260.

[5 Marks]

Question 6

Studio Ltd. Appointed AB & Associates and CD & Co. as joint auditors for conducting the audit for the year ending on 31st March 20X2. During the audit, it was observed that there is a significant understatement in the value of trade receivables. The trade receivable valuation work was looked after by AB & Associates, however, there was no documentation outlining the division of the work between the joint auditors. Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing.

[5 Marks]

Question 7

Joseph Retail Pvt. Ltd. is a well-known luxury fashion retailer in Delhi, recognised for its premium collection of designer clothing and accessories. The company has recently implemented an advanced inventory management system, which tracks product availability, pricing, sales, and customer transactions in real time. This system has been developed and is managed by Real Trend Solutions, a third-party IT service provider.

CA Roop, the statutory auditor of Joseph Retail Pvt. Ltd., became aware of this system while

conducting the audit. Concerned about whether the internal controls at TrendTech Solutions are operating effectively, CA Z requests an assurance report from a practicing Chartered Accountant regarding the description of TrendTech Solutions' system and the effectiveness of its controls.

Which type of report should CA Z obtain in accordance with the relevant Standard on Auditing?

What aspects should CA Z consider while using such an assurance report as audit evidence to determine whether controls at TrendTech Solutions are operating effectively?

[5 Marks]

