## GENERAL INSTRUCTIONS TO CANDIDATES

**The question paper comprises two parts, Part I and Part II.**
**Part I comprises Multiple Choice Questions (MCQs).**
**Part II comprises questions which require descriptive answers.**
**Answers to Questions of Part I (i.e., MCQs) are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II (i.e. descriptive questions) are to be written inside the descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.**
OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
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.
**Duration of the examination is 3 hours.** You will be required to submit the descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch or any other electronic gadget will be expelled from the examination and will also be liable for further punitive action.

## PART - I

Answer all MCQs, on the OMR Answer Sheet as given on the cover page of descriptive answer book.
Use HB pencil only to darken the circles for MCQ answers in the answer sheet.
After each MCQ, four options have been given. **Choose the correct or most appropriate option** and darken the corresponding circle against the question number in the OMR Answer Sheet, completely, as shown below, with HB pencil.

| Marking the Answers | |
|---|---|
| **Example :**<br>For Question No. 12, if the candidate considers the correct answer to be C, he is to mark as shown below (Correct Method) :<br>12 (A) (B) ● (D) | **Not as shown below (Wrong method) :**<br>12 (A) (B) (✓) (D)<br>12 (A) (B) (✗) (D)<br>12 (A) (B) (C) (D)<br>12 (A) (B) (•) (D)<br>12 (A) ● ● (D) |

Any answer to MCQ marked inside descriptive answer book will not be considered and no marks will be awarded.
If a candidate wants to change the option already darkened, he should erase it completely, **with good quality eraser** and ensure that no mark is visible after erasing.
No mark will be awarded if no circle is darkened or more than one circle is darkened for a particular MCQ.
There is no negative marking for a wrong answer.
Rough work, if any, must be done on the pages, specified as SPACE FOR ROUGH WORK only and nowhere else in the question paper booklet or in the answer sheet.
Before commencement of the exam, please fill up the necessary information in the space provided below and also in the answer sheet.

**al No. of Printed Pages : 48** **Maximum Marks : 100**

## PART – I **30 Marks**

## (MCQ Portion)

- ***Answers to MCQs are to be marked on the OMR answer sheet as given on the cover page of the descriptive answer book only. Answer to MCQs, if written inside the descriptive answer book shall not be evaluated.***
- ***Please write and darken correct Question Paper booklet number in the OMR answer sheet. The correct Question Paper booklet number must also be written in the attendance register.***

**Case Scenario-I :**

XYZ & Co. is serving as the statutory auditor of C Travels Limited. The company is in the business of plying buses for passenger travel. The fleet used comprises of both owned vehicles (20%) as well as vehicles obtained on rent (80%). Due to certain external conditions prevailing in the industry in the state, there was exceptional fluctuation in the profit of the entity as compared to the past years.

CA Rajan, the engagement partner came across certain issues in the audit of purchases and payables. Some of the main issues were that many of the vendor contracts for the buses on rent had expired and further, there was no follow up and receipt of annual fitness certificates on buses obtained on rent. When CA Rajan contacted the CFO for these observations, the CFO stated that the issues which were raised by CA Rajan were in the nature of an investigation and not a statutory audit.

CA Rajan provided the same audit program, as followed in the previous year, to the audit team. Piyush, an audit staff, pointed out that this program only contained the verification steps in respect of hired vehicles and not the owned vehicles which constituted 20% of the fleet. CA Rajan was reluctant to change the audit program as he felt that the audit program should not be modified after the commencement of the audit.

engagement partner decided to choose profit before tax from continuing ations as a benchmark, while determining the materiality for the financial ments as a whole.

ng the verification of the accounts receivables of the entity, the Audit team ormed the audit procedures mentioned in the audit program. However, an ortant audit step which relates to the test of subsequent realizations (after year of receivable balances, to be performed was not present in the audit program and pointed out by a team member.

le verifying the capital and revenue reserves of the company, CA Rajan observed during the year

The revenue reserve was utilized for Issuing bonus shares and to finance an extension of the business.

The realized capital reserve of the company was utilized for supplementing divisible profits in lean years and writing down fictitious assets.

he completion stage of the audit, CA Rajan requested the written representation ired under the Standards on Auditing. However, management refused to provide written representation letter regarding its responsibilities for the preparation of the ncial statements and the completeness of information and transactions made lable to the auditor by stating that all books and records relevant for the audit had n provided and the responsibility vests with the auditor thereafter.

Based on the above facts, answer the following questions : **(1 to 6)**

1. Is the CFO right in stating that auditor cannot review matters such as expired contracts and annual fitness certificates ? **2**

   (A) Yes, audit deals only with the numbers in the financial statements.

   (B) Yes, the procedures followed by the auditor constitute an investigation.

   (C) No, audit also involves an evaluation of internal controls and matters such as these can impact the integrity of the financial statements.

   (D) No, contract verification is an integral element of SA 220.

2. Is the engagement partner correct in his decision of not revising the audit program ? **2**

   (A) Yes, the audit program was updated before the audit started and are not allowed to be modified thereafter.

   (B) Yes, the staff can still perform those steps without featuring in an audit program and they can always send the same by an e-mail to the engagement partner.

   (C) No, audit procedures would differ for owned buses and hired buses and should be provided for separately by revising the audit program.

   (D) No, audit procedures would differ for owned buses and hired buses and should be provided for separately in the audit program but such program should be updated after informing the management as per SA 580.

Which benchmark should be chosen by the engagement partner in the given circumstances for deciding the materiality for the financial statements as a whole ? 2

(A) Profit before tax (of the year under audit), from continuing operations. Exceptional increase and decrease in the profit are irrelevant.

(B) Normalized profit before tax from continuing operations figure based on past results.

(C) Benchmark for materiality should be chosen by the management and not the engagement partner.

(D) The engagement partner is legally bound to use gross income as a benchmark for materiality for such businesses.



Test of subsequent realization, after year end, of receivables, as an audit procedure, impacts which financial statement assertions ? 2

(A) Existence and Valuation.

(B) Valuation and Cut off.

(C) Cut off and Existence.

(D) Classification and Existence.

5. CA Rajan wants to know from you whether the utilisation of the capital and revenue reserves is correct ? What would you advise CA Rajan in this scenario ? **2**

(A) No, revenue reserve cannot be utilized to finance an extension of business and capital reserve cannot be utilized for supplementing divisible profits in lean years.

(B) No, revenue reserve cannot be utilized for issuing bonus shares and capital reserve cannot be utilized for supplementing divisible profits in lean years.

(C) No, revenue reserve cannot be utilized for issuing bonus shares and capital reserve cannot be utilized for writing down fictitious assets.

(D) Yes, revenue reserve can be utilized for issuing bonus shares and to finance an extension of business further capital reserve can be utilized for supplementing divisible profits in lean years and writing down fictitious assets.



6. CA Rajan considered the implications of management's refusal to provide the required written representations in the Auditor's report to be issued to the shareholders of the company. With reference to SA 580, state the correct option that CA Rajan should exercise : **2**

(A) Disclaim an opinion on the financial statements because management has refused to provide required written representations.

(B) Express an Adverse opinion on the financial statements because management has refused to provide required written representations.

(C) Express an Unmodified opinion on the financial statements if other sufficient appropriate audit evidence is available.

(D) Express a Qualified opinion on the financial statements because management has refused to provide required written representations.

se Scenario-II :

C & Co is a reputed firm of Chartered Accountants. During the year, the firm was pointed as the statutory auditor of S Food Limited.

Amit, the engagement partner, commenced the audit by obtaining an lerstanding of the entity's internal control system. Based on his evaluation, he cluded that the relevant internal controls were operating efficiently. Accordingly, assessed the control risk at a lower level and designed the nature, timing, and ent of further audit procedures.

ile performing audit procedures, CA Amit and his team identified several statements. Management agreed to correct some of them; whereas others remained orrected at the conclusion of the audit.

Amit also discussed with the audit team the objectives of audit documentation as scribed under SA 230 and use of management assertions in an audit.

ring the course of the audit, the management of the company also informed the itors that the company proposed to establish a new manufacturing facility and had roached a financial institution for long-term finance. Since the financial institution uired prospective financial statements for loan appraisal, the management uested ABC & Co. to examine the financial forecasts and issue an appropriate ort.

ultaneously, CA Bhim a partner of ABC & Co., was leading the audit of Co-operative Society. The audit included verification of receivables including rdues and disclosure requirements on the receivable balances of the society.

Based on the above facts, answer the following questions : (7 to 12)

7. As part of understanding of the entity's internal control system CA Amit assessed the control risk at a lower level. The decision of CA Amit is – **2**

(A) Correct, because there exists an inverse relationship between the efficiency of internal control of an entity and control risk.

(B) Correct, because control risk represents the risk that the auditor's procedures will fail to detect a material misstatement that exists in the financial statements.

(C) Incorrect, because control risk is the susceptibility of an assertion to a misstatement that could be material, before consideration of any related controls.

(D) Incorrect, because there exists a direct relationship between the efficiency of internal control of an entity and control risk.



8. As regards, the corrected and uncorrected misstatements, choose the most appropriate option as per SA 450. **2**

(A) The auditor should obtain management representation on corrected misstatements.

(B) The auditor should obtain written representation from the management that they believe that the effect of uncorrected misstatements are immaterial, individually and in aggregate to the financial statements as a whole.

(C) The auditor should obtain written representation from the management that they believe that the effect of corrected misstatements are immaterial, individually and in aggregate to the financial statements as a whole.

(D) The auditor should obtain management representation on value of corrected and uncorrected material misstatement when in excess of 5% of the turnover.

The documentation maintained by the auditor primarily supports which of the following objectives as per SA 230 ? 2

I. A sufficient and appropriate record of the basis for the auditor's report.

II. Evidence that audit was planned and performed in accordance with SAs.

III. Substitute for accounting records maintained by management which is not provided to the auditor.

IV. Documentation of client's internal control system.

**Options :**

(A) I and II only

(B) I, II and IV only

(C) II, III and IV only

(D) I, III and IV only



Which of the following Standards issued by ICAI are relevant for ABC & Co., if the engagement is undertaken for examination of the prospective financial statement of S Food Limited ? 2

(A) Standards on Auditing

(B) Standards on Review Engagements

(C) Standards on Assurance Engagements

(D) Standards on Related Services

11. How CA Bhim should classify the overdue debts in ageing schedule in respect of the co-operative society ? 2

(A) Overdue debts for a period from five months to six years and more than six years.

(B) Overdue debts for a period from three months to six months, six months to five years and more than five years.

(C) Overdue debts for a period from six months to two years and more than two years.

(D) Overdue debts for a period from six months to five years and more than five years.

12. CA Amit was educating his audit team about management assertions in an audit. He makes the following statements : 2

**Statement 1** : Occurrence and Valuation are assertions relating to Balance sheet captions.

**Statement 2** : Measurement and Completeness are assertions relating to Income statement captions.

**Statement 3** : Measurement and Existence are assertions relating to Income statement captions.

**Statement 4** : Existence and Rights & Obligations are assertions relating to Balance sheet captions.

Which of these are correct ?

(A) Only 1 & 2 are correct.

(B) Only 1 & 3 are correct

(C) Only 2 & 4 are correct.

(D) Only 3 & 4 are correct.

CA D, one of the partners of DEF & Co., along with his audit team commenced the audit of LMN Bank for the year ending 31.03.2026. Advances which constituted a high risk and high materiality area, was handled by CA D himself. The other areas were distributed amongst the various team members.

One of the team members, Ms. Naina was assigned the job of verifying the interest expenses of Bank. Which of the following points noted by Ms. Naina are incorrect while verifying calculation of interest ? 2

(i) Interest has been accurately provided on all deposits upto the date of maturity of the deposit irrespective of the financial year.

(ii) Interest rates are in accordance with the bank's internal regulations, the RBI directives and agreements with the respective deposit holder.

(iii) Interest on savings accounts are in accordance with the rules framed by the bank/RBI in this behalf.

(iv) No Interest should be provided on inter-branch balances since the accounts are consolidated at the head office.

(A) (i) and (iv)

(B) (ii) and (iii)

(C) (ii) and (iv)

(D) only (i)

14. Before accepting the engagement of SAM Ltd., the Engagement partner decided to evaluate the integrity of the prospective client in accordance with the firm's quality control policies relating to the acceptance and continuance of client relationships and specific engagements. Which of the following statements are correct while evaluating the Integrity of client as per SQC 1 ? 2

(i) The nature of the client's operations, including its business practices, is a matter considered for determining client's integrity.

(ii) Information concerning the client's attitude towards aggressive interpretation of accounting standards is not relevant for determining the client's integrity.

(iii) The reasons for non-reappointment of the previous firm need not be considered, for determining client's integrity.

(iv) Whether the client is aggressively concerned with maintaining the firm's fees as low as possible is a relevant factor for determining client's integrity.

**Options :**

(A) Only (i), (ii) and (iv)

(B) Only (i) and (iv)

(C) Only (i), (iii) and (iv)

(D) Only (iii) and (iv)

While conducting the Expenditure audit of a Government entity, the audit team carried out the following procedures : 2

(i) Examined whether expenditure incurred by the entity was in accordance with the applicable laws, regulations and administrative instructions;

(ii) Verified whether expenditure had been incurred for the purpose for which the grant and appropriation had been provided; and

(iii) Evaluated whether the schemes were being implemented economically and were achieving the intended results.

With reference to the above three procedures performed by the audit team, the basic standards applicable to (i),(ii) and (iii) respectively are;

(A) Audit against Rules and Orders, Audit against Provision of Funds, Performance Audit

(B) Audit against Rules and Orders, Audit of Sanction, Performance Audit

(C) Audit of Sanction, Audit against Rules and Orders, Performance Audit

(D) Audit against Rules and Orders, Audit of Sanction, Propriety Audit

## PART – II 70 Marks

## (Descriptive Portion)

**(Candidates are required to give descriptive answers for this part inside the answer book)**

1. ***Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.***
2. ***Working notes should form part of the answer.***
3. ***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.***
4. ***Candidates are required to write the question number legibly.***



1. (a) M Private Limited appointed a Chartered Accountant firm to conduct the statutory audit for the year ended 31/03/26. During the course of audit, after significant audit procedures had been performed, the auditor identified serious inconsistencies in inventory records and requested additional supporting documents from management. A week later, management informed the auditor that due to "time constraints" and "cost considerations," the company no longer wanted a statutory audit and instead requested the auditor to change the audit engagement to a review engagement. 5

Analyse, what the auditor should consider before agreeing to change the audit engagement to an engagement providing lower level of assurance in accordance with SA 210 (Agreeing the terms of Audit Engagements) ?

(b) During the statutory audit of Peace Ltd., the engagement partner decided to use the direct assistance of the internal audit function. Accordingly, the internal auditors were asked to evaluate the reasonableness of management's assumptions used in estimating the provision for pending legal claims, as this was expected to reduce the time required to complete the audit. The external auditor was also of the view that obtaining only management's written approval before assigning such work would be sufficient. With reference to SA 610 (Using the work of Internal Auditor) in the given situation –

(i) Analyse the circumstances in which the external auditor shall not use internal auditors to provide direct assistance in performing audit procedures. 3

(ii) State the written agreements that the external auditor is required to obtain from entity and internal auditor before using internal auditors to provide direct assistance for the purpose of audit. 2

(c) During the audit of ZAB Ltd., the auditor Mr. A, did not identify any material uncertainty relating to the entity's ability to continue as a going concern and accordingly the auditor's report did not include any reference to such uncertainty. With reference to SA 570, state the auditor's responsibilities relating to going concern in the audit of financial statements. 2

In another audit of XYZ Limited, Mr. A identified a material uncertainty relating to going concern which was not disclosed in the financial statements. Guide the auditor as to what should be done in such circumstances as per SA 570 ? 2

2. (a) M/s K & Associates, Chartered Accountants were the statutory auditors of N Industries Ltd. for the financial year 2025-26. Before the financial statements were issued, the auditor became aware of a subsequent event involving a major fire accident, which, in his opinion, required amendment of the financial statements. However, the management refused to make the necessary amendments. With reference to SA 560 explain the auditor's responsibilities where :

(i) The auditor's report has not yet been provided to the entity; 1

(ii) The auditor's report has already been provided to the entity. 2

(iii) Also explain the meaning of "Date the financial statements are issued". 2



(b) V & Associates, Chartered Accountants, were conducting the statutory audit of ED Electronics Ltd. During the audit of revenue transactions, the auditor verified customer orders, sales invoices, proof of despatches, receipt of funds and customer confirmations to ensure that Sufficient and Appropriate audit evidence had been collected on which the audit opinion would be based.

The engagement partner directed the audit team that all details of the audit procedures performed and evidences obtained should be properly recorded in the audit file so that another experienced auditor could understand the work performed and relevance and reliability of audit evidence could be maintained.

(i) You are required to explain what is meant by Relevance and Reliability of the audit evidence ? 2

(ii) State the matters to be contained in the audit documentation that would be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the audit. 3

(c) During the audit of M Power Ltd. the engagement partner came to know that one member of the audit team had a close business relationship with a senior executive of the client company. The engagement partner immediately discussed the matter with senior officials of the audit firm and reviewed the firm's independence policies.

What is meant by "Independence" in an audit engagement ? 1

State the responsibilities of the engagement partner regarding compliance with independence requirements in the above case and how the audit partner should deal with the matter ? 3



(a) While finalizing the audit report of PQR Garments Limited. for the year ended 31/03/2026, the auditor obtained management representations that no funds had been advanced, loaned, invested or received through intermediaries for the benefit of any ultimate beneficiaries, except as disclosed in the notes to accounts. The auditor performed appropriate audit procedures and found no material misstatement in these representations. 5

Discuss the other matters (excluding the above) on which the auditor is required to report under Section 143(3)(j) of the Companies Act, 2013 read with Rule 11 of the Companies (Audit and Auditors) Rules, 2014.

(b) Self interest threat, Self review threat and Advocacy threat are some of the threats to the independence of an auditor. There are other threats as well.

(i) If the same audit firm is allowed to continue forever as an auditor of a listed company, identify and explain the threat caused in this situation. 1

(ii) What are the safeguards that the Companies Act, 2013 provides for in this regard ? 1

(iii) What are the general situations when this threat occurs ? 3

(c) Your audit team had come across the following issues during the audit of STU Ltd. for the financial year 2025-26 :

(i) The company in which STU Ltd. holds equity investments declared a dividend of 15% at its General Meeting held on 4th September, 2025. Guide the audit team regarding the recognition criteria for the Dividend income. 2

(ii) During the year, a search conducted by the Income-tax authorities resulted in the detection of income that was not previously recorded in the books of account. State the additional information required to be disclosed in the financial statements in respect of undisclosed income in accordance with the Schedule III of the Companies Act, 2013. 2

(a) M/s Sanjay & Associates, were appointed as the statutory auditors of B Cosmetics Ltd. for the financial Year 2025-2026. The Company reported a turnover of approximately ₹ 250 crores with a very large number of sales transactions.

Based on the assessed audit risk, the auditor decided to verify the sales transactions on a test check basis. During the engagement quality review, it was observed that only a limited number of sales transactions had been selected for verification despite significant variations in the monthly sales pattern.

With reference to SA 200, identify and explain the type of audit risk involved in the above case. **2**

Identify and explain the specific component of such risk applicable to the fact. **2**

State how the auditor can reduce such audit risk ? **1**

(b) Seth Traders maintains cash balances at its head office, branch office and petty cash department. It also provides imprest cash advances to certain employees for routine expenses. During the audit, the auditor noticed that a separate cash books and rough cash records were maintained at different locations. The auditor decided to independently verify the existence and completeness of cash balances maintained by the entity. **5**

State the audit procedures that the auditor should perform to verify the existence and completeness of cash and cash equivalent balances as at the period end. (Assume no bank transactions are involved.)

(c) Aroma Appliances Ltd. is engaged in the manufacturing of household kitchen equipment such as coffee machines and blenders. During the statutory audit for FY 2025-26, the auditor, CA P, observed that the company had not disclosed in the notes to accounts a pending case filed by a consumer claiming ₹ 50 lakhs as damages for an allegedly defective coffee maker. This amount is material in relation to the financial statements of the Company. 4

When CA P questioned the omission, the company's management argued that since the matter relates to a possible future outcome and not to the current year's transactions, such matters are not part of the auditor's responsibility.

(i) Explain with reason whether above matter falls within the scope of an audit ?

(ii) Further, state and explain the important points in relation to the scope of an audit of financial statements.



5. (a) M/s V & Co. were the statutory auditors of A Components Ltd. During the audit, the partner CA Verma observed that the company has entered into certain related party transactions involving no exchange of consideration. 5

Considering the nature of such transactions, the engagement partner decided to obtain an understanding of the entity's related party relationships and transactions through inquires of the management and by evaluating the control established by the management.

With reference to SA 550 (Related Parties), explain the inquiries and risk assessment procedures that the partner CA Verma should perform to obtain an understanding of the entity's related party relationships and transactions.

(b) Tannish & Co., Chartered Accountants are statutory auditors of H Resorts Ltd. which has a Club and attached Hotel. In this regard, specify the audit procedures to be performed to obtain sufficient and appropriate audit evidence in respect of following items in the financial statements :

(i) Irrecoverable Member dues in the case of club. 1

(ii) Margins earned in the case of club. 1

(iii) Room sales & Hall bookings of the Hotel. 3

(c) M/s D & Associates are the statutory auditors of H Limited for the FY 2025-26. The previous statutory auditors had resigned during the year due to some personal reasons. Subsequent to their resignation, M/s D & Associates were appointed as statutory auditors. The Company was required to conduct an internal audit and hence had an internal audit system. Further, during the audit, CA David, the engagement partner, observed that the Company had incurred cash losses in the financial year. How should the above matters be reported in CARO 2020 by M/s D & Associates ? 4



6. (a) While conducting the statutory audit of advances of XYZ bank, CA P noted that a borrower had been sanctioned a cash credit limit of ₹ 12 crores. Based on the latest stock statement, the drawing power was ₹ 9 crores, whereas the outstanding balance in the account was ₹ 10 crores. The borrower's funded exposure was ₹ 10 crores. The account was under a consortium arrangement in which XYZ Bank was not the lead bank.

The branch manager contended that the account was regular since the outstanding balance was within the sanctioned limit. He further stated that, since XYZ Bank was not the lead bank, there was no requirement to review the stock audit report.

In the above context :

(i) Briefly explain the concepts of Sanctioned Limit and Drawing Power and comment on the branch manager's view that the account is regular. 3

(ii) State whether stock audit is required in the given case and comment on the branch manager's view that there is no requirement to review the stock audit report. 2

(b) During the audit of S Manufacturing Ltd., the auditor observed that the company had effective communication and enforcement of integrity and ethical values. The company also followed structured human resources policies relating to recruitment, training, performance appraisal and promotion. 5

Apart from the above two elements, state and briefly explain the other elements of control environment that may be relevant while obtaining an understanding of the control environment in accordance with SA 315.

(c) List the factors to be taken into consideration by auditor for establishing an audit strategy in the course of performing an audit engagement. 4

**OR**

(c) CA N is verifying the intangible assets of Software Solutions Limited for the year ended 31/03/2026. He has already completed the checking of the additions to intangible assets for verifying its "completeness". He is now under the process of checking the deletions of intangible assets. You are the team leader and CA N requests your guidance for the verification of the deletions of intangible assets. Which verification steps would you suggest to CA N ?