

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 7: Ch. 6 – Completion and Review)

Time Allowed- 20 Minutes

Maximum Marks-10

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.

Case Scenario [MCQ 1-5]

Laminar Precision Drives Limited (LPDL) is a mid-sized manufacturer of customised power-train assemblies supplied to electric vehicle producers across India. The company operates three plants—Hyderabad, Hosur and Nagpur—and maintains centralised procurement and logistics. FY 2023–24 saw adverse developments that significantly affected financial stability and cast doubts on future liquidity.

During October 2023, LPDL's largest customer cancelled a long-standing supply arrangement after entering a strategic partnership with a foreign competitor. This customer accounted for nearly 42% of LPDL's annual revenue. As a result, production lines at the Hosur plant remained under-utilised for the rest of the year, and the company was forced to offer early-exit options to contract workers. Management also attempted to renegotiate supplier terms due to rising payables, but only two out of nine key suppliers agreed to extend credit cycles.

In January 2024, a major malfunction in the Hyderabad plant's temperature-controlled storage area caused damage to stock valued at ₹24.3 crore. An insurance claim was lodged immediately, and the entire amount was recorded as receivable at year-end. A provisional confirmation from the insurer in March 2024 suggested possible settlement at ₹17 crore. On 12 May 2024, after auditors had completed most on-site work, the insurer informed the company that the final settlement would be restricted to ₹16 crore due to "quality deterioration not linked solely to malfunction". Management believed the higher amount should remain recognised since the communication arrived after the reporting date.

Another development occurred on 5 June 2024, when the government announced a new subsidy programme for manufacturers of energy-efficient components. Preliminary estimates showed that LPDL may be eligible for nearly ₹13–14 crore once guidelines are issued. The CFO urged auditors to incorporate this benefit into FY 2023–24 results, arguing that its retrospective nature justified inclusion.

Liquidity pressures worsened steadily. Bank limit utilisation remained at 98–100% throughout the last quarter. The company's debt-service coverage ratio for FY 2023–24 dipped to 0.82, well below the minimum covenant requirement of 1.25. Employee dues at Nagpur remained overdue for about three weeks, and statutory dues related to professional tax and contract labour contributions were delayed.

Management prepared a one-year cash-flow projection to convince auditors that revival was likely. The forecast assumed sanction of additional working-capital lines within three months, onboarding of two new electric-vehicle clients with whom discussions had begun, and cash inflow of ₹10 crore from the proposed sale of an unused parcel of land. Auditors noted several weaknesses: no term sheet existed for the land sale, the potential new clients had only expressed preliminary interest without volume commitments, and the projected cost savings from workforce restructuring appeared overstated when compared to past payroll data.

While evaluating future viability, the auditors observed that several assumptions lacked adequate support and that the company's dependence on bank approvals made liquidity highly uncertain. Management ultimately agreed to include a note describing the existence of significant uncertainties affecting future operations.

Separately, the auditors requested a written representation confirming that all relevant information had been provided, including matters occurring after the reporting date. Management shared a draft letter dated 16 April 2024, even though the audit report was scheduled for 28 June 2024. The draft only covered information up to the reporting date and omitted confirmation regarding subsequent developments such as the insurer's settlement decision and assumptions used in the cash-flow forecast. The audit partner requested management to update the letter and align its date close to the auditor's report so that it covers all periods addressed in the audit opinion.

Based on the above facts, answer the following:

1. The insurer's final settlement of ₹16 crore, communicated on 12 May 2024, relates to a malfunction that occurred before the reporting date. What should the auditor require?
 - (a) Reduce the recognised receivable to ₹16 crore because the updated settlement clarifies the amount recoverable from a condition existing at year-end.
 - (b) Retain ₹24.3 crore since the communication was received after the reporting date and belongs entirely to the next year.
 - (c) Recognise only ₹17 crore because provisional assessments are more reliable than final assessments.
 - (d) Defer recognition until the insurer physically remits the money, as confirmation alone cannot be considered evidence.
2. Regarding the new subsidy programme announced on 5 June 2024, what is the appropriate treatment?
 - (a) Record the estimated benefit in FY 2023–24 because it favourably affects future cash flows.

- (b) Adjust revenue since the scheme is retrospective and directly linked to the company's operations.
 - (c) Create a receivable for ₹14 crore as the approval is reasonably certain based on early indications.
 - (d) Disclose it as a non-adjusting event since the conditions for recognition did not exist at the reporting date.
3. If the auditor concludes that future viability is subject to significant uncertainty but the financial statements include clear and adequate disclosure of such uncertainties, which opinion is most appropriate?
- (a) Express an unmodified opinion and include a dedicated section highlighting the existence of material uncertainties about the entity's ability to continue operating normally.
 - (b) Issue a qualified opinion, stating that uncertainty affects the reliability of future projections.
 - (c) Issue an adverse opinion because the company faces severe financial pressure and covenant breaches.
 - (d) Present an Emphasis of Matter paragraph, as going-concern issues never affect the form of audit opinion.
4. Management's projected improvement in liquidity assumes immediate onboarding of new clients and prompt bank approvals, despite no firm evidence. What should the auditor do?
- (a) Accept the forecasts since projections relate to future events that cannot be challenged.
 - (b) Analyse the reliability of supporting data, challenge optimistic assumptions, and consider whether these factors create substantial doubt about future operations.
 - (c) Ignore the projections entirely because forecasts are outside the auditor's scope of assessment.
 - (d) Accept management's assurance that bank approvals are likely because auditors cannot second-guess commercial decisions.
5. Management provided a draft representation letter dated 16 April 2024 for an audit report planned on 28 June 2024. What should the auditor require?
- (a) Accept the letter because it covers matters up to the reporting date and draft form is sufficient.
 - (b) Obtain an updated letter dated close to the auditor's report and ensure it covers all periods addressed in the audit opinion, including matters arising after year-end.
 - (c) Accept the letter but attach an additional schedule summarising subsequent events.
 - (d) Reject written representations entirely because they cannot be updated after being drafted once.

CA Final - Advanced Auditing


MCQ – Mock Test Series 1: Nov. 2025

Detailed Schedule of MCQ Test Series – Nov. 2025

| Date | Day | Topic | MCQ Style | Marks |
|---------|------|--|--|-------|
| 6 Nov. | Wed. | Ch. 19 - Professional Ethics | 5 MCQs in the form of Case Studies and General MCQ | 10 |
| 7 Nov. | Thu. | Ch. 1 - Quality Control | | 10 |
| 8 Nov. | Fri. | Ch. 2 - General Auditing Principles & A.R. | | 10 |
| 10 Nov. | Mon. | Ch. 3 - Audit Planning | | 10 |
| 11 Nov. | Tue. | Ch. 4 - Materiality, Risk Assessment and I.C. | | 10 |
| 12 Nov. | Wed | Ch. 5 - Audit Evidence | | 10 |
| 13 Nov. | Thu. | Ch. 6 - Completion and Review | | 10 |
| 14 Nov. | Fri. | Ch. 7 - Reporting | | 10 |
| 17 Nov. | Mon. | Ch. 8 - Specialised Areas | | 10 |
| 18 Nov. | Tue. | Ch. 9 – Related Services & Ch. 10 – Review of F.I. | | 10 |
| 19 Nov. | Wed | Ch. 11 - Financial info. & Other Assurance | | 10 |
| 20 Nov. | Thu. | Ch. 12 - Digital Auditing and Assurance | | 10 |
| 21 Nov. | Fri. | Ch. 13 - Group Audits | | 10 |
| 24 Nov. | Mon. | Ch. 14 - Audit of Banks and NBFC | | 10 |
| 25 Nov. | Tue. | Ch. 15 - Audit of PSU | | 10 |
| 26 Nov. | Wed | Ch. 16 - Internal Audit | | 10 |
| 27 Nov. | Thu. | Ch. 17 - Investigation, Diligence & Forensic | | 10 |
| 28 Nov. | Fri. | Ch. 18 - SDG and ESG Assurance | | 10 |

Note: Test Papers and Answer Key will be uploaded on Knowledge Portal of www.altclasses.in

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| | Ch. 4 - Materiality, Risk Assessment & IC | |
| WT - 3 | Ch. 5 - Audit evidence | 03 Dec. 2025 |
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| WT - 4 | Ch. 8 - Specialised Areas | 06 Dec. 2025 |
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| | Ch. 11 - PFI & Other Assurance Services | |
| WT - 5 | Ch. 12 - Digital Auditing and Assurance | 10 Dec. 2025 |
| | Ch. 16 - Internal audit | |
| | Ch. 17 - DD, Investigation & Forensic Accounting | |
| | Ch. 18 - SDG & ESG Assurance | |
| WT - 6 | Ch. 13 - Group Audits | 13 Dec. 2025 |
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