

BTY2

Roll No.

Total No. of Printed Pages – 7

Total No. of Questions – 6

Maximum Marks – 70

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 MCQs in Part I 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 are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book, will not be evaluated.
6. 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.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
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, and (b) the answer book in respect of descriptive answer book with OMR cover page 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. 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.

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PART – II

1. (a) AP & Associates, Chartered Accountants, are Statutory Auditors of XP Limited for the last four years. XP Limited is engaged in the manufacture and marketing of FMCG Goods in India. During 2021-22, the Company has diversified and commenced providing software solutions in the area of "e-commerce" in India as well as in certain European countries. AP & Associates, while carrying out the audit for the current financial year, came to know that the company has expanded its operations into a new segment as well as new geography. AP & Associates does not possess necessary expertise and infrastructure to carry out the audit of this diversified business activities and accordingly wishes to withdraw from the engagement and client relationship. Discuss the issues that need to be addressed before deciding to withdraw.

(b) During the audit of Star Ltd. a company engaged in the production of paper, the auditor received certain confirmation for the balances of trade payables outstanding in the balance sheet through external confirmation by "Negative Confirmation Request". In the list of trade payables, there are number of small balances except one which is an old outstanding of ₹ 20 lakhs for which no confirmation was received. Comment with respect to Standards of Auditing relating to the confirmation process and how to deal the non-receipt of confirmation.

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(c) TP Ltd. a government company engaged in providing tourism services, has failed to get its accounts audited by Statutory Auditor for the financial year 2021-22. You have been appointed as Tax Auditor for the same period and management provided the unaudited financial statements which have been adopted in the Annual General Meeting. Subsequently, the Statutory Auditor while auditing observed that there is a material misstatement in providing depreciation on fixed assets due to which financial statements have been revised. Now the company is requesting you to revise the tax audit report. You are required to state whether Tax Audit Report can be revised and if so under what circumstances ?

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(a) CA. B was appointed as the auditor of SRT Limited for the financial year 2021-22. During the course of planning for the audit, CA. B intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA. B, if SRT Limited is engaged in :

- (i) the manufacture and sale of air conditioners, and is having regular profits.
- (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic.

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- (b) ABC Limited holds 51% equity of BBB Limited, 63% equity of TTT Limited. There are different information and explanations which are disclosed by the respective companies in the notes to their financial statements. At time of consolidation, management of ABC Limited has consolidated all the information and explanations disclosed in the notes as well. The principal auditor is of the view that only those information and explanations should form part of the notes to the consolidated financial statements which are relevant at group level. Please mention any five aspects which are given in the notes to the separate financial statements of the parent and the subsidiaries, need not be included in the consolidated financial statements. 5
- (c) You have been requested to carry out a forensic audit of a listed entity by the Board of Directors, based on a whistle blower complaint received. Before the commencement of the forensic audit, you and your team, are discussing the various aspects relating to the scope and the procedures to be carried out. What would be the items of discussion with respect to the differences between forensic audit and other audit ? 4
3. (a) ABC Ltd. is engaged in the business of trading and manufacturing of readymade garments. The company has large balances of accounts receivables as on March 31, 2022, which has been assessed as the area of high risk in the audit planning stage. For the year ended March 31, 2022, in respect of the valuation of accounts receivable, the Statutory Auditor has assigned the checking of the accuracy of the ageing of the accounts receivables and provision made towards doubtful receivables, to the internal auditor. Please advise the statutory auditor, the areas in which direct assistance from internal auditor cannot be taken. Also, comment in this scenario, whether statutory auditor can take internal auditor's assistance. 5

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- (b) CA. M is commencing the Statutory Audit of a limited company, which is engaged in trading software products and providing software solutions. CA. M was evaluating the controls environment and noted that the established internal controls are functioning in an automated environment. Enumerate any five focal points for consideration of CA. M, when auditing in the automated environment, with respect to his audit approach during planning, execution and completion phases. 5
- (c) Mr. P, a Chartered Accountant did not maintain books of account for his professional work on the ground that his income is assessed under Section 44ADA of the Income Tax Act, 1961. Comment with reference to the Chartered Accountants Act, 1949 and Schedules thereto. 4
4. (a) You have been appointed as an Auditor of LOC Bank, a nationalized bank. LOC Bank also deals in providing credit card facilities to its account holders. The bank is aware of the fact that there should be strict control over the storage and issuance of credit cards. How will you evaluate the internal control system in the area of credit card Operations of the Bank? 5
- (b) The professional accountants need to observe certain fundamental principles, which are covered in the Code of Ethics of the Institute of Chartered Accountants of India. Briefly explain each of the five principles which needs to be complied by the Chartered Accountants? 5
- (c) While evaluating the risks and control at the entity level, the Auditor should take cognizance of the prevalent direct and indirect entity level controls operating in the entity. Explain, what are such controls with few examples. 4
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5. (a) CA. Uma is the Statutory Auditor of RJ Ltd. for the financial year 2021-22. The company is engaged in the production of electronic products. During the course of the audit, CA. Uma obtained certain audit evidence of incorrect disclosure of related party transactions and structured finance deals which was not considered with the affirmation leading to misstatement in the financial statements. Discuss how CA. Uma should deal with the situation in the auditor's report and the different options which can be considered ?

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- (b) You are appointed as the Auditor of XMP Pvt. Ltd. for financial year 2021-22 after the resignation of RS & Co. Chartered Accountants, as statutory auditor of the company. RS & Co., had certain concerns on the accounting matters of the company, leading to change of auditors. All the compliances under Sections 139 and 140 are made by the company with regard to resignation and appointment.

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During the course of audit, it came to your notice that a survey has been conducted on December 7, 2021 by the Income Tax Department and department has unearthed unrecorded sales of ₹ 5 lakhs which had been made in cash on different dates during the year 2020-21. XMP Pvt. Ltd. has purchased gold from such collections and these transactions are not recorded. Company surrendered and disclosed these transactions before the assessing officer and paid taxes thereon. However, company has not recorded those transactions in books of account even after surrender before Income Tax authorities.

You want to report the above matters in CARO, but the management requested you not to report them. Comment with respect to auditor's response to the management and his reporting requirements to the shareholders.

- (c) NR Ltd. a leading manufacturer of kids garments has decided to acquire TP Ltd. TP Ltd. is currently engaged in the manufacture of ladies garments. NR Ltd. entrusted you to carry out the due diligence and value TP Ltd. The valuation of TP Ltd. is dependent on future maintainable sales of the company. Discuss the factors that you would consider in assessing the future maintainable sales of TP Ltd.

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6. (a) What is a Core Investment Company (CIC) under the Reserve Bank of India regulations ? What are the specific reporting requirements to be considered by an auditor in respect of CIC under CARO 2020 ? 5
- (b) AB & Co., Chartered Accountants, is a large firm based in Mumbai. AB & Co. is subject to peer review. For the peer review of the financial year ended March 31, 2021 the firm got an intimation on June 30, 2021. X & Co., Chartered Accountants, were appointed to undertake the peer review process. Upon completion of the peer review, X & Co., observed certain non-compliance with auditing standards. X & Co., did not share any of observations with AB & Co. and submitted its final report to the Peer Review Board of the Institute of Chartered Accountants. Comment. 5
- (c) CA. Raj is the auditor of a multiplex cinema house. He has observed during the course of the audit, that the existing venue has undergone renovation. The auditorium was split into smaller ones and additional auditoriums were constructed. CA. Raj, who finalised the audit plan and audit programme wanted to reconsider the same during the course of the audit. Discuss a few circumstances where the audit programme would have to be suitably altered by the auditor. 4

OR

Mr. X is a practising Chartered Accountant. Mr. Y is a practising advocate representing matters in the court of law. X and Y decided to help each other in matters involving their professional expertise. Accordingly, Mr. X recommends Mr. Y in all litigation matters in the court of law and Y consults X in all matters relating to finance and other related matters, which come to him in arguing various cases consequently they started sharing profits of their professional work. Is Mr. X liable for professional misconduct ?

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