

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

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1** During the audit of Nimbus Aero Components Ltd., the auditor noted that the company has reported profitable results for the current year, but the cash flow statement reveals negative operating cash flows for the third consecutive year. A major long-term loan of ₹48 crore is due for renewal in four months, and correspondence with the bank suggests only a preliminary willingness to consider restructuring subject to stringent conditions. Management's cash-flow forecast assumes a 22% growth in export orders, though no binding contracts exist, and past projections have shown consistent over-estimation. Further, minutes of the last board meeting indicate discussion on possible asset disposals, although no formal plan has been approved. The auditor must conclude on whether a material uncertainty exists and the adequacy of related disclosures. **2**
- Which conclusion best reflects the auditor's responsibility under SA 570?**
- (a) The existence of multiple adverse indicators and unsupported assumptions in management's forecast requires the auditor to conclude that a material uncertainty exists, and if adequately disclosed, report under the "Material Uncertainty Related to Going Concern" section.
- (b) Management's positive projections and verbal assurance from the bank provide sufficient evidence that no material uncertainty exists, so no specific reporting is required if going concern is considered appropriate.
- (c) Since the company is currently profitable, the auditor should not evaluate going concern based on cash flows alone and may rely primarily on management's representation regarding future commitments.
- (d) The discussion of potential asset disposals indicates that management plans to significantly curtail operations; therefore, the going concern basis must be rejected and an adverse opinion issued.
- Q.2** During the audit of Zenith Pro Labs Pvt. Ltd., the auditor requests written representations regarding management's responsibilities for preparation of financial statements and completeness of information provided. Management states verbally that all such responsibilities have been fulfilled but hesitates to provide the written representation, arguing that all evidence is already available in the books and earlier discussions. **2**

The auditor believes written representations are required irrespective of the sufficiency of other audit evidence.

What should the auditor conclude in this situation as per SA 580?

- (a) Accept management's verbal confirmation since written representations are only supplementary and not mandatory when sufficient evidence exists.
- (b) Treat the refusal to provide written representation as a limitation on scope and evaluate the need for a disclaimer of opinion.
- (c) Proceed with the audit report by including an Emphasis of Matter paragraph to highlight the absence of written representation.
- (d) Request written representation only regarding specific assertions and not about management's overall responsibilities.

- Q.3 As per CARO, 2020, physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of ___ or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;** **2**
- (a) 5%
 - (b) 1%
 - (c) 10%
 - (d) 20%



Part B (Descriptive Questions)

- Q.1 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.

- Q.2** 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.3** 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

Subject line "Inter Audit – MTP 4"

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

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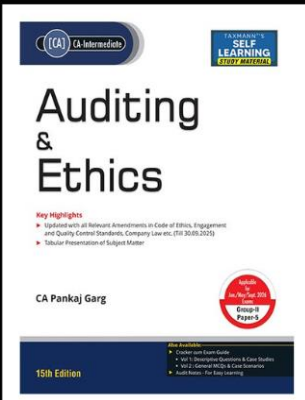
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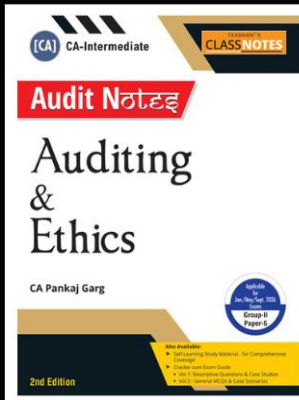
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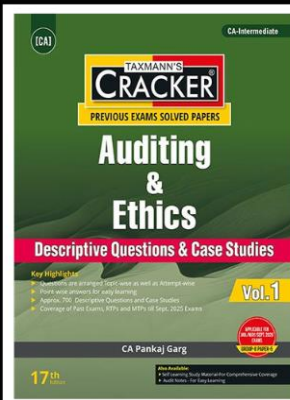
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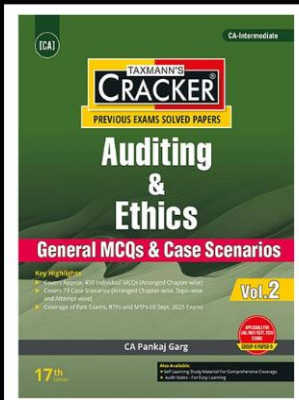
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