

## WT 2 (Chapters 2 and 3)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

## Part – A (Multiple Choice Questions)

CA. Anoothi has been offered appointment as auditor of an NSE listed company. She has already ticked checkboxes relating to her independence vis-à-vis company and integrity of promoters and key management personnel. Being satisfied on this count and after sending formal engagement letter to the company, she is in midst of planning activities for company's audit. Owner of country's one of topmost writing instrument brands, above said company is in business of producing ball pens, gel pens, markers, folders and such general stationery products.

Business profile of the company including its brief history, detail of its key managerial persons and brief description of company's activities was obtained by her. She has also studied reports relating to growth of India's stationery market due to greater demand and impact of government driven schemes like Sarv Shiksha Abhiyaan (SSA). Besides, she has also obtained risk management policy of the company which contained company's strategy to contain various risks.

On perusal of financial statements of company, it is noticed that the company's inventories as at close of financial year stood at ₹ 200 crore which constitutes about 25% of its total assets. She is planning to identify significant audit risks pertaining to valuation of inventories.

She is also considering about materiality level for financial statements as a whole.

Keeping in view above, answer the following questions:

- Q.1 The compliance with independence requirements and verification of integrity of promoters and key management personnel has been ensured by CA. Anoothi. In this regard, which of the following statements is likely to be a complete statement? 2
- (a) Such activities are required to performed strictly in terms of requirements and procedures outlined in code of ethics issued by ICAI.
  - (b) Such activities are required to be performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities are specifically identified in SA 210.
  - (c) Such activities are required to performed in respect of an audit engagement in accordance with SA 220 and these preliminary engagement activities form part of planning an audit in accordance with SA 300.
  - (d) Such activities are required to be performed in terms of requirements and procedures outlined in code of ethics issued by ICAI and are specifically identified in SA 210.

**Q.2 The auditor has obtained risk management policy of the company. Which of the following statements is most appropriate in this regard? 2**

- (a) The understanding of company's risk management policy is required by auditor. It may help the auditor in identifying risks of material misstatement that management failed to identify.
- (b) The understanding of company's risk management policy is not required by auditor. It deals with business risks of company. Audit risk is not influenced by company's business risks.
- (c) The understanding of company's risk management policy is required by auditor. However, it cannot help the auditor in identifying risks of material misstatement that management failed to identify.
- (d) The understanding of company's risk management policy is sufficient for an auditor to develop an audit plan.

**Q.3 Considering auditor's intention to identify significant audit risks pertaining to inventory valuation, which of the following statements is likely to be true? 2**

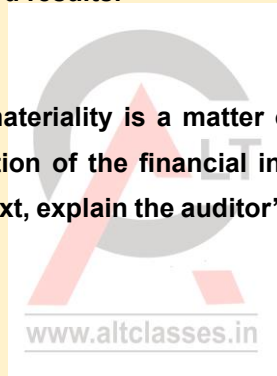
- (a) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit plan.
- (b) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of overall audit strategy.
- (c) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of controls.
- (d) Procedures planned to identify significant audit risks pertaining to inventory valuation forms part of tests of details.

### Part B (Descriptive Questions)

**Q. No. 1 is Compulsory. Attempt any two from the rest.**

- Q.1 (a) Identify the component of risks of material misstatement involved as an auditor of the company in following cases: 2**
- (i) **Wear & Tear Private Limited is a "start-up" engaged in providing holistic solutions to problem of paddy stubble burning mainly catering to needs of farmers of North western India. Due to importance given by governments to this issue, companies have entered in the market in past few years. Many of these companies have not been successful and have gone bust.**
  - (ii) **A company has devised a control that its inventory of perishable goods is stored in appropriate conditions in a controlled environment to prevent any damages to inventory. Responsibility is fixed on two persons to monitor environment using sensors and to report on deviations.**

- b) In establishing overall audit strategy, the auditor shall ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required. State any two examples. 2
- (c) In establishing the overall audit strategy, the auditor shall identify the characteristics of the engagement that define its scope. State any two examples. 2
- Q.2 Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Adequate planning benefits the audit of financial statements in several ways. Briefly discuss the usefulness of careful and adequate audit planning. 4
- Q.3 While it is true that companies can benefit immensely from the use of data analysis in terms of increased profitability, better customer service, etc., analyse various functions that can be performed even by the auditor also using Data Analytics tools and techniques in the audit process to obtain good results. 4
- Q.4 The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, explain the auditor's assumptions about users of the financial statements. 4



**Instructions for submission of answer sheet**

Single PDF of answer sheet is to be e-mail at [test.altclasses@gmail.com](mailto:test.altclasses@gmail.com)

Subject line "Inter Audit Test – WT 2"

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

1. Name: \_\_\_\_\_
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