

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

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PART – II

1. (a) M/s SG & Co. Chartered Accountants were appointed as Statutory Auditors of XYZ Limited for the F.Y 2020-2021. The Company implemented internal controls for prevention and early detection of any fraudulent activity. Auditors carried out test of controls and found out no major observations. After the completion of audit, audit report was submitted by the auditors and audited results were issued. Fraud pertaining to the area of inventory came to light subsequently for the period covered by audit and auditors were asked to make submission as to why audit failed to identify such fraud. Auditors submitted that because of inherent limitations of audit, it is not possible to get persuasive evidence of certain matters like fraud. Do you think auditor made correct statement? Also discuss certain subject matters or assertions where it is difficult to detect material misstatements due to potential effects of inherent limitations. 5
- (b) ABC Ltd. has been dealing in tyres since 1995. The Company envisaged to expand its business and wanted to manufacture the tyres besides trading. Accordingly, the machinery was imported, installed and manufacturing operations commenced. The Government also gave certain incentives like power subsidy, land acquisition subsidy, etc. After 2 years of operations, Company received a notice from the Income Tax authorities to pay tax on incentive received in the form of power subsidy. The demand notice was served for ₹ 150.00 Lakhs. The Company, however filed an appeal with higher tax authorities against the demand and the matter is undecided as on 31.03.2021. Legal team of the Company anticipated that tax liability might mature. The Company has not made a provision of anticipated tax liability. Considering the provisions of Companies Act, 2013, how an auditor of ABC Ltd. should see this matter and report in audit report, if required? 5

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- (c) CA. R, a Chartered Accountant, in practice is specializing in the field of Information Systems Audit. He is considered to be one of the experts of this field because of his command over the subject. HKC Limited, a Company engaged in rendering management consultancy offered him to appoint as its managing director. CA. R accepted the position of managing director without obtaining prior permission from the Institute. One of his friends CA. S informed him that now he cannot retain full time certificate of practice, thus cannot do attest function and train articled assistants. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. 4
2. (a) MN & Associates, Chartered Accountants have been appointed as statutory Auditors of Cotton Ltd. for the F.Y 2020-2021. The Company is into the business of yarn manufacturing. For this purpose, cotton ginning is also done within the factory premises. Raw cotton is purchased from local market and processed in-house. The Company received a notice from the State Government to deposit market development fee for the last 5 years to the tune of ₹ 10.00 crores. The Company and all other organizations in the same business has not deposited the market development fee, taking shelter of an old circular issued by the Government. The trade association met with the government officials to resolve the matter and agreed to deposit the same prospectively. However, the matter relating to payment of development fee for the last 5 years is pending before the Government as at the end of the financial year. The Company, however, disclosed the same in notes to accounts, as contingent liability, without quantifying the effect and proper explanation. If the liability is provided in the books of accounts, entire reserves will be wiped off. Auditor seeks your guidance as to how this disclosure affects them while forming an opinion on financial statements. 5

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- (b) Milk Ltd. is engaged in the business of manufacturing and distribution of various milk products like cheese, curd, paneer, etc. Government made certain changes in rules and regulations relating to this sector, consequently management decided to go for expansion. Management was looking for some financial investor, who can fund some part of the proposed expansion. Mr. X is interested in the venture and appoints you to act as an advisor to the proposed investment in the business of Milk Ltd. You have to investigate the audited financial statements and ensure that the valuation of shares of the company on the basis of audited financial statements is appropriate. What process will be used for checking and whether you can put reliance on already audited statement of accounts ? 5
- (c) M/s RB Ltd. is engaged in the trading of engineering goods. Turnover of the Company for the year ended 31.03.2021 was ₹ 150.00 crores. During the F.Y 2018-2019, the Company claimed deduction of bad debts amounting to ₹ 100.00 lakhs while filing income tax return (Out of total debts of ₹ 150.00 lakhs due from Mr. X). However, during the F.Y 2020-2021, the Company was able to recover ₹ 75.00 lakhs from Mr. X through legal means and correctly credited to its profit and loss account. As a tax auditor, is it required to report such transactions in Tax Audit report under Income Tax Act, 1961 ? 4
3. (a) PQ Limited, a listed entity, headquartered in Mumbai and is having 15 branches all over India. The Company is in the business of buying paddy grown by farmers directly and processing to produce final products for selling in domestic as well as international markets. PQ Limited appointed four firms of Chartered Accountants for audit of its head office and branches. Your firm is one of those firms. It was agreed that your firm will act as Principal auditor. What factors will be considered by you while accepting the position of Principal auditor ? 5

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- (b) M/s GH & Associates have been appointed as Central Statutory Auditors of BNB Bank, a nationalized bank, headquartered in New Delhi for the F.Y 2020-2021. Bank functions in automated environment using "FLC Software". While preparing audit report, one of the partner highlighted that some matters covered by Companies Act, 2013 and the requirements of Companies (Auditor's Report), Order, 2016 reporting. You are required to answer the following :- 5
- (i) To which authority auditors should submit their audit report ?
 - (ii) List the matters covered under Companies Act, 2013 and
 - (iii) Reporting under Companies (Auditor's Report), Order, 2016.
- (c) CA. P was appointed GST Auditor of M/s AMR Ltd. for the F.Y 2019-2020. During the course of audit, CA. P found that the Company has wrongly claimed ITC of ₹ 10.00 lakhs on car repair and insurance expenses. Accordingly, the auditor made recommendations in GSTR-9C. Management of the company contended that recommendation of auditor is not binding upon them and they will not deposit the same. Comment. 4
4. (a) Vineet & Associates have been offered Statutory Audit of TLP Ltd. As a part of ethical requirements of the Institute of Chartered Accountants, CA. V, partner of the firm, communicated with the previous auditor enquiring as to whether any professional reason exists for which he should not accept the audit assignment. Previous auditor informed that he issued a qualified report, so management is changing the auditor. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto as to whether Vineet & Associates can accept the audit. 4

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- (b) The auditors are required to understand, evaluate and validate the entity level controls as a part of audit engagement, the result of which has an impact on the nature, timing and extent of other audit procedures. In evaluating the effect of such control, existence, effectiveness and assessment of the whistle-blower policy in the company is very important. Specify the procedure you would perform for an understanding and evaluation of such whistle-blower policy **5**
- (c) CA Gudia has been appointed as Management Auditor of XYZ Ltd. The principle reason for her appointment is that current managerial decisions are not up to the mark, especially in relation to investments made by the Company. The Company is going to make huge investments in one of the ventures identified. Management Auditor was required to ensure that systems and procedures of Company are working effectively and meeting the requirements. What aspects should be considered by CA Gudia to determine that the systems and procedures are meeting current requirements ? **5**
5. (a) M/s ALM Ltd. is into the business of trading of toys since 2001. The company was performing well till year 2015 and after that sales started showing downward trend. The Company had borrowed working capital funds from LP Bank Ltd. On 01.08.2020, account of the borrower was classified as NPA. Bank appointed forensic auditor, to identify, if any diversion of funds is there or not. Forensic auditor confirmed the diversion of funds. Matter went to the court of law and company was asked to recast its financial statements for the last 5 years. Management contended that Companies Act, 2013 does not allow recasting for more than three preceding financial years. Do you agree with the views of the management ? **5**

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- (b) HK & Co. Chartered Accountants have been auditors of SAT Ltd (a listed entity) for the last 8 financial years. CA. H, partner of the firm, has been handling the audit assignment very well since the appointment. The audit work of CA. H and her team is reviewed by a senior partner CA. K to assure that audit is performed in accordance with professional standards and regulatory and legal requirements. CA. K was out of India for some personal reasons, so this year CA. G has been asked to review the audit work. In your opinion, what areas CA. G should consider at the time of review. List any four areas and also comment whether firm is complying with Standard on Quality Control or not. **5**
- (c) M/s GSB Limited is into the business of construction for the past 25 years. Management of the Company came to know that building material sent to construction sites are of substandard quality whereas the payment released by the accounts department of the Company are on the higher side. Forensic Auditor was asked to carry out detailed investigation. Forensic auditor completed his investigation and now preparing his report. What are the broad areas of information that needs to be incorporated in the report of forensic auditor ? **4**
6. (a) One of the objectives of Internal control relating to accounting system is that all transactions are promptly recorded in an appropriate manner to permit the preparation of financial information and to maintain accountability of assets. To achieve this objective, certain matters should be ensured by accounting controls. List down matters to be ensured by accounting controls. **5**

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(b) CA. S has been appointed as Statutory Auditor of SRT Ltd. for the financial year 2020-2021. The Company while preparing financial statements for the year under audit prepared one additional profit and loss account that disclosed specific items of expenditure and included the same as an appendix to the financial statements. CA. S has not been able to understand this as the additional profit and loss account is not covered under applicable financial reporting framework. Guide him as to how he should deal with this issue while reporting on the financial statements of SRT Ltd. **5**

(c) CAB Insurance Company Ltd was incorporated on 01.07.2020. Company is mainly in the area of health insurance and planning to expand in other fields of general insurance. You have been appointed as Chief Financial Officer (CFO) of the Company. The Company has made investment as per guidelines in real estate investment property and Equity Securities and Derivatives. Guide CFO as to how the same should be valued ? **4**

OR

M/s. SR & Associates is one of the three firms shortlisted by ARG Cooperative Bank for assignment of Statutory Audit for the F.Y 2020-2021. Bank mailed the list of branches to the audit firms along with the maximum fee per branch and asked them to submit the quotations. SR & Associates responded to the bank and submitted their quotation. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto. **4**

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