

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

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

One audit team is conducting statutory audit of Delta Robotics Limited for financial year ending 31st March, 2025 under Companies Act, 2013. The revenue from operations of company during year 2024-25 is ₹ 89,40,60,300. Certain observations and information stated as under have been noted during the course of audit by the audit team: -

- (A) The said company is availing working capital credit facility to meet its normal operating cycle requirements amounting to ₹ 7.50 crores from a scheduled bank and outstanding balance as on 31st March, 2025 is ₹ 6,49,20,120. The financial statements disclose this outstanding balance in financial statements under the head “Long-term borrowings”. Further, the said credit facility is secured against equitable mortgage of an immovable property located at NOIDA.
- (B) The company has made current investments in Ceekay Limited to the tune of ₹ 1,10,00,000 by way of equity instruments.
- (C) It was observed that company had received some export orders during the year under audit and these orders had resulted in fructifying export turnover of ₹ 3,88,25,000. During the year under consideration, the company has reflected net loss in respect of foreign currency transactions amounting to ₹ 5,50,000. Further, the company has also imported components and spare parts having FOB value of ₹ 10.00 lacs (CIF ₹ 11.25 lacs) during the year.

Based upon above, answer following questions keeping in view classification and disclosure requirements of Schedule III of Companies Act, 2013:

Q.1 Consider the following statements:

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Statement I--- The company has correctly classified and disclosed outstanding balance of working capital credit facility under the head “Long- term borrowings.”

Statement-II--- Nature of security for availing working capital credit facility needs to be disclosed.

Which of the following is correct?

- (a) Both statements I and II are true.
- (b) Statement I is true. However, statement II is false.
- (c) Statement I is false. However, statement II is true.
- (d) Both statements I and II are false.

- Q.2 As regards current investments made by company in Ceekay Limited, which of following groups contain most valid requirements mandated by law? 2**
- (a) Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments and their market value.
- (b) Name of body corporate in which investment is made, Basis of valuation of individual investment, aggregate amount of quoted investments.
- (c) Basis of valuation of individual investment, aggregate amount of quoted investments and their market value.
- (d) Name of body corporate in which investment is made, aggregate amount of quoted investments and their market value.
- Q.3 As regards foreign currency transactions, consider the following statements: - 2**
- Statement I - Earnings in foreign exchange regarding export of goods on CIF basis needs to be disclosed in notes to accounts.**
- Statement II - Net loss of foreign currency transactions is required to be disclosed separately in statement of profit and loss.**
- Which of the following statements is correct?**
- (a) Both statements I and II are true.
- (b) Both statement I and II are false.
- (c) Statement I is true. Statement II is false.
- (d) Statement I is false. Statement II is true.

Part B (Descriptive Questions)

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

- Q.1 (i) Name the assertion that the auditor will check by performing the following audit procedures. 3**
- (a) Employees benefit expense in respect of all personnel have been fully accounted for.
- (b) Discounts on sales has been properly adjusted/ accounted for.
- (c) Employee benefit expense recorded during the period relates to the current accounting period only.
- (ii) M/s SS & Associates have been appointed as statutory auditors of Green Limited, a company engaged in the business of manufacturing of hardware products. They are analyzing the monthly trends for other expenses like rent, power & fuel, repairs etc. and are also verifying attributes of such types of expenses. List down the attributes for verifying such expenses. 3**

- Q.2** Prudent Enterprises Private Limited has incurred and fully spent for the first time Corporate Social Responsibility (CSR) expenditure amounting to ₹ 14.50 lacs in pursuance to provisions of section 135 of Companies Act, 2013. The expenditure was spent for women empowerment programmes through an implementing agency (not a related party). As per law provisions, it was required to spend ₹ 14.00 lacs during the year. Discuss how such information is required to be disclosed in accordance with requirements of Schedule III to the Companies Act, 2013 in financial statements of the company. **4**
- Q.3** S & Co., Chartered Accountants, are appointed as the auditors of ABC Ltd. CA S, the engagement partner, has come across the following while verifying equity share capital of the company: **4**
- (i) He noticed that some of the equity shares are held by promoters.
(ii) Some shares are issued as sweat equity shares to the employees.
- What is the meaning of sweat equity shares?
What are the disclosure requirements of such promoter's shareholding?
- Q.4** As the statutory auditor of Ginni Ltd., you need to verify if the company has valid legal ownership rights over the inventories recorded in the balance sheet as on March 31, 2025. What audit procedures should you perform to verify the company's ownership of the inventories, including items stored at third-party locations? **4**

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:
2. Mobile No.:
3. Test: Inter Audit – WT 4



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