

FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

(MTP 9: Ch. 8 – Specialised Area)

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.

1. Fincrest Mutual Scheme prepared summary financial statements derived from its audited financial statements for the year ended 31 March 20X5. The auditor noted that the scheme's total income of ₹48 crore in the audited financials was summarised into a single line item of ₹50 crore in the summary version due to a consolidation error. The summary financial statements were proposed to be distributed to 14,000 unitholders without attaching the audited financial statements. The auditor began evaluating whether the summary statements adequately disclosed their basis and whether they were consistent with the audited numbers.

Which of the following procedures is most appropriate for the auditor to perform when evaluating whether the summary financial statements are suitable for distribution to unitholders?

- (a) The auditor should compare each summarised line item, including the ₹ 50 crore income figure, with the audited financial statements to verify whether the summary can be accurately recalculated and whether any material differences require adjustment before reporting.
- (b) The auditor should focus on whether the ₹ 50 crore income figure is reasonable in isolation and rely on management's assurance that the audited financial statements will be available upon request, without directly validating consistency with audited numbers.
- (c) The auditor should primarily assess whether the summary format aligns with industry practice and examine only aggregated totals, as detailed reconciliation to audited figures is not expected in a summary-based engagement.
- (d) The auditor should accept the ₹ 50 crore summary total if management provides justification for rounding or consolidation differences, even if the auditor has not confirmed that readers are informed from where the audited financial statements can be obtained.

Case Scenario I [MCQ 2-3]

Riverton Agro Components Pvt. Ltd. entered into a long-term performance-linked supply arrangement with its largest customer, under which quarterly payouts to the customer were determined based on a formula involving adjusted production cost, component-wise rejection ratios and turnaround performance. The contract required Riverton to prepare a separate set of financial statements strictly in accordance with the contract's definitions, including customised cost allocation rules and specific treatment of incentives and penalties. These statements were to be shared only with the customer and the lender financing the project.

When the auditor, Ms. K, received the request to audit these statements, she realised that the reporting framework was entirely contract-driven and not comparable to the company's general purpose financial statements already audited by her firm. She examined the contract-based framework to see whether the criteria were clear, internally consistent, and suitable for the specific users who relied on these statements. She noticed that the contract allowed management to compute "adjusted allocable cost" using one of two alternate formulas. Management selected the method yielding a lower cost for the period. Ms. K evaluated if this interpretation was reasonable and whether it would still enable the statements to be fairly presented for the intended users.

During discussions, Ms. K also noted that the statements would be filed with a regulatory portal only for record-keeping, although neither the regulator nor public investors were intended users. She realised this could lead to misunderstanding if proper alerts were not included in her auditor's report. The draft report she prepared included a neutral description of the special purpose basis used, highlighted significant interpretations of the contract relevant to these statements, and considered whether users uninvolved with the contract might incorrectly assume these statements were general purpose statements.

The statements showed a material difference between contract-based profit and the company's general purpose profit, arising mainly from alternate cost allocation permitted by the contract. Since these statements were likely to be uploaded to the regulator's portal along with her report, Ms. K evaluated whether an alert paragraph explaining the special-purpose nature of the statements and their unsuitability for other purposes would be required to avoid inappropriate reliance by users unfamiliar with the contract.

Based on the above facts, answer the following:

- 2 While evaluating whether she should accept the engagement, which of the following considerations is most appropriate for the auditor in determining whether the contract-based reporting framework is acceptable for the intended users?
 - (a) She should assess whether the framework's customised definitions, interpretations and alternate computations still exhibit attributes of a suitable reporting basis for the specific users and whether it will lead to meaningful, understandable information for those users.
 - (b) She must ensure that the framework matches, in substance and structure, the company's general purpose accounting policies since major deviations would make acceptance inappropriate for any audit engagement.
 - (c) She can accept the engagement solely on the basis that management and the customer have contractually agreed to the framework, without evaluating whether the financial information generated will be appropriate for the intended users.
 - (d) She is required to reject the engagement if the framework includes choices or alternatives for management, even if both alternatives are consistent with the needs of the specific users identified in the contract.
- 3 When finalising her auditor's report, which of the following is the most appropriate action to alert readers that the statements may be unsuitable for purposes beyond the contract?
 - (a) She should insert a qualification in the opinion paragraph stating that the statements are based on contract-specific rules and hence must not be relied upon by the regulator or the public.

- (b) She should replace her unmodified opinion with a disclaimer solely because the statements may be placed on a regulatory portal, even though they are properly prepared for the intended users.
- (c) She should include a separate explanatory attachment outside the auditor's report clarifying that the statements are only for specified parties, without incorporating such communication within the report itself.
- (d) She should include an Emphasis of Matter-type alert stating that the statements are prepared using a special purpose basis defined by the contract, explaining that they may not be suitable for other purposes, especially if they may be accessed by users outside the intended group.

Case Scenario II [MCQ 4-5]

Trellix Components Ltd. had its complete set of financial statements audited for the year ended 31 March 20X4. The auditor's report included an Emphasis of Matter relating to major uncertainties in a long-standing environmental compensation dispute, although the main opinion was unmodified.

After the completion of this audit, the company separately engaged the same auditor to audit only the schedule of net tangible assets as at the same reporting date, which was required by a consortium of lenders for renewal of its ₹150 crore credit facility. The schedule included a revaluation component where management had used an indexation-based adjustment resulting in a ₹22 crore uplift in carrying value. The lenders wanted assurance on the accuracy of the schedule, independent of the general purpose statements.

The auditor considered whether the earlier Emphasis of Matter in the complete set of financial statements had any implications for the audit of the schedule. The environmental dispute was related to potential cash outflows but had no impact on the asset valuations included in the schedule.

For another engagement in the following year, a sister entity of the group had an adverse opinion in its complete set of financial statements due to pervasive misstatements in revenue recognition. That entity also sought a separate audit of a single statement—its inventory statement as at year-end—for regulatory filing. The auditor evaluated whether an unmodified opinion could be issued on that single statement despite the adverse opinion on the complete financial statements. The inventory balance represented nearly 60% of total assets of the sister entity and was interlinked with the misstated revenue cycle.

Based on the above facts, answer the following:

- 4** While forming the opinion on Trellix Components' schedule of net tangible assets, how should the auditor appropriately deal with the earlier Emphasis of Matter in the complete set of financial statements?
- (a) The auditor must reproduce the same Emphasis of Matter paragraph in the report on the schedule because any matter emphasised previously must automatically be repeated in all subsequent engagements.
 - (b) The auditor should assess whether the earlier Emphasis of Matter relates to the information contained in the schedule, and include a reference only if the matter is relevant to what is being reported upon in this specific engagement.

- (c) The auditor should modify the opinion on the schedule solely because the earlier report contained an Emphasis of Matter, even if the emphasised matter has no connection with the schedule under audit.
 - (d) The auditor must disclaim an opinion on the schedule unless the Emphasis of Matter from the complete financial statements is also included, irrespective of its relevance.
- 5** How should the auditor report on the inventory statement of the sister entity whose complete set of financial statements carried an adverse opinion?
- (a) The auditor may issue an unmodified opinion because a single statement can be evaluated independently even when the complete set carries an adverse opinion.
 - (b) The auditor may issue a qualified opinion since an adverse opinion on the complete set only restricts the use of true-and-fair wording but does not affect assurance on a specific element.
 - (c) The auditor must issue an unmodified opinion if inventory balances are supported by separate working papers, even if they constitute a major portion of total assets.
 - (d) The auditor cannot issue an unmodified opinion as a single statement that represents a major portion of the financial statements cannot be separately reported unmodified when the complete set carries an adverse opinion.



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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WT - 2	Ch. 2 - General Auditing Principles	29 Nov. 2025
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	Ch. 4 - Materiality, Risk Assessment & IC	
WT - 3	Ch. 5 - Audit evidence	03 Dec. 2025
	Ch. 6 - Completion and Review	
	Ch. 7 - Reporting	
WT - 4	Ch. 8 - Specialised Areas	06 Dec. 2025
	Ch. 9 - Audit Related Services	
	Ch. 10 - Review of Financial Information	
	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
	Ch. 14 - Special Features of Audit of Banks and NBFC	
	Ch. 15 - Overview of Audit of PSU	
WT - 7	Full Syllabus Test 1	17 Dec. 2025
WT - 8	Full Syllabus Test 1	24 Dec. 2025

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