

CA Inter Audit Test-9 (CARO 2020)

Time: 40 Minutes

Marks: 20 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 for Self-Evaluation [20 Marks (10Q * 2 Marks each)]

Case Study 1

Following is the extract of information taken from financial statements of AAF Private Limited for the financial year 2023-24: -

(All Figs in tables are in ₹ 000s)

Particulars	31/03/24	31/03/23
Paid up share capital	75000	75000
Long term borrowings	24500	30000
Short term borrowings	55000	50000
Other current liabilities	350	550
Property, Plant and Equipment	48500	56000
Depreciation	7500	9500
Profit/(Loss) after tax	(5000)	(6000)

Assume that there are no taxation adjustments.

The schedule of short-term borrowings reflects as under: -

Particulars	31/03/24	31/03/23
Loans repayable on demand from MMT Bank (secured) (Cash credit limit against hypothecation of stocks guaranteed by all directors)	55000	50000

It has been further noticed during the course of audit that quarterly statements filed by company with its bank for availing cash credit facilities of ₹5.50 crores during the year vis-à-vis books of accounts reflect following details: -

Period ending	Value of stocks as per quarterly statements	Value of stocks per Books of accounts
30.6.23	80000	70000
30.9.23	70000	65000
31.12.23	85000	70000
31.3.24	80000	80000

It has also been noticed that long term borrowings consist of a term loan from MMT Bank. Term loan outstanding has reduced in comparison to last year. However, during the year 2023-24, company

has not paid one instalment of ₹ 5 lakhs on time which is overdue for 65 days as on balance sheet date. The credit facilities have been classified as Standard assets by the Bank in accordance with prudential guidelines of RBI Other current liabilities as on 31/3/24 include TDS payable of ₹ 1.00 lac (out of which ₹ 0.60 lac for month of Feb 24 was due for deposit on 7.3.24). The balance Rs 0.40 lac pertains to month of March 2024.

You are part of engagement team conducting audit of AAF Private Limited. As part of assigned work, you are also responsible for providing information/input to your senior for reporting under CARO, 2020 for financial year 2023-24.

Based on above, answer the following questions:

- 1. Considering description about short-term borrowings in the case study, which of following statements is in accordance with CARO, 2020?**
 - (a) The statutory auditor is required to provide details of differences in quarterly statements filed with bankers with its books of accounts.
 - (b) The statutory auditor is required to provide details of differences only in respect of those quarterly statements where there is discrepancy of more than 10% as compared to its books of accounts.
 - (c) The statutory auditor is not required to provide details of differences as reporting requirement is triggered only when working capital limits have been sanctioned in excess of ₹ 10 crore during any point of time of the year.
 - (d) The statutory auditor is not required to provide details of differences, as at end of year, books of accounts are in agreement with quarterly statement filed.

- 2. The company has not paid one instalment of ₹ 5 lakhs on time which is overdue for more than 65 days as on balance sheet date. Identify likely correct statement in this regard in relation to reporting under CARO, 2020: -**
 - (a) The account has not become NPA as on 31.3.23. Hence, there is no reporting requirement.
 - (b) The reporting requirement is necessary only when company is declared a wilful defaulter by Bank. In the given situation, there is no reporting requirement.
 - (c) Amount of default along with period of default is required to be reported.
 - (d) The reporting requirement is necessary only when company has diverted amount of term loan for some other purpose. In the given situation, there is no reporting requirement.

- 3. As regards TDS payable of ₹ 1.00 lakh included in other current liabilities, what input would be provided by you to your senior for reporting under CARO, 2020?**
 - (a) TDS payable of ₹ 1.00 lac in financial statements shall not be reported as it does not meet necessary reporting requirements.
 - (b) It is in nature of undisputed statutory dues. Hence, outstanding amount of ₹ 1.00 lac not deposited is to be reported.
 - (c) It is in nature of undisputed statutory dues. However, only outstanding amount of ₹ 0.60 lac not deposited is to be reported.
 - (d) TDS payable of ₹ 1.00 lac does not fall under meaning of “undisputed statutory dues”. Hence there is no question of reporting.

- 4. The company has reflected losses in its financial statements for year 2023-24 and 2022-23.**

Which of following statements is likely to be correct in this regard while reporting under CARO, 2020 for year 2022-23?

- (a) Losses reflected in statement of profit and loss for year 2022-23 and 2021-22 are required to be reported under CARO, 2020.
- (b) Loss reflected in statement of profit and loss for year 2022-23 is alone required to be reported under CARO, 2020.
- (c) There is no requirement to report losses reflected in statement of profit and loss under CARO, 2020.
- (d) The company's losses reflected in statement of profit and loss in financial year 2022-23 and 2021-22 are less than prescribed percentage threshold limit of paid-up capital. Hence, these are not required to be reported.

5. 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;

- a) 5%
- b) 10%
- c) 1%
- d) 20%

Other MCQs

6. CA RK, the auditor of Shipra Limited resigned from the post due to personal reasons. CA SP was appointed as the subsequent auditor of the company by the Board of Directors. During the conclusion of the audit for the 2023-24, should CA SP mention CA RK 's resignation in the Companies (Auditor's Report) Order 2020?

- a) No. CARO 2020 does not state any requirements to report resignation of auditor. However, the same needs to be mentioned by CA SP in the Audit Report under Other Matter Paragraph, as per SA 706.
- b) Yes. As per clause (xviii) of para 3 of CARO, CA SP should report the resignation of CA RK and state if he has taken into consideration the issues or objections raised by CA RK.
- c) No. Since the resignation of CA RK is due to his own personal reason, the same need not be reported under CARO.
- d) Yes. As per clause (xxi) of para 3 of CARO, CA SP should report the resignation of CA RK and state if he has taken into consideration the issues or objections raised by CA RK.

7. CA & Co. Chartered Accountants have been appointed as the auditors of ZXC company. The company has obtained a license from the Central Government for itself to promote the sport of hockey in the rural areas of India. The company's average annual profit was estimated to be around Rs. 50 lakh. This profit would not be distributed as dividend to the shareholders, however, it would be applied towards its objective of promoting sports in the country. During the course of audit for the financial year 2023-24, the following observations with respect to the company were made by the auditors:

The company was not maintaining proper records with respect to the fixed assets maintained by it. The value of fixed assets of the company amounts to Rs. 1.50 crore approximately.

Physical verification for the same was not carried out at regular intervals. The last physical verification was conducted on 31st July 2022.

As a result of the above observations, the auditors decided to report the same in the Companies (Auditors Report) Order. However, the management of the company was against the decision of the auditors and insisted that the observations need not be reported. After several discussions between the auditors and the management, CA & Co. decided not to report the issues.

Is the decision of CA & Co. of not reporting the issues of ZXC in CARO, 2020 justified? If so, under what reason?

- a) No. CARO, 2020 is applicable to ZXC and hence the same has to be reported under clause (i) of CARO.
- b) Yes. CARO, 2020 is not applicable to ZXC and hence the same need not to be reported.
- c) No. As per SA 200, the auditor has to maintain professional scepticism when it comes to issues in the area of fixed assets and hence the same has to be reported.
- d) Yes. As per SA 320, the auditor after taking into account the materiality of the issue, he may either choose to report or not report about the same.

8. Meera Films Ltd. - the parent company historically purchases music rights from Gaana Ltd., which is approximately INR 20 crores per annum. Gaana Ltd. is controlled by Mr. Kishore Kumar. At the beginning of the current year, an advance of INR 50 crores was given to Gaana Ltd. for the purchase of music rights. Any amount remaining unadjusted would be repaid over a period of 5 years. The advance amount is highly disproportionate to the expected purchase amount to be made, and the credit period is not in line with normal credit terms. The investigation revealed that the advance was given to provide financial support to Gaana Ltd. as it was undergoing financial distress. At the end of the year, INR 30 crores remained unadjusted. No interest was charged on the unadjusted amount.

Would the advance for purchasing music rights to the extent remaining unadjusted as at the year-end (i.e. INR 30 crores) require reporting under Clause 3(iii) of CARO 2020 (i.e. grant of loans, etc.)?

- a. No. Advance for purchase of goods is not a loan/ advance in the nature of loans. Thus, it is not covered under the above clause.
- b. No. In the absence of interest charges, the advance would neither qualify as a loan nor be an advance in the nature of a loan. Thus, it is not covered under the above clause.
- c. Yes. The intent was to provide financial support, not purchase goods. The amount of the advance and settlement period are excessive and not as per normal trade practice. It should be reported as an advance in the nature of a loan.
- d. Yes. Advance for purchase of goods is covered under the above clause.

9. As regards cost records is concerned, which of the following statement is correct regarding reporting under clause 3(vi) of CARO, 2020?

- a. The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.
- b. The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020.

- c. The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore.
- d. The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government.

10. Assuming CARO 2020 is applicable. During the course of audit, auditor is informed by management that two supervisory employees have been dismissed from service due to fraud of ₹ 25 lakh committed by them during the year 2023-24. The amount has also been subsequently recovered from them during the year itself.

Should the fraud described in above case be reported by the auditor under clause 3(xi)(a) of CARO, 2020?

- a. There is no duty to report since the amount involved is less than ₹1 crore.
- b. It is a fraud on the company and the auditor should report the nature of fraud and amount involved. The duty to report the fraud under this clause is irrespective of the amount involved.
- c. The requirement to report the fraud does not apply in the current situation since the fraud was not discovered by the auditor.
- d. The requirement to report the fraud does not apply in the current situation since the amount has been fully recovered during the year from the employees who committed the fraud.

