

FINAL COURSE
GROUP – I

REVISION TEST PAPERS

MAY, 2026



BOARD OF STUDIES (ACADEMIC)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
New Delhi

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REVISION TEST PAPER, MAY, 2026 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I. Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (Academic) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS(A) whose significance and relevance from the examination perspective has stood the test of time.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To update them on the latest developments relevant for the forthcoming examination in select subjects;
- To enhance the confidence level of the students adequately.

Students must bear in mind that the RTP contains a variety of questions based on different topics of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials and Statutory Update/Judicial Update, wherever applicable.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Live Virtual Classes by renowned subject experts conducted free of charge in virtual mode for the students of Foundation, Intermediate and Final levels provide the students much required support in preparing for their exams conveniently at home as these classes can be accessed live or viewed later as recorded lectures through hand-held devices such as smart phones, laptops, I-pads, tablets, etc. anytime anywhere. Further,

students are advised to attempt the Multiple-Choice Questions (MCQs) at MCQ Paper Practice Portal which is a holistic platform for self-assessment within the stipulated timeframe.

Students are welcome to send their suggestions for fine tuning the RTP to the Joint Director, Board of Studies (Academic), The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201309 (Uttar Pradesh). RTP is also available on BOS Knowledge Portal at <https://boslive.icai.org> for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Get a good grasp of the concepts/ provisions/ amendments/ cases discussed therein.

After reading the Study Materials and Update thoroughly, then, proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence, you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.

- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time. Keep sometime for checking the answers as well.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.
- In case of case scenario based MCQs, read the facts given in the case attentively. Also, read each MCQ based thereon and all the options carefully, before choosing the correct answer.

III. Subject-wise Applicability

PAPER 1: FINANCIAL REPORTING

For Paper 1: Financial Reporting November, 2024 edition (Reprint August 2025 and onwards) of the study material is applicable. The syllabus of Financial Reporting focuses on Ind AS integrated with Ethics and Technology. The Study Material has been divided into five modules for ease of handling by students.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. It contains the detailed topic-wise exclusions from the syllabus. The Study Guidelines is given as part of "Applicability of Standards / Guidance Notes/Legislative Amendments etc. for May, 2026 – Final Examination" appended at the end of this Revision Test Paper.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. The Revisionary Test Paper (RTP) of Financial Reporting contains twenty questions and their answers.

Answers to descriptive questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

PAPER 2: ADVANCED FINANCIAL MANAGEMENT

Basically, the subject of Advanced Financial Management is to acquire the ability to apply financial management theories and techniques in strategic decision making. The major topics from which numerical questions are normally asked are as follows:

- Financial Policy and Corporate Strategy
- Risk Management
- Advanced Capital Budgeting Decisions
- Security Analysis & Valuation
- Portfolio Management
- Mutual Fund
- Derivatives

- Foreign Exchange Exposure and Risk Management
- International Financial Management
- Interest Rate Risk Management
- Business Valuation
- Mergers and Acquisitions

Accordingly, the detail of the topics, on which questions in this Revisionary Test Paper are based, is as follows:

Question No.	Topic
1	Case Scenario (Risk Management)
2	Case Scenario (Foreign Exchange Exposure and Risk Management)
3	Advanced Capital Budgeting Decisions
4	Security Valuation
5	Security Valuation
6	Business Valuation
7	Derivatives Analysis & Valuation
8	Interest Rate Risk Management
9	Portfolio Management
10	International Financial Management
11	Mergers, Acquisitions and Corporate Restructuring
12	Mutual Funds
13	Security Analysis
14	A theoretical Question
15	A theoretical Question

PAPER 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

RTP is a tool to refresh your knowledge which you have acquired while doing conceptual study from Study Material and other modes of knowledge like student journal, Saransh, bare acts etc.

This RTP of Advanced Auditing, Assurance and Professional Ethics is relevant for May, 2026 Examination. Total 20 Questions consisting of case scenario based multiple choice questions, independent multiple-choice questions and descriptive questions have been taken from the entire syllabus divided into Nineteen chapters.

These 20 questions are taken from different topics like Quality Control, Completion and Review, Reporting, Related Services, Review of Financial Information, Digital Auditing and Assurance, Special Features of Audit of Banks & Non-Banking Financial Companies, Overview of Audit of Public Sector Undertakings, Internal Audit, Due Diligence, Investigation & Forensic Accounting, Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance and Professional Ethics and Liabilities of Auditors etc. of different level. Some of the questions given in the RTP are descriptive i.e. direct theory questions (Knowledge and Comprehension) based whereas some of them are practical case studies based i.e. application-oriented theory question (Application and Analysis / Evaluation and Synthesis). The name of the chapter is clearly indicated before each question.

Examples and illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard to assess your level of understanding and hone your analytical and problem-solving skills.

Finally, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.



PAPER – 1: FINANCIAL REPORTING

Part I-Amendments applicable from May, 2026 examination

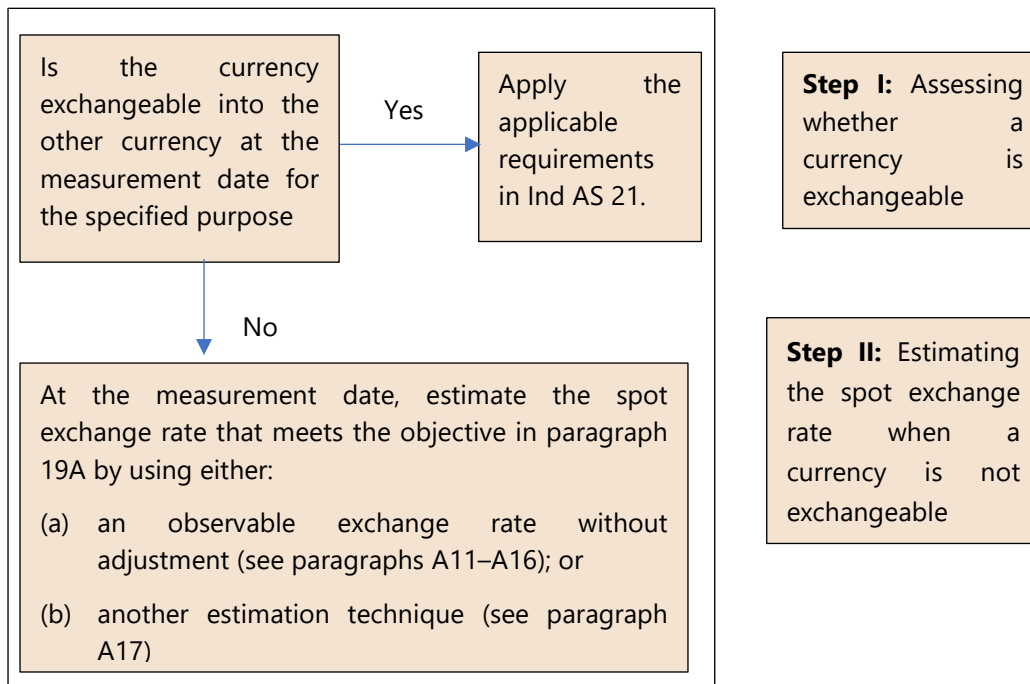
In the year 2025, MCA has issued amendments viz two notifications at two different dates to amend the Companies (Indian Accounting Standards) Rules, 2015. The first amendment of the year was vide notification G.S.R. 291(E) dated 7th May, 2025 and the second amendment of the year was vide notification G.S.R. 549(E) dated 13th August, 2025. These amendments are generally brought by MCA to keep uniformity between Ind AS and IFRS.

1. Amendment in Ind AS notification G.S.R. 291(E) dated 7th May, 2025

The Ministry of Corporate Affairs (MCA) issued the Companies (Indian Accounting Standards) Amendment Rules, 2025 on May 7, 2025, primarily amending Ind AS 21 regarding a "lack of exchangeability" for foreign currencies, effective for annual periods starting on or after April 1, 2025. These amendments align Ind AS 21 with IAS 21, guiding how to determine the spot rate when a currency cannot be exchanged into

Under Ind AS 21, The Effects of Changes in Foreign Exchange Rates, a company on initial recognition, uses a spot exchange rate when translating a foreign currency transaction at the date of the transaction. Additionally, Ind AS 21 requires the use of a spot exchange rate when an entity reports foreign operation's results and financial position in its financial statements. A spot exchange rate is the exchange rate for immediate delivery.

However, in rare circumstances, it is possible that one currency cannot be exchanged into another. This lack of exchangeability can have a significant accounting impact over affected companies.



In this regard, the Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Amendment Rules, 2025, on May 7, 2025, amending Ind AS 21, The Effects of Changes in Foreign Exchange Rates. Effective for annual periods beginning on or after April 1, 2025, the amendments address the lack of exchangeability between two currencies by explaining

- when a currency is exchangeable,
- providing guidance on estimating spot rates, and
- enhancing disclosure requirements.

Key highlights of the Amendment in Ind AS 21

- ❖ **Definition of Exchangeability:** A currency is exchangeable into another when an entity can *obtain the other currency within a time frame allowing for normal administrative delay*, through a mechanism that *creates enforceable rights*.

- ❖ **Estimate Spot Rate:** If exchangeability is lacking, the entity must estimate the spot rate to translate transactions, ensuring it reflects an orderly transaction.

- ❖ **Two-Step Approach**

Two-step approach:

The following diagram is to help entities assess whether a currency is exchangeable and estimate the spot exchange rate when a currency is not exchangeable.

Step I: Assessing whether a currency is exchangeable

An entity might determine that currency PC is not exchangeable into currency LC, even though currency LC is exchangeable into currency PC.

Following key factors are required to be considered when determining that a currency is exchangeable:

1. **Time frame:** An exchange transaction might not always complete instantaneously because of legal or regulatory requirements, or for practical reasons such as public holidays. A normal administrative delay in obtaining the other currency does not preclude a currency from being exchangeable into that other currency. What constitutes a normal administrative delay depends on facts and circumstances.
2. **Ability to obtain the other currency:** In assessing whether a currency is exchangeable into another currency, an entity shall consider its ability to obtain the other currency, rather than its intention or decision to do so. A currency is exchangeable into another currency if an entity is able to obtain the other currency either directly or indirectly, even if it intends or decides not to do so. For example, regardless of whether the entity intends or decides to obtain PC, currency LC is exchangeable into currency PC if an entity is able to either exchange LC for PC, or exchange LC for another currency (FC) and then exchange FC for PC.
3. **Markets or exchange mechanisms:** In assessing whether a currency is exchangeable into another currency, an entity shall consider only markets or exchange mechanisms in which a transaction to exchange the

currency for the other currency would create enforceable rights and obligations. It depends on facts and circumstances.

4. **Purpose of obtaining the other currency:** Different exchange rates might be available for different uses of a currency. This could affect an entity's ability to obtain those currencies and thus, lead to lack of exchangeability. Hence, it would be important for an entity to consider the purpose for which it obtains the other currency.
5. **Ability to obtain only limited amounts of the other currency:** A currency is not exchangeable into another currency if an entity is able to obtain no more than an insignificant amount of the other currency. An entity shall assess the significance of the amount of the other currency it is able to obtain for a specified purpose by comparing that amount with the total amount of the other currency required for that purpose.

For example, an entity with a functional currency of LC has liabilities denominated in currency FC. The entity assesses whether the total amount of FC it can obtain for the purpose of settling those liabilities is no more than an insignificant amount compared with the aggregated amount (the sum) of its liability balances denominated in FC.

Where a currency is exchangeable into another currency, then the existing principles of Ind AS 21 would be applied for translation of the foreign currency transaction. But, where a currency is not exchangeable, an entity has to apply Step II.

Step II: Estimating the spot exchange rate when a currency is not exchangeable

When a currency is not exchangeable, a company needs to estimate a spot rate. A company's objective when estimating a spot rate is only that it reflects the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

To estimate a spot rate, a company should consider using:

1. An observable exchange rate without adjustment

A company can use an observable rate if that rate satisfies the estimation objective – i.e. the rate reflects the price at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

To assess whether the exchange rates reflect the prevailing economic conditions, following needs to be considered:

- ❖ Whether several observable exchange rates exist
- ❖ The purpose for which the currency is exchangeable
- ❖ The nature of the exchange rate; and
- ❖ The frequency with which exchange rates are updated

Examples of an observable exchange rate include:

- ❖ A spot exchange rate for a purpose other than that for which the company is assessing exchangeability.
- ❖ The first exchange rate at which a company is able to obtain the other currency for its specified purpose after exchangeability is restored. If a company opts to use this rate as an observable rate, then it would also need to consider
 - the time between the measurement date and the date at which exchangeability is restored,
 - inflation rates.

2. Using another estimation technique

When estimating a spot rate, the other alternative is that a company may use any observable exchange rate and adjust it as necessary. This includes using rates from exchange transactions in markets or exchange mechanisms that do not create enforceable rights and obligations- and adjust that rate, as necessary, to meet the estimation objective.

Disclosure when a currency is not exchangeable

An entity shall disclose:

- (a) the currency and a description of the restrictions that result in that currency not being exchangeable into the other currency;
- (b) a description of affected transactions;
- (c) the carrying amount of affected assets and liabilities;
- (d) the spot exchange rates used and whether those rates are:
 - i. observable exchange rates without adjustment (see paragraphs A12–A16); or
 - ii. spot exchange rates estimated using another estimation technique (see paragraph A17);
- (e) a description of any estimation technique the entity has used, and qualitative and quantitative information about the inputs and assumptions used in that estimation technique; and
- (f) qualitative information about each type of risk to which the entity is exposed because the currency is not exchangeable into the other currency, and the nature and carrying amount of assets and liabilities exposed to each type of risk.

When a foreign operation's functional currency is not exchangeable into the presentation currency or, if applicable, the presentation currency is not exchangeable into a foreign operation's functional currency, an entity shall also disclose:

- (a) the name of the foreign operation; whether the foreign operation is a subsidiary, joint operation, joint venture, associate or branch; and its principal place of business;
- (b) summarised financial information about the foreign operation; and
- (c) the nature and terms of any contractual arrangements that could require the entity to provide financial support to the foreign operation, including events or circumstances that could expose the entity to a loss.

Transition

In applying *Lack of Exchangeability*, the companies are not required to restate comparative information; instead, they adjust opening balance of retained earnings or cumulative amount of translation differences-accumulated in a separate component of equity.

2. Amendment in Ind AS notification G.S.R. 549(E) dated 13th August, 2025

The amendments notified in the Companies (Indian Accounting Standards) Second Amendment Rules, 2025 relate to:

- A. Classification of liabilities as current or non-current and non-current liabilities with covenants (Ind AS 1, *Presentation of Financial Statements*)
- B. Disclosure of supplier finance arrangements (Ind AS 7, *Statement of Cash Flows* and Ind AS 107 *Financial Instruments: Disclosures*)
- C. Pillar Two Model Rules (Ind AS 12, *Income Taxes*).

A. AMENDMENT IN IND AS 1 'PRESENTATION OF FINANCIAL STATEMENTS'**Current – non-current classification of liabilities**

In Ind AS 1, certain paragraphs have been inserted for the classification of certain liabilities as current or non-current. Further, companies may require making new disclosures for liabilities subject to covenants.

Right to defer settlement must exist at reporting date and have substance

Prior to the notification in Ind AS 1, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendment has removed the requirement for a right to be **unconditional** and instead now requires that a right to defer settlement must exist at the reporting date and have substance.

Liabilities with covenants – clarification on classification criteria and introduction of new disclosures

A company will classify a liability as non-current if it has a right to defer settlement for at least 12 months after the reporting date. This right may be subject to a company complying with covenants specified in a loan arrangement.

Only covenants with which a company must comply **on or before** the reporting date affect the classification of a liability as current or non-current.

Covenants with which the company must comply after the reporting date (i.e. future covenants) do not affect a liability's classification at that date. However, when non-current liabilities are subject to future covenants, **companies will now need to disclose information** to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

Breach of covenant (effective for accounting periods beginning on or after 1 April 2025)

Ind AS 1 continues to carry the existing carve-outs from IAS 1 regarding the classification of liabilities when there is a breach of a material covenant that transforms the liability from non-current to current.

Where there is a breach of a material covenant of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand on the reporting date, the entity would not classify the liability as current, if the lender, after the reporting period and before the approval of the financial statements for issue, agreed not to demand payment as a consequence of the breach. However, in such circumstances, **the entity shall disclose information as per Ind AS 107 for each breach.**

Breach of covenant (effective for accounting periods beginning on or after 1 April 2026)

For accounting periods beginning on or after 1 April 2026, the carve-out has been removed and hence when an entity breaches any covenant of a long-term loan arrangement on or before the end of the reporting period with the

effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have the right to defer its settlement for at least 12 months after that date.

However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

If the following events occur between the end of the reporting period and the date the financial statements are approved for issue, those events are disclosed as non-adjusting events in accordance with Ind AS 10, *Events after the Reporting Period*:

- (a) refinancing on a long-term basis of a liability classified as current;
- (b) rectification of a breach of a long-term loan arrangement classified as current;
- (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement classified as current; and
- (d) settlement of a liability classified as non-current.

Convertible debt may become current

Clarification on how a company classifies a liability that can be settled in its own shares – e.g. convertible debt.

When a liability includes a counterparty conversion option that involves a transfer of the company's own equity instruments, the conversion option is recognised as either equity or a liability separately from the host liability under Ind AS 32 Financial Instruments: Presentation. *The amendments states that when a company classifies the host liability as current or non-current, it can ignore only those conversion options that are recognised as equity.*

New disclosure requirements

As per the amendment in Ind AS 1, companies are now required to disclose information related to non-current liabilities from loan arrangements that are subject to future covenants in the notes to the financial statements. This disclosure aims to inform users about the potential risk that such liabilities may become repayable within 12 months following the reporting date.

The following new disclosures about covenants are required:

- Information about the covenants – e.g. nature of the covenants and when the company is required to comply with them and the carrying amount of related liabilities.
- Facts and circumstances, if any, that indicate the company may have difficulty complying with the covenants within the next 12 months of the reporting date – e.g. actions taken by the company during or after the reporting period to avoid or mitigate a potential breach, or the fact that the covenants would have been breached if assessed for compliance based on the company's circumstances at the reporting date (i.e. based on a hypothetical test at the reporting date).

Effective date –retrospectively application

Amendments in Ind AS 1 apply retrospectively for annual reporting periods beginning on or after 1 April 2025.

The amendment relating to breach of covenants on or before the reporting period that are aligned to IAS 1 are applicable for annual reporting periods beginning on or after 1 April 2026, retrospectively in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

B. AMENDMENT IN IND AS 7 'STATEMENT OF CASH FLOWS'**Supplier Finance Arrangements**

Supplier finance arrangements are characterised by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid. These arrangements provide the entity with extended payment terms, or the

entity's suppliers with early payment terms, compared to the related invoice payment due date. Supplier finance arrangements are often referred to as supply chain finance, payables finance or reverse factoring arrangements.

Arrangements that are solely credit enhancements for the entity (for example, financial guarantees including letters of credit used as guarantees) or instruments used by the entity to settle directly with a supplier the amounts owed (for example, credit cards) are not supplier finance arrangements.

An entity shall disclose in aggregate following information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk.

- (a) the terms and conditions of the arrangements (for example, extended payment terms and security or guarantees provided). However, an entity shall disclose separately the terms and conditions of arrangements that have dissimilar terms and conditions.
- (b) as at the beginning and end of the reporting period:
 - (i) the carrying amounts, and associated line items presented in the entity's balance sheet, of the financial liabilities that are part of a supplier finance arrangement.
 - (ii) the carrying amounts, and associated line items, of the financial liabilities disclosed under (i) for which suppliers have already received payment from the finance providers.
 - (iii) the range of payment due dates for both the financial liabilities disclosed under (i) and comparable trade payables that are not part of a supplier finance arrangement. Comparable trade payables are, for example, trade payables of the entity within the same line of business or jurisdiction as the financial liabilities disclosed under (i). If ranges of payment due dates are wide, an entity shall disclose explanatory information about those ranges or disclose additional ranges (for example, stratified ranges).
- (c) the type and effect of non-cash changes in the carrying amounts of the financial liabilities disclosed under (b)(i). Examples of non-cash

changes include the effect of business combinations, exchange differences or other transactions that do not require the use of cash or cash equivalents.

Transition- Effective date

An entity shall apply the supplier finance arrangements for the annual reporting periods beginning on or after 1 April 2025.

In applying supplier finance arrangements, an entity is **not** required to disclose:

- (a) Comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies these amendments;
- (b) The following information as at the beginning of the annual reporting period in which the entity first applies those amendments
 - ❖ the carrying amounts and associated line items presented in the balance sheet at the beginning and end of the reporting period for both the financial liabilities that are part of supplier finance arrangements in total and those for which the supplier has already been paid.
 - ❖ the range of payment due dates for the financial liabilities that are part of supplier finance arrangements and comparable trade payables (e.g. trade payables within the same jurisdiction or business) that are not part of such arrangements as at the beginning of the annual reporting period in which the entity first applies these amendments.
- (c) The information regarding supplier finance arrangements for any interim period presented within the annual reporting period in which the entity first applies these amendments.

C. AMENDMENT IN IND AS 12 'INCOME TAXES'**Pillar Two Legislation and Pillar Two Income Taxes**

Pillar Two legislation includes Pillar Two Model Rules as per Organisation for Economic Co-operation and Development (OECD) including tax law that

implements qualified domestic minimum top-up taxes described in those rules.

As an exception to the requirements in this Standard, an entity shall neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments to Ind AS 12 states that

- ❖ An entity shall disclose that it has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.
- ❖ An entity shall disclose separately its current tax expense (income) related to Pillar Two income taxes.
- ❖ In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.
- ❖ To meet the above disclosure, an entity shall disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

This information does not have to reflect all the specific requirements of the Pillar Two legislation and can be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity shall instead disclose a statement to that effect and disclose information about the entity's progress in assessing its exposure.

Part II-Questions and Answers

**QUESTIONS****Case Scenario**

An entity enters into a contract with a customer A to sell groceries at its market price INR 200, and the arrangement includes a 40% discount voucher on future purchases.

Simultaneous seasonal promotion gives all customers a 10% discount, therefore, customer A receives an incremental discount of 30% (40% discount in the contract less the 10% discount available to all customers).

Entity determines there is an 80% likelihood of redemption and estimates that customers will purchase (on average) INR 50 of additional groceries.

Based on the facts given above, choose the most appropriate answer to Questions 1 to 5 below as per the relevant Ind AS.

1. What is the standalone selling price of the voucher?
 - (a) ₹ 50
 - (b) ₹ 200
 - (c) ₹ 12
 - (d) ₹ 11.32
2. How much revenue will be recognised in the current year for sale of groceries?
 - (a) ₹ 188.68
 - (b) ₹ 200
 - (c) ₹ 212
 - (d) Nil

3. At what value the liability or deferred revenue be recognised on initial sale of groceries?
- (a) ₹ 50
 - (b) ₹ 200
 - (c) ₹ 12
 - (d) ₹ 11.32
4. When will the liability or deferred revenue recognised at the time of initial sale be recognised as revenue?
- (a) The said liability will never be recognised as revenue
 - (b) The said liability will be subsequently credited to revenue only when the customer purchases in future using the discount coupon or when the coupon expires.
 - (c) The said liability will be subsequently credited to revenue when customer purchases in future even though he does not uses the discount coupon.
 - (d) The liability will be recognized as revenue in the next year, even though the coupon has neither expired nor been used by the customer.
5. What would be the nature of the said liability and under which standard?
- (a) Financial liability under Ind AS 109
 - (b) Contingent liability under Ind AS 37
 - (c) Contract Liability under Ind AS 115
 - (d) Lease liability under Ind AS 116

Ind AS 110: Consolidated Financial Statements

6. Following is the Balance Sheets of M Ltd. and N Ltd. of two different dates:

	M Ltd. (As on 31.3.20X2) ₹	N Ltd. (As on 31.12.20X1) ₹
ASSETS		
Non-current Assets		
Property, Plant and Equipment	6,50,000	4,05,000
Financial Assets		
Investments:		
40,000 shares in N Ltd.	8,00,000	—
1,000 Debentures in N Ltd.	1,50,000	—
Current assets:		
Inventory	2,00,000	3,50,000
Financial Assets		
Trade Receivables	1,50,000	2,65,000
Cash and cash equivalents	<u>80,000</u>	<u>1,05,000</u>
Total	<u>20,30,000</u>	<u>11,25,000</u>
EQUITY AND LIABILITIES		
Equity Shares of ₹ 10 each	10,00,000	5,00,000
Retained Earnings	4,50,000	2,05,000
Non-current Liabilities		
Financial Liabilities		
13% Debentures (₹ 100 each)	—	3,00,000

Current liabilities		
Financial Liabilities		
Trade Payables	3,80,000	80,000
Other liabilities	<u>2,00,000</u>	<u>40,000</u>
Total	<u>20,30,000</u>	<u>11,25,000</u>

On 5th January 20X2, certain inventory of N Ltd. costing ₹ 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim. On 20th January 20X2, M Ltd. sold goods to N Ltd. costing ₹ 1,50,000 at an invoice price of cost plus 20%. 50% of those goods were resold by N Ltd. to M Ltd. within 31st March 20X2 (these were then sold by M Ltd. to a third party before 31st March, 20X2). As on 31st March, 20X2, N Ltd. owes ₹ 60,000 to M Ltd. in respect of those goods. Pre-acquisition profits of N Ltd. on the date of acquisition was ₹ 75,000.

NCI is measured as per fair value method on the date of acquisition. Fair value of the share of N Ltd. as on the date of acquisition is ₹ 18 per share.

Prepare Consolidated Balance Sheet as on 31st March, 20X2 after making necessary adjustments in the Balance sheet of N Ltd. Ignore Notes to Accounts

Ind AS 1 : Presentation of Financial Statements

7. Find out total comprehensive income for 20X1-20X2 of V Ltd. from the following information:

Profit from normal operations	₹ 50,00,000
Remeasurement gains from defined benefit plans	₹ 5,00,000
Gain on translation of foreign operations	₹ 10,00,000
Revaluation gains on property, plant and equipment	₹ 3,50,000
Fair value changes on financial assets	₹ 4,50,000

Ind AS 12: Income Taxes

8. X Ltd. has 2 wholly owned subsidiaries A Ltd. and B Ltd. The company had acquired 100% equity of these companies as at 1st April, 20X1. The investment was made as under:

Company	Invested on April 1, 20X1 ₹	Profit (loss) for the FY 20X1- 20X2 ₹	Profit (loss) for the FY 20X2- 20X3 ₹	Profit (loss) for the FY 20X3- 20X4 ₹
A Ltd.	5,00,000	(50,000)	(60,000)	(70,000)
B Ltd.	5,00,000	50,000	60,000	70,000

As at 31st March, 20X4 in the standalone financial statements of X Ltd., the future projections of company A Ltd. being negative, the entire investment was impaired by ₹ 5,00,000. The same was disallowed under income-tax laws of X Ltd.'s jurisdiction. Further, in the consolidated financial statements of X Ltd., the net assets in relation to A Ltd. was also fully impaired.

As at 31st March, 20X4, B Ltd. has excess earnings available which would be transferred to the holding company in future but it cannot be repatriated in a tax free manner.

Required

On the preparation of the consolidated financial statements of X Ltd.-

- Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of A Ltd. in the consolidated financial statement (CFS) of X Ltd.? Assume no indexation benefit is available on investment in A Ltd.
- Would a deferred tax liability be recorded for the difference in the carrying value and tax books value of B Ltd. in the CFS of X Ltd.? Assume no indexation benefit is available on investment in B Ltd.

Ind AS 23: Borrowing Costs

9. S Ltd. financed the construction of a qualifying asset with an inter-company loan taken from its parent company P Ltd. with an interest rate of 7% p.a. P Ltd. in-turn has obtained the said loan from a Bank at the same rate of interest of 7% p.a. for the specific purpose of providing it to S Ltd.

State how the same will be treated in the separate financial statements of S Ltd. and P Ltd. and consolidated financial statements of P Ltd. as per Ind AS 23?

Ind AS 38: Intangible Assets

10. A Ltd. has incurred ₹ 1,00,000 of research expenditure on a project to develop a new type of fuel and has expensed these costs. B Ltd. purchases the research project, including certain patents that have been registered by A Ltd., for ₹ 1,50,000 and recognises an intangible asset.

Subsequently, B Ltd. incurs ₹ 2,00,000 of expenditure on completing the research phase and decides to develop the product commercially. It incurs a further ₹ 3,00,000 of costs in bringing the product to a stage where the conditions for recognising development costs as an internally generated intangible asset are met. Further costs of ₹ 1 million are incurred in bringing the product into a condition where it is ready for use in the manner that management intends. Marketing costs and initial losses of ₹ 2,00,000 are incurred before the product reaches widespread distribution.

Required

What costs can B Ltd. capitalise?

Ind AS 109: Financial Instruments

11. On 1st April 2XX0, Zx Co originates a 10-year 6% ₹ 1,00,000 loan. The loan carries an annual interest rate of 6% payable at the end of each year and the loan is repayable at par at the end of year 10. Zx charges ₹ 3,000 non-refundable loan origination fee to the borrower and it also incurs ₹ 5,000 in direct loan origination costs. The contract specifies

that the borrower has an option to pre-pay the instrument and that no penalty will be charged for pre-payment. The contract meets the SPPI criteria. At inception, Zx expects the borrower not to pre-pay.

The effective interest rate is approximately 5.7317%.

What is the carrying amount on initial recognition and what impact does the pre-payment feature have on the amortised cost calculations?

Ind AS 115: Revenue From Contracts with Customers

12. X Ltd. agrees to produce 2,000 customized engines for use by Customer A in its products. X Ltd. concludes that the engines will transfer to Customer A over time because:

- they have no alternative use to X Ltd.; and
- Customer A is contractually obligated to pay X Ltd. for any finished or in-process engines, including a reasonable margin, if Customer A terminates the contract even when no fault of X Ltd.

X Ltd. already has the process in place to produce the engines and is given the design by Customer A, such that X Ltd. does not expect to incur any significant learning curve or design and development costs. X Ltd. uses a method of measuring progress toward complete satisfaction of its manufacturing contracts that takes into account work in progress and finished goods controlled by Customer A.

Require:

- (i) State whether the 2000 engines are distinct in nature or not.
- (ii) State whether 2000 engines is a single performance obligation or each engine is a separate performance obligation.

Ind AS 20: Accounting for Government Grants and Disclosure of Government Assistance

13. A Ltd. has acquired equipment for ₹ 100 lakhs. The estimated useful life of the equipment is 10 years. Residual value at the end of useful life is Nil. Depreciation is recognised on a straight-line basis.

To encourage the acquisition of the assets, the Government will give a grant to A Ltd. towards the purchase of the equipment as follow:

- o If specified employment targets are achieved by the end of the 3rd year, A Ltd. will receive a grant of ₹ 10 lakhs.
- o In all other cases, A Ltd. will receive a grant of ₹ 5 lakhs.

On the date of acquisition as well as at the end of year 1, A Ltd. expects to receive a grant of ₹ 10 lakhs.

At the beginning of year 2, A Ltd. has revised the assessment in light of development and now expects that it will only receive a grant of ₹ 5 lakhs.

There were no errors in the estimation of grants in the prior period.

A Ltd. has assessed and concluded that the grant is in nature of grants related to assets.

A Ltd. presents government grants related to assets in the balance sheet by deducting the grant in calculating the carrying amount of the asset.

Required

How is the change in the amount of grant-related assets is accounted for in the books of A Ltd.?

Ind AS 116: Leases

14. Lessee enters into an agreement with Lessor for a period of five years to lease a floor of a building. Lessee is required to make a fixed annual lease payment of ₹ 4,20,000 (i.e., total payment of ₹ 21,00,000 over the five-year term). As per the terms of the contract, the ₹ 4,20,000 annual payment comprises:

	₹
Building rent	2,40,000
Common area maintenance services	84,000
Property taxes (pro-rata)	60,000
Building insurance (pro-rata)	36,000

From Lessee's perspective, the estimated standalone price of the building rent is ₹ 2,64,000 and the estimated standalone price of the common area maintenance service is ₹ 96,000. Lessee has not elected

to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate non-lease component(s) from lease component(s). Hence, it has to separate non-lease components from lease components.

Required

How are the above payments allocated and accounted for by Lessee?

Ind AS 7: Statement of Cash Flows

15. An entity invests in a 10-year bond with a face value of ₹ 6,00,000 by paying ₹ 2,31,500. The effective rate of interest is 10%. An entity recognises proportionate interest income in its statement of profit and loss over the period of bond.

How the interest income will be treated in the statement of cash flows during the period of bond?

How the maturity proceeds of ₹ 6,00,000 will be treated in the statement of cash flows?

Note: The entity is not in the business of dealing in securities.

Ind AS 37: Provisions, Contingent Liabilities and Contingent Assets

16. (i) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity, which will be sold at a profit.

State whether the contract is onerous.

- (ii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity. However, the electricity is sold at a loss, and the entity makes an overall operating loss. All of the gas purchased by the entity is used to generate electricity using dedicated assets. The electricity is sold to a wide range of customers.

State whether the contract is onerous.

- (iii) An entity has a contract to purchase one million units of gas at 23 paise per unit, giving a contract price of ₹ 2,30,000. The current market price for a similar contract is 16 paise per unit, giving a price of ₹ 1,60,000. The gas will be used to generate electricity. However, the entity sells the gas under contract, which it no longer needs, to a third party for 18 paise per unit (5 paise below cost). The entity determines that it would have to pay ₹ 55,000 to exit the purchase contract.

State whether the contract is onerous. If the contract is onerous then also state the amount of provision to be made on account of the onerous contract.

- (iv) In the year ended 31st March 20X1, an entity has a contract with a third party supplier. The entity wishes to terminate this contract in 20X1-20X2, even though it will still have two years to run, because it can enter into a cheaper contract with a new supplier. It will incur a charge for terminating the contract.

Does the entity have to provide in 20X0-20X1 for the contract that it will be exiting in 20X1-20X2?



SUGGESTED ANSWERS

Answer to Multiple Choice Questions

1.	Option (c) ₹ 12
2.	Option (a) ₹ 188.68
3.	Option (d) ₹ 11.32
4.	Option (b) The said liability will be subsequently credited to revenue only when the customer purchases in future using the discount coupon or when the coupon expires.
5.	Option (c) Contract Liability under Ind AS 115

6. **Consolidated Balance Sheet of M Ltd and its subsidiary N Ltd.
as at 31st March 20X2**

I. ASSETS	
A. Non-Current Assets	
1. Property, Plant and Equipment (6,50,000 + 4,05,000)	10,55,000
2. Goodwill (W.N.7)	4,05,000
B. Current Assets	
1. Inventories (W.N.8)	6,05,000
2. Financial Assets	
a. Trade Receivables (W.N.9)	3,55,000
b. Cash and cash equivalents (80,000+1,05,000+15,000 Insur. claim)	<u>2,00,000</u>
Total	<u>26,20,000</u>
II. EQUITY AND LIABILITIES	
A. Equity	
1. Equity Share Capital	
Issued, subscribed and fully paid up 1,00,000 equity shares of ₹ 10 each	10,00,000
2. Other Equity	
Retained Earnings (W.N.10)	5,09,000
3. Non-Controlling Interest (W.N.6)	2,11,000
B. Liabilities	
1. Non-Current Liabilities	
a. Financial Liabilities	
Borrowings [13% Debentures (2,000 × 100)]	2,00,000
2. Current liabilities	
a. Financial Liabilities	

Trade Payables (W.N.9)	4,60,000
b. Other Current liabilities (2,00,000 + 40,000)	2,40,000
Total	<u>26,20,000</u>

Working Notes:
1. Shareholding pattern

Particulars	Number of Shares	% of holding
M Ltd.	40,000	80%
Non-Controlling interest	10,000	20%

2. Analysis of Retained Earnings of N Ltd.

	₹
Closing balance as on 31.3.20X1	2,05,000
Pre-acquisition Profits	<u>(75,000)</u>
Post-acquisition Profits	1,30,000
Less: Loss of inventory by fire (W.N.3)	(5,000)
Add: Profit from sale of goods purchased from M Ltd. (W.N.4)	<u>30,000</u>
	<u>1,55,000</u>

3. Loss of inventory by fire

	₹
Cost of goods destroyed by fire	20,000
Less: Insurance Claim received (20,000 × 75/100)	(15,000)
Loss of inventory by fire	5,000

4. Profit from Sale of goods

	₹
Cost of goods sold by M Ltd.	1,50,000

Add: Profit by M Ltd. (1,50,000 × 20%)	<u>30,000</u>
Invoice price of M Ltd. (i.e., Cost to N Ltd.)	<u>1,80,000</u>
Cost of goods sold back by N Ltd. to M Ltd. (1,80,000 × 50%)	90,000
Net payable (given in the question)	60,000
Sale value of goods sold by N Ltd. to M Ltd. (1,80,000 – 60,000)	1,20,000
Profit on sale by N Ltd. to M Ltd. (1,20,000 – 90,000)	30,000

5. Apportionment of profits of N Ltd.

Particulars	Pre-acquisition	Post-acquisition
Retained Earnings (W.N.3)	75,000	1,55,000
M Ltd – 80%		1,24,000
NCI – 20%		31,000

6. Non-Controlling Interest as per fair value method

Particulars	₹
Share capital / Fair Value of shares held by NCI (10,000 Shares × ₹ 18)	1,80,000
Share of post-acquisition retained earnings (W.N.5)	<u>31,000</u>
Total	2,11,000

7. Computation of Goodwill

Particulars	₹
Cost of investment	8,00,000
Add: Fair Value of Shares held by Non-Controlling Interest (10,000 Shares × ₹ 18)	<u>1,80,000</u>
	9,80,000
Less: Fair value of net identifiable assets or net worth	
Share capital of N Ltd.	5,00,000

Pre-acquisition retained earnings	<u>75,000</u>	<u>(5,75,000)</u>
Goodwill		<u>4,05,000</u>

8. Computation of Inventory to be shown in CBS

Particulars	₹
Aggregate value of inventory (2,00,000 + 3,50,000)	5,50,000
Add: Invoice price of goods purchased from M Ltd	1,80,000
Less: Cost of goods resold to M Ltd	(90,000)
Less: Loss of inventory by fire	<u>(20,000)</u>
	6,20,000
Less: Unrealised profit (90,000 x 20/120)	<u>(15,000)</u>
Net Inventory for CBS	<u>6,05,000</u>

9. Computation of Consolidated Trade Receivables and Trade Payables

Particulars	Trade Receivables ₹	Trade Payables ₹
Aggregate balance	4,15,000	4,60,000
Less: Inter-company owings	<u>(60,000)</u>	<u>(60,000)</u>
Net for CBS	<u>3,55,000</u>	<u>4,60,000</u>

10. Retained Earnings for CBS

Particulars	₹
M Ltd. Balances	4,50,000
Add: M Ltd.'s share of post-acquisition profits (W.N.5)	1,24,000
Less: Unrealised profit on inventory (W.N.8)	(15,000)
Less: Loss on cancellation of debentures	

[1,50,000 - (1,000 x 100)]	<u>(50,000)</u>
Net for CBS	<u>5,09,000</u>

7. Total Comprehensive Income of V Ltd.

Particulars		₹
Profit from normal operations (A)		50,00,000
Other Comprehensive Income		
Items not reclassified to P&L		
Remeasurement gains from defined benefit plans	5,00,000	5,00,000
Items reclassified to P&L		
Gain on translation of foreign operations	10,00,000	
Revaluation gains on Property, Plant and Equipment	3,50,000	
Fair value changes on financial assets	4,50,000	<u>18,00,000</u>
Total Other Comprehensive Income (B)		<u>23,00,000</u>
Total Comprehensive Income (A + B)		73,00,000

- 8.** For investment in subsidiaries, branches and associates and interests in joint arrangements, paragraphs 38 and 39 of Ind AS 12 states that temporary differences arise when the carrying amount of investments in subsidiaries, branches and associates or interests in joint arrangements (namely the parent or investor's share of the net assets of the subsidiary, branch, associate or investee, including the carrying amount of goodwill) becomes different from the tax base (which is often cost) of the investment or interest. Such differences may arise in a number of different circumstances, for example:
- the existence of undistributed profits of subsidiaries, branches, associates and joint arrangements;
 - changes in foreign exchange rates when a parent and its subsidiary are based in different countries; and

- (c) a reduction in the carrying amount of an investment in an associate to its recoverable amount.

In consolidated financial statements, the temporary difference may be different from the temporary difference associated with that investment in the parent's separate financial statements if the parent carries the investment in its separate financial statements at cost or revalued amount.

Further, an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures, except to the extent that both of the following conditions are satisfied:

- (a) the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference; and
- (b) it is probable that the temporary difference will not reverse in the foreseeable future.

Further, paragraph 44 of Ind AS 12 provides that an entity shall recognise a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- (a) the temporary difference will reverse in the foreseeable future; and
- (b) taxable profit will be available against which the temporary difference can be utilised.

Applying the above guidance,

- (i) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded. For comparing the tax base of investment with the books in case of a consolidated financial statements the carrying value of investment is replaced with the net assets (including goodwill).

Thus, book base of A Ltd. in consolidated financial statements of X Ltd. is Nil (i.e. ₹ 5,00,000 less losses amounting to ₹ 1,80,000 less impairment of ₹ 3,20,000).

The impairment on investment in subsidiary-A Ltd. recognised in standalone financial statements (amounting to ₹ 5,00,000) was disallowed under the Income tax laws of X Ltd.'s jurisdiction. The entire cost of investment of ₹ 5,00,000 is deductible upon sale of investment under the applicable tax laws. Thus, the tax base of investment in A Ltd. is ₹ 5,00,000.

Thus, there is a temporary difference of ₹ 5,00,000. In practice, such temporary differences are commonly referred to as 'outside basis differences'.

A deferred tax asset should be recorded for this outside basis difference only if the conditions specified in paragraph 44 of Ind AS 12 mentioned above are met.

- (ii) In consolidated financial statements of X Ltd., the investment in subsidiary is eliminated and the net assets including goodwill are recorded.

The book base of B Ltd. in consolidated financial statements of X Ltd. is ₹ 6,80,000 (i.e. ₹ 5,00,000 add profits amounting to ₹ 1,80,000).

The entire cost of investment of ₹ 5,00,000 is deductible under tax upon sale of investment. Thus, the tax base of investment in B Ltd. is ₹ 5,00,000.

The difference in the book base and tax base lead to an outside basis difference of INR 1,80,000.

Paragraph 40 of Ind AS 12 provides that as a parent controls the dividend policy of its subsidiary, it is able to control the timing of the reversal of temporary differences associated with that investment (including the temporary differences arising not only from undistributed profits but also from any foreign exchange translation differences). Furthermore, it would often be impracticable to determine the amount of income taxes that would be payable when

the temporary difference reverses. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognise a deferred tax liability. The same considerations apply to investments in branches."

In the given scenario, for B Ltd., the company proposes to repatriate the surplus to its holding company in the foreseeable future and it cannot be repatriated in a tax-free manner. Thus, it is probable that the temporary difference would reverse in the foreseeable future.

Thus, a deferred tax liability would be recorded for this temporary difference at the tax rate applicable to the repatriation of surplus by B Ltd. to its holding company on such portion which will reverse in the foreseeable future. To illustrate, if X Ltd. expects that out of the temporary difference of ₹ 1,80,000, X Ltd. expects to repatriate only ₹ 1,00,000 and would re-invest the balance ₹ 80,000 in B Ltd. itself or requires it for its working capital requirements. Thus, deferred tax liability would be recorded on ₹ 1,00,000 only as this is the amount which is reversible in the foreseeable future and not the entire amount.

However, if it is probable that the temporary difference will not reverse in the foreseeable future (e.g. by way of dividend distribution or sale of investment), then no deferred tax liability is recognised on outside basis difference of ₹ 1,80,000 in the consolidated financial statements of X Ltd.

9. In the separate financial statements of:

- the subsidiary S Ltd., the borrowing costs are capitalised to the extent of the actual costs incurred by the subsidiary.
- the parent P Ltd., the parent recognises only the inter-company loan given to the subsidiary. There is no qualifying asset in the separate financial statements of P Ltd., so the borrowing costs cannot be capitalised in the separate financial statements of the parent P Ltd.

In the consolidated financial statements of the parent P Ltd., capitalisation of borrowing costs is required. However, the amount of the borrowing costs incurred by the subsidiary in the case of inter-

company loans should be adjusted to reflect how the qualifying asset was financed from the perspective of the group as a whole:

- if the group uses external general borrowings, the borrowing costs capitalised by the subsidiary are adjusted if the capitalisation rate at the group level is different from the rate used by the subsidiary.
- if the group uses specific external borrowings, the borrowing costs are adjusted if the borrowing costs on the external borrowings vary from the amount of borrowing costs capitalised by a subsidiary.

Borrowing costs calculated and capitalised in accordance with Ind AS 23 cannot exceed the amount of borrowing costs incurred by the group.

In the given case, since the parent has taken specific borrowing for the purpose of lending it to subsidiary at the same rate of interest, hence the borrowing cost will not be required to be adjusted and will be the same as incurred by P Ltd.

- 10.** As per para 24 of Ind AS 38, an intangible asset shall be measured initially at cost. Furthermore, para 25 states that normally, the price an entity pays to acquire separately an intangible asset will reflect expectations about the probability that the expected future economic benefits embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion is always considered to be satisfied for separately acquired intangible assets.

Accordingly, B Ltd. recognises ₹ 1,50,000 as the cost of the acquired research project.

Further, as per para 42 of the standard, research or development expenditure that:

- (a) relates to an in-process research or development project acquired separately and recognised as an intangible asset; and
 - (b) is incurred after the acquisition of that project
- shall be accounted for.

However, as per para 54 of the standard, expenditure on research phase of an internal project shall be recognised as an expense when it is incurred.

Hence, the subsequent research costs of ₹ 2,00,000 are expensed as incurred.

Further, an intangible asset arising from development phase of an internal project shall be recognised if, and only if, an entity can demonstrate all of the conditions stated therein under point a to f of para 57. Since, the subsequent development costs incurred of ₹ 3,00,000 do not meet the conditions for recognition and are expensed as incurred.

Further development costs of ₹ 1 million must be recognised, because they meet the conditions for recognition as an intangible asset.

It may be noted that as per para 71 of the standard, the previously written-off development costs are not reinstated.

The marketing costs and initial losses of ₹ 2,00,000 are expensed as incurred as per paras 67 and 69 of the standard.

Accordingly, the intangible asset's carrying amount, when production and sale of the product commences, is ₹ 11,50,000.

11. The initial carrying amount of the loan asset is calculated as follows:

	₹
Loan principal	1,00,000
Origination fees charged to borrower	(3,000)
Origination costs incurred by lender	<u>5,000</u>
Carrying amount of loan	<u>1,02,000</u>

Because the entity expects the borrower not to pre-pay, the amortisation period is equal to the instrument's full term.

The carrying amount of the loan over the period to maturity, assuming that the entity continues to expect the borrower not to pre-pay, will be as follows:

	Opening Carrying amount	Cash in flows (coupon)	Interest- income@ 5.7317%	Amortisation of net fees	Closing Carrying amount
		₹	₹	₹	₹
	a	b=1,00,000 x 6%	c=a x 5.7317%	d=b-c	e=a-d
1 Apr 2XX0					1,02,000
31 Mar 2XX1	1,02,000	6,000	5,846	154	1,01,846
31 Mar 2XX2	1,01,846	6,000	5,838	162	1,01,684
31 Mar 2XX3	1,01,684	6,000	5,828	172	1,01,512
31 Mar 2XX4	1,01,512	6,000	5,818	182	1,01,330
31 Mar 2XX5	1,01,330	6,000	5,808	192	1,01,138
31 Mar 2XX6	1,01,138	6,000	5,797	203	1,00,935
31 Mar 2XX7	1,00,935	6,000	5,785	215	1,00,721
31 Mar 2XX8	1,00,721	6,000	5,773	227	1,00,494
31 Mar 2XX9	1,00,494	6,000	5,760	240	1,00,254
31 Mar 2X10	1,00,254	<u>6,000</u>	<u>5,746</u>	<u>254</u>	1,00,000
		<u>60,000</u>	<u>58,000</u>	<u>2,000</u>	
31 Mar 2X10		Repayment of principal			(1,00,000)
31 Mar 2X10		Carrying value of loan			Nil

The effective interest income for the period is calculated by applying the effective interest rate of 5.7317% to the loan's amortised cost at the end of the previous reporting period. The annual interest income decreases each year, to reflect the decrease in the asset's carrying value as the initial net fee is amortised. So, the difference between the calculated effective income for a given reporting period and the loan's coupon is the amortisation of the transaction costs during that reporting period. The loan's amortised cost at the end of the previous period less amortisation in the current reporting period gives the loan's amortised cost at the end of the current period. By maturity date, the net fees received are fully amortised and the loan's carrying amount is equal to the face amount, which is then repaid in full.

12. (i) X Ltd. concludes that each of the 2,000 engines is distinct, because:
- Customer A can use each engine on its own; and
 - each engine is separately identifiable from the others because one does not significantly affect, modify or customize another.
- (ii) Despite the fact that each engine is distinct, X Ltd. concludes that the 2,000 units are a single performance obligation because:
- each engine will transfer to Customer A over time; and
 - X Ltd. uses the same method to measure progress toward complete satisfaction of the obligation to transfer each engine to Customer A.

Consequently, the transaction price for all 2,000 engines is recognized over time using an appropriate measure of progress. This outcome may be different from the outcome of allocating a fixed amount to each engine if each one was a performance obligation.

13. Para 32 of Ind AS 20 under the heading "Repayment of Government Grants" *inter alia* states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate as per Ind AS 8. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

Further para 33 of the standard states that the circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Following the above guidance, below is depreciation computation for the first 2 years where the grant is deducted from the carrying amount of the assets:

₹ in lakhs

Particular	Government grant received /receivable in case of	
	₹ 10 lakhs	₹ 5 lakhs
Cost of equipment	100.00	100.00
Grant received	(10.00)	(5.00)
Cost of equipment (Net of Grant received)	90.00	95.00
Useful life (years)	10.00	10.00
Depreciation (per annum) for year 1	9.00	9.50
Written down value (WDV) of the equipment at the end of year 1	81.00	85.50
Depreciation for year 2	9.00	9.50
WDV of the equipment at the end of year 2	72.00	76.00
Total cumulative depreciation for years 1 and 2	18.00	19.00

Drawing an analogy from the accounting of the repayment of government grants, similar accounting may be applied for a change in the amount of government grant receivable.

The cumulative additional depreciation of ₹ 1 lakhs [i.e., ₹ 19 lakhs minus ₹ 18 lakhs], would have been recognized to date as an expense, had government grant receivable by entity from inception was INR 5.

Therefore, A Ltd. may pass the following journal entry to recognise change in the amount of grant received/receivable: ₹ in lakhs

Particular	Dr.	Cr.	Remark
Equipment A/c Dr.	4		₹ 76 lakhs – ₹ 72 lakhs
Depreciation Dr.	1		Additional depreciation recognised in Profit and Loss A/c
To Bank/Grant receivable		5	Payment of grant /adjustment to grant receivable

A Ltd. to carry out impairment assessment of assets, as per Ind AS requirement, which may trigger in view of an increase in carrying amount of the assets due to repayment of government grant received/receivable.

- 14.** Paragraph B33 of Ind AS 116 states that a contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable, do not give rise to a separate component of the contract, but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

The payments to be made by Lessee for common area maintenance represents payment for non-lease components as it is a payment for a service provided to it by Lessor.

The property taxes are required to be paid by Lessor irrespective of whether it leased the building and to which party. Likewise, the building insurance paid by Lessee also protects the Lessor's property and only Lessor will be entitled to receive the claim if received. Accordingly, these are not separate components of the contract because they do not represent payments for goods or services and are considered to be part of the total consideration that is allocated to the separately identified components of the contract (i.e., the lease and non-lease components).

As Lessee has not elected the practical expedient as provided in paragraph 15 of the standard, it will separate the lease and the non-lease components, even though the agreement specified payments for four separately identified matters, the arrangement will comprise only two components for accounting purposes.

The total annual payment would be allocated between the two identified goods and services representing the lease component and non-lease component as follows:

Particulars	Standalone prices	% of Total Standalone Price	Allocation of annual payment* (calculation on full scale)
Building rent	2,64,000	73.333%	3,07,860
Maintenance services	<u>96,000</u>	<u>26.666%</u>	<u>1,12,140</u>
Total	<u>3,60,000</u>	<u>100.00%</u>	<u>4,20,000</u>

*The portion of consideration that is allocated to the lease components includes, apart from rent, those amounts that are not considered a separate component (e.g., ₹ 60,000 on account of property taxes and ₹ 36,000 on account of building insurance).

15. Since the entity is not in the business of dealing in securities, a sum of ₹ 2,31,500 invested in a bond will be classified as investing activities. There is no cash flow of interest during bond period, as there is no cash receipt. On maturity, proceeds of ₹ 6,00,000 will be classified as receipt under investing activity with a bifurcation of ₹ 3,68,500 as interest and ₹ 2,31,500 as proceeds towards redemption of bond.
16. (i) The economic benefits from the contract include the benefits to the entity of using the gas in its business and because the electricity will be sold at a profit, the contract is not onerous.
- (ii) The entity first considers whether the assets used to generate electricity are impaired. To the extent that there is still a loss after the assets have been written down, a provision for an onerous contract should be recorded.
- (iii) The only economic benefit from the purchase contract costing ₹ 2,30,000 are the proceeds from the sales contract, which are ₹ 1,80,000. Therefore, a provision should be made for the onerous element of ₹ 50,000, being the lower of the cost of fulfilling the contract and the penalty cost of cancellation (₹ 55,000).
- (iv) A provision should be recognised only if the contract is onerous. If the goods received under the supply contract are sold at a profit, the contract is not onerous and provision should not be made in the year 20X0-20X1. The termination cost should be recognised as incurred in 20X1-20X2.



PAPER – 2

ADVANCED FINANCIAL MANAGEMENT



QUESTIONS

Risk Management

1. Mr. Y is a rational risk taker. He takes his position in derivative market of a single stock through margin trading for 4 days in a week. He does not take a position on Friday to avoid weekend effect and takes position only for four days in a week i.e. Monday to Thursday. He transfers the amount on Monday morning and withdraws the balance on Friday morning. He desires to take a maximum exposure in the derivative market where Value at Risk (VAR) should not exceed the balance lying in his bank account. The position by his manager, as per standing instructions, is taken on the free balance lying in the bank account in the morning on each Monday.

On Monday morning (before opening of the capital market) he has transferred an amount of ₹ 11 Crore to his bank account. A fixed deposit also matured on this Monday. The maturity amount of ₹ 63,42,560 was also credited to his account by the bank in the morning of the Monday. However, Mr. Y received the intimation of the same in the evening. The bank needs a minimum balance of ₹ 1,000 all the time.

The other information with respect to stocks A and B, which are under consideration for this week, is as under:

A		B	
Return (%)	Probability	Return (%)	Probability
6	0.10	4	0.10
7	0.25	6	0.20

8	0.30	8	0.40
9	0.25	10	0.20
10	0.10	12	0.10

From the information given above, choose the correct answer to the following questions:

- I. The amount that will not be considered for taking position on Monday morning is.....
 - (a) ₹ 63,41,560
 - (b) ₹ 63,42,560
 - (c) ₹ 11,00,00,000
 - (d) ₹ 10,99,99,000
- II. Which stock has a wider dispersion of returns based on the given probability distribution?
 - (a) Stock A
 - (b) Stock B
 - (c) Both have equal dispersion
 - (d) Cannot be determined
- III. In Value at Risk (VaR) analysis, which factor directly increases VaR for a given investment?
 - (a) Higher expected return
 - (b) Lower confidence level
 - (c) Higher standard deviation
 - (d) Shorter holding period
- IV. Since Mr. Y invests in derivative of a single stock (not a portfolio), the risk considered for VaR is.....
 - (a) diversifiable risk
 - (b) unsystematic risk only
 - (c) total risk

- (d) market risk only

Foreign Exchange Exposure and Risk Management

2. An Indian exporting firm, Radhey & Sons exported dry fruits worth of AUD 1 million to an importer in Sydney. Radhey and Sons are worried about likely depreciation of AUD in near future as it is likely that the export sum will be received after 3 months. Today as such as there is no derivative contract is available in AUD to hedge itself from such depreciation.

The following data is given:

Spot rate : ₹ 64.00/AUD

3 months interest rates (per annum):

	Deposit	Borrowing
₹	10%	12%
AUD	4%	5%

From the information given above, choose the correct answer to the following questions:

- I. In a money market hedge for a foreign currency receivable, the exporter should.....
 - (a) borrow in domestic currency and invest foreign currency
 - (b) borrow in foreign currency and invest domestic currency
 - (c) borrow and invest in domestic currency only
 - (d) borrow and invest in foreign currency only
- II. In case Radhey & Sons adopts Money Market hedge strategy, the interest rate to be used to compute amount borrowed shall be.....
 - (a) 4% per annum
 - (b) 5% per annum
 - (c) 10% per annum
 - (d) 12% per annum

- III. If a forward contract in AUD were available, the money market hedge would.....
- (a) always be superior
 - (b) always be inferior
 - (c) be compared with forward hedge for cost efficiency
 - (d) become invalid
- IV. Interest Rate Parity theory assumes.....
- (a) No capital mobility
 - (b) Presence of arbitrage opportunities
 - (c) Efficient markets with no arbitrage opportunities
 - (d) Fixed exchange rate system

Advanced Capital Budgeting Decisions

3. Tension Free Solutions (TFS) is a reputed is logistic service providers. All the deliveries are made by drivers of the mini trucks. The company employs many drivers, each of whom is provided with small trucks to make deliveries. Each driver drives approximately 40000 kms per annum. TFS decides to continue its present policy of always buying a new truck for its drivers but wonders whether the present policy of replacing the truck every three year is optimal or not. It is of believe that as new models are entering into market on yearly basis, it wishes to consider whether a replacement of either one year or two years would be better option than present three year period. The fleet of truck is due for replacement shortly in near future.

The purchase price of latest model truck is ₹ 5,50,000. Resale value of used truck at current prices in market is as follows:

Period	₹
1 Year old	3,50,000
2 Year old	2,10,000
3 Year old	90,000

Running and Maintenance expenses (excluding depreciation) are as follows:

Year	Road Taxes Insurance etc. (₹)	Petrol Repair Maintenance etc. (₹)
1	30,000	3,00,000
2	30,000	3,50,000
3	30,000	4,30,000

Using opportunity cost of capital as 10% you are required to determine optimal replacement period of truck.

Security Valuation

4. The data given below relates to a convertible bond:

Face value	₹ 1,000
Coupon rate	12%
No. of shares per bond	20
Market price of share	₹ 48
Straight value of bond	₹ 940
Market price of convertible bond	₹ 1,060

Calculate:

- (i) Stock value of bond.
 - (ii) The percentage of downside risk.
 - (iii) The conversion premium
 - (iv) The conversion parity price of the stock.
5. Mr. A is thinking of buying shares at ₹ 500 each having face value of ₹ 100. He is expecting a bonus at the ratio of 1: 5 during the fourth year. Annual expected dividend is 20% and the same rate is expected to be maintained on the expanded capital base. He intends to sell the shares at the end of seventh year at an expected price of ₹ 900 each. Incidental expenses for purchase and sale of shares are estimated to be 5% of the market price. He expects a minimum return of 12% per annum.

Should Mr. A buy the share? If so, advise the maximum price should he pay for each share?

Note: 1. Assume that there is no tax on dividend income and capital gains.

2. Present Value Factors should be used up to three decimal places, and the final calculations should be rounded off to two decimal places.

Business Valuation

6. The following data pertains to XYZ Inc. engaged in software consultancy business as on 31 December 2024.

(\$ Million)

Income from consultancy	935.00
EBIT	180.00
Less: Interest on Loan	<u>18.00</u>
EBT	162.00
Tax @ 35%	<u>56.70</u>
	<u>105.30</u>

Balance Sheet

(\$ Million)

Liabilities	Amount	Assets	Amount
Equity Stock (10 million share @ \$ 10 each)	100	Land and Building	200
Reserves & Surplus	325	Computers & Softwares	295
Loans	180	Current Assets:	
Current Liabilities	180	Debtors	150
		Bank	100
		Cash	<u>40</u>
	<u>785</u>		<u>290</u>
			<u>785</u>

With the above information and following assumption you are required to compute

- (a) Economic Value Added (EVA)

(b) Market Value Added (MVA)

Assuming that:

- (i) WACC is 12%.
- (ii) The share of company currently is quoted at \$ 50 each.

Derivatives Analysis & Valuation

7. Following is the information available pertaining to shares of Omni Ltd.:

Current Market Price (₹)	₹ 840.00
Strike Price (₹)	₹ 900.00
Maximum Price (₹) expected in next 3 months' time	₹ 1,050.00
Minimum Price (₹) expected in next 3 months' time	₹ 756.00
Continuously Compounded Rate of Interest (p.a.) (%)	8.00%
e^{rt}	1.0202

Based on the above, calculate the value of the 3-month call option using the Binomial Method and the Risk-Neutral Method, and also draw a conclusion.

Note: Round off calculations upto 2 decimal points.

Interest Rate Risk Management

8. Suppose a dealer quotes 'All-in-cost' for a generic swap at 8% against six month SOFR flat. If the notional principal amount of swap is US\$ 5,00,000.

- (i) Calculate semi-annual fixed payment.
- (ii) Find the first floating rate payment for (i) above if the six month period from the effective date of swap to the settlement date comprises 181 days and that the corresponding SOFR was 6% on the effective date of swap.

In (ii) above, if the settlement is on 'Net' basis, how much the fixed rate payer would pay to the floating rate payer?

Note: 1. Generic swap is based on 30/360 days basis.

2. Round off the calculations to the nearest whole number.

Portfolio Management

9. The following information is available with respect of AK Ltd.

Year	AK Limited		Market		Return on Govt. Bonds
	Average Share Price (₹)	DPS (₹)	Average Index	Dividend Yield (%)	
2022	242	20	1812	4	6
2023	279	25	1950	5	5
2024	305	30	2258	6	4
2025	322	35	2220	7	5

Compute Beta Value of the company as at the end of 2025. What is your observation?

Note: Round off all calculations upto 2 decimal points.

International Financial Management

10. ICL an Indian MNC is executing a plant in Sri Lanka. It has raised ₹ 400 billion. Half of the amount will be required after six months' time. ICL is looking an opportunity to invest this amount on 1st April,2020 for a period of six months. It is considering two underlying proposals:

Market	Japan	US
Nature of Investment	Index Fund (JPY)	Treasury Bills (USD)
Dividend (in billions)	25	-
Income from stock lending (in billions)	11.9276	-
Discount on initial investment at the end	2%	-
Interest	-	5 per cent per annum
Exchange Rate (1 st April, 2020)	JPY/INR 1.58	USD/INR 0.014
Exchange Rate (30 th September, 2020)	JPY/INR 1.57	USD/INR 0.013

You, as an Investment Manager, is required to suggest the best course of option.

Note: Present all figures in billions and round off the calculations to four decimal places.

Mergers, Acquisitions and Corporate Restructuring

11. Long Ltd., is planning to acquire Tall Ltd., with the following data available for both the companies:

	Long Ltd.	Tall Ltd.
Expected EPS	₹ 12	₹ 5
Expected DPS	₹ 10	₹ 3
No. of Shares	30,00,000	18,00,000
Current Market Price of Share	₹ 180	₹ 50

As per an estimate Tall Ltd., is expected to have steady growth of earnings and dividends to the tune of 6% per annum. However, under the new management the growth rate is likely to be enhanced to 8% per annum without additional investment.

You are required to:

- Calculate the net cost of acquisition by Long Ltd., if ₹ 60 is paid for each share of Tall Ltd.
- If the agreed exchange ratio is one share of Long Ltd., for every three shares of Tall Ltd., in lieu of the cash acquisition as per (i) above, what will be the net cost of acquisition?
- Calculate Gain from acquisition.

Mutual Funds

12. On 1st April, an open ended scheme of mutual fund had 400 lakh units outstanding with Net Assets Value (NAV) of ₹19. At the end of April, it issued 5 lakh units at an opening NAV plus 2% load, adjusted for dividend equalization. At the end of May, 4 Lakh units were repurchased at the opening NAV less 2% exit load adjusted for dividend equalization. At the end of June, 60% of its available income was distributed.

In respect of April-June quarter, the following additional information is available:

Particulars	₹ in Lakhs
Portfolio value appreciation	515.67
Income of April	31.960
Income of May	46.125
Income for June	58.470

You are required to calculate:

- (i) Income available for distribution;
- (ii) Issue price at the end of April;
- (iii) Repurchase price at the end of May; and
- (iv) Net Asset Value (NAV) as on 30th June.

Note: Round off all calculations upto 4 decimal points.

Security Analysis

13. Closing values of NSE Nifty from 8th to 21st day of the month of January of the year 2026 were as follows:

Days	Date	Day	Nifty
1	8	THU	25877
2	9	FRI	25683
3	10	SAT	No Trading
4	11	SUN	No Trading
5	12	MON	25790
6	13	TUE	25732
7	14	WED	25665
8	15	THU	No Trading
9	16	FRI	25694
10	17	SAT	No Trading
11	18	SUN	No Trading

12	19	MON	25585
13	20	TUE	25232
14	21	WED	25158

Give detailed analysis (on the basis of your calculations) of 21- day Exponential Moving Average (EMA) of Nifty during the above period.

The previous day exponential moving average of Nifty can be assumed as 26024.

Note: Round off calculations upto 3 decimal points.

Theoretical Questions

14. Explain the key decisions falling within the scope of financial strategy.
15. Explain risk associated with the use of Blockchain technology.

OR

Explain characteristics of Venture Capital Financing.



SUGGESTED ANSWERS/HINTS

Question No.	Answer
1. I	(b)
II	(b)
III	(c)
IV	(c)
2. I	(b)
II	(b)
III	(c)
IV	(c)

3. Since the effect of increasing running cost and decreasing resale value have to be weighted upto against the purchase cost of truck, we shall compute Equivalent Annual Cost (EAC) of replacement in different years shall be computed and compared.

Year	Road Taxes (₹)	Petrol etc. (₹)	Total (₹)	PVF @10%	PV (₹)	Cumulative PV (₹)	PV of Resale Price (₹)	Net Outflow (₹)
1	30,000	3,00,000	3,30,000	0.909	2,99,970	2,99,970	3,18,150	(18,180)
2	30,000	3,50,000	3,80,000	0.826	3,13,880	6,13,850	1,73,460	4,40,390
3	30,000	4,30,000	4,60,000	0.751	3,45,460	9,59,310	67,590	8,91,720

Computation of Equivalent Annual Costs (EACs)

Year	Purchase Price of Bike (₹)	Net Outflow (₹)	Total Outflow (₹)	PVAF @ 10%	EAC (₹)
1	5,50,000	(18,180)	5,31,820	0.909	5,85,061
2	5,50,000	4,40,390	9,90,390	1.735	5,70,830
3	5,50,000	8,91,720	14,41,720	2.486	5,79,936

Thus, from above table it is clear that EAC is least in case of 2 years, hence truck should be replaced every two years.

4. (i) Stock value or conversion value of bond

$$₹ 48 \times 20 = ₹ 960$$

- (ii) Percentage of the downside risk

$$\frac{1060-940}{940} = 0.1277 \text{ or } 12.77\% \text{ or } \frac{1060-940}{1060} = 0.1132 \text{ or } 11.32\%$$

This ratio gives the percentage price decline experienced by the bond if the stock becomes worthless.

(iii) Conversion Premium

$$\frac{\text{Market Price} - \text{Conversion Value}}{\text{Conversion Value}} \times 100$$

$$\frac{1060 - 960}{960} = 10.42\%$$

(iv) Conversion Parity Price

$$\frac{\text{Bond Price}}{\text{No. of Shares on Conversion}}$$

$$\frac{1060}{20} = ₹ 53$$

This indicates that if the price of shares rises to ₹ 53 from ₹ 48 the investor will neither gain nor lose on buying the bond and exercising it. Observe that ₹ 5 (₹ 53 – ₹ 48) is 10.42% of ₹ 48, the Conversion Premium.

5. P.V. of dividend stream and sales proceeds

Year	Divd. /Sale	PVF (12%)	PV (₹)
1	₹ 20/-	0.893	17.86
2	₹ 20/-	0.797	15.94
3	₹ 20/-	0.712	14.24
4	₹ 24/-	0.636	15.26
5	₹ 24/	0.567	13.61
6	₹ 24/	0.507	12.17
7	₹ 24/	0.452	10.85
7	₹ 1026/- (₹ 900 x 1.2 x 0.95)	0.452	<u>463.75</u>
			₹ 563.68
	Less: Cost of Share (₹ 500 x 1.05)		<u>₹ 525.00</u>
	Net gain		<u>₹ 38.68</u>

Since Mr. A is gaining ₹ 38.68 per share, he should buy the share.

Maximum price Mr. A should be ready to pay is ₹ 563.68 which will include incidental expenses. So the maximum price should be ₹ 563.68 x 100/105 = ₹ 536.84

6. (a) Determination of Economic Value Added (EVA)

	\$ Million
EBIT	180.00
Less: Taxes @ 35%	<u>63.00</u>
Net Operating Profit after Tax	117.00
Less: Cost of Capital Employed [W. No.1]	<u>72.60</u>
Economic Value Added	<u>44.40</u>

(b) Determination of Market Value Added (MVA)

	\$ Million
Market value of Equity Stock [W. No. 2]	500
Equity Fund [W. No. 3]	<u>425</u>
Market Value Added	<u>75</u>

Working Notes:

(1) Total Capital Employed

Equity Stock	\$ 100 Million
Reserve and Surplus	\$ 325 Million
Loan	<u>\$ 180 Million</u>
	<u>\$ 605 Million</u>

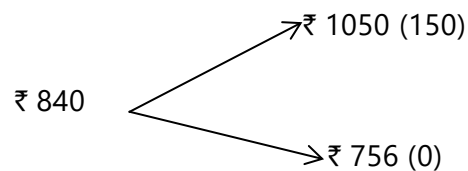
WACC 12%

Cost of Capital employed \$ 605 Million x 12% = \$ 72.60 Million

(2) Market Price per equity share (A)	\$ 50
No. of equity share outstanding (B)	10 Million
Market value of equity stock (A) x (B)	\$ 500 Million

(3) Equity Fund	
Equity Stock	\$ 100 Million
Reserves & Surplus	<u>\$ 325 Million</u>
	<u>\$ 425 Million</u>

7. (a) Call Option value using Binomial Model



$$u = 1050/840 = 1.25 \quad d = 756/840 = 0.90$$

$$r = 1.0202$$

$$p = \frac{r-d}{u-d} = \frac{1.0202-0.90}{1.25-0.90} = 0.1202/0.35 = 0.34 \text{ (Prob. of increase in Price of Share)}$$

$$\text{Prob. of decrease in Price of Share} = 1 - 0.34 = 0.66$$

$$\text{Value of Option} = \frac{0.34 (150) + 0.66(0)}{1.0202} = ₹ 49.99$$

(b) Value of Call Option using Risk Neutral Method

Let 'P' be the probability of Price increase, then

$$p \times 1050 + (1 - p) \times 756 = 840(1.0202)$$

$$294p = 100.97$$

$$p = 0.34$$

$$\text{Probability of Price increase} = 0.34$$

$$\text{Probability of Price decrease} = 0.66$$

$$\frac{0.34 \times 150 + 0.66 \times 0}{1.0202} = ₹ 49.99$$

Conclusion: The value of option under both Models is same.

8. (i) Semi-annual fixed payment

$$= (N) (AIC) (\text{Period})$$

Where N = Notional Principal amount = US\$ 5,00,000

$$AIC = \text{All-in-cost} = 8\% = 0.08$$

$$= 5,00,000 \times 0.08 \left(\frac{180}{360} \right)$$

$$= 5,00,000 \times 0.08 (0.5)$$

$$= 5,00,000 \times 0.04 = \text{US\$ } 20,000/-$$

(ii) Floating Rate Payment

$$= N (\text{SOFR}) \left(\frac{dt}{360} \right)$$

$$= 5,00,000 \times 0.06 \times \frac{181}{360}$$

$$= 5,00,000 \times 0.06 (0.503) \text{ or } 5,00,000 \times 0.06 (0.502777)$$

$$= 5,00,000 \times 0.03018 = \text{US\$ } 15,090 \text{ or } 5,00,000 \times 0.030166 = \text{US\$ } 15,083$$

(iii) Net Amount

$$= (i) - (ii)$$

$$= \text{US\$ } 20,000 - \text{US\$ } 15,090 = \text{US\$ } 4,910$$

$$\text{or} = \text{US\$ } 20,000 - \text{US\$ } 15,083 = \text{US\$ } 4,917$$

9. (a) Computation of Beta Value

Calculation of Returns

$$\text{Returns} = \frac{D_1 + (P_1 - P_0)}{P_0} \times 100$$

Year	Returns
2022-2023	$\frac{25 + (279 - 242)}{242} \times 100 = 25.62\%$
2003-2004	$\frac{30 + (305 - 279)}{279} \times 100 = 20.07\%$
2004-2005	$\frac{35 + (322 - 305)}{305} \times 100 = 17.05\%$

Calculation of Returns from market Index

Year	% of Index Appreciation	Dividend Yield %	Total Return %
2022-2023	$\frac{1950 - 1812}{1812} \times 100 = 7.62\%$	5%	12.62%
2023-2024	$\frac{2258 - 1950}{1950} \times 100 = 15.79\%$	6%	21.79%
2024-2025	$\frac{2220 - 2258}{2258} \times 100 = (-)1.68\%$	7%	5.32%

Computation of Beta

Year	X	Y	XY	Y ²
2022-2023	25.62	12.62	323.32	159.26
2023-2024	20.07	21.79	437.33	474.80
2024-2025	17.05	5.32	90.71	28.30
	$\sum X = 62.74$	$\sum Y = 39.73$	$\sum XY = 851.36$	$\sum Y^2 = 662.36$

$$\bar{X} = \frac{62.74}{3} = 20.91, \quad \bar{Y} = \frac{39.73}{3} = 13.24$$

$$\begin{aligned} \beta &= \frac{\sum XY - n\bar{X}\bar{Y}}{\sum Y^2 - n(\bar{Y})^2} \\ &= \frac{851.36 - 3(20.91)(13.24)}{662.36 - 3(13.24)^2} \\ &= \frac{851.36 - 830.55}{662.36 - 525.89} = \frac{20.81}{136.47} = 0.15 \end{aligned}$$

- (b) **Observation:** Based on the beta value of the company and the analysis of returns, it can be concluded that changes in the return on share of AK Ltd. are less affected by changes in market returns.

10. Investment in JPY

(in billions)			
Particulars	Currency INR	ER	Currency JPY
Available amount	200	1.58	<u>316.0000</u>
Dividend Income			25.0000
Stock Lending Income			11.9276
Investment value at the end after discount @ 2%			<u>309.68</u>
Amount available at the end			<u>346.6076</u>
Conversion as on 30-09-2020		1.57	₹ 220.7692
Gain			₹ 20.7692

Investment in USD

(in billions)			
Particulars	Currency INR	ER	Currency USD
Available amount	200	0.014	2.8000
Interest for 6 months @ 5% p.a.			<u>0.0700</u>
Amount available at the end			<u>2.8700</u>
Conversion as on 30-09-2020		0.013	₹ 220.7692
Gain			₹ 20.7692

The equivalent amount is same in both the options so ICL is indifferent.

However, USD is more stable, and Treasury Bills are risk free, so investment in Treasury Bills (USD) is suggested.

- 11. (i)** Net cost of acquisition shall be computed as follows:

Cash Paid for the shares of Tall Ltd. ($\text{₹ } 60 \times 18,00,000$)	₹ 10,80,00,000
Less: Value of Tall Ltd., as a separate entity ($18,00,000 \times \text{₹ } 50$)	₹ 9,00,00,000
Net Cost of acquisition of Tall Ltd.	₹ 1,80,00,000

- (ii)** Net Cost of acquisition in case of exchange of shares:

Exchange ratio = 1 share of long Ltd for every 3 shares of Tall Ltd.

Number of shares to be issued in Long Ltd. ($18,00,000/3$)	= 6,00,000 shares
Total no. of shares in Long Ltd. after merger ($30,00,000 + 6,00,000$)	= 36,00,000

Calculation of cost of Equity of Tall Ltd.	= $D_1/P_0 + g$
Growth rate under new management after acquisition	= $\text{₹ } 3/50 + 0.06 = 12\%$
Value of Merged company assuming perpetual growth	= 8%
Value of merged company	
$(\text{₹ } 180 \times 30,00,000) + (\text{₹ } 3 / (0.12 - 0.08) \times 18,00,000$	= ₹ 67,50,00,000
= $54,00,00,000 + (75 \times 18,00,000)$	
Value per share of merged company	= ₹ 187.50 per share
$(67,50,00,000/36,00,000)$	

Calculation of net cost of acquisition	
Gross cost of acquisition ($6,00,000 \times 187.50$)	11,25,00,000
Less: CMP ($18,00,000 \times 50$)	9,00,00,000
Net Cost of acquisition	2,25,00,000

Alternatively, Net Cost of Acquisition can also be computed as follows:

No. of shares issued to shareholders of Tall Ltd. in the ratio of 1:3	6,00,000
Existing price of one share of Long Ltd.	₹ 180
Value of consideration paid for acquisition of Tall Ltd.	₹ 10,80,00,000
Less: Existing Value of Tall Ltd., as a separate entity	₹ 9,00,00,000
Net Cost of acquisition of Tall Ltd.	₹ 1,80,00,000

(iii) Calculation of gain from acquisition:

Total Earnings of Long Ltd. (₹ 12 x 30,00,000)	₹ 3,60,00,000
Total Earnings of Tall Ltd. (₹ 5 x 18,00,000)	₹ 90,00,000
Combined Earnings	₹ 4,50,00,000
PE Ratio of Long Ltd. (180/12)	15
Value of Long Ltd. after acquisition	₹ 67,50,00,000
Less: Value of two companies separately	
Long Ltd. (₹ 180 x 30,00,000)	₹ 54,00,00,000
Tall Ltd. (₹ 50 x 18,00,000)	₹ 9,00,00,000
Gain from Acquisition	₹ 4,50,00,000

12. (i) Calculation of Income available for Distribution

	Units (Lakh)	Per Unit (₹)	Total (₹ In lakh)
Income from April	400	0.0799	31.960
Add: Dividend equalization collected on issue	5	0.0799	0.3995
	405	0.0799	32.3595
Add: Income from May		0.1139	46.1250
	405	0.1938	78.4845

Less: Dividend equalization paid on repurchase	4	0.1938	(0.7752)
	401	0.1938	77.7093
Add: Income from June		0.1458	58.4700
	401	0.3396	136.1793
Less: Dividend Paid		0.2038	(81.7076)
	401	0.1358	54.4717

(ii) Calculation of Issue Price at the end of April

	₹
Opening NAV	19.00000
Add: Entry Load 2% of ₹ 19	0.3800
	19.3800
Add: Dividend Equalization paid on Issue Price	0.0799
	19.4599
	Or 19.46

(iii) Calculation of Repurchase Price at the end of May

	₹
Opening NAV	19.0000
Less: Exit Load 2% of ₹ 19	(0.3800)
	18.6200
Add: Dividend Equalization paid on Issue Price	0.1938
	18.8138

(iv) Closing NAV as on 30th June

	₹ (Lakh)
Opening Net Asset Value (₹ 19 × 400)	7,600.0000
Portfolio Value Appreciation	515.6700
Issue of Fresh Units (5 × 19.46)	97.3000

Income Received (31.960 + 46.125 + 58.470)		136.5550
		8349.5250
Less: Units repurchased (4 × 18.8138)	75.2552	
Income Distributed	81.7076	156.9628
Closing Net Asset Value		8,192.5622
Closing Units (400 + 5 – 4) lakh		401 lakhs
∴ Closing NAV as on 30 th June		₹ 20.4303

13. $EMA_t = (\text{Closing Price of the day} - \text{EMA of Previous Day}) \times \text{Exponent} + \text{Previous day EMA}$

$$\text{Exponent} = \frac{2}{n+1} \text{ i.e. } \frac{2}{21+1} = 0.091$$

Date	1	2	3	4	5
	Sensex	EMA for Previous day	1-2	3×0.091	EMA 2 ± 4
8	25877.000	26024.000	-147.000	-13.377	26010.623
9	25683.000	26010.623	-327.623	-29.814	25980.809
12	25790.000	25980.809	-190.809	-17.364	25963.445
13	25732.000	25963.445	-231.445	-21.062	25942.383
14	25665.000	25942.383	-277.383	-25.242	25917.141
16	25694.000	25917.141	-223.141	-20.306	25896.835
19	25585.000	25896.835	-311.835	-28.377	25868.458
20	25232.000	25868.458	-636.458	-57.918	25810.540
21	25158.000	25810.540	-652.540	-59.381	25751.159

Conclusion – The market is bearish. The market is likely to remain bearish for short term to medium term if other factors remain the same. On the basis of this indicator (EMA) the investors/brokers can take short position.

14. The key decisions falling within the scope of financial strategy are as follows:
- a. *Financing decisions:* These decisions deal with the mode of financing or mix of equity capital and debt capital.
 - b. *Investment decisions:* These decisions involve the profitable utilization of firm's funds especially in long-term projects (capital projects). Since the future benefits associated with such projects are not known with certainty, investment decisions necessarily involve risk. The projects are therefore evaluated in relation to their expected return and risk.
 - c. *Dividend decisions:* These decisions determine the division of earnings between payments to shareholders and reinvestment in the company.
 - d. *Portfolio decisions:* These decisions involve evaluation of investments based on their contribution to the aggregate performance of the entire corporation rather than on the isolated characteristics of the investments themselves.
15. Some of the risk associated with the use of blockchain technology are as follows:
- (i) With the use of blockchain, organizations need to consider risks with a wider perspective as different members of a particular blockchain may have different risk appetite/risk tolerances that may further lead to conflict when monitoring controls are designed for a blockchain. There may be questions about who is responsible for managing risks if no one party is in-charge, and how proper accountability is to be achieved in a blockchain.
 - (ii) The reliability of financial transactions is dependent on the underlying technology and if this underlying consensus mechanism has been tampered with, it could render the financial information stored in the ledger to be inaccurate and unreliable.
 - (iii) In the absence of any central authority to administer and enforce protocol amendments, there could be a challenge in the development and maintenance of process control activities and in such case, users of public blockchains find difficult to obtain an

understanding of the general IT controls implemented and the effectiveness of these controls.

- (iv) As blockchain involves humongous data getting updated frequently, risk related to information overload could potentially challenge the level of monitoring required. Furthermore, to find competent people to design and perform effective monitoring controls may again prove to be difficult.

OR

Following are some characteristics of Venture Capital Financing:

- (i) Long time horizon: The fund would invest with a long-term horizon in mind. Minimum period of investment would be 3 years and maximum period can be 10 years.
- (ii) Lack of liquidity: When VC invests, it takes into account the liquidity factor. It assumes that there would be less liquidity on the equity it gets and accordingly it would be investing in that format. They add an illiquidity premium in the price and required return.
- (iii) High Risk: VC would not hesitate to take risk. It works on principle of high risk and high return. So, high risk would not eliminate the investment choice for a venture capital.
- (iv) Equity Participation: Most of the time, VC would be investing in the form of equity of a company. This would help the VC participate in the management and help the company grow. Besides, a lot of board decisions can be supervised by the VC if they participate in the equity of a company and have a Board seat.



PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

PART – I : ACADEMIC UPDATE

**(Legislative Amendments / Notifications / Circulars / Rules / Guidelines
issued by Regulating Authority)**

Chapter 14 - Unit 2 - Special Features of Audit of Non-Banking Financial Companies

1. As per the circular DoR.FIN.REC.25/03.10.038/2025-26 dated June 06, 2025, if an NBFC-MFI fails to maintain the criteria specified in following para for four consecutive quarters, it shall approach the Reserve Bank with a remediation plan for taking a view in the matter.

“NBFC-MFI” means a non-deposit taking NBFC which has a minimum of 60 percent of its total assets (netted off by intangible assets), on an ongoing basis, deployed towards “microfinance loans” as defined under Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022.

2. On page no. 14.92, Tier 1 Capital definition has been amended to include reference of RBI Gold Lending Directions as follows:

Tier I capital - NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier 1 capital of 12 percent of aggregate risk weighted assets of on-balance sheet and of risk adjusted value of off-balance sheet items. The treatment to on-balance and off-balance sheet assets for capital adequacy shall be provided as per the Directions respectively. These NBFCs shall also adhere to provisions of the Directions on treatment of deferred tax assets and deferred tax liabilities

for computation of capital. These NBFCs shall also ensure compliance with the instructions issued vide 'Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025' dated June 06, 2025 (as amended from time to time), as expeditiously as possible but no later than April 1, 2026.

3. Addition of ROU Assets to Other Assets definition in Weighted risk assets - On-Balance Sheet items table given on page no 14.94

(v) Other assets:

(d) Others (to be specified) ***including ROU assets***

Chapter 19- Professional Ethics & Liabilities of Auditors

1. On page no. 19.68 amendment in Clause (9) of Part I of First Schedule

Clause (9) accepts an appointment as auditor of a company without first ascertaining from it whether the requirements of Section 225 of the Companies Act, 1956 (1 of 1956), or sections 139 to 141 of the Companies Act, 2013 or any other law pertaining to appointment of auditors for the time being in force, in respect of such appointment have been duly complied with;

2. On page no. 19.109 insertion of Clause (5) in Part II of Second Schedule

Clause (5) acts as an auditor of the company in contravention of the provisions of the Companies Act, 2013.

PART II : Questions and Answers**QUESTIONS****PART A: Multiple Choice Questions****Integrated Case Scenarios**

Bhism & Co., Chartered Accountants, were appointed as statutory auditors of Sinwar Ltd., a listed public company whose equity shares are listed on the recognised stock exchange in India, for the financial year ending 31st March 2025. The company prepares its financial statements in accordance with Ind AS. As a top 1000 listed entity by market capitalisation, the company is required to prepare Business Responsibility and Sustainability Reporting (BRSR) in accordance with SEBI requirements; however, the audit of BRSR was not part of the audit engagement undertaken by the Statutory Auditor.

During the year, on 30th December 2024, the company revalued its class of "Plant and Machinery", which included a leased CNC plant recognised as a Right-of-Use asset under Ind AS 116. The revaluation was carried out by a Registered Valuer using the Depreciated Replacement Cost method. Consequently, the aggregate net carrying value of the class increased from ₹ 4.00 crore to ₹ 4.45 crore, representing an increase of 11.25%. The surplus of ₹ 0.45 crore was recognised in Other Comprehensive Income.

DMC Bank sanctioned a working capital cash credit facility of ₹ 5.5 crore in June 2024, secured by the hypothecation of current assets, which was later reduced to ₹ 4.5 crore. The outstanding balance as at 31st March 2025 was ₹ 3.9 crore, and the sanction limit was reduced to ₹ 4.8 crore. Quarterly stock statements and drawing power calculations submitted to the bank were found to be in quantitative agreement with the books of account. Management appropriately disclosed this position in their financial statement.

On 1st January 2025, Sinwar Ltd. granted an unsecured loan of ₹ 2 crore to its joint venture, Mekong Infra Pvt. Ltd., carrying an interest rate of 10% per annum and repayable in quarterly instalments commencing on 31st January 2025. As at year-end, since the first instalment became due, no amount had

been repaid, and ₹ 2.05 crore, including accrued interest, was outstanding. No impairment provision was recognised, though the joint venture reported marginal profits but negative operating cash flows.

During the audit, the firm utilised Microsoft Power BI to analyse the complete sales ledger extracted from the ERP system. The data was converted into interactive dashboards to identify unusual trends, time-wise sales patterns and high-value outliers. It was observed that certain significant sales transactions were recorded during non-business hours and on public holidays. Management stated that these represented system-generated export dispatch entries. However, supporting shipping documentation and user access logs required further verification.

Further, in alignment with Principle 2 – Safe and Sustainable Goods and Services under the National Guidelines on Responsible Business Conduct (NGRBC), the company introduced eco-efficient production techniques to reduce energy consumption and raw material wastage by 15%. It redesigned certain industrial components to enhance durability and recyclability and initiated consumer awareness programmes on safe use and recycling practices. These disclosures were included in the Business Responsibility and Sustainability Reporting (BRSR) section of the annual report.

The Audit Manager was of the opinion that the Auditors are not required to report either on plant revaluation or working capital facility in their audit report, as management has already disclosed it in the financial statements and it's not a key audit matter. The Audit Manager accepted management's impairment assessment of the unsecured loan and decided not to report it in the audit report, as there is no misstatement.

Based on the above facts, answer the following MCQs:

1. Considering the facts given in the scenario, which of the following statements correctly describes the auditor's reporting responsibility in relation to revaluation of Plant and Machinery under CARO 2020?
 - (a) Since the revaluation relates only to one CNC plant forming part of the larger class of Plant and Machinery and the surplus is recognised in Other Comprehensive Income rather than Profit and Loss, the auditor is not required to report under CARO 2020.

- (b) The auditor is required to report under Clause 3(i)(d) of CARO 2020 because the revaluation has resulted in an increase of more than 10% in the aggregate net carrying value of the class of assets, irrespective of the number of assets revalued or the accounting treatment of surplus.
 - (c) Reporting under CARO 2020 is required only where revaluation is carried out for the entire block of assets and not where selective revaluation is performed within a class.
 - (d) Since the asset revalued is a Right-of-Use asset under Ind AS 116 and not an owned asset, the reporting requirement under CARO 2020 relating to PPE does not apply.
2. In the context of reporting under Clause 3(ii)(b) of the Companies (Auditor's Report) Order, 2020, which of the following statements is most appropriate in the given scenario?
- (a) Reporting is not required because the outstanding balance at year-end was below ₹ 5 crore, and the clause is triggered only if the year-end utilisation exceeds ₹ 5 crore.
 - (b) Since the company is unlisted and the stock statements agree quantitatively with books, reporting under CARO 2020 is not mandatory.
 - (c) As working capital limits in excess of ₹ 5 crore were sanctioned at any time during the year against security of current assets, the auditor is required to report whether quarterly returns/statements filed with the bank are in agreement with the books of account.
 - (d) Reporting is required only if material discrepancies are observed between the statements submitted to the bank and the books of account.
3. What would be the auditor's responsibility for the reporting of the unsecured loan as discussed in scenario?
- (a) The auditor is required to report the loan as the Loan will be considered as NPA under prudential norms.

- (b) The auditor must report the aggregate amount of loans granted during the year and the balance outstanding at year-end. However, reporting of default will not be required.
 - (c) Since the borrower is a joint venture and not a subsidiary, the reporting will be required under SMA-1 Category by the Company.
 - (d) Negative operating cash flows of the joint venture automatically require the auditor to report impairment under the Audit Report.
4. What will be the Bhism & Co.'s responsibility for reporting under BRSR in the current scenario?
- (a) BRSR reporting is on ESG-related matters, and the same does not fall under the scope of financial audit, and hence the auditor Bhism & Co. should not verify any disclosure of BRSR reporting.
 - (b) The auditor Bhism & Co. is required to express a reasonable assurance opinion on the BRSR Report as it is part of the auditor's responsibility under the Companies Act, 2013.
 - (c) Although sustainability disclosures under BRSR are outside the primary financial statements, the auditor Bhism & Co. is required under SA 720 (Revised) to read such other information and consider whether it is materially inconsistent with the financial statements or the auditor's knowledge obtained during the audit.
 - (d) The auditor Bhism & Co. is required to report compliance with Principle 2 and under Paragraph 3 of CARO 2020 as it relates to responsible production practices and consumer protection measures.
5. With respect to the use of Microsoft Power BI for identifying high-value sales transactions recorded during non-business hours, which of the following represents the most appropriate audit approach?
- (a) The auditor may rely entirely on the dashboard outputs generated through Power BI as it provides sufficient and appropriate audit evidence since the data was extracted from the client's ERP system.
 - (b) The analytics results may be considered sufficient audit evidence, and no further audit procedures will be necessary.

- (c) The auditor should use the analytics output to identify unusual trends and potential risk areas, and thereafter perform additional substantive procedures, verify supporting shipping documents, and evaluate relevant IT general controls and user access logs.
- (d) Since CARO 2020 does not specifically mandate the use of data analytics tools, the auditor is not required to consider the unusual timing of sales transactions.

Independent MCQs

6. Sunny & Co. has been appointed as the Central Statutory Auditor of Money Bank Ltd., a private sector bank registered with the Reserve Bank of India, for the financial year 2024–25.

While reviewing the computation of Demand and Time Liabilities (DTL), the engagement partner observed the following treatment of certain items:

Sr. No.	Particulars of Item	Inclusion/Exclusion
1	Net credit balance of Branch Adjustment Account	Inclusion
2	Amount received from ECGC by invoking the guarantee	Exclusion
3	Amounts received in INR for disposal of import bills shown under Sundry Deposits	Inclusion
4	Unaccounted inward remittances received on behalf of customers	Inclusion
5	Margins held and kept in sundry deposits for funded facilities.	Inclusion

Identify the aforementioned serial numbers of the items that have been incorrectly included in, or excluded from, the computation of Demand and Time Liabilities (DTL).

- (a) Items at Sr. No. 1 & 4, respectively.
- (b) Items at Sr. No. 2, 3 & 5, respectively.
- (c) Items at Sr. No. 1 & 3, respectively.

(d) Items at Sr. No. 3 & 5, respectively.

7. An audit team was scheduled to conduct the year-end physical verification of inventory at a client's warehouse. However, due to unexpected travel restrictions and safety guidelines, the auditors are unable to visit the warehouse in person. To avoid delay in completing the audit, the client proposed the use of Augmented Reality (AR)-enabled devices to enable the auditor to observe inventory remotely.

Which of the following options correctly explains how Augmented Reality (AR) would assist the auditor in this situation?

- (a) It allows users to view the real-world environment with added elements, generated by digital devices.
 - (b) It is step forward and replaces the real world entirely with a simulated environment, created through digitally generated images, sounds, and even touch and smell.
 - (c) With a help of this, the user can explore a simulated world or simulate experiences such as flying or skydiving.
 - (d) It captured audit information which can be combined with various alternative sources of information to optimise quality of deliverables, consolidate audit information and enhance the execution speed while ensuring correctness and completeness of data.
8. GAMA & Associates, was appointed as the statutory auditor of SARA Ltd., an unlisted company engaged in paper manufacturing. During the audit, the following observations were made:

Observation 1: A major flood during the year damaged one of the company's warehouses, resulting in losses. The management has adequately disclosed the same in the financial statements and considers the loss to be not material.

Observation 2: Due to the flood, certain transaction records were completely destroyed, and no duplicate records were maintained. The impact of this matter is material but not pervasive.

Under which heading GAMA and Associates should report Observation 1 and 2 in the audit report.

- (a) Emphasis of Matter paragraph; Qualified Opinion
- (b) Qualified Opinion; Disclaimer of Opinion
- (c) Key Audit Matter; Adverse Opinion
- (d) No reporting required; Emphasis of Matter paragraph

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Quality Control

9. M/s KRM & Associates, Chartered Accountants, is the statutory auditor of Velocity Engineering & Projects Ltd., a listed company engaged in execution of large-scale infrastructure projects under Engineering, Procurement and Construction (EPC) contracts across India and overseas.

The firm has an experienced partner designated as Engagement Quality Control Reviewer for listed entity audits.

During the audit for the year ended 31st March 2025, the engagement team noticed the following matters:

- Revenue of ₹ 1,250 crores recognised under long-term EPC contracts using percentage of completion method based on cost-to-cost input method under Ind AS 115. Significant variation claims and escalation clauses were included in transaction price based on management's assessment of "high probability of recovery".
- Impairment testing of investments in step-down foreign subsidiaries executing overseas EPC contracts, where cash flow projections were based on aggressive assumptions about future contract awards.

- Disagreement between the senior member of the audit team and the engagement partner regarding inclusion of variation claims as part of transaction price, with the senior member recommending external technical consultation.
- The firm did not have internal infrastructure specialists. However, external consultation was obtained, and the matter was resolved without formal documentation of consultation process.
- The Engagement Quality Control Reviewer was informed about the audit but:
 - The review was conducted only at a summary level.
 - Detailed evaluation of significant judgments relating to revenue recognition and impairment was not performed.
 - The audit report was signed before completion of formal EQCR documentation.
 - Differences of opinion, if any, were not formally documented or resolved.
- The working papers contain general review notes but no detailed documentation evidencing depth of consultation or completion of objective EQCR procedures prior to issuance of the audit report.

You are required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1.

Completion and Review

10. CA Kanishka is auditor of a company engaged in poultry farming and egg production. The company has performed very well since its incorporation in 2015. Its sales had also grown and the company had expanded its operations from its home state in North India to eastern regions of the country.

However, over the past two years, the company's financial performance has deteriorated significantly due to:

- The impact of the pandemic; and

- Three consecutive outbreaks of bird flu within a span of two years, resulting in substantial loss of livestock.

Consequently, the company's turnover declined sharply from ₹ 80 crores to ₹ 18 crores.

The management now wants to start with new batches of birds. The earlier working capital facilities of the company granted by bank have also been restructured to support the business. She was informed that the repayments of restructured working capital term loans are to begin from ensuing year. No fresh credit facilities have been granted by the bank. The company also plans longer credits from animal feed suppliers.

The company plans to take additional measures to prevent the safety of live stocks, including aggressive vaccination, preventive health check-ups, and more frequent visits of veterinary staff.

Further, the company is facing allegations from nearby villagers regarding environmental pollution.

The management has prepared a cash flow forecast for her examination. Discuss the approach to be adopted by her in examining the "going concern" assumption keeping in view above with specific reference to cash flow forecast.

Reporting

11. ABC Limited is a listed manufacturing company engaged in heavy engineering activities. During the audit of its financial statements for the year ended 31st March 2025, the statutory auditor noted the following:

- The company has overstated closing inventory by ₹ 8.75 crore due to incorrect valuation of obsolete stock, which has resulted in overstatement of profit before tax by the same amount.
- The company has not disclosed a material pending litigation of ₹ 12 crore relating to environmental penalties, which is required to be disclosed under applicable financial reporting framework.

The auditor has obtained sufficient appropriate audit evidence in respect of both the matters. However, management has refused to adjust the inventory valuation and has also declined to disclose the pending

litigation. The auditor has concluded that the misstatements are material but not pervasive to the financial statements.

Required:

- (a) Explain how the auditor should report the above matters in the audit report, with specific reference to the "Basis for Opinion" section.
- (b) State the relevant reporting requirements applicable in this case.
- (c) Conclude the type of audit opinion that should be issued.

Related Services

12. A Chartered Accountant has been requested to undertake a compilation engagement for preparation of financial information of an entity. The financial information is intended to be used by a group of external stakeholders and the engagement is expected to continue on a recurring basis.

While considering acceptance of the engagement, the practitioner holds preliminary discussions with management regarding the manner in which the engagement will be carried out and the nature of the financial information to be prepared.

In the above context, analyse the matters that the practitioner should ensure are clearly understood and agreed with management before commencing the engagement.

Review of Financial Information

13. CA Amar has been approached by a company to undertake a review of its historical financial statements under SRE 2400. During preliminary discussions, the practitioner observes that:
- Certain key financial information may not be available.
 - Management has imposed restrictions on the scope of work.
 - There are concerns regarding management's integrity and compliance with ethical requirements, including independence.

In the above circumstances, explain the factors affecting the acceptance and continuance of a review engagement. Also state the situations in

which, unless required by law or regulation, the practitioner should not accept the review engagement.

Digital Auditing and Assurance

14. Impression Pvt. Ltd. is an e-commerce company that has recently started using blockchain technology to record customer payments made through cryptocurrency and to execute smart contracts with suppliers. The system is connected to the company's existing accounting software through Application Programming interfaces (APIs).

Management believes that blockchain is fully secure because transactions cannot be altered once recorded. However, the auditor is concerned about issues such as loss of private keys, inability to reverse incorrect transactions, cyber-attacks on network nodes, data privacy compliance, and changing legal regulations relating to cryptocurrency.

What are the common risks associated with the use of blockchain technology? Also discuss the probable audit implications when an organisation uses blockchain technology.

Special Features of Audit of Banks & Non-Banking Financial Companies

15. During the statutory audit of Fair Bank, you are examining the Cash Credit account of M/s Bright Traders as at 31st March, 2025.

The following facts are observed:

- Sanctioned Limit: ₹ 4 crore
- Outstanding as on 31st March, 2025: ₹ 4.10 crore
- Excess over limit: ₹ 10 lakh for 15 days
- Latest stock statement available: dated 31st January 2025
- Renewal of limit was due on 28th February 2025 and is under process
- Interest is regularly serviced and no amount is overdue beyond 90 days
- Drawing Power is properly calculated based on the stock statement less than 3 months old

The Branch Manager has treated the account as Standard Asset. Examine whether the account requires classification as NPA.

Overview of Audit of Public Sector Undertakings

16. RST Ltd., a public sector company engaged in power generation, has recently completed five years of operations. The Board of Directors has requested an audit to evaluate not only the accuracy of its financial statements but also the efficiency of operations, adequacy of internal controls, and overall performance of the company. Preliminary review shows:

- Several projects experienced cost overruns compared to approved budgets.
- Some plants are operating below installed capacity.
- Raw material and fuel consumption exceed standard norms, and inventory management appears weak.

Identify the type of audit suitable in this scenario and suggest the key issues that the auditors should examine during such type of audit, considering the company's operational and financial activities.

Internal Audit

17. LED Ltd., a manufacturing company, has recently implemented a new ERP system for processing all financial transactions. During the audit, the auditors notice that:

- Some User IDs are being shared among employees.
- It is not clear whether the audit trail feature has been consistently active and secure.
- Access logs for audit trails and configuration changes are not routinely reviewed.

Explain the purpose and importance of an audit trail in a computerized accounting system. Also advise the key internal controls which may be required to be implemented and operated to verify the functionality of the audit trail by the auditor.

Due Diligence, Investigation & Forensic Accounting

18. PMO Ltd., a manufacturing company, has received complaints of overstocking of raw materials and irregular payments to suppliers. The management has appointed SPY & Co. to investigate these issues and submit a report. Preliminary review shows that inventory records are incomplete, some purchase approvals were bypassed and supporting documents for payments are missing.
- (a) State the key steps the investigator should follow to conduct this investigation.
 - (b) Explain the important considerations the investigator must keep in mind while preparing the investigation report.

Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

19. ELEC Ltd. is a consumer-oriented company engaged in the manufacture and sale of household electrical appliances. The company promotes its products widely through online platforms and advertisements. However, some advertisements overstate the benefits of the products and do not clearly disclose information about environmental impact or safe disposal.

Further, customer complaints relating to data privacy breaches and defective products remain unresolved due to the absence of a structured grievance redressal mechanism. The company has also discontinued services to certain low-income regions, stating that it is not commercially profitable.

With reference to nine Principles of BRSR, analyse the above situation in relation to the responsibility of ELEC Ltd. towards its consumers.

Professional Ethics & Liabilities of Auditors

20. Mr. Ajit, a practicing Chartered Accountant, started a coaching institute for CA aspirants in Delhi. He displayed large hoardings across the city stating: "Coaching by CA Ajit – Also Undertaking Audit, Tax Audit and Attestation Assignments. Contact for Professional Services."

He also circulated pamphlets in nearby commercial areas inviting businesses to appoint him as statutory auditor.

Further, CA Ajit responded to a tender floated by a listed company for statutory audit work. The tender document did not prescribe any minimum fee. Furthermore, audit and attestation services were exclusively reserved for Chartered Accountants.

Examine whether CA Ajit is guilty of professional misconduct under the Chartered Accountants Act, 1949. Give reasons.



SUGGESTED ANSWERS

PART A: Answers to Multiple Choice Questions

Question No.	Answer
1.	(b)
2.	(c)
3.	(b)
4.	(c)
5.	(c)
6.	(d)
7.	(a)
8.	(a)

PART B: Answers to Descriptive Questions

9. In the given case, the auditor is required to examine compliance with requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review as per SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information and Other Assurance and Related Services Engagements" as follows:

Engagement Performance: Consistency in quality of engagement performance is achieved through briefing of engagement teams of their objectives, processes for complying with engagement standards, processes of engagement supervision and training, methods of reviewing performance of work, appropriate documentation of work performed.

In the given case, though complex and high-risk areas such as revenue recognition under long-term EPC contracts and impairment of overseas investments were involved, adequate documentation and supervision procedures are not evidenced.

Consultation should take place in difficult or contentious matters pertaining to an engagement. Consultation includes discussion, at the appropriate professional level, with individuals within or outside the firm who have specialized expertise, to resolve a difficult or contentious matter. It helps to promote quality and improves the application of professional judgment. Consultation procedures require consultation with those having appropriate knowledge, seniority and experience within the firm (or outside the firm) on significant technical, ethical and other matters and appropriate documentation and implementation of conclusions resulting from consultations.

A firm needing to consult externally, for example, a firm without appropriate internal resources, may take advantage of advisory services provided by other firms or professional and regulatory bodies. Complete and proper documentation should be maintained on issues involved and results of consultation.

In the given case, disagreement existed within the engagement team regarding inclusion of variation claims, and the firm lacked internal infrastructure specialists. In the absence of above, external consultation was obtained to resolve the matter. Though matter got resolved, no documentation for consultation process was maintained. This indicates non-compliance with consultation requirements.

Engagement Quality Control Review (EQCR): Significant judgments made in an engagement should be reviewed by an engagement quality control reviewer for taking an objective view before the report is issued.

The extent of the review depends on the complexity of the engagement and the risk that the report might not be appropriate in the circumstances. The review does not reduce the responsibilities of the engagement partner.

Engagement quality control review is mandatory for all audits of financial statements of listed entities. In respect of other engagements, firm should devise criteria to determine cases requiring performance of engagement quality control review.

In the present case, although the firm had an Engagement Quality Control Reviewer, the review was not adequately performed, significant judgments were not objectively evaluated in depth, and the audit report was issued before completion of proper EQCR procedures. This indicates non-compliance with the requirements relating to Engagement Quality Control Review.

Conclusion: In the given case, the audit involved significant judgments relating to revenue recognition under long-term EPC contracts and impairment of foreign investments, which constitute difficult and contentious matters requiring consultation at an appropriate professional level. Failure to document such consultation indicates non-compliance with engagement performance requirements.

Further, since Velocity Engineering & Projects Ltd. is a listed entity, Engagement Quality Control Review was mandatory. Though an Engagement Quality Control Reviewer existed in the firm, the review was not properly performed and was not completed before issuance of the audit report. Hence, the firm has failed to comply with the requirements relating to Engagement Performance, Consultation and Engagement Quality Control Review.

10. In accordance with SA 570, "Going Concern", if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

by performing additional audit procedures, including consideration of mitigating factors.

Where the entity has prepared a cash flow forecast, and analysis of forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions, it includes -

- (i) Evaluating the reliability of the underlying data generated to prepare the forecast and
- (ii) Determining whether there is adequate support for the assumptions underlying the forecast.

In the above situation, cash flow forecast has been prepared by management. Therefore, the auditor should carefully evaluate assumptions underlying forecast and also reliability of data to prepare the forecast. For example:

- She should verify assumption regarding new batch of livestock. The bankers have not provided fresh credit facilities. How funds from the same would be arranged? The reasonability of assumption in cash flow forecast needs to be looked into.
- She needs to check loan sanction letters/agreement to verify when repayments are beginning to see their accuracy in cash flow forecasts.
- The company plans to avail longer credits from animal feed suppliers. In the downturn situation of the company, how would suppliers extend longer credits? This is going to have effect on the cash flow forecast.
- Whether company has accounted for increased expenditure on preventive health check-up, vaccination and more frequent visits of veterinary staff in cash flow forecast.
- Since villagers have alleged the company of spreading air pollution, how does the company plan to deal with the same? Whether any proposed expenditure in this regard is accounted for

in the cash flow statement. She may also consider other implications of this issue and possible effect on cash flows.

11. Since the auditor has identified material misstatements in the financial statements and management has refused to rectify the same, the auditor is required to modify the audit opinion in accordance with SA 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report".

Amendment in Heading: When the auditor modifies the opinion, the auditor shall amend the heading "Basis for Opinion" to "Basis for Qualified Opinion", since the misstatements are material but not pervasive.

Description of the Matter: Within this section, the auditor shall include a description of the matter giving rise to the modification.

In case of overstated closing inventory, the auditor shall describe that closing inventory is overstated by ₹ 8.75 crore due to incorrect valuation of obsolete stock, resulting in overstatement of profit before tax by ₹ 8.75 crore.

Further, this relates to specific amounts in the financial statements, the auditor shall include a description and quantification of the financial effects of the misstatement (₹ 8.75 crore overstatement of inventory and profit).

Non-Disclosure of Required Information: In respect of the non-disclosure of pending litigation of ₹ 12 crore, the auditor shall:

- (i) Discuss the non-disclosure with those charged with governance.
- (ii) Describe in the "Basis for Qualified Opinion" section the nature of the omitted information (i.e., pending environmental litigation of ₹ 12 crore required to be disclosed); and
- (iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

Since the auditor has obtained sufficient appropriate audit evidence, and assuming it is not prohibited by law, the auditor may include the

omitted disclosure in the report. The auditor shall also communicate to those charged with Governance in accordance with SA 260.

Conclusion: Since the misstatements relating to inventory overstatement and non-disclosure of litigation are material but not pervasive, the auditor shall issue a Qualified Opinion and include a properly titled section "Basis for Qualified Opinion" containing:

- Description of the matters giving rise to modification,
- Quantification of financial effects (₹ 8.75 crore),
- Explanation of the omitted disclosure (₹ 12 crore litigation), and
- Inclusion of omitted disclosure, where practicable and not prohibited by law.

12. As per SRS 4410 "Compilation Engagements", the practitioner shall not accept the engagement unless the practitioner has agreed the terms of engagement with management, and the engaging party if different, including:
- (a) The intended use and distribution of the financial information, and any restrictions on either its use or its distribution where applicable.
 - (b) Identification of the applicable financial reporting framework.
 - (c) The objective and scope of the compilation engagement.
 - (d) The responsibilities of the practitioner, including the requirement to comply with relevant ethical requirements.
 - (e) The responsibilities of management for
 - (i) The financial information, and for the preparation and presentation thereof, in accordance with a financial reporting framework that is acceptable in view of the intended use of the financial information and the intended users
 - (ii) Design, implementation and maintenance of such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

- (iii) The accuracy and completeness of the records, documents, explanations and other information provided by management for the compilation engagement and
 - (iv) Judgments needed in the preparation and presentation of the financial information, including those for which the practitioner may provide assistance in the course of the compilation engagement
 - (f) The expected form and content of the practitioner's report.
13. As per SRE 2400 "Engagements to Review Historical Financial Statements", the practitioner shall comply with relevant ethical requirements, including those pertaining to independence and the engagement partner is responsible for overall quality of each review engagement.

Factors affecting Acceptance and Continuance of Client Relationships and Review Engagements

Unless required by law or regulation, the practitioner shall not accept a review engagement if:

- (a) The practitioner is not satisfied:
 - (i) That there is a rational purpose for the engagement. Assurance engagements may only be accepted when the engagement exhibits certain characteristics that are conducive to achieving the practitioner's objectives specified for the engagement.

It may be unlikely that there is a rational purpose for the engagement if, for example, there is a significant limitation on the scope of work or the practitioner suspects association of the practitioner's name with the financial statements in an inappropriate manner. Similarly, when the engagement is intended to meet compliance requirements of relevant law or regulation and such law or regulation requires the financial statements to be audited, there is no rational purpose for such a review engagement.
 - (ii) That a review engagement would be appropriate in the circumstances. When the practitioner's preliminary

understanding of the engagement circumstances indicates that accepting a review engagement would not be appropriate, the practitioner may consider recommending that another type of engagement be undertaken. Depending on the circumstances, the practitioner may, for example, believe that performance of an audit engagement would be more appropriate than a review. In other cases, if the engagement circumstances preclude the performance of an assurance engagement, the practitioner may recommend a compilation engagement, or other accounting services engagement, as appropriate.

- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied.
 - (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable.
 - (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review or
 - (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes that the limitation will result in the practitioner disclaiming a conclusion on the financial statements.
- 14.** Blockchain is based on a decentralized and distributed ledger that is secured through encryption. Each transaction is validated by the blockchain participants, creating a block of information that is replicated and distributed to all participants. All blocks are sequenced so that any modification or deletion of a block disqualifies the information.

Despite resistance, the benefits associated with blockchain technology are being recognized across a variety of other industries. Some of the example of Blockchain includes Bitcoin, cryptocurrency transfer application - Blockchain in money transfer, blockchain smart contracts.

Common risks for blockchain technology: The strengths of blockchain can also be its weaknesses. The inability to reverse transactions and to

access data without the required keys make the system secure, but also mean that organisations need specific protocols and management processes to ensure that they are not locked out and have clear contingency plans. Operating through network nodes could also expose the organisation to cyber-attacks and data hacks, so security issues are important. Auditors should also ensure that the organisation has the necessary data management processes which complies with regulations. The regulatory landscape is still evolving for blockchain, so audit teams should check that compliance managers are following developments constantly and adapting processes accordingly.

Audit Implications: Auditors should consider the appropriate governance and security around the transactions. Although blockchain's core security premise rests on cryptography, there are risk factors associated with it. As blockchain interacts with legacy systems and business partners, concerns related to insecure application programming interfaces (APIs), data confidentiality and privacy cannot be ignored.

Weak blockchain application development protocols are something auditors cannot overlook. Similarly, data privacy laws and regulations may be an area of concern as data are communicated across geographic boundaries. Auditors must be able to determine whether the data put on blockchain will expose the enterprise for noncompliance with applicable laws and regulations.

In the given situation, Impression Pvt. Ltd. uses blockchain for cryptocurrency payments and smart contracts integrated with its accounting system. Though management considers it fully secure due to immutability, risks such as private key loss, irreversible errors, API weaknesses, cyber threats, and regulatory uncertainty remain. Hence, the auditor must assess IT controls, legal compliance, and reconciliation processes, as blockchain improves integrity but does not eliminate audit risk.

15. In the given case, the borrower is enjoying a cash credit facility of ₹ 4 crore and the outstanding balance as on 31st March 2025 is ₹ 4.10 crore. The excess over limit has continued only for 15 days. The latest stock statement available with the bank is dated 31st January 2025, which is within three months from the balance sheet date. The renewal of the limit, though

due, is under process. Interest is being serviced regularly and no amount is overdue beyond 90 days.

Banks should not classify an advance account as NPA merely due to the existence of some deficiencies which are temporary in nature such as non-availability of drawing power based on latest available stock statement, balance outstanding exceeding the limit temporarily and non-renewal of limits on the due date. However, stock statements relied upon by the banks for determining drawing power should not be older than 3 months. The outstanding in the account based on drawing power calculated from stock statements older than 3 months are considered as irregular.

Since the deficiencies in the account are purely temporary in nature, drawing power is based on stock statement not older than three months, and the account has not remained out of order for more than 90 days, the account should not be classified as NPA. Accordingly, the treatment of the account as a Standard Asset by the branch is in accordance with RBI IRAC norms.

- 16.** The audit required in this scenario is a Comprehensive Audit (Efficiency-Cum-Performance Audit). The areas covered in comprehensive audit naturally vary from enterprise to enterprise depending on the nature of the enterprise, its objectives and operations. The auditors combine aspects of Financial, Compliance and Performance audits. All the audit information is used in such a way that a holistic assessment is possible.

Some of the issues examined in comprehensive audit are:

- (a) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?
- (b) Have the planned production or operational outputs been achieved? Has there been under-utilisation of installed capacity or shortfall in performance and, if so, what has caused it?
- (c) Has the planned rate of return been achieved?

- (d) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
- (e) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
- (f) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
- (g) Does the enterprise have research and development programmes? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
- (h) If the enterprise has an adequate system of repairs and maintenance?
- (i) Are procedures effective and economical?
- (j) Is there any poor or insufficient or inefficient project planning?

17. Audit Trail (or Edit Log) is a visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source. Audit trails are a chronological record of the changes that have been made to the data. Any change to data including creating new data, updating or deleting data that must be recorded.

Records maintained as audit trail may include the following information:

- ◆ when changes were made i.e., date and time (timestamp)
- ◆ who made the change i.e., User Id
- ◆ what data was changed i.e., data/transaction reference; success/failure

Audit trails may be enabled at the accounting software level depending on the features available in such software or same may be captured directly in the database underlying such accounting software.

In order to demonstrate that the audit trail feature was functional, operated and was not disabled, a company would have to design and

implement specific internal controls (predominantly IT controls) which in turn, would be evaluated by the auditors, as appropriate. An illustrative list of internal controls which may be required to be implemented and operated are given below:

- ◆ Controls to ensure that the audit trail feature has not been disabled or deactivated.
- ◆ Controls to ensure that User IDs are assigned to each individual and that User IDs are not shared.
- ◆ Controls to ensure that changes to the configurations of the audit trail are authorized and logs of such changes are maintained.
- ◆ Controls to ensure that access to the audit trail (and backups) is disabled or restricted and access logs, whenever the audit trails have been accessed, are maintained.
- ◆ Controls to ensure that periodic backups of the audit trails are taken and archived as per the statutory period specified under the provisions of the Act.

As per facts of the case, in LED Ltd., the new ERP system shows weaknesses such as shared User IDs and lack of clarity over activation and review of audit trails. Since an audit trail records all data changes with user and time details, it ensures accountability and reliability of financial records. If not properly enabled and monitored, data integrity may be affected. Hence, the auditor should ensure the compliance of above.

- 18. (a)** As investigation involves a variety of situations, it is not possible to lay down any standardised procedure. However, usually, an investigation requires the following steps in order of sequence:

Step 1. Determination of objectives and establishment of scope of investigation.

Step 2. Formulation of the investigation programme.

Step 3. Examination and study of various records by reference to appropriate evidence.

Step 4. Analysis, processing and interpretation of findings.

Step 5. Preparation of report and drawing up of conclusions.

(b) The important issues to be kept in mind by the investigator while preparing his report are as follows:

- (i) The report should not contain anything which is not relevant either to highlight the nature of the investigation or the final outcome thereof.
- (ii) Every word or expression used should be properly considered so that the possibility of arriving at a different meaning or interpretation other than the one intended by the investigator can be minimized.
- (iii) Relevant facts and conclusions should be properly linked with evidence.
- (iv) Bases and assumptions made should be explicitly stated. Reasonableness of the bases and assumptions made should be well examined and care should be taken to see that none of the bases and assumptions can be considered to be in conflict with the objective of the investigation. For example, in an investigation into over-stocking of raw materials, inventories and spares etc. it should not be assumed that the ordering levels indicated on bin cards provide fair guidance about acquisition of further materials. Also, since investigation is a fact-finding assignment, assumptions should be made only when it is unavoidably necessary.
- (v) The report should clearly spell out the nature and objective of the assignment accepted its scope and limitations, if any.
- (vi) The report should be made in paragraph form with headings for the paragraphs. Any detailed data and figures supporting any finding may be given in Annexures.

- (vii) The report should also state restrictions or limitations, if any, imposed on the instructions given by the client. Preferably the reasons for placing such restrictions and their impact on the final result should also be stated.
- (viii) The opinion of the investigator should appear in the final paragraph of the report.

- 19.** In the given situation, ELEC Ltd.'s practices, such as overstating product benefits in advertisements, failing to disclose environmental and safe disposal information, leaving customer complaints on defective products and data privacy unresolved, and discontinuing services in low-income areas, indicate gaps in its responsibility towards consumers and conflict with Principle 9 of BRSR – "Provide Value to Consumers in a Responsible Manner.

As per Principle 9 "Provide Value to the Consumers in a Responsible Manner", the primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

- (a) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.
- (b) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.
- (c) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.
- (d) When handling customer data, the right to privacy of the customer needs to be maintained.

- (e) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.
- (f) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.
- (g) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.
- (h) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.

20. Advertisement through Hoardings and Pamphlets: Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 prohibits a Chartered Accountant in practice from soliciting clients or professional work either directly or indirectly by circular, advertisement, personal communication, interview or by any other means.

In the present case, CA. Ajit displayed hoardings advertising his audit and attestation services. He also circulated pamphlets inviting businesses to appoint him as statutory auditor.

Such acts clearly amount to direct solicitation by advertisement and circular, which is expressly prohibited. Further, as per Council Guidelines, advertisement of coaching/teaching activities in a manner that indirectly promotes professional practice (e.g., linking coaching with audit services) amounts to indirect solicitation and is also violative of Clause (6).

Although a member may display a signboard outside coaching premises mentioning the name of the institute, contact details and subjects taught, large hoardings promoting professional services are not permitted.

Responding to Tender for Statutory Audit: Clause (6) permits a member to respond to tenders or enquiries issued by users of professional services.

However, as per Council Guidelines a member shall not respond to any tender in areas exclusively reserved for Chartered Accountants (such as audit and attestation services), unless the tender document prescribes a minimum fee, or the services are open to other professionals also.

In the given case, the tender is related to statutory audit which is exclusively reserved for Chartered Accountants. Also, minimum fee was not prescribed in the tender document.

Hence, responding to such tender violates the Council Guidelines and amounts to professional misconduct.

In view of above, CA Ajit is guilty of professional misconduct under Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 for directly and indirectly solicitation of professional work through hoardings and pamphlets and responding to the tender for statutory audit.

**Applicability of Standards / Guidance Notes / Legislative Amendments
etc. for May, 2026 Examination**

Final Course

Paper 1: Financial Reporting

(I) List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions
3.	Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements	Indian Accounting Standard (Ind AS) 16 'Property, Plant and Equipment' Appendix B- Stripping Costs in the Production Phase of a Surface Mine
	(iv) Ind AS on Assets and Liabilities of the Financial Statements	Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets' - Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds - Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
	(vii) Other Ind AS	- Indian Accounting Standard (Ind AS) 29: Financial Reporting in Hyperinflationary Economies - Indian Accounting Standard (Ind AS) 106: Exploration for

		and Evaluation of Mineral Resources • Indian Accounting Standard (Ind AS) 114: Regulatory Deferral Accounts • Indian Accounting Standard (Ind AS) 117: Insurance Contracts
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(II) Important Points for Consideration

- (1) November, 2024 edition and Reprint August, 2025 and onwards of the Study Material is relevant for May, 2026 examination.
- (2) The relevant Amendments / Notifications / Circulars / Rules issued by the Companies Act, 2013 and Limited Revisions in existing standards, issued up to 31st October, 2025 will be applicable for May, 2026 Examination. Accordingly, limited revisions in Ind AS issued by MCA in the year 2025 i.e. on 7th May, 2025 and 13th August, 2025 are applicable for May, 2026 examination
- (3) Newly notified Ind AS becomes applicable only one year after its notification. However, though Ind AS 117: Insurance Contracts has been notified on 12th August, 2024, yet being an industry specific standard, it has been excluded for May, 2026 Examination. However, limited revisions in the existing applicable Ind AS consequent to notification of Ind AS 117 will be applicable in May, 2026 examination.
- (4) Limited discussion of Accounting Standards has been given at relevant places in the form of differences of particular provision in Ind AS vis-à-vis AS. Accounting standards do not form part of the syllabus. However, with respect to AS 7, AS 9, AS 19 and AS 22 where there are significant differences between Ind AS and AS, questions on these Accounting Standards (i.e. AS 7, AS 9, AS 19 and AS 22) testing differential treatments in both the set of standards (i.e. Ind AS and AS) may be asked in the examination.

Paper 3: Advanced Auditing, Assurance and Professional Ethics

Applicability of the Legislative Amendments for May, 2026 Examination: Students are expected to be updated with the notifications, circulars and other legislative amendments made up to 6 months prior to the examination. Accordingly, the relevant notified Sections and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to October 31st, 2025 will be applicable for May, 2026 Examination.