



CA Inter Udesh Regular May 2025 Group-02

Master Test Series - 05

Time Allowed- 3 Hours

Maximum Marks- 100

Audit and Ethics

General Instructions

- (1) The question paper comprises two parts, Part-A and Part-B.
- (2) Part-A comprises 15 Multiple Choice Questions (MCQs).
- (3) Part-B comprises 6 questions having 3 parts each which require descriptive type answers.
- (4) Ensure that you receive the question paper relating to both the part.
- (5) Duration of the examination is 180 minutes.
- (6) You will be required to submit the answer book ensuring Part-A and Part-B are correctly segregated.
- (7) All questions of Part-A are compulsory and Part-B Instruction are given in Part-B itself.

Part - A

Multiple choice question (MCQ)

(Case Scenario I carries 8 Marks)

(Case Scenario II carries 8 Marks)

(Case Scenario III carries 8 Marks)

General MCQs (3 MCQs × 2 Mark each = 6 Marks)

Case Scenario – I

Directions (1-4) Read the following passage and answer the given questions.

GNH and Co., Chartered Accountants, has been appointed as the statutory branch auditors of Chandigarh branch of HFC Bank, a nationalized bank. While carrying out the audit, the following key issues were identified:

Issue 1: Consortium Cash Credit Facility granted to X Ltd.: HFC Bank is a consortium member providing cash credit facilities of 50 crores to X Ltd., with HFC's share being ₹ 10 crores. Over the past two quarters, interest amounting to 1.75 crores have been debited in cash credit account of X Ltd., while credits in the account amounts to only ₹ 1.25 crores. Despite this shortfall, the account has been classified as performing asset, based on a certificate from the lead bank (UNC Bank Limited).

Issue 2: Asset Classification of SJ Ltd.: SJ Ltd.'s account has seen no recovery for the past 18 months. However, the bank has not applied NPA norms or income recognition norms to this account. The management justifies this by stating that the account is guaranteed by the central government and that NPA and income recognition norms are not applicable. Government has not invoked the guarantee.

Issue 3: Loan Application from ABC Traders: ABC Traders has applied for a cash credit limit from HFC Bank for supporting working capital requirements on account of business expansion.

In discussions with ABC Traders, HFC Bank has requested different forms of security, depending on the nature of the assets offered, which includes immovable property (warehouse), goods in stock, accounts receivable, and insurance policies. Borrower provided the security and was sanctioned cash credit limit of ₹ 4.50 Crores.

Issue 4: Precision Engineering (one of the borrowers of the branch) has utilized the entire sanctioned cash credit limit of ₹ 300.00 Lacs. Outstanding balance as on 31st March, 2024 is 308.00 Lacs. Bank classified the account as Substandard Asset. One fine day DGM (Inspection) of Bank was passing through the area in which borrower is located and observed that building occupied by the borrower is damaged and there is no machinery, stock and other assets available in the premises. Borrower was not available telephonically and no contact could be made with him. He ordered independent verification of assets and report was submitted that no security mortgaged with bank is available.

Report has been accepted by the bank authorities. Only a piece of land with realizable value ₹ 25 Lacs is available as of now. Bank made a provision in its books of accounts considering the account as Substandard Asset.

Based on the above facts, answer the following Q. Nos. 1 to 4.



1. ABC Traders offered its warehouse as security for the loan. HFC Bank created a charge on the warehouse. Which form of security has been created and whether bank is required to get stock audit done of cash credit account of ABC Traders?
 - (1) Security created is Pledge and bank is required to get stock audit done of cash credit account of ABC Traders
 - (2) Security created is Mortgage and bank is required to get stock audit done of cash credit account of ABC Traders
 - (3) Security created is Pledge and bank is not mandatorily required to get stock audit done of cash credit account of ABC BC Traders
 - (4) Security created is Mortgage and bank is not mandatorily required to get stock audit done of cash credit account of ABC Traders

2. Whether correct classification and provisioning norms have been applied in the account of Precision Engineering?
 - (1) The account is correctly classified but provision should be made for hundred percent of the unsecured portion besides making specified provision on secured portion.
 - (2) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for hundred percent of the unsecured portion.
 - (3) The account should have been classified as loss asset and full provision should have been made in the books of accounts.
 - (4) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.

3. Whether the asset classification of account of X Limited is correct?
 - (1) Classification is correctly done on the basis of certificate provided by UNC Bank Limited
 - (2) Classification is correctly done subject to confirmation from the Central statutory auditor of the bank
 - (3) Classification is correctly done subject to confirmation from the Central statutory auditor of the bank and also other parameters specified in the RBI guidelines have been followed
 - (4) Classification is not in order as classification has to be done on the basis of record of recovery of the HFC Bank only

4. Is the bank's decision not to apply NPA and income recognition norms to account of SJ Ltd valid under regulatory guidelines?
 - (1) The bank is correct to the extent of not applying the NPA norms for provisioning purposes. However, this exemption is not available in respect of income recognition norms
 - (2) The bank is not correct for not applying the NPA norms for provisioning purposes. But this exemption is available in respect of income recognition norms
 - (3) The bank is correct in not applying the NPA norms and income recognition norms as both are not applicable
 - (4) The bank is not correct in not applying the NPA norms and income recognition norms as both are applicable.

Case Scenario – II

Directions (5-8) Read the following passage and answer the given questions.

CA F has been appointed as an auditor of a manufacturing entity. Pursuant to appointment, CA F planned to assess the risk of material misstatement. During this process, CA F observed that entity has identified various controls to mitigate the risk. The entity has implemented a control (named TARGET) whose objective is to ensure that production systems are processed to meet financial reporting objectives. On completion of risk assessment procedure, CA F was wandering as to how he can verify the existence of related party relationships and transactions. So, he consulted one of his colleagues, CA Z, who suggested following ways to identify the same:

- (i) Information supplied by the entity to regulatory authorities.
- (ii) Entity's income tax returns
- (iii) Inventory records maintained by the entity
- (iv) Life insurance policies acquired by the entity.

On-going through the financial statement provided by the entity, CA F observed that the entity has significantly borrowed the amount during the financial year 2023-24. CA F wanted to ensure that all borrowing on the balance sheet represent valid claims by banks or other third parties. Accordingly, he performed the following procedures:



- (i) Reviewed subsequent transactions after the end of the reporting period.
- (ii) Recomputed the interest on borrowing.
- (iii) Reviewed board minutes for approval of new lending agreements.
- (iv) Agreed loan balance and loan payables to the loan agreement.

CA F decided to perform analytical procedures to obtain audit evidence as to overall reasonableness of purchase quantity and price. For this, CA F scrutinized raw material consumed as per manufacturing account and compared the same with previous years with closing stock. The variations observed were discussed with the management of the entity.

Based on the above facts, answer the following Q. Nos. 5 to 8.

5. Do you agree with all the ways suggested by CA Z to CA F?
 - (1) No, suggestion (i) is not correct
 - (2) No, suggestion (ii) is not correct
 - (3) No, suggestion (iii) is not correct
 - (4) No, suggestion (iv) is not correct
6. CA F performed which of the following analytical procedure to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material?
 - (1) Consumption Analysis
 - (2) Stock Composition Analysis
 - (3) Trend Analysis
 - (4) Ratio Analysis
7. Control "TARGET" will be categorized in which of the following?
 - (1) Data center and network operations
 - (2) Program Control
 - (3) Processing control
 - (4) Application Control
8. Which of the procedures performed by CA F is suitable for satisfaction of concern regarding borrowing?
 - (1) Procedure (i)
 - (2) Procedure (ii)
 - (3) Procedure (iii)
 - (4) Procedure (iv)

Case Scenario – III

Directions (9-12) Read the following passage and answer the given questions.

M/s KRISH & Company is a firm of Chartered Accountants based in Punjab. CA K, CA R, CA I, and CA SH are the partners of the firm. The firm is engaged in various audit assignments. The engagement partners, who were handling their respective assignments for the financial year 2023-24, dealt with the following issues raised during the course of their respective audits.

- M/s KRISH & Co. is appointed as the joint auditor along with M/s. PK and Associates and M/s. RS and Associates for the audit of a large manufacturing company for the financial year 2023-24. CA K is in charge of this audit. They have divided their audit areas and have also identified the common audit areas, which will be applicable to all the joint auditors. While forming the opinion, CA K had a different opinion whereas, the other two audit firms shared the same opinion. Both of them contended that as they were forming a majority, M/s KRISH & Co. will have to agree with their opinion.
- CA R is conducting the statutory audit of PAWAN Ltd. He observed that, during the year, the company has issued shares at premium and has transferred the amount received as premium to securities premium account. He wants to ensure that PAWAN Ltd. has utilized the amount available in the securities premium amount for the purposes permitted under the Companies Act, 2013.
- Registrar of Co-operative Societies has appointed M/s KRISH & Co. as the statutory auditor of NAND Co-Operative Society for the financial year 2023-24. CA I is looking after the audit of the said registered society. During the year, in terms of Section 34 of the cooperative societies Act, with the sanction of the Registrar, Society has contributed for charitable purposes as defined in section 2 of the Charitable Endowments Act, 1890. CA I is ensuring whether requirements as regards contribution made, have been complied with.
- All the engagement partners and the audit team of M/s KRISH & Co. have deliberations and discussions every week through google meet to review the progress of their respective assignments, During last such meet, CA SH, the managing partner, briefed to the team about the form, content, and extent of audit documentation in terms of SA 230, while citing examples of records to be excluded as well as to be included as a part of audit documentation.



Based on the above facts, answer the following Q. Nos. 9 to 12.

9. CA I, who is in charge of audit of NAND Co-Operative Society, wants to ensure that the society has contributed for charitable purposes within the limits prescribed. How much is the society allowed to contribute for charitable purposes?
- (1) Contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund
 - (2) Contribute an amount at the appropriate rate as per class of the society
 - (3) Contribute an amount not exceeding 20% of the net profits remaining after the compulsory transfer to the reserve fund
 - (4) Contribute annually at prescribed percentage of the profits as approved by the General body of the society
10. Which of the following need not be included by the audit team as a part of audit documentation during handling of their respective assignments?
- (1) Significant & specific contracts & agreements
 - (2) Draft audit engagement letter
 - (3) Summaries of significant matters
 - (4) Checklists
11. In case of difference of opinion between the joint auditors, what course of action can M/s. KRISH & Co. take while issuing the audit report?
- (1) They will have to agree with the opinion formed by the majority of auditors.
 - (2) They will have to agree with the opinion formed by the majority auditors, but they can mention their view in the Emphasis of Matter Paragraph.
 - (3) They can add a separate audit opinion paragraph in the common audit report.
 - (4) They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.
12. The securities premium account of PAWAN Ltd. cannot be applied for which of the following purposes?
- (1) In writing off the debit balance in the Profit & Loss account.
 - (2) In writing off the expenses of, or the commission paid or discount allowed on any issue of equity shares of the company.
 - (3) For the purchase of its own shares or other securities under section 68.
 - (4) In paying up unissued equity shares of the company to be issued to the members of the company as fully paid bonus shares.

General MCQs

13. CA Sumit, during the process of assembling the audit file after the completion of the audit, briefed his team on the changes to be made in the audit documentation. Which of the following changes can be made during the audit file assembly stage?
- A. Sorting, collating and cross referencing of working papers.
 - B. Deleting or discarding superseded documents.
 - C. Recalculation of depreciation.
 - D. Recalculation of Interest on loans.
 - E. Signing off of completion checklist relating to file assembly.
- (1) A, B and E
 - (2) C and D
 - (3) A, C and D
 - (4) A, C, D and E
14. A practicing Chartered Accountant is appointed by a company to perform certain agreed-upon procedures relating to its trade payables. Such agreed upon procedures include verifying listing with books of accounts, sending confirmation letters and reporting factual discrepancies to company management. Which of statements is correct in this context?
- (1) The practicing CA shall perform work in accordance with Standards on Related Services and SA 220.
 - (2) The practicing CA shall perform work in accordance with Standards on Related Services and SQC 1.
 - (3) The practicing CA shall perform work in accordance with Standards on Auditing including SA 220.
 - (4) The practicing CA shall perform work in accordance with Standards on Assurance Engagements and SQC 1.
15. You have been appointed as statutory auditor of a company for the first time. It has become very important for you to understand the company and its environment. Which of the following activities are not expected to be included in your attempts to know about the company and its environment?
- (1) Gaining a knowledge about debt structure of the company
 - (2) Evaluating whether company's accounting policies are appropriate for its business
 - (3) Understanding business risks faced by the company
 - (4) Gathering evidence about the valuation of trade receivables of the company



Part – B

Descriptive Questions

Question No. 1 is compulsory.

Attempt any four questions from the Rest.

1. (A) APR & Associates, a Chartered Accountant firm, are appointed as the auditors of Time Ltd. and Bakes Ltd. The volume and nature of business of both the companies are entirely different. CA R is the engagement partner for Bakes Ltd. CA P is the engagement partner for Time Ltd. CA R formulates an Audit Programme for conducting the audit of Bakes Ltd. He suggests CA P to use the same audit programme for Time Ltd. But CA P is of the opinion that this audit programme will not be useful for the audit of Time Ltd. In light of the above, mention the matters that should generally be considered while preparing an Audit Programme. **(3 Marks)**
Is CA P correct in emphasizing for a different Audit Programme for Time Ltd.? **(2 Marks)**
- (B) CA Vasu was appointed as the statutory auditor of M/s. Pizza Limited for the financial year 2023-24. While reviewing the internal controls, he observed that the company has entered into many transactions with firms in which the directors are interested. The company's specified procedure was by-passed in such transactions. CA Vasu considered it as a significant deficiency in internal control over related party transactions. He communicated this deficiency to Those Charged With Governance (TCWG) as under, "Controls over significant transactions with related parties are weak." In view of the above, please explain:
(i) What is meant by deficiency in internal control? **(2 Marks)**
(ii) As per SA 265, whether the significant deficiency communicated by CA Vasu to TCWG is appropriate? Explain. **(3 Marks)**
- (C) ABC & Associates, an audit firm, has been approached by a prospective company client that has been in business for about 10 years to conduct an audit of its financial statements. Before accepting the audit engagement, the firm wants to access the integrity of prospective client. With regard to the assessment of integrity, which matters should be considered by the audit firm? **(4 Marks)**
2. (A) You are the auditor of Plus Bank Limited. The bank has made the following provisions for the year ended on 31.03.2024:
- | Particulars | Amount (Rs. in crores) |
|-----------------------------------|-------------------------------|
| Provision for Bad Debts | 66 |
| Provision for Sub-standard Assets | 78 |
| Provision for Expenses | 24 |
| Provision for Income Tax | 55 |
- You are in the process of verifying the provisions and contingencies of the bank. What audit approach and procedures will you adopt to verify the above? **(5 Marks)**
- (B) ABC & Co. are in the business of manufacturing toys. The stock taking process has been done by the company as on 31.3.2024. The company has used FIFO method for valuation of its inventories. The cost of inventory as on 31.3.24 is ₹ 25,25,000/- and the net realizable value of the inventory on the same date is ₹ 25,24,000/-. The cost of inventory includes the following:
(1) Material purchase cost - ₹ 25,05,000/-
(2) Allocated transport cost - ₹ 18,000/-
(3) Abnormal wastage - ₹ 2,000/-
The management seeks your advice in arriving at the value of inventory to be shown in the financial statements of the company. What should be the value of inventory in accordance with AS-2? **(5 Marks)**
- (C) CA Ripun completed the audit of a listed company, and the audit report was issued on July 17th, 2024. However, he had not properly organized the audit working papers, including records of discussions with management, audit procedures performed, and conclusions reached. More than six months after issuing the report, he received a letter from the regulator in connection with audit of the company requesting him to share copy of audit file. In a hurry, CA Ripun quickly assembled the audit file, adding some papers he thought were necessary, but he used the current date on these newly added documents. He then sent the audit file to the regulator. Discuss the issues involved related to "audit documentation" and assembling of the final audit file in this case. **(4 Marks)**



3. (A) Quality Products Limited is engaged in manufacturing of bicycles. As part of manufacturing activities, it sends raw material to some business entities and procures finished components from them. As on 31st March 2024 inventories lying with such business entities are material. Being statutory auditor of Quality Products Limited, how you will obtain sufficient appropriate audit evidence regarding existence and condition of inventories lying with such business entities? **(2 Marks)**
Also explain other audit procedures. **(3 Marks)**
- (B) Mr. Chetan is appointed as an auditor of Spot Limited, a small company. Mr. Chetan is aware that CARO 2020 is not applicable to small company. List out the classes of companies that are specifically exempt from the applicability of CARO 2020. **(5 Marks)**
- (C) HR & Associates are the auditors of a large manufacturing company. The company has recently invested huge amount in Property, Plant and Equipment (PPE) for its new unit. They have added many incidental expenses to the cost of PPE. The junior audit team members are not sure about which costs should be excluded from the cost of PPE. Give examples of costs that should not form part of costs of PPE. **(4 Marks)**
4. (A) Audit programme is a list of examination and verification steps to be applied and set out in such a way that the inter-relationship of one step to another is clearly shown and designed, keeping in view the assertions apparent in the statements of account produced for audit or based on an appraisal of the accounting records of the client. For example, while auditing a company's inventory, the program may include steps to verify physical stock counts, ownership rights, and valuation. What are the advantages of an audit programme? **(5 Marks)**
- (B) JK Ltd. was having a 'Pager' manufacturing plant and looking at the demand it was of the view that the company will grow continuously in future. But, with the introduction of mobile phones in the market, the plant was shut down completely. The shareholders of the company were of the view that auditor failed to perform their duty and have not informed to them about the company's inability to continue its business, otherwise they might not have suffered the loss. List down the factors giving rise to the inherent limitations due to which auditor cannot provide a guarantee that the financial statements are free from material misstatement due to fraud or error. **(5 Marks)**
- (C) Section 72(1) of the Multi-State Co-operative Societies Act, 2002 states that only a person who is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949 can be appointed as an auditor of a multi-state co-operative society. Who, according to Section 72(2), is disqualified from being appointed as auditors of a multi-state co-operative society? **(4 Marks)**
5. (A) During the audit of Rapid Industries Private Limited, CA Akshat notices that inventories of raw materials and consumables and work-in-progress amounting ₹ 2.50 crores and ₹ 0.25 crores appear in the financial statements of the company as on March 31st, 2024. He wants to verify that the above-mentioned inventories have been valued appropriately and as per generally accepted accounting policies and practices. How should he proceed to verify the above? **(5 Marks)**
- (B) CA Shubham, the auditor of Sigma Limited, is performing tests of controls and tests of details using audit sampling. During these procedures, he observed deviations in compliance with management's prescribed procedures for sales transactions of small values of a product at one location during tests of controls. Additionally, misstatements were identified in the sample related to these small-value sales transactions during tests of details. How should he proceed to analyse the nature and cause of the deviations and misstatements observed in the sample results? **(5 Marks)**



(C) Kiran, a CA student, was reviewing an audit report of the company when she noticed an 18-digit alphanumeric code below the auditor's signature and membership number. She wants to understand the purpose and importance of this randomly generated number as unique code. Is this code required for audit reports only? **(4 Marks)**

6. (A) You are appointed as an auditor of "The Prestigious Township Club". As the auditor of "The Prestigious Township Club" for the financial year 2023-24, what are the key points you would consider while auditing the income and expenditure items of the club? **(5 Marks)**

(B) A professional accountant is expected to comply with the fundamental principles of professional ethics at all times. Explain which fundamental principle governing professional ethics is violated in the following situations?

(1) A chartered accountant in practice accepted the appointment as an auditor of a firm in which his sister was a partner.

(2) A chartered accountant in practice was approached by his friend to seek some insider information about a company, which was a client of the chartered accountant. He could not refuse his friend's request.

(5 Marks)

(C1) The management of PQ Ltd. changed during the period under audit. Mr. Govind, an auditor, at the time of receiving written representation on the management responsibilities from the management, was in a dilemma related to the date of and period(s) covered by the written representation. Further, new management was of the view that they can give written representation from the date they took over and not for the prior period when old management were managing affairs of the company. Guide the auditor and the management in this respect. **(4 Marks)**

OR

(C2) Knowledge of the Client's business play an important role in developing an overall audit. In fact, without adequate knowledge of the client's business, a proper audit is not possible. As per SA 315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Substantiate with the help of examples. **(4 Marks)**



PW Web/App - <https://smart.link/7wwosivoicgd4>

Library- <https://smart.link/sdfez8ejd80if>

Feedback- <https://forms.gle/tZpnxPhzQof2s4pn8>



CA Inter Udesh Regular May 2025 Group-02

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Audit and Ethics

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Part - A Answer Key

1. (3)
2. (3)
3. (4)
4. (1)
5. (3)
6. (1)
7. (1)
8. (3)

9. (1)
10. (2)
11. (4)
12. (1)
13. (1)
14. (2)
15. (4)



Hints and Solution

1. (3)
Security created is Pledge and bank is not mandatorily required to get stock audit done of cash credit account of ABC BC Traders.
2. (3)
The account should have been classified as loss asset and full provision should have been made in the books of accounts.
3. (4)
Classification is not in order as classification has to be done on the basis of record of recovery of the HFC Bank only.
4. (1)
The bank is correct to the extent of not applying the NPA norms for provisioning purposes. However, this exemption is not available in respect of income recognition norms.
5. (3)
No, suggestion (iii) is not correct.
6. (1)
Consumption Analysis.
7. (1)
Data center and network operations.
8. (3)
Procedure (iii)
9. (1)
Contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund.
10. (2)
Draft audit engagement letter.
11. (4)
They can issue a separate audit report and the audit reports issued by the joint auditors shall make a reference to each other's audit report.
12. (1)
In writing off the debit balance in the Profit & Loss account.
13. (1)
(A) Sorting, collating and cross referencing of working papers.
(B) Deleting or discarding superseded documents.
(C) Signing off of completion checklist relating to file assembly.
14. (2)
The practicing CA shall perform work in accordance with Standards on Related Services and SQC 1.
15. (4)
Gathering evidence about the valuation of trade receivables of the company.



Part - B

1. (A) (H and S)

- 1 Mark { **Following matters should be considered generally while preparing an Audit Programme:**
- 1 Mark { (1) Stay within the scope and limitation of the assignment.
- 1 Mark { (2) Prepare a written audit programme setting forth the procedures that are needed to implement the audit plan.
- 1 Mark { (3) Determine the evidence reasonably available and identify the best evidence for deriving the necessary satisfaction.
- 1 Mark { (4) Apply only those steps and procedures which are useful in accomplishing the verification purpose in the specific situation.
- 1 Mark { (5) Consider all possibilities of error.
- 1 Mark { (6) Co-ordinate the procedures to be applied to related items.
- 1 Mark { (7) Include the audit objectives for each area and sufficient details which serve as a set of instructions for the assistants involved in audit and help in controlling the proper execution of the work.
- 1 Mark { **Evolving one audit programme- Not Practicable for All businesses:** Businesses vary in nature, size and composition; work which is suitable to one business may not be suitable to others; efficiency and operation of internal controls and the exact nature of the service to be rendered by the auditor are the other factors that vary from assignment to assignment. On account of such variations, evolving one audit programme applicable to all business under all circumstances is not practicable.
- 1 Mark { In view of above mentioned provisions, CA. P is correct in emphasizing for a different audit programme for Time Ltd.

(B) (H and S)

- 1 Mark { (i) **Meaning of Deficiency in internal control: This exists when–**
- 1 Mark { (1) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis or
- 1 Mark { (2) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
- 1 Mark { (ii) **As per SA 265,** While pointing out significant deficiencies in internal control, auditor has not only to communicate significant deficiencies giving their description but also explain the potential effects and sufficient information to those charged with governance and management to understand context of communication.
- 1 Mark { Therefore, the above communication is not proper. Not only significant deficiency has to be communicated, it should also be explained to management the potential effects of transactions with firm in which the directors are interested. It should explain that such a significant deficiency can lead to misstatement of transactions with related party. Highlighting importance of such a control, it should be stated that responsibility be fixed for concerned persons for adhering to such an important control.

(C) (H and S)

- With regard to the integrity of a client, matters that ABC & Associates should considers include, for example:
- 1 Mark { • The identity and business reputation of the client's principal owners, key management, related parties and those charged with its governance.
- 1 Mark { • The nature of the client's operations, including its business practices.
- 1 Mark { • Information concerning the attitude of the client's principal owners, key management and those charged with its governance towards such matters as aggressive interpretation of accounting standards and the internal control environment.
- 1 Mark { • Whether the client is aggressively concerned with maintaining the firm's fees as low as possible.
- 1 Mark { • Indications of an inappropriate limitation in the scope of work.
- 1 Mark { • Indications that the client might be involved in money laundering or other criminal activities.



2. (A) (H and S)

For audit of provisions and contingencies the auditor should:

- 1 Mark { • Ensure that the compliances for various regulatory requirements for provisioning as contained in the various circulars have been fulfilled.
- 1 Mark { • Obtain an understanding as to how the bank computes provision on standard assets and non-performing assets. It will primarily include checking the basis of classification of loans and receivables into standard, sub-standard, doubtful, loss and non-performing assets. The auditor may verify the loan classification on a sample basis.
- 1 Mark { • Obtain the detailed break up of standard loans, non-performing loans and agree the outstanding balances with the general ledger.
- 1 Mark { • Obtain the tax provision computation from the bank's management and verify the nature of items debited and credited to profit and loss account to ascertain that the same are appropriately considered in the tax provision computation.
- 1 Mark { • Examine the other provisions for expenses vis-a-vis the circumstances warranting the provisioning and the adequacy of the same by discussing and obtaining the explanations from the bank's management.

(B) (H and S)

- 1 Mark { **Value of Inventory:** Inventory to be recognized at the lower of cost and net realizable value in accordance with AS 2 - Inventories. Further, any costs that could not be reasonably allocated to the cost of production (e.g. general and administrative costs) and any abnormal wastage have been excluded from the cost of inventory. An acceptable valuation basis (e.g. FIFO, Weighted average etc.) has been used to value inventory as at the period-end.
- 1 Mark { In the given situation, ABC & Co. is using FIFO method for valuation of its inventories. Further, cost of inventory as on 31.03.2024 is rupees 25,25,000 which includes material purchase cost of rupees 25,05,000, allocated cost of transport of rupees 18,000 and abnormal wastage of rupees 2,000. Net realizable value of said inventory is ₹ 25,24,000. In view of provisions of AS 2, cost allocated to transport for inventory is relating to bringing the inventory to the location, thus it will be added in cost of material. However, abnormal wastage of rupees 2000 should be excluded from cost of inventory.
- 1 Mark { Thus, cost of inventory will be ₹ 25,25,000 – ₹ 2,000 = 25,23,000 rupees and Net realizable value of inventory is ₹ 25,24,000.
- 1 Mark { For valuation in accordance with AS 2, "Inventory", lower of cost and net realizable value will be considered. Accordingly, ₹ 25,23,000 to be considered as value of inventory in the given situation.

(C) (H and S)

The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.

- 1 Mark { • SQC 1, "Quality Control for Firms that perform Audits and Review of Historical Financial Information, and other Assurance and related services", requires firms to establish policies and procedures for the timely completion of the assembly of audit files.
- 1 Mark { • An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report. The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions.
- 1 Mark { • Changes may, however, be made to the audit documentation during the final assembly process, if they are administrative in nature. Further, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized.
- 1 Mark { Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.
- 1 Mark { In the given case, even after passage of more than six months, CA Ripun has not assembled an audit file. Besides, he has put in some papers with the current date which is not permissible at all. It shows that part of the audit documentation has been prepared afterwards putting a question mark on the quality of audit.



3. (A) (H and S)

1 Mark In accordance with requirements of SA 501, “Audit Evidence- Specific Considerations for Selected Items”, when inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:

- 1 Mark (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity.
(b) Perform inspection or other audit procedures appropriate in the circumstances.

Other audit procedure may include –

- 1 Mark • Inspecting documentation regarding inventory held by third parties.
1 Mark • Requesting confirmation from other parties when inventory has been pledged as collateral.
1 Mark • Attending, or arranging for another auditor to attend, the third party’s physical counting of inventory, if practicable.
1 Mark • Obtaining another auditor’s report, or a service auditor’s report, on the adequacy of the third party’s internal control for ensuring that inventory is properly counted and adequately safeguarded.

(B) (H and S)

CARO 2020 shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except–

- 1 Mark each for 1 point (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
(ii) an insurance company as defined under the Insurance Act, 1938;
(iii) a company licensed to operate under section 8 of the Companies Act;
(iv) a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
(v) a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

(C) (H and S)

Examples of costs that are not costs of an item of property, plant and equipment are:

- 1 Mark each for 1 point (i) costs of opening a new facility or business, such as, inauguration costs;
(ii) costs of introducing a new product or service (including costs of advertising and promotional activities);
(iii) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and
(iv) administration and other general overhead costs.

4. (A) (H and S)

The advantages of an audit programme are:

- 1 Mark each for 1 point • It provides the assistant carrying out the audit with total and clear set of instructions of the work generally to be done.
• It is essential, particularly for major audits, to provide a total perspective of the work to be performed.
• Selection of assistants for the jobs on the basis of capability becomes easier when the work is rationally planned, defined and segregated.
• Without a written and pre-determined programme, work is necessarily to be carried out on the basis of some ‘mental’ plan. In such a situation there is always a risk of ignoring or overlooking certain books and records. Under a properly framed programme, such risk is significantly less and the audit can proceed systematically.
Any 5 points are enough • The assistants, by putting their signature on programme, accept the responsibility for the work carried out by them individually and, if necessary, the work done may be traced back to the assistant.
• The principal can control the progress of the various audits in hand by examination of audit programmes initiated by the assistants deputed to the jobs for completed work.
• It serves as a guide for audits to be carried out in the succeeding year.
• A properly drawn up audit programme serves as evidence in the event of any charge of negligence being brought against the auditor. It may be of considerable value in establishing that he exercised reasonable skill and care that was expected of professional auditor.



(B) (H and S)

Inherent limitations of audit: The process of audit suffers from certain inbuilt limitations due to which an auditor cannot obtain an absolute assurance that financial statements are free from misstatement due to fraud or error. These fundamental limitations arise due to the following factors:-

1 Mark
each for
1 point

- (1) **Nature of financial reporting:** Preparation of financial statements involves making many judgments by management. These judgments may involve subjective decisions or a degree of uncertainty. Therefore, auditor may not be able to obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.
- (2) **Nature of Audit procedures:** The auditor carries out his work by obtaining audit evidence through performance of audit procedures. However, there are practical and legal limitations on ability of auditor to obtain audit evidence. For example, an auditor does not test all transactions and balances. He forms his opinion only by testing samples. It is an example of practical limitation on auditor's ability to obtain audit evidence. Management may not provide complete information as requested by auditor. There is no way by which auditor can force management to provide complete information as may be requested by auditor. In case he is not provided with required information, he can only report. It is an example of legal limitation on auditor's ability to obtain audit evidence. Further, fraud may involve sophisticated and carefully organized schemes.
- (3) **Not in nature of investigation:** Audit is not an official investigation. Hence, auditor cannot obtain absolute assurance that financial statements are free from material misstatements due to frauds or errors.
- (4) **Timeliness of financial reporting and decrease in relevance of information over time:** The relevance of information decreases over time and auditor cannot verify each and every matter. Therefore, a balance has to be struck between reliability of information and cost of obtaining it.
- (5) **Future events:** Future events or conditions may affect an entity adversely. Adverse events may seriously affect ability of an entity to continue its business. The business may cease to exist in future due to change in market conditions, emergence of new business models or products or due to onset of some adverse events.

(C) (H and S)

As per section 72 of the Multi-State Cooperative Society Act, 2002 following persons are not qualified for appointment as auditors of a multi-state co-operative society:-

1 Mark
each for
1 point

- (a) A body corporate
- (b) An officer or employee of the multi-state co-operative society
- (c) A person who is a member or who is in employment, of an officer or employee of the multi-state co-operative society.
- (d) A person who is indebted to the multi-state co-operative society or who has given any guarantee or provided any security in connection with the indebtedness of any third person to the multi-state co-operative society for an amount exceeding one thousand rupees.

5. (A) (H and S)

1 Mark

To verify that inventories of raw material and consumables and work-in-progress have been valued appropriately and as per generally accepted accounting policies and practices, the following procedures should be performed by CA Akshat:

For Raw materials and consumables:

1 Mark

- Ascertain what elements of cost are included e.g. carriage inward, non-refundable duties etc.
- If standard costs are used, enquire into basis of standards; how these are compared with actual costs and how variances are analysed and accounted for/ treated in accounting records.

1 Mark

- Test check cost prices used with purchase invoices received in the month(s) prior to counting.
- Follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realizable value.

For Work in Progress:

1 Mark

- Ascertain how the various stages of production/ value additions are measured and in case estimates are made, understand the basis for such estimates.

1 Mark

- Ascertain what elements of cost are included. If overheads are included, ascertain the basis on which they are included and compare such basis with the available costing and financial data/ information maintained by the entity.
- Ensure that material costs exclude any abnormal wastage factors.



(B) (H and S)

1 Mark { In the given case, while performing tests of details on a sample in respect of sales, misstatements have been found by CA Shubham in selected sample pertaining to the sales transactions of small values. This indicates observance of deviations and misstatements while performing tests of controls and tests of details respectively in selected samples.

1 Mark { As per SA 530, "Audit Sampling", in analysing the deviations and misstatements identified, the auditor may observe that many have a common feature, for example, type of transaction, location, product line or period of time.

1 Mark { In such circumstances, the auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud.

1 Mark { Therefore, the auditor shall investigate the nature and causes of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.

1 Mark { In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

(C) (H and S)

2 Marks { The 18-digit alpha numeric number noticed by her at the end of the audit report is Unique Document Identification number (UDIN). It is a system generated unique number. It was noticed that financial documents/ certificates attested by third persons misrepresenting themselves as CA Members were misleading the Authorities and Stakeholders. ICAI also received number of complaints of signatures of CAs being forged by non CAs.

2 Marks { To curb the malpractices, ICAI implemented the concept of UDIN i.e. Unique Document Identification Number. Chartered Accountants having fulltime Certificate of Practice can register on UDIN Portal and generate UDIN by registering the certificates attested/certified by them. An auditor is required to mention the UDIN with respect to each audit report being signed by him, along with his membership number while signing an audit report and Certificates. It is required to be stated in case of audit reports and certificates.

6. (A) (H and S)

The following points need to be considered while auditing income and expenditure items of a club:-

- 0.5 marks for each point. Point headings should be there or should be high-lighted or underlined by student. Points should be same.
- (1) **Entrance Fee:** Vouch the receipt on account of entrance fees with members' applications, counterfoils issued to them, as well as on a reference to minutes of the Managing Committee.
 - (2) **Subscriptions:** Vouch members' subscriptions with the counterfoils of receipt issued to them, trace receipts for a selected period to the Register of Members; also reconcile the amount of total subscriptions due with the amount collected and that outstanding.
 - (3) **Arrears of Subscriptions:** Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.
 - (4) **Arithmetical accuracy:** Check totals of various columns of the Register of members and tally them across.
 - (5) **Irrecoverable Member Dues:** See the Register of Members to ascertain the Member's dues which are in arrear and enquire whether necessary steps have been taken for their recovery; the amount considered irrecoverable should be mentioned in the Audit Report.
 - (6) **Pricing:** Verify the internal check as regards members being charged with the price of foodstuffs and drinks provided to them and their guests, as well as, with the fees chargeable for the special services rendered, such as billiards, tennis, etc.
 - (7) **Member Accounts:** Trace debits for a selected period from subsidiary registers maintained in respect of supplies and services to members to confirm that the account of every member has been debited with amounts recoverable from him.
 - (8) **Purchases:** Vouch purchase of sports items, furniture, crockery, etc. and trace their entries into the respective inventory registers.
 - (9) **Margins earned:** Vouch purchases of foodstuffs, cigars, wines, etc., and test their sale price so as to confirm that the normal rates of gross profit have been earned on their sales. The inventory of unsold provisions and stores, at the end of year, should be verified physically and its valuation checked.
 - (10) **Management Powers:** Examine the financial powers of the secretary and, if these have been exceeded, report specific case for confirmation by the Managing Committee.



(B) (H and S)

Fundamental Principles

- 2.50 Marks for each part
- (1) **Objectivity:** The principle of objectivity requires that a professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity. Objectivity principle will be violated in the given situation where a chartered accountant in practice accepted the appointment as an auditor of a firm in which his sister was a partner.
- (2) **Confidentiality:** Confidentiality principle requires a professional accountant to respect the confidentiality of information acquired as a result of professional or business relationships. Confidentiality principle will be violated in the given situation where a chartered accountant in practice could not refuse his friends requested to seek some insider information about a client company of the chartered accountant.

(C1)(H and S)

- 1 Mark { As per SA 580, "Written Representations", the date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report.
- 1 Mark { Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.
- 1 Mark { The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate.
- 1 Mark { Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies. In view of above, management is required to provide the written representation for all the periods even when current management were not present during all periods referred to in the auditor's report.

OR

(C2)(H and S)

- 1 Mark { As per SA 315, "Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment", the auditor shall obtain an understanding of the relevant industry, regulatory and other external factors including the applicable financial reporting framework. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments.
- 1 Mark { Examples of matters the auditor may consider include market and competition, whether entity is engaged in seasonal activities, product technology relating to the entity's products. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.
- 1 Mark { Relevant regulatory factors include the regulatory environment. The regulatory environment includes, among other matters, the applicable financial reporting framework and the legal and political environment.
- 1 Mark { Examples of matters the auditor may consider include accounting principles and industry specific practices, regulatory framework for a regulated industry, legislation and regulation that significantly affect the entity's operations, including direct supervisory activities, taxation, government policies currently affecting the conduct of the entity's business, environmental requirements affecting the industry and the entity's business. Examples of other external factors affecting the entity that the auditor may consider include the general economic conditions, interest rates and availability of financing, and inflation etc.



PW Web/App - <https://smart.link/7wwosivoicgd4>
Library- <https://smart.link/sdfez8ejd80if>
Feedback- <https://forms.gle/tZpnxPhzQof2s4pn8>