



CA Inter Audit Test-7 (SA 510/550/560/570/580)

Time: 1 Hour

Marks: 30 Marks

Instructions:

- Reading time: 5 mins
- Do **underline key words** while presenting answer
- Leave **proper spacing** between 2 points/paras
- Do quote SA No. with Name only wherever applicable.

MCQs [10 Marks (5Q * 2 Marks each)]

1. Read the situations below carefully from perspective of an auditor. Identify one which is not a “Subsequent Event”.

- A pharma company is in business of manufacturing and export of cough syrups. Its Profit before tax for year 2023-24 is Rs. 10 crores. Few Children have died in an African nation by consumption of spurious cough syrup in September, 2023. The company is trying to settle with foreign government a lumpsum settlement of Rs.20 crore as on 30.6.24 when audit is nearing completion.
- The draft financial statements of a wholesaler engaged in business of trading of TVs, washing machines and air-conditioners for year 2023-24 are ready showing a profit before tax of Rs.50 lakhs. A burglary of Rs.1 crore took place in showroom on 15.7.24 before audit report was signed.
- Audit report dated 1.7.24 was issued in respect of an entity engaged in extraction of certain minerals. By legislation, government has banned extraction of such minerals on 10.7.24.
- An incident of fire took place in a company on 13th August, 2023 resulting in damages to inventories amounting to Rs.5 crore. The inventories are insured and company has shown this amount as receivable from insurance company as on 31st March,2024 in its financial statements. No further information is available as on date of signing audit report on 16.7.24.

2. CA Jayant is statutory auditor of a listed company Move and Move Limited for financial year 2023-24. On 15th June, 2024, there was an incident of fire in a logistics park where part inventories of company were also stored. It resulted in loss of inventories to the tune of Rs.20 crore for the company. Profit before tax in draft financial statements of the company for year 2023-24 is Rs.25 crore. Which statement is most appropriate in this regard?

- The above situation is in nature of adjusting event and auditor’s duty is to see those financial statements for year 2023-24 should be adjusted to include above information.
- The above situation is in nature of non-adjusting event and auditor’s duty is to see that its nature and probable financial impact is disclosed in financial statements for year 2023-24.
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3. Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2023- 24 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

The financial statements of Upshaant Ltd. For FY 2023- 24 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?

- a. Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.
- b. Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.
- c. Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
- d. Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.

4. Though the company had significant growth in the past years, it has not done well over the last two financial years. As per SA 570, there are certain events or conditions that individually or collectively may cast significant doubt about the going concern assumptions. In order to assess whether MINSAN Ltd is a going concern or not, which of the following audit procedures should NOT be performed?

- a. Analysis and discuss with the management of the company to find out whether installation of new plant and machinery would enable the company to reduce cost of production.
- b. Inquire the company's legal counsel regarding existence of legal litigation and claim against the company, reasonableness of management assessments of their outcome and estimate of their financial implication.
- c. Evaluating management's future plan and strategy to increase market share of product.
- d. Analysis and discussion of the company's cash flow and profit of the previous years.

5. Which kind of audit report will the auditor issue, if the use of going concern basis of accounting is appropriate, but a material uncertainty exists and adequate disclosure of the material uncertainty is made in the financial statements by the management?

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



Descriptive Questions [20 Marks]

1. In an initial audit engagement, in the case of inventories, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, in such a case, additional audit procedures become necessary so that auditor may obtain sufficient appropriate audit evidence. Discuss those additional audit procedures.

[3M]

2. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Explain with the help of at least three examples.

[3M]

3. CA Karan is working as internal auditor in MNO Limited, a non-listed company. The responsibilities of internal auditor include reviewing financial information and performing detailed tests on transactions and balances. He is also responsible for compliance with laws, regulations and external requirements. During the year 2023-24, services of an employee of company were terminated. The said employee had filed a suit against the company in respect of certain compensation dues amounting to ₹ 20 lakhs which were not paid to him.

Based upon advice of legal counsel, the company had made a provision of ₹ 20 lacs in financial statements for year 2023- 24. However, somewhere in June 2024, there is an out of court settlement between company and employee for ₹ 12 lakhs. The statutory audit of company is under progress and audit report has not yet been finalized. How internal auditor should have proceeded in situation?

[4M]

4. While conducting audit of Badshah Limited, CA SRK notices that company has lost one of its key markets along with important customers. Additionally, several highly successful competitors have emerged, impacting business of the company. Despite the existence of material uncertainty, CA SRK finds the use of going concern basis of accounting appropriate for preparation of financial statements. The company has also disclosed material uncertainty in notes to accounts adequately. How should he deal with the matter in auditor's report?

[3M]

5. The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions or balances. During the audit, the auditor should maintain alertness for related party information while reviewing records and documents. He may inspect the records or documents that may provide information about related party relationships and transactions. Explain in detail with examples.

[3M]

6. When performing risk assessment procedures as required by SA 315, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

In so doing, the auditor has determined that management of ITC Ltd has already performed a preliminary assessment of the entity's ability to continue as a going concern. Explain how would auditor of ITC Ltd proceed in the above case. Also explain how would the auditor proceed if such an assessment has not yet been performed by the management.

[4M]