

WT 4 (Ch. 7 – Reporting & Ch. 8 – Specialised Areas)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Sun Chemicals Ltd., a prominent player in India's industrial landscape, has been etching its mark since its inception in 2008, headquartered in the bustling city of Pune, Maharashtra. Listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE), the company has steadily grown into a multi-faceted entity, catering to diverse industrial needs.

Sun Chemicals Ltd.'s core strength lies in its robust manufacturing capabilities. Spread across multiple state-of-the-art facilities, the company produces a wide range of industrial chemicals, including specialty chemicals, performance chemicals, and basic chemicals. These products find application in various sectors, from pharmaceuticals and textiles to paints and coatings, construction, and agriculture.

RKM & Co., a Chartered Accountancy firm, was appointed as to conduct the statutory audit for F.Y. 2023-24 for the company. Mr. Rahul Dubey was the engagement partner for the said assignment. In the organisational structure, Mr. Rahul noticed that those charged with governance in the company are also involved in managing the entity.

During the on-going engagement of the audit, at the end of the third quarter, during which tenure already two limited review reports were issued by RKM & Co., the management of the company imposed a limitation on the scope of the audit that Mr. Rahul considered likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, and accordingly, he requested that management remove such limitation. But the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, Finally, Mr. Rahul with his engagement team, derived on a conclusion that the possible effects on the financial statements of undetected misstatements, could be material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 15th November, 2023. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Q.1 What was the responsibility of Mr. Rahul when the management refused to remove the said limitation? 1

- (a) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

- (b) To communicate the matter to those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
- (c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.
- (d) To request for written representation from the management for the matters on which limitation is imposed and also communicate the matter to those charged with governance.

Q.2 What was the responsibility of RKM & Co. with respect to the issue of limited review report at the time of resignation? **1**

- (a) Limited review report for third Quarter was required to be issued.
- (b) No further limited review report was required to be issued as already it was issued for the second Quarter at the time of resignation.
- (c) Limited review report for third Quarter was required to be issued and consequently, after its issue, audit report for the full year is also required to be issued.
- (d) Limited review report for third Quarter was required to be issued subject to the terms of the audit engagement.

Q.3 Whether in the given circumstance withdrawal from engagement was mandatory and if so, what is the responsibility of the auditor with respect to such withdrawal? **2**

- (a) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (b) In the given circumstance withdrawal from engagement was mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.
- (c) In the given circumstance withdrawal from engagement mandatory was and in case of withdrawal, the auditor was required to withdraw from the audit, where practicable and possible under applicable law or regulation.
- (d) In the given circumstance withdrawal from engagement was not mandatory and in case of withdrawal, as the withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.

- Q.4** Assuming Sun Chemicals Ltd. to be an unlisted company, whether the reason for resignation by RKM & Co. was proper? **1**
- (a) No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.
- (b) Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.
- (c) Yes, in the given case, the reason was resignation was due to the limitations imposed by the management and refusal to provide reasons for the same and accordingly, though being an unlisted company, it was totally upon the discretion of the auditor to provide clear reasons or not for resignation.
- (d) No, the reasons should have been a little lengthier and further the exact reason must be provided to the new auditor to be appointed by the company.
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- Q.5** Assuming that the auditor proposed to resign on 14th November before issue of LR for second Quarter, then what was the responsibility of RKM & Co. with respect to withdrawal from engagement and issue of limited review report at the time of resignation? **2**
- (a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review reports for second and third Quarter were required to be issued.
- (b) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report for second Quarter was required to be issued.
- (c) The auditor shall communicate to management and those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion and the limited review report was not required to be issued.
- (d) The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation and the limited review report for second Quarter was required to be issued.

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt Any two from the rest.

- Q.1 (a) While conducting audit of RAC Limited, CA R has discovered a misstatement in the financial statements of a company due to non-write off of a huge trade receivable with an outstanding amount of ₹ 2 crores. The party in question has fled from India and is now absconding. After reviewing the audit evidence, it was concluded by the auditor that there is no possibility of recovering the outstanding debt. Despite the matter being brought to the attention of the management, they have refused to correct the misstatement. As a result, the financial statements of the company show a profit before tax of ₹ 1 crore, which is incorrect due to the management's refusal to correct the aforementioned misstatement. Materiality has been determined for financial statements @ 5% of profit before tax. Comment as regards to type of opinion to be given by CA R in above situation on the basis of provided information. 4
- (b) ABC & Associates are conducting audit of consolidated financial statements of "Crazy Paints Limited" for year 2023-24. The consolidated financial statements consist of financial statements of parent company and its five subsidiaries (audited by component auditors). While drafting audit report in respect of consolidated financial statements under Companies Act, 2013, how firm should proceed to deal with issue of reporting under CARO, 2020? 4
- Q.2 XYZ Limited involved in the hospitality business, appointed Charan & Karan Associates as their statutory auditor for FY 2023-24. Management of XYZ Limited, while drawing up the financial statement for the said period, decided to add the following statement after the Statement of Cash Flow as supplementary information to be presented with financial statements. No specific mentions or labels were added to this statement to present that this is supplementary information. 5

Statement of Average Revenue Per Booking (ARPB) and Comparative

(in ₹ or otherwise stated)	
Total Bookings during FY	
- FY 2022 – 23	36500
- FY 2023 – 24	39000
Average Revenue per Booking	
- FY 2022 – 23 (Refer Note 28 Revenue from Operations)	3500
- FY 2023 – 24 (Refer Note 28 Revenue from Operations)	4200
Bookings Ratio (Organic source by Inorganic source)	
- FY 2022 – 23	1:2
- FY 2023 – 24	1:1.65

Kindly guide the audit team regarding the requirement of SA 700 with respect to the Supplementary Information Presented with the Financial Statements.

- Q.3 (a) CA Suhani has prepared a draft audit report for F.S. of X Ltd. prepared in accordance with financial reporting provisions of a contract with Y Ltd. She has drafted an unmodified opinion to be given in audit report. Besides, she has also drawn attention in draft audit report to Note “A” to the F.S. which describes the basis of accounting (under the heading “Basis of accounting”). How she should ensure that report would not be misused? Draft a suitable para to be included in the report for this purpose. 2
- (b) CA E was appointed statutory auditor of XYZ Private Limited in AGM held in the month of August, 2023 for the first time for audit of financial statements of the company from year 2023-24 onwards. Since he is new to the company, he wants to be sure about integrity of accounting records. In this regard, he wants to ensure that software used by company for maintenance of its books of accounts is capable of tracking user activities and changes made to entries in books of accounts, if any, during the course of year. 3
- What CA E is looking for in the given situation? Discuss the reporting requirements for CA E in this matter to be included in audit report to be issued under the Companies Act, 2013.

- Q.4 When auditor’s report on the audited financial statements contains a qualified opinion, but the auditor is satisfied that the summary financial statements are a fair summary of the audited financial statements, in accordance with the applied criteria, which other matters shall the auditor’s report on the summary financial statements contain in addition to elements of auditor’s report described in SA 810? 5

If summary financial statements are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, what are implications for auditor’s opinion on summary financial statements?

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line “Final Audit Test – WT 4 (Student Name)”

Mention the following in the E-mail and answer Sheet:

1. Name:
2. Mobile No.:
3. Test: Final Audit – WT 4
4. Order Details/Serial Key:



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