

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

Marks: 27

Time: 45 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 to Q.3):

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.

**Q.4 AMN Ltd. has capitalised a software as an intangible asset in its financial statements. To verify whether the software is actively in use, the auditor reviews the sale of goods and services that rely on this software during the audit period. Which assertion regarding intangible assets is the auditor verifying? 2**

- (a) Completeness.
- (b) Valuation.
- (c) Disclosure.
- (d) Existence.

## Part B (Descriptive Questions)

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

- Q.1 (i) Identify and explain the assertions that the auditor will check by performing the following audit procedures: 5
- (a) Inventory recognised in the balance sheet actually existed as at the period end.
  - (b) All the items of inventory pertaining to the relevant year shall be included regardless of the location.
  - (c) All goods dispatched prior to the period/ year-end have been invoiced and included in debtors on a test check basis.
  - (d) Examine client correspondence, sales and receivables records, purchase documents.
  - (e) Verifying that the entity has charged depreciation on all items of PPE unless any item of PPE is non-depreciable like freehold land.
- (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. 4
- Q.2 SRT Pvt. Ltd., based in Mumbai, is engaged in export of brassware goods. The company has huge export receivables as on 31st March 2024. It is also analysed from Export Sales account of the company that large number of small shipments were almost dispatched daily during the month of March 2024. The auditor is ensuring that all goods dispatched prior to the year-end have been invoiced. Which assertion concerning trade receivables is being verified by auditor? List out few audit procedures you would adopt as an auditor to verify this assertion. 5
- Q.3 CAR Ltd., an automotive parts manufacturer, appointed Amit & Associates as auditors for F.Y. 2024-25. During the audit, CA Amit noticed a significant rise in raw material consumption (steel and aluminum) despite a decrease in production. This discrepancy led to detailed reviews of vendors supplying these raw materials. While verifying the existence of vendors and the actual receipt of goods or raw materials by the company, which assertion is being verified by CA Amit. Explain the procedure for the same. 5

- 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?

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**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 – MTP 4"

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