

MTP 4 (Ch. 8 - Specialised Areas; Ch. 9 – Related Services; Ch. 10 – Review of F.I. & Ch. 11 – PFI & Other Assurance Services)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.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. 2
- 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.
- Q.2** A listed company is preparing an offer document for a proposed rights issue and includes financial information showing how the acquisition of a small subsidiary would have affected its results had the transaction occurred earlier. The management asks the practitioner whether, while reporting on this information, the focus should be on verifying 2

the accuracy of historical numbers, or on evaluating whether the adjustments made fairly reflect the impact of the acquisition in accordance with the criteria applied. The practitioner wants to clarify what the core responsibility is when reporting on such compiled information.

Which of the following best describes the practitioner's responsibility in this situation?

- (a) The practitioner evaluates whether the compiled information has been prepared using suitable criteria and whether the adjustments appropriately reflect the effects of the transaction, without undertaking an audit or review of the historical financial figures themselves.
- (b) The practitioner verifies the accuracy of all historical information, confirms that past audit evidence remains valid, and ensures that the compiled financial information matches the updated accounting records before assessing the adjustments.
- (c) The practitioner primarily re-computes the projections to confirm that the entity's revised forecasts match the assumptions of the offer document, and expresses an opinion on whether those outcomes are likely to occur as presented.
- (d) The practitioner performs procedures to authenticate the original financial statements on which the compiled information is based and ensures that all future-oriented assumptions are validated before concluding on the compilation.

Q.3 A company is in its start-up phase and its future business prospects are dependent not only upon funding by stream of VC (venture capital) funds but also how its product would be perceived by potential customers. The company asks CA P to prepare a projection for a coffee table discussion with venture capital firms and also provide a report duly signed by him providing assurance on such projections. What is likely appropriate course of action for him?

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- (a) Such a reporting is outside the scope of services which can be rendered by Chartered Accountants. Therefore, such engagement should be straightaway refused.
- (b) He can report in respect of examination of evidence supporting the assumptions in such financial information and on accuracy of projections.
- (c) He can report in respect of examination of evidence supporting the assumptions in such financial information but not on accuracy of projections.
- (d) He can report only in respect of examination of evidence supporting the assumptions in such financial information when management expects these future events described in situation to take place.

Part B (Descriptive Questions)

Q.1 CA Paritosh is appointed as the statutory auditor of Shri Madhav Ltd. for the financial year 2024-25 for auditing complete set of financial statements. 75% Shares of Shri Madhav Ltd. is being held by Radha Venture Ltd. Shri Madhav Ltd. has also assigned the audit of Property, Plant and Equipment to CA Paritosh as a separate engagement for the financial year 2024-25.

Auditor of Radha Venture Ltd. requested Mr. Paritosh to perform certain procedures in relation to Property, Plant and Equipment of Shri Madhav Ltd. for the purposes of audit of Consolidated Financial Statements of Radha Venture Ltd. Mr. Paritosh performed the requested procedures and issue report on his findings to Auditor of Radha Ventures Ltd. in accordance with requirements of SA 805.

Further, audit report issued on complete set of financial statements of Shri Madhav Ltd. includes a qualification of the auditor's opinion in relation to property, plant and equipment. In this regard, his team member asks him whether such qualification in the auditor's report on the complete set of financial statement have any implication for the audit of specific element.

Based on above stated facts, answer the following:

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| (i) Whether Mr. Paritosh is correct in performing the procedures requested by auditor of Radha Ventures Ltd. and issue report on his findings to Auditor of Radha Ventures Ltd. in accordance with requirements of SA 805. | 2 |
| (ii) Factors that may be relevant in considering the implications, if any, of qualification included in the auditor's report on the complete set of financial statements for the audit of Property, Plant and Equipment. | 2 |

Q.2 Brown Enterprises Limited has huge funds locked up in its trade receivables standing at around ₹ 100 crores as on 31st December, 2025. The management of the company wants to evaluate validity of the trade receivables to ensure reliability of financial reporting at the year end. The accounts department has provided a list of trade receivables to the management containing about 1000 names, their balances and contact/communication details spread in different parts of the country. The company's management has requested CA. Karuna to take up this assignment and prepare a report for management in accordance with professional standards. Despite not being statutory auditor of the company, she decides to accept above engagement.

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| (i) By explaining nature of engagement described above, discuss whether it was proper for her to accept such engagement. | 2 |
| (ii) While reporting, which precautions should be taken by her so that readers of the report do not misunderstand its scope? | 3 |

Q.3 STAR Limited has outsourced its payroll processing functions to a service organization - Little Solutions Private Limited. Little Solutions Private Limited is responsible for accurate preparation of payrolls and timely remittance of statutory dues to the government authorities on behalf of the company. Little Solution Private Limited’s controls related to timely remittance of payroll deductions to government authorities are relevant to the company as late remittances could result in interest and penalties resulting in liabilities for the company.

The auditors of STAR Limited want to be sure about description, design and operating effectiveness of controls at Little Solutions throughout the year. In this regard, they require an assurance report from auditors of Little Solutions Private Limited.

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| (a) Why the auditors of STAR Limited require an assurance report from the auditors of Little Solutions Private Limited? Which engagement and quality control standard casts such kind of responsibility upon the auditor? | 2 |
| (b) Which type of report should be provided by the auditors of Little Solutions? Justify with reasons. | 1 |
| (c) State matters on which opinion is to be provided by the auditors of Little Solutions. | 2 |

Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

Subject line “Final Audit - MTP 4 - Enrolment id _____”

Mention the following on answer Sheet:

1. Name:
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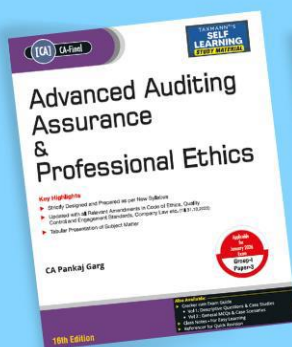
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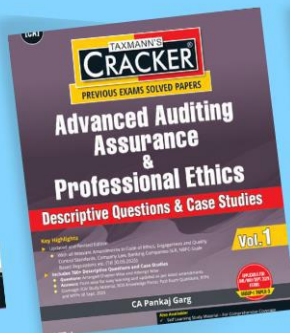
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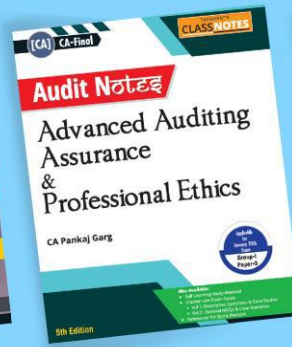
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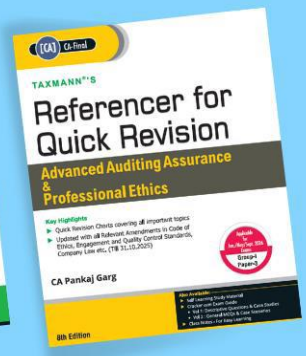
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