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

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

Q.1	(a)	(2 Marks)
Q.2	(b)	(2 Marks)
Q.3	(d)	(1 Mark)
Q.4	(a)	(1 Mark)
Q.5	(d)	(1 Mark)

Part B (Descriptive Questions)

Q.1 Cash Credit/Overdraft Facilities:

(i) The type of credit facilities referred to in above situation given by banks to meet working capital requirements of business which are repayable on demand are known as "cash credit facilities/overdraft" facilities. The amount of ₹ 1.85 crores outstanding as on 31st March, 2024 reflects borrowings of the company and it would be classified as "short-term borrowings" as loans repayable on demand from banks under current liabilities in balance sheet of the company. Borrowings shall further be subclassified as secured. **(2 Marks)**

(ii) Specific disclosure requirements of short-term borrowings under Schedule III to Companies Act, 2013 in given situation are as under:

- Nature of security i.e. primary security of current assets and collateral security of residential house belonging to a director shall be specified.
- As loans have been guaranteed by directors, the aggregate amount of such loans shall be disclosed.

(2 Marks)

To be disclosed as Additional Regulatory Information

Since the Company has borrowings from bank on the basis of security of current assets, it shall also disclose the following:

(a) whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.

(b) if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed. **(2 Marks)**

Q.2 Disclosure w.r.t. Short Term Borrowings as per Part I of Schedule III:

(i) Short-term borrowings shall be classified as:

(a) Loans repayable on demand; (A) from banks. (B) from other parties.

(b) Loans and advances from related parties;

(c) Deposits;

(d) Other loans and advances (specify nature).

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Period and amount of default as on balance sheet date in repayment of loans and interest, shall be specified separately in each case.

(v) Current maturities of long-term borrowings shall be disclosed separately.

1 Mark for each Correct Point (Any Four)

Q.3 Audit procedures ascertain appropriate Valuation of Raw materials and consumables:

(a) Ascertain what elements of cost are included e.g. carriage inward, non-refundable duties etc.

(b) If standard costs are used, enquire into basis of standards; how these are compared with actual costs and how variances are analyzed and accounted for/treated in accounting records.

(c) Test check cost prices used with purchase invoices received in the month(s) prior to counting.

(d) Follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realizable value.

1 Mark for each Correct Point

Q.4 Disclosure of Ratios as per Schedule III of the Companies Act, 2013:

The disclosure given in the question does not meet requirements of Schedule III to Companies Act, 2013.

(1 Mark)

Schedule III requires that the company shall explain the items included in numerator and denominator for computing the ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year. **(1 Mark)**

In the given table, the company has not explained the items included in numerator and denominator for computing ratios. Further, variations in ratios as compared to preceding year are as under: -

Name of Ratio	31.03.24	31.03.23	Variation
Current Ratio	2.50	2.30	8.69%
Inventory turnover ratio	3.00	6.00	50%
Trade receivables turnover ratio	1.75	5.00	65%
Net Profit ratio (in%)	13%	10%	30%

(1 Mark)

As calculated above, there is change in inventory turnover ratio, trade receivables turnover ratio and net profit ratio by more than 25% as compared to preceding year. Therefore, explanations for such changes have also to be provided where there are changes by more than 25% as compared to preceding year. **(1 Mark)**

Q.5 In the given situation, ₹ 60 lacs is accumulated in Electronic credit ledger of WTE Private Limited as finished product is liable to lower GST rate whereas input raw materials for manufacturing carry higher GST rate. It is refundable to company by virtue of provisions of GST law. The above balance would be reflected and classified under current assets. Within current assets, it would be classified into "Other current assets".

(1 Mark)

Few audit procedures to be performed for verification of above balance are:

- In relation to balances with statutory authorities like GST input credit, prepare a reasonability analysis with respect to purchases by applying the applicable rate to the purchases and in case of any variance with the asset recorded by the entity, reasons for variance should be requested from the entity.
- Obtain copies of statutory GST returns filed on GST portal.
- In case refundable amount as on balance sheet date is still outstanding, verify whether the amount recorded as per books of account tallies with the claim made with the authorities subsequently by going to GST portal.
- In case refundable amount as on balance sheet date is received subsequently, verify it from Bank statement.

1 Mark for each Correct Point (Any Three)