

## MTP 5 (Chapter 7 – Completion and Review and Chapter 8 – Audit Reports)

Marks: 27

Time: 45 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

## Part – A (Multiple Choice Questions)

A. Raghav is in midst of finalizing audit reports of five clients. On reviewing each file, it is noticed as under:

- (A) In case of a company engaged in business of selling of agricultural products which are outside ambit of GST, engagement team has found that substantial part of revenues of the company (about 80%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenues generated through cash sales. Therefore, team has been unable to verify such revenues generated through cash sales.
- (B) TS Limited has been dragged to court by BS Limited for stealing its trade secrets using cyber theft and filed a claim for ₹ 50 crore. On reviewing audit file of TS Limited, CA Raghav finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of TS Limited are silent on this litigation matter.
- (C) It is noticed on review of audit file of a client that net profit before tax was ₹ 2 crore on a turnover of ₹ 100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ₹ 3 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
- (D) On reviewing file of a small finance bank, it was noticed that team has drafted following para proposed to be included under Emphasis of Matter paragraph:
- “Concerns are raised regarding “Going Concern” status of the Bank. However, the Bank feels that it continues to remain a “Going Concern” in view of reasons stated in note 10.
- Our opinion is not modified in respect of this matter.”

Based upon above, answer the following questions:

- Q.1 As regards description regarding revenues generated through cash sales of a company, which of the following statements is most appropriate in terms of SA 705? 2
- (a) Qualified opinion will be issued and basis for qualified opinion will also be provided.
- (b) Adverse opinion will be issued and basis for adverse opinion will also be provided.
- (c) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “auditor was engaged to audit financial statements.”

- (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “financial statements have not been audited.”

**Q.2** Considering litigation matter of TS Limited, which of the following statements is most appropriate in this regard?

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- (a) Unmodified opinion needs to be expressed by auditor.
- (b) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
- (c) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs to be expressed by auditor.
- (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.

**Q.3** Considering description of issue regarding non-recoverability of export receivable of Rs. 3 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?

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- (a) Disclaimer of opinion
- (b) Unmodified opinion
- (c) Qualified opinion
- (d) Adverse opinion



**Q.4** As regards matter of going concern in respect of a small finance Bank, which of the following statements is most appropriate?

- (a) The para drafted by team is proper and in accordance with SA 570 since auditor has decided to give unmodified opinion.
- (b) The para drafted by team is proper and in accordance with SA 570 since matter has been disclosed in notes to accounts by bank management.
- (c) Instead of giving emphasis of matter paragraph, separate paragraph on ‘Material Uncertainty Related to Going Concern’ in report should be given in accordance with SA 570.
- (d) Separate paragraph on ‘Material Uncertainty Related to Going Concern’ under the heading “Emphasis of matter” paragraph in report should be given in accordance with SA 570.

## Part B (Descriptive Questions)

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

- Q.1 (a) On reviewing internal control over inventories as part of statutory audit of a company, auditor finds that physical verification is not being conducted at regular intervals as stipulated by the management. The auditor finds it to be significant deficiency in internal control over inventories. 4
- He points it out to the management in a one-liner as under: -
- “Physical verification of inventories is not being conducted at regular intervals as stipulated by management.”
- Is above communication by auditor proper? Ignore statutory reporting requirements, if any in this regard.
- (b) As per SA 701, the objectives of the auditor are to determine key audit matters and having formed an opinion on the financial statements, communicate those matters by describing them in the auditor’s report. Which factors are taken into account by auditor while determining Key Audit Matters? How Key Audit Matters are communicated in audit report? 5
- Q.2 (a) CA Yash is conducting audit of a company for year 2023-24. The company is engaged in export of ethnic rugs to buyers in Europe. The audit is nearing completion in month of July 2024. However, it becomes known to the auditor that one of overseas buyers has made a legal claim against the company on 1st June 2024 for injury caused to a customer of one European buyer due to sub-standard dyes used in rugs of one lot of order shipped in August, 2023. The management of company has decided to agree to an out of court settlement of ₹ 5 crore to protect its reputation. The financial statements of the company are silent on this issue. Discuss, how, CA Yash should proceed to deal with above issue. 3
- (b) SKN Ltd. a biopharma company and global manufacturers of select critical care medical products has been sanctioned working capital limits of ₹ 5.99 crores from a nationalized bank on the basis of security of current assets. During the year under audit, the statutory auditor of SKN Ltd. considers that inventory is material to the financial statements and performs audit procedures over the company’s final inventory records to determine whether they accurately reflect actual inventory count and without any major discrepancies for each class of inventory. What are the reporting requirements regarding physical verification of inventory under CARO 2020 in this case? 2

- Q.3** During the audit of a company, CA Kartik has noticed that company's turnover has fallen drastically as compared to last three years due to loss of its major markets and key customers. The company is in need of funds for new product development, but bankers are not willing to lend financial support. Which additional audit procedures need to be performed by CA Kartik in accordance with SA 570 when such events or conditions are identified? **5**
- Q.4** The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. **5**
- Explain clearly the differences between the approaches stating the essential audit reporting. Also define comparative information and audit procedures regarding comparative information.

**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 5"

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

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