Test Series: March, 2021

MOCK TEST PAPER -1

FINAL (NEW) COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

All MCQs are compulsory

*Question No. **1** is compulsory.*

*Attempt any **four** questions from the Rest.*

Time Allowed – 3 Hours **Maximum Marks – 100**

DIVISION A – MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. A bank has some non-interest-bearing staff advances. In the Balance Sheet these should be presented under:
   (a) 'Term loans' under 'Advances'.
   (b) 'Cash Credits, Overdrafts and Loans Repayable on Demand' under 'Advances'.
   (c) 'Advances in India – Others' under 'Advances' Schedule.
   (d) 'Others' under 'Other assets.

2. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2020 and on 4th October 2020, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him?
   (a) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto Rs. 5,00,000.
   (b) Yes, it is a misconduct under under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.
   (c) Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto Rs. 1,00,000.
   (d) Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto Rs. 5,00,000.

3. CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?
   (a) In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
   (b) In accordance with SA 710, CA Ram should seek legal opinion.
   (c) In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only.
   (d) In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph.

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4. For the year ending 31st March 2021, SabkaVikas & Sons has made a claim for refund of custom duty for Rs. 2 crore but such refund was as admitted as due by authority in April 2021. SabkaVikas & Sons neither credited the claim in Profit and Loss account nor reported the same in clause 16 of Form 3CD. Can you please guide the auditor of SabkaVikas & Sons for reporting of refund of custom duty in accordance with clause 16 of Form 3CD?

   (a) Refund of custom duty to the extent of Rs. 2 crore should be reported in clause 16 as the same is admitted by the custom authorities.

   (b) Refund of custom duty to the extent of Rs. 2 crore need not be reported in clause 16 as it is admitted by custom authorities in the next financial year.

   (c) No disclosure is required as refund of custom duties is not covered under clause 16.

   (d) Auditor should take a written representation from the management stating that refund of custom duty of Rs. 2 crore will be credited to profit and loss account for the financial year ending 31st March 2022 and thus, no reporting is required.

5. B Limited controls entity C Limited (75%) and entity A Limited (an investment company). Entity B Limited reduced the control of entity C Limited from 75% to 60%. With regard to that certain adjustments were made to account for the change in the shareholding of entity C Limited which is consolidated. These adjustments are known as:

   (a) Memorandum adjustments.

   (b) Current period consolidation adjustments.

   (c) Permanent consolidation adjustments.

   (d) Temporary period consolidation adjustments.

6. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2020-21. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to Rs. 46 crores (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to Rs. 33 crores (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the material discrepancies just before the finalisation of the audit report for the year ending 31.03.2021. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent.

   What is correct course of action that CA Kamal should consider in such a situation?

   (a) CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2020-21.

   (b) CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report.

   (c) CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report.

   (d) CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.

7. Preparing the financial statements in accordance with the applicable financial reporting framework is the responsibility of the management of ABC Ltd. Which of the following is correct in regard to the disclosure of such management responsibility?

   (a) This is implied responsibility of management and is presumed in an audit of financial statements and therefore need not be specifically mentioned anywhere.

   (b) The management may undertake to accept such responsibility through an engagement letter itself.

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(c) The auditor's report should describe the management responsibility in a section with heading "responsibility of management for financial statements".

(d) The auditor's report should refer to the responsibility of auditors and not that of the management as the same is obvious.

8. The firm from which you are pursuing your articleship training is the internal auditor of ABC Ltd. While conducting the audit of the medical expense reimbursements of the company employees, you come across some bills which are clearly not medical in nature, and some others which have been overwritten. During the discussions, the accountant points out that the employee is a functional head who enjoys a significantly higher medical expense reimbursement limit, and that you should ignore those bills as the amount is not material. You will:

(a) Accept the explanation and the bills.

(b) Recommend that the claim should be reduced, and clear guidelines should be issued to all employees on the matter, with a provision for disciplinary action.

(c) Recommend that the employee be asked to submit fresh bills to avail the tax benefit.

(d) Recommend that the employee be taxed on the aggregate amount of the suspect bills.

9. Sudarshan Roh (P) Ltd. is having 5 branches across India. Its branch-wise turnover during the financial year 2019-20 is:

Branch	Turnover (Rs. in Crore)
Bangalore	1.65
Mumbai	2.95
Delhi	3.35
Chennai	Nil
Calcutta	3.00

The Company would be subject to audit under section 35(5) of the CGST Act, select the correct option from the following-

(a) Only Mumbai and Delhi would be subject to audit.

(b) None of the branch would be subject to audit.

(c) All the branches would be subject to audit except Chennai.

(d) All the branches would be subject to audit.

10. The acceptable detection risk needs to be _____ in order to reduce the audit risk to _____ in the area of inventories management and handling.

(a) low in order to reduce audit risk to an acceptably high level.

(b) high in order to reduce audit risk to an acceptably high level.

(c) low in order to reduce audit risk to an acceptably low level.

(d) high in order to reduce audit risk to an acceptably low level. **(10 x 1 = 10 Marks)**

Questions (11-20) carry 2 Marks each

MCQ 11. -15.

Integrated Case Scenario 1

CA D was a practicing Chartered Accountant in Kolkata from last 15 years. He was appointed as the statutory auditor of Giant Motors Ltd, a listed entity, which was involved in the business of manufacturing of motor cars for FY 2019-20. CA D was appointed as joint auditor along with CA T and CA P. They have divided the

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responsibility for conducting audit in accordance with SA 299. As the company has huge amount of property, plant and equipment, it was decided that all 3 auditors will verify the records relevant to property, plant and equipment. While forming an opinion, CA D was having a different opinion on property, plant and equipment but CA T and CA P were having same opinion. CA D wants to qualify capitalisation of post-acquisition costs incurred on machinery whereas CA T and CA P were of the opinion that the treatment done by Giant Motor is correct. Both of them contended that as they are forming a majority, CA D will have to certify common audit report which is in accordance with the opinion of CA T and CA P. While assessing the applicability of CARO, 2016, CA D found that issued share capital of Giant Motors Ltd is Rs. 500 crore along with Rs. 30 crore of calls which are being unpaid as they are receivable from retail investors. In the month of July 2019, Giant Motors Ltd. forfeited shares of worth Rs. 10 crore. There were no reserve and surplus as it was transferred to parent entity. Also, along with equity shares of Rs. 300 crore, there was preference share capital of Rs. 200 crore. CA T while reporting under clause (vi) of CARO, 2016 did not report anything under clause (vi) of CARO 2016 as the government has not ordered Giant Motors Ltd. to conduct cost audit for its books of account. Hence CA T did not report anything under clause (vi). Giant Motors Ltd has a total number of 11 directors. Mr. Talent is the Executive Chairman of the company. Out of 11 directors, 5 were independent directors.

Mrs. D was not aware that CA D was the statutory auditor of Giant Motors Ltd. She purchased shares of Giant Motors Ltd worth Rs. 1,50,000 (book value) on 3rd October 2020 but when she came to know about the statutory auditor of Giant Motors Ltd, she sold her shares on 10th November 2020. One of the shareholders of Giant Motors Ltd contended that CA D is disqualified and shall vacate his office of statutory auditor.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Multiple Choice Questions (5 questions of 2 Marks each):

11. Can you please guide whether CA D really needs to go with the opinion formed by CA T and CA P or not?
    (a) CA D will have to go with the opinion formed by majority auditors.
    (b) CA D can add a separate audit opinion paragraph in the common audit report and the same should be highlighted in emphasis of matter paragraph.
    (c) CA D can go with the opinion formed by the majority auditors, but CA D had a difference of opinion should be highlighted in emphasis of matter paragraph.
    (d) CA D can altogether issue a separate audit report and reference of other audit report issued by majority auditors should be made in the emphasis of matter paragraph.
12. What should have been CA D's opinion on applicability of CARO, 2016 for FY 2019-20 assuming forfeited shares are not included in equity share capital?
    (a) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 1 crore.
    (b) CARO will be applicable as paid up share capital and reserves are Rs. 480 crore which is more than Rs. 10 crore.
    (c) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 1 crore.
    (d) CARO will be applicable as paid up share capital and reserves are Rs. 280 crore which is more than Rs. 10 crore.
13. Was the approach followed by CA T for not reporting under clause (vi) of CARO correct?
    (a) Yes, as reporting under said clause is required only if the Giant Motors Ltd were ordered by government to conduct cost audit under section 148(1).

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(b) Yes, reporting under this clause is only applicable to entities involved in production of electricity.

(c) No, Clause (vi) should be reported irrespective of whether Giant Motors Limited has been ordered to conduct cost audit by the Central Government or not.

(d) No, should be reported only if there is any discrepancy found while examining the cost records.

14. Was there any non-compliance on the part of Giant Motors Ltd in case of appointment of independent directors?

(a) No, there was no non- compliance as independent directors were more than 2 directors specified in the Companies Act, 2013.

(b) Yes, there was a non-compliance as there should have been more than 6 independent directors specified in Regulation 17 and Regulation 17A.

(c) No, there was no non-compliance as independent directors were 5, which is more than 2/3 of the total directors in accordance with Regulations 17 and Regulation 17A.

(d) Yes, there was a non-compliance as all the directors should have been independent directors except the Chairman of the company.

15. Was the contention of shareholder that CA D should vacate the office of statutory auditor correct?

(a) No, as Mrs. D has sold the shares within a grace period of 60 days.

(b) No, as Mrs. D is holding shares of less than book value of Rs. 2,00,000.

(c) Yes, as Mrs. D has purchased shares which are more than book value of Rs.1,00,000.

(d) Yes, as Mrs. D hold share during the financial year and his husband is statutory auditor of Giant Motors Ltd.

MCQ 16. -20.

Integrated Case Scenario 2

Well & Associates, an audit firm, was selected for the purpose of Quality Review by the Quality Review Board (QRB) as it was having many of statutory audit assignments of clients engaged into sectors identified as prone to fraud.

There were adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh an engagement partner of Well & Associates because of which the QRB selected 5 audit engagements of the firm for Quality review.

Mr. Jay, a practicing CA for more than 25 years was appointed as the Technical Reviewer to conduct the Quality Review of the said firm and accordingly, Mr. Jay, after conducting the Quality review with a team of 3 assistants, submitted his preliminary report to Well & Associates with qualifications as under:

Sr. No.	Description of Qualifications
1	The AFUR (Audit Firm Under Review) had not obtained a written confirmation of compliance with its policies and procedures on independence from all firm personnel for the past 2 financial years.
2	The AFUR had established the policies and procedures for assembling of the final audit file in accordance with the time limit prescribed in SA 230 but there were delays observed in the same. (Please Refer Note, as below, for the same)
3	For two of the audit engagements of the AFUR, no engagement documentations were available for the same and as per the statement of the partner of the AFUR, after retaining them for 4 years and 6 years, respectively, were sent to the Principal Auditors of the said audit engagements.

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4	There were also instances of delays observed in communicating the significant deficiencies to those charged with governance. (Please Refer Note, as below, for the same)
5	The AFUR had revised its performance materiality level in case of one of its statutory audit assignments with respect to auditing of Financial Leasing transactions and the AFUR had only documented such revision in the performance materiality level.

Note:

Name of the entity under audit of AFUR	Type of Entity	Date of Approval Financial Statements	Date of Audit Report	Date of assembly of Final Audit File	Date of written communication of significant deficiencies in internal control by AFUR
Req Ltd.	Listed	31.05.2021	25.06.2021	03.09.2021	05.06.2021
TIMCO (P) Ltd.	Unlisted	15.06.2021	18.08.2021	05.11.2021	25.08.2021
Gles Pvt. Ltd.	Unlisted	16.07.2021	28.07.2021	15.09.2021	18.09.2021
Findey Ltd.	Listed	12.05.2021	01.06.2021	01.08.2021	05.05.2021
DM Ltd.	Unlisted	25.04.2021	18.05.2021	25.06.2021	04.07.2021

On the basis of the abovementioned facts, you are required to answer the following MCQs:

Multiple Choice Questions (5 questions of 2 Marks each):

16. Well & Associates should have obtained a written confirmation of compliance with its policies and procedures on independence from all of its firm personnel as per requirements of which Statue / Standard and in what frequency?

    (a) As per the requirements of Council Central Guidelines, 2008, at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.

    (b) As per the requirements of Standard on Quality Control 1 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.

    (c) As per the requirements of SA 220 at least annually, Well & Associates should have obtained a written confirmation from all of its firm personnel.

    (d) As per the requirements of Code of Ethics at least half yearly, Well & Associates should have obtained a written confirmation from all of its firm personnel.

17. In case of which entities under audit of Well & Associates, there was delay in assembly of Final Audit File?

    (a) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and Findey Ltd., respectively.

    (b) Req Ltd., TIMCO (P) Ltd. and Findey Ltd., respectively.

    (c) Req Ltd. and TIMCO (P) Ltd., respectively.

    (d) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd., Findey Ltd. and DM Ltd., respectively.

18. In case of which entities under audit of Well & Associates, there was delay in written communication of significant deficiencies in internal control?

    (a) TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.

    (b) Req Ltd., TIMCO (P) Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.

    (c) DM Ltd.

    (d) Req Ltd., Gles Pvt. Ltd. and DM Ltd., respectively.

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19. For at least how many more years, Well & Associates should have retained the engagement documentation in respect of the two audit engagements as referred above?

    (a) 3 years and 1 year, respectively.

    (b) 4 years and 2 years, respectively.

    (c) 1 year and for other audit engagement documentation was retained for requisite period.

    (d) 6 years and 4 years, respectively.

20. How many audit engagements of Well & Associates the QRB might have selected if there were no adverse findings by the Technical Reviewer in the Quality review conducted in the past of Mr. Ramesh, partner of Well & Associates?

    (a) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh.

    (b) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh

    (c) QRB might have selected up to 5 audit engagements of Well & Associates for review and not more than 2 audit engagements of Mr. Ramesh

    (d) QRB might have selected up to 3 audit engagements of Well & Associates for review and not more than 1 audit engagement of Mr. Ramesh. **(10 x 2 = 20 Marks)**

Division B- Descriptive Questions-70 Marks

Question No. **1** is compulsory.

Attempt any **four** questions from the Rest.

1. (a) J.A.C.K. & Co., a Chartered Accountant firm was appointed as the statutory auditor of Falcon Ltd. after ensuring the compliance with relevant provisions of the Companies Act, 2013. Mr. Jay was the engagement partner for the aforesaid audit and prior to commencement of the audit, Mr. Jay had called for a meeting of the engagement team in order to direct them and assign them their responsibilities. At the end of meeting, Mr. Jay assigned review responsibilities to two of the engagement team members who were the most experienced amongst all, for reviewing the work performed by the less experienced team members. While reviewing the work performed by the less experienced members of the engagement team, what shall be the considerations of the reviewers?

    (5 Marks)

    (b) Rajul Ltd had a net worth of INR 2500 crores because of which Ind AS became applicable to them. The company had various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fair valued for which company got the fair valuation done through an external third party. The statutory auditors of the company involved an auditor's expert to audit valuation of derivatives. Auditor and auditor's expert were new to each other i.e., they were working for the first time together but developed a good bonding during the course of the audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(5 Marks)**

    (c) Mokshda & Co is the statutory auditor of Get My Trip Ltd. The company is in the business of tours and travels. Annual turnover of the company is INR 2765 crore and profits are INR 285 crore. During the planning meeting of the management and the auditors, it was discussed that the management needs to provide written representation letter to the auditors for the preparation of the financial statements and for the completeness of the information provided to the auditor. At the time of closure of the audit, there has been some confusion about the requirements of the written representation letter. Management argued that representation need not be written, it can also be verbal which has been provided to the audit team during the course of their audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions

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with the auditors has also got documented. Auditors explained that this is mandatory to obtain written representation in accordance with the requirements of SA 580. However, still some confusion remains regarding the date and period covered by the written representation. You are required to advise about the date of and period covered by written representation in view of SA 580. **(4 Marks)**

2. (a) RAO & Co., a Chartered Accountant Firm, is appointed as the principal auditor of a listed company, Triumph Ltd.

Figures of income and net-worth of five out of seven components of Triumph Ltd., which are its unlisted subsidiaries, is tabulated below for the immediate preceding financial year along with the consolidated amount:- (Rs. in crores)

Particulars	Consolidated	Component 'A'	Component 'B'	Component 'C'	Component 'D'	Component 'E'
Income	300	35	10	70	65	20
Net Worth	800	40	20	140	180	50

The remaining two components i.e., Component 'F' & Component 'G' of Triumph Ltd. were unaudited. According to Mr. RAO, the engagement partner, Component 'F' is material to the consolidated financial statements whereas Component 'G' is not material to consolidated financial statements and this fact has also been discussed in writing with those charged with governance of Triumph Ltd. and it will also form part of report as a 'Key audit matter' in accordance with SA 701.

(i) Which of the components of Triumph Ltd. can be termed as "material subsidiary" and in the board of which of the unlisted subsidiaries at least one independent director of Triumph Ltd. needs to be appointed or would be appointed? **(5 Marks)**

(ii) What shall be the audit consideration in relation to reporting in case of unaudited components of Triumph Ltd. by RAO & Co. and how RAO & Co. as a principal auditor shall report in case of Component 'F' & Component 'G', respectively? **(4 Marks)**

(b) M/s SS limited is a partly owned subsidiary of M/s HH limited. For the upcoming financial year, M/s DD & Co., Chartered Accountants, were appointed as the statutory auditors of SS limited. The CEO of the holding company was impressed with the knowledge and experience of Mr. D, one of the partners of the firm and hence, he offered Mr. D to take up the position of Director (not MD/ whole-time director) of HH limited. At the same time, Mr. D's friend approaches him with an assignment to act as a Recovery Consultant for a bank. Mr. D is now confused whether to accept or reject the offers. He approaches you and seeks your advice on the same. Advise what Mr. D about what he can do with the offers with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(5 Marks)**

3. (a) R.O.K. & Co. and TNK & Co. were appointed as the joint statutory auditors at the AGM of Auspic General Insurance Co. Ltd. Apart from the aforesaid audit, R.O.K. & Co. is also being appointed as a joint statutory auditor of one another General Insurance Company and TNK & Co. is appointed as a joint statutory auditor of Life Insurance Company. How many further audits can be accepted by R.O.K. & Co. and TNK & Co., respectively, of either general or life insurance companies?

(4 Marks)

(b) Mr. Raj, the engagement partner of R.O.K. & Co., in connection with statutory audit of Waria Ltd., had assigned the responsibility of enquiring into propriety matters of the Company as required by section 143(1) of the Companies Act, 2013, to Mr. Samay, an engagement team member. Mr. Samay while making such enquiries, was having following queries, as tabulated below, which he ought to get resolved from Mr. Raj, as follows:-

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Sr. No.	Query of Mr. Samay
1	What documents to be seen in case of loan given by the company in lieu of hypothecation of goods from lender as a security for the purpose of reporting as per clause (a) of section 143(1) of the Companies Act, 2013?
2	What shall be the cost of Debentures and Bonus Shares sold by the company for which the cost is not ascertainable for the purpose of reporting as per clause (c) of section 143(1) of the Companies Act, 2013?
3	Whether the shares allotted by Waria Ltd. against a loan taken by it from a NBFC can be considered to be allotted for cash for the purpose of reporting as per clause (f) of section 143(1) of the Companies Act, 2013?

Assuming that you are Mr. Raj the engagement partner, please provide answer to the queries of Mr. Samay? **(6 Marks)**

(c) A letter is sent by Mr. Raja, a Chartered Accountant in practice, to the Ministry of Finance inquiring whether a panel of auditors is being maintained by the Ministry and if so to include his name in the panel. He also enclosed his CV. Comment on the above with reference to the Chartered Accountants Act, 1949 and Schedules thereto. **(4 Marks)**

4. (a) In course of audit of Decent Samaritan Bank as at 31st March, 20 you observed the following:

(i) In a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the Central Government and hence these norms were not applicable. The bank has not invoked the guarantee. Please respond. Would your answer be different if the advance is guaranteed by a State Government?

(ii) The bank's advance portfolio comprised of significant loans against Life Insurance Policies. Write suitable audit program to verify these advances. **(6 Marks)**

(b) CA. Sudarshan, appointed as a Peer Reviewer for M/s. Preet Associates, has asked for all the management consultancy engagements and engagements solely to assist the client in preparing, compiling or collating information other than financial statements carried out by M/s. Preet Associates for peer review during the period considered for peer review purposes by the board. Peer Reviewer CA. Sudarshan has also sent out a mail to Peer Review Board regarding his selection. Mr. Preet, the managing partner of the firm seeks your advise on this matter.

(4 Marks)

(c) Mr. Abhinandan engaged in business as a sole proprietor presented the following information to you for the FY 2020-21. Turnover expected to be made during the year Rs. 524 lacs. Goods returned in respect of sales made during FY 2019-20 is Rs. 20 lacs not included in the above. Cash discount allowed to his customers Rs. 1 lac for prompt payment. Special rebate allowed to customer in the nature of trade discount Rs. 5 lacs. Further, the aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent of the said amount and aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent of the said payment. Kindly advise him whether he has to get his accounts audited u/s 44AB of the Income Tax Act, 1961. **(4 Marks)**

5. (a) Mr. Z, a newly qualified chartered accountant started his practice in February 2018 by setting up an office in the hill station Kodaikanal. Initially, since he was getting very less assignments, he decided to set up a temporary office in the nearby city Marudai, situated at about 100 kms from the main office. As planned, he took an office space on rent for the months of April, May & June. During these months, his regular office was not closed and Mr. Z was in-charge for both the offices. Mrs.

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A, another newly qualified chartered accountant who is also in practice in Marudai came to know about the new office of Mr. Z. Thinking that he could be a potential competitor, she informed the institute stating that Mr. Z had violated the provisions of the Chartered Accountant Act. As a member of the Board of Discipline of ICAI, you are requested to analyse this complaint.

(5 Marks)

(b) The Marketing Department of ISHITA Ltd. has been consistently showing a lower performance whereas the cost of the department is increasing in spurts over the years. The management believes that since the marketing department is under a regular radar of the CFO, an audit might result in the employee hostility. Also, an operational audit of Marketing Department was done two years back however, the recommendations of the previous audit were not followed by the concerned employees. Please advise the management if another audit is the solution and whether only one-time operational audit is enough? Further, advise on the ways to deal with the employee hostility. **(5 Marks)**

(c) VM Ltd., a company wholly owned by Central Government was disinvested during the previous year, resulting in 45% of the shares being held by public. The shares were also listed on the BSE. Since the shares were listed, all the listing requirements were applicable, including publication of quarterly results, submission of information to the BSE etc.

Gautam, the Finance Manager of the Company is of the opinion that now the company is subject to stringent control by BSE and the markets, therefore the auditing requirements of a limited company in private sector under the Companies Act 2013 would be applicable to the company and the C&AG will not have any role to play. Comment. **(4 Marks)**

6. (a) LMN Ltd. entered into a deal with SP Ltd. for buying its business of manufacturing wooden products/ goods. LMN Ltd. has appointed your firm for conducting due diligence review and they want to know the cash generating abilities of SP Ltd. What points will you check in order to ensure that the manufacturing unit of SP Ltd. will be able to meet the cash requirements internally?

(5 Marks)

(b) Entertainment Paradise, a movie theatre complex, is the foremost theatre located in Chennai. Along with the sale of tickets over the counter and online booking, the major proportion of income is from the cafe, shops, pubs etc. located in the complex. Its other income includes advertisements exhibited within/outside the premises such as hoardings, banners, slides, short films etc. The facility for parking of vehicles is also provided in the basement of the premises.

Entertainment Paradise appointed your firm as the auditor of the entity. Being the head of the audit team, you are, therefore, required to draw an audit programme initially in respect of its revenue and expenditure considering the above mentioned facts along with other relevant points relating to a complex. **(5 Marks)**

(c) As auditor of ZED Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose?

(4 Marks)

OR

A real-time environment is a type of automated environment in which business operations and transactions are initiated, processed and recorded immediately (without any delay) as they happen. It has several critical IT components that enable anytime, anywhere transactions to take place. You are required to name the components and its example of real-time environment. **(4 Marks)**

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