

WT 3 (Chapters 4 and 6)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

MNO Ltd., incorporated in the financial year 1980-81, is a distinguished company specialising in the manufacturing of nickel-based batteries. As one of the oldest manufacturing companies in this sector, MNO Ltd. operates with two manufacturing plants and a comprehensive distribution network that spans across India. Remarkably, MNO Ltd. was among the first companies to be listed on the stock exchange, underscoring its longstanding presence in the market. The company has consistently adhered to the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, ensuring compliance with all regulatory standards.

M/s KP & Co. were the statutory auditor in the previous year and resigned from the role of statutory auditor. M/s JKL & Co. has been appointed as a statutory auditor of MNO Ltd. in the FY 2024-25. In conducting initial audit engagement, M/s JKL & Co. has simply placed reliance on the closing balances of preceding period.

Apart from above facts, the several important financial information of MNO Limited during the year ended 31st March 2025 are tabulated as below:

Sr. No	Particular	Amount (₹)
1.	Paid Up Share Capital	10
2.	Deficit balance in Profit & Loss Account	11.47
3.	Turnover	85
4.	Inventory*	15
5.	Cash Loss	2.95
6.	Operating Loss	1.97

*Out of Total inventory as above, inventory amounting to ₹ 12.35 Crore are lying with third party.

Based on above facts, answer MCQs (Q.1 & Q.2):

Q.1 As per SA 501, what is the correct audit procedure to be followed regarding the existence and condition of inventory wherein an inventory valued ₹ 12.35 crore is lying with the third party?

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- (a) The auditor should rely on the management explanation regarding the inventory lying with the third party.

- (b) The auditor should request confirmation from third party as to the quantities and condition of the inventory held with them or perform inspection or other audit procedures as appropriate.
- (c) The auditor should verify the inventory lying with the company.
- (d) The auditor should take written representation only from the management regarding the inventory lying with the third party.

Q.2 According to SA 510, which of the following audit procedures can be implemented by M/s JKL & Co. to obtain sufficient and appropriate audit evidence on the opening balances about whether it contain any material misstatement that could affect financial statements of current year? **2**

- (i) Closing balances of the preceding period have been correctly brought forward to the current period.
- (ii) Performing specific audit procedures to obtain evidence regarding its opening balances.
- (iii) Determining whether the opening balances reflects the application of appropriate accounting policies.

- (a) Only (i)
- (b) Only (iii)
- (c) Only (i) and (iii)
- (d) (i), (ii) and (iii)



Q.3 The audit of DST Limited is near completion. CA Shweta had performed risk assessment procedures and tests of controls. Besides, various tests were performed to verify management assertions regarding transactions and balances. Further, substantive analytical procedures had also been performed. The process of finalization of audit report is in last stages. The team has started to prepare audit documentation for being placed in audit file. They are putting various information now in writing as part of audit documentation so that audit file is complete before issue of audit report. Which of following statements is in accordance with Standards on Auditing? **2**

- (a) The approach followed by team is proper as it is auditors' duty to see that audit documentation is prepared at time of issue of audit report.
- (b) The approach followed by team is proper as audit file has to be assembled before issue of audit report.
- (c) The approach followed by team is not proper as audit documentation is being prepared at the time of finalization of audit report.
- (d) The approach followed by team is not proper as audit documentation can be prepared in 60 days from date of auditors' report.

Part B (Descriptive Questions)

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

- Q.1 (a) Audit Documentation refers to the record of three items. Explain stating clearly the objective and nature of audit documentation. 4
- (b) Name the assertions for the following audit procedures: 2
- (i) All liabilities are properly recorded in the financial statements.
- (ii) Related party transactions are shown properly.
- Q.2 CA B is appointed as an auditor of M/s. Divine Pharmacy, a wholesale medicine supplier. While auditing for the financial year 2024-25, CA B wants to use test checking technique. Advise CA B, what kind of precautions should be taken by him in this regard. 4
- Q.3 CA Rohit is appointed as an auditor of Grace Ltd.; he wants to design a suitable Confirmation request letter for a few debtors of Grace Ltd. As a senior auditor of the firm, explain to him with reference to SA 505 “External Confirmation” all the conditions that should be present to use Negative Confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level. 4
- Q.4 The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity’s failure to appropriately account for related party relationships, transactions or balances. 4
- During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the records or documents that may provide information about related party relationships and transactions. Explain in detail with examples.

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 3”

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

1. Name: _____
2. Mobile No.: _____
3. Test: Inter Audit – WT 3 (Dec. 2024 Series)
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