

STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2020–2021 and thereafter)

B.COM. DEGREE EXAMINATION NOVEMBER 2023
HONOURS
THIRD SEMESTER

COURSE : MAJOR – CORE
PAPER : AUDITING AND ASSURANCE
SUBJECT CODE : 20BH/MC/AA34
TIME : 3 HOURS

MAX. MARKS: 100

SECTION – A

ANSWER ALL QUESTIONS:

(10 x 2 = 20)

1. State the elements of Assurance Engagement.
2. What are the fundamental principles of ethics?
3. What is performance materiality? Why is it required?
4. Name the sources of Audit evidence.
5. List the components of internal control system.
6. What are information processing controls? Give example.
7. State the assertions applicable to audit of inventory.
8. Expand CAAT. Mention one advantage of using CAAT.
9. What does an unqualified report signify?
10. What is written representation?

SECTION – B

ANSWER ANY FIVE QUESTIONS:

(5 x 8 = 40)

11. Describe the terms control objective, control activity and test of control, and for each, give an example relevant to payroll.
12. Explain control risk. What are the impact of control risk in audit?
13. What are the circumstances in which audit report can be modified? Explain Pervasiveness and its impact on audit report.
14. Explain the purpose Key Audit Matters and give examples.
15. What is corporate governance? List the advantages of good corporate governance.
16. Describe the measures to be taken to reduce Corporate Fraud.
17. Discuss the importance of audit documentation.

SECTION – C

ANSWER ANY ONE QUESTION:

(1 x 20 = 20)

18. Describe substantive procedures the auditor should perform to obtain sufficient and appropriate audit evidence in relation to revenue and receivables.
19. Explain the five fundamental principles of ACCA's Code of Ethics.
20. Explain in detail the types of audit reports.

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21. Case Study (Compulsory)

Hood & Co

It is 1 July 20X5. You are an audit supervisor in Hood & Co and you are planning the audit of ReadMe Co for the year ending 31 August 20X5. ReadMe Co is a new client, adding to the growing range of literary clients for your firm. The audit manager attended a planning meeting with the finance director, Lionel Mandon, last week and has provided you with the following meeting notes and financial statement extracts.

Client background and notes from planning meeting

ReadMe Co is a bookstore specialising in easy reading and summer read fiction books and prides itself on the large range of books it has available. The owner happily claims they are “gathering dust while they wait to find the perfect home”. Revenue is generated from sales of books in store as well as internet sales through its own website and by listing on popular online marketplaces.

A full inventory count will be performed at the year end, however due to the high volume of inventory this is expected to take up to three days. Lionel would like the auditors to attend on the morning of the first day of the count, when his staff will be more “fresh-faced”, and the inventory will be “in less of a shambles”. ReadMe Co is currently holding \$450,000 at cost of ‘Whisk me Away’, a romantic novel released in June 20X5 by a celebrity chef. Sales of the book have been disappointing since its release as it has not been well-received by book critics. The author is due to visit the bookstore for a signing in October 20X5 to attempt to generate sales.

In May 20X5 ReadMe Co expanded its range into children’s books both in store and online under the brand ‘ReadToMe’. Lionel has spent a large amount of time on this launch, seeing it as his last big project before he retires at the end of October 20X5. The brand was purchased at a cost of \$4 million and has been expensed in the statement of profit or loss. In March 20X5, ReadMe Co took out a five-year loan for \$6 million, with an interest rate of 10%, to purchase and advertise the brand. The loan has a covenant attached which requires an interest cover of 2.5 otherwise the loan becomes repayable on demand.

Financial statement extracts for the year ending 31 August are given below:

	Draft 20X5 \$’000	Actual 20X4 \$’000
Revenue	33,570	28,347
Cost of Sales	(24,833)	(19,533)
Gross Profit	8,737	8,814
Operating Expenses	(7787)	3,729
Operating Profit	950	5,085
Finance Cost	(380)	(23)
Profit before Tax	570	5,062

Required:

Using the information provided and the ratios calculated, describe FIVE audit risks and explain the auditor’s response to each risk in planning the audit of ReadMe Co.
