

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 (c) (2 Marks)
Q.2 (a) (2 Marks)
Q.3 (d) (2 Marks)

Part B (Descriptive Questions)

Q.1 (i) Assertion checked by auditor:

- (a) Completeness
(b) Measurement
(c) Cut Off

1 Mark for each Correct Point (3 Marks)

(ii) Attributes to be examined while vouching expenses:

An entity in addition to making purchases and incurring employee benefit expenses, also incurs other expenditures like rent, power and fuel, repairs and maintenance, insurance, travelling, miscellaneous expenses etc., that are essential and incidental to running of business operations.

While the auditor may choose to analyse the monthly trends for expenses like rent, power and fuel, an auditor generally prefers to vouch for other expenses to verify following attributes:

- (i) Whether the expenditure pertained to current period under audit;
(ii) Whether the expenditure qualified as a revenue and not capital expenditure;
(iii) Whether the expenditure had a valid supporting like travel tickets, insurance policy, third party invoice etc.;
(iv) Whether the expenditure has been classified under the correct expense head;
(v) Whether the expenditure was authorised as per the delegation of authority matrix;
(vi) Whether the expenditure was in relation to the entity's business and not a personal expenditure.

1 Mark for each Correct Point (Any three)

Q.2 Disclosures regarding CSR Activities:

In the given situation, following information is required to be disclosed in accordance with requirements to Schedule III to the Companies Act, 2013:

(a) amount required to be spent by the company during the year	₹ 14.00 lacs
(b) amount of expenditure incurred	₹ 14.50 lacs
(c) shortfall at the end of the year	NIL
(d) total of previous years shortfall	NA
(e) reason for shortfall	NA
(f) nature of CSR activities - Women empowerment activities through implementing agency	
(g) details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard	NIL
(h) where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately	NIL

0.5 Mark for each Correct Point (4 Marks)

Q.3 Meaning of Sweat Equity Shares:

“Sweat Equity Shares” means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called. **(1 Mark)**

Disclosure requirements of promoter’s shareholding:

Schedule III (Division I) of Companies Act, 2013 requires that a company shall disclose Shareholding of Promoters as below:

Shares held by promoters at the end of the year				% Change during the year***
S. No.	Promoter Name	No. of shares	% of total shares**	
Total				

(2 Marks)

** Details shall be given separately for each class of shares.

(0.5 Mark)

*** % change shall be computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue.

(0.5 Mark)

Q.4 Audit Procedure to establish the Ownership Rights:

- (1) Vouch recorded purchases to underlying documentation (purchase requisition, purchase order, receiving report, vendor invoice and cancelled cheque or payment file).
- (2) Evaluate the consigned goods.
- (3) Examine client correspondence, sales and receivables records, purchase documents.
- (4) Determine existence of collateral agreements.
- (5) Review consignment agreements.
- (6) Review material purchase commitment agreements.
- (7) Examine invoices for evidence of ownership i.e. the invoices shall be in the name of the client.
- (8) Obtain confirmation for significant items of inventory.
- (9) For instances of inventory held by third party, auditor should insist on obtaining declaration from the third party on its business letterhead and signed by an authorized personnel of that third party confirming that the items of inventory belong to the entity and are being held by such third party on behalf of and for the benefit of the entity under audit.

1 Mark for each Correct Point (Any Four)

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