

WT 4 (Ch. 5 – Audit of Items of Financial Statements)

Marks: 25

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

You are a partner in ABC & Company, a firm of Chartered Accountants based in New Delhi. ABC & Company have been appointed as the statutory auditors of Onetime Limited, a public company which manufactures and sells wall and table clocks and has many branches all over India. Onetime Limited has been exporting the clocks since past two years. However, the domestic sales have contributed towards major source of revenue for the Company.

One of the team members, CA B noticed that one of the suppliers of Onetime Limited, Mr. AM had sent some raw material to the Company for storage in their warehouse in March 2024. Due to renovation going on at his warehouse, his stock could be damaged and so he had requested Onetime Limited to keep the same in their warehouse. Onetime Limited contended that since the raw material was anyway billed to the Company the next month, so the same had been included in the valuation of stock, since physically the stock was present in the warehouse of Onetime Limited as on 31.03.2024.

While verifying the debtors, team member C noticed that there were a few trade receivables pertaining to export sales mainly to England. Mr. C verified the same with respect to the invoices issued and other supporting documents. The amount booked as on 31.03.2024 was based on the exchange rate as on the date of the invoice. www.altclasses.in

Mr. T, another team member verified the PPE of the Company. Onetime Limited had purchased few cars for its directors during the year of audit. The same were appearing in the PPE schedule of the Company. Mr. T verified the same with respect to the invoices as well as physically verified the assets in the Company's premises. Since the cars were for the official use of the Directors, they were purchased in the name of the Directors of the Company. Mr. T verified the amount with the Invoice and checked the registration and insurance documents. Besides, all items appearing in the PPE schedule were verified and he was satisfied that all PPE items that should have been recorded have, in fact, been recorded.

One of the articled clerks was assigned the work of verification of "Provisions" appearing in the Balance sheet. He wanted to understand from you the circumstances in which a provision is recognised in the books of accounts. You explained him the situations in which an entity recognises Provisions in its books.

Onetime Limited has invested in the shares of other companies. One of the Companies has declared dividend on its shares. Onetime Limited has not recognised the same in the profit & loss account. Team Member R has asked you to look into the matter since she is unable to understand the reasons for the same.

On the basis of the abovementioned facts, you are required to choose the most appropriate answer for the following MCQs:

- Q.1** Is the raw material lying in the warehouse of Onetime Limited accounted for correctly in its books of account? **2**
- (a) No, since the same belongs to Mr. AM and should appear in his books.
 - (b) Yes, since the same is in possession of Onetime Limited and was billed to it the following month.
 - (c) It should be shown in the books of both Onetime Limited and Mr. AM.
 - (d) It should not appear in the books of Onetime Limited or Mr. AM and the raw material should be disclosed as a note in the final accounts of both the entities.
- Q.2** Which exchange rate is considered for accounting of foreign debtors at the year end? **2**
- (a) Exchange Rate on the date of the invoice.
 - (b) Exchange Rate on the last day of the financial year.
 - (c) Exchange Rate on the date of shipment of the products to the customer.
 - (d) Exchange Rate on the date of delivery of the products to the customer.
- Q.3** Which of the following management assertions is not satisfied with respect to Cars included in the PPE items by the company: **1**
- (a) Existence
 - (b) Valuation
 - (c) Completeness
 - (d) Rights and Obligations
- Q.4** Which of the following condition is not required to be met for recognizing a provision? **1**
- (a) When a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
 - (b) When an entity has a present obligation (legal or constructive) as a result of a past event.
 - (c) A reliable estimate can be made of the amount of the obligation.
 - (d) When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- Q.5** Which of the following conditions is not necessary for recognising dividends in the statement of profit and loss of Onetime Ltd.: **1**
- (a) the entity's right to receive payment of the dividend is established.
 - (b) it is probable that the economic benefits associated with the dividend will flow to the entity.
 - (c) the amount of the dividend can be measured reliably.
 - (d) payment of income tax on dividends received

Part B (Descriptive Questions)

Q. No. 1 is Compulsory. Attempt any three from the rest.

- Q.1** Droma Shoes Private Limited was established in year 2023-24 for manufacturing of footwear. As funds were needed to carry on its business activities - including for purchase of different raw materials, incurring of regular expenses like power and fuel and payment of wages etc., it had got sanctioned a credit facility amounting to ₹ 2 crores repayable on demand from a bank against primary security of its current assets and collateral security of residential house of one of its directors. Duly signed guarantee documents by directors in favour of bank also form part of bank's loan documentation. Account statement of above facility downloaded from bank's website shows debit balance of ₹ 1.85 crores as on 31st March, 2024. The operations in above credit facility are satisfactory. In this regard:
- (i) Identify nomenclature of such credit facility given by banks. How would above amount of ₹ 1.85 crores be reflected and classified in financial statements of company as on 31.3.24? 2
- (ii) Also state specific disclosure requirements of Schedule III of Companies Act, 2013 in relation to above. 4
- Q.2** How is "Short Term Borrowings" disclosed in the Financial Statements as required under Part I of Schedule III to the Companies Act, 2013? 4
- Q.3** Narrate the audit procedures to be performed by an auditor in order to ascertain that the Raw materials and consumables are valued appropriately and as per generally accepted accounting policies and practices. 4
- Q.4** Following is extract of notes to accounts of financial statements of STU Private Limited listing some ratios. Discuss, whether disclosure, given in following manner meets requirements of Schedule III of the Companies Act, 2013. Ignore other ratios which are not listed in extract given below: 4

Name of Ratio	31.03.2024	31.03.2023
Current Ratio	2.50	2.30
Inventory turnover ratio	3.00	6.00
Trade receivables turnover ratio	1.75	5.00
Net profit ratio (in%)	13%	10%

Q.5 WTE Private Limited is engaged in business of manufacturing a product liable to GST @ 5%. The input raw materials for manufacturing this product are liable to GST @ 12% and 18%. As a result, at the end of financial year, ITC on inputs amounting to ₹ 60 lacs is accumulated in Electronic Credit ledger and refundable to company under provisions of GST law. How would above amount of ₹ 60 lacs be reflected and classified in balance sheet of company? State few audit procedures to be performed by you for verification of abovesaid balance.

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Instructions for submission of answer sheet

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

Subject line “Inter Audit Test – WT 4”

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

1. Name:
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