

Roll No. ....

Total No. of Questions – 6

Total No. of Printed Pages – 16



Maximum Marks – 70

### GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. **The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.**
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit the descriptive answer books with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the descriptive answer book.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having / using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

### PART – II

70 Marks

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

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PART – II

1. (a) PQR Motors Ltd., a listed entity engaged in the manufacture, and sale of automobiles and related parts has prepared its annual financial statements for the financial year 2024-25. The company's management is also responsible for preparing other information, which includes :

(1) Annual Report :

- A Director's Report and Management Discussion & Analysis (MD&A) prepared by the management.
- A Corporate Social Responsibility (CSR) report highlighting the company's initiatives and outcomes.

(2) Chairman's Message :

- A message from the chairman discussing the company's financial performance and strategic outlook.

(3) Future Projections :

- Forward-looking statements in the annual report about anticipated growth in revenue and expansion plans.

The Statutory auditors, M/s ST & Co., Chartered Accountants, have completed its audit of the financial statements and prepared the auditor's report. During the course of the audit, the following circumstances arise :

- The Director's Report and MD&A are finalized and provided to the auditor before the date of the auditor's report.
- The Chairman's Message and Future Projections are not finalized but are expected to be included in the annual report, which will be released after the auditor's report is issued.

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Issues Identified :

- (1) In the MD&A, M/s ST & Co., noted a misstatement regarding the company's claim of achieving a 20% reduction in production costs. Audit evidence suggests the reduction was only 10%.
- (2) The Chairman's Message, which is yet to be reviewed, contains optimistic revenue projections that appear inconsistent with the historical growth trend.

Answer the following with reference to the relevant Standard on Auditing :

- (i) What should M/s ST & Co., include in the "Other Information" section of the auditor's report for PQR Motors Ltd. ?
  - (ii) If management does not correct the identified misstatement in the MD&A, even after the same was brought to their attention, what should M/s ST & Co. report under the "Other Information" section ?
- (b) Alpha Manufacturing Ltd. (AML) is engaged in the production of speciality machinery for the automotive industry. The company operates in a competitive market and is under pressure to meet aggressive revenue and profitability targets to secure additional funding from the investors. The audit firm BETA LLP has been engaged to conduct AML's statutory audit for the financial year 2024-25. BETA LLP performed risk assessment procedures and related activities towards obtaining information in identifying risk of material misstatement due to fraud and also evaluated whether there is an indication that one or more fraud risk factors are present. Analytical procedures reveal unexpected relationships potentially indicating fraudulent activities, such as sales inflation by

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management to meet earnings targets. Management is inflating sales by entering into sales agreements that include terms that preclude revenue recognition or by invoicing sales before delivery.

Guide BETA LLP to decide the course of action in determining overall responses to address the assessed risks of material misstatement due to fraud at the (i) Financial Statement Level and (ii) Assertion Level.

- (c) Smart Technology Ltd. plans to issue a prospectus to raise capital through a public offering. Smart Technology Ltd. acquired Cloud Computing Ltd., a leader in cloud advisory services, to strengthen its capabilities in providing cloud solutions and this acquisition aligned for a digital transformation strategy. The prospectus includes <sup>SAE 3420</sup> pro forma financial information to demonstrate the financial effects of a significant acquisition completed recently. As the engagement practitioner, you are entrusted with providing an assurance report on the compilation of this pro forma financial information in accordance with relevant Standard on Assurance Engagement.

Smart Technology Ltd.'s management has provided the following details :

- (1) The source of the unadjusted financial information includes unaudited financial statements for a subsidiary acquired during the year.
- (2) Pro forma adjustments which include Fair value adjustments for acquired assets and liabilities.
- (3) The applicable financial reporting framework is IFRS, with modifications specific to the jurisdiction of operation.

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In the above context, answer the following :

- (i) State the aspects you will consider during planning and performing the Engagement while evaluating the source from which the unadjusted financial information has been extracted.
  - (ii) As a practitioner you need to obtain evidence about the appropriateness of the pro forma adjustments. Explain what it includes.
2. (a) XYZ and Associates, Chartered Accountants, is an audit firm, giving services to the various types of clients in the field of auditing, taxation and management consultancy. It has been doing statutory audit of B Ltd., a listed entity since last seven years. CA X who has been the engagement partner for the company since beginning has a complete idea about the strengths and weaknesses of the internal controls of the company. He maintains good relations with the management and those charged with the governance. Every year audit is completed in a cordial and healthy manner. During current year the quality control reviewer insisted to change the engagement partner for the company saying that continuation of same engagement partner poses certain audit risk and threats to the organization and advises to review the firm's policies and procedures in relation to the engagement partner. The management of the company does not wish to change the engagement partner. How do you view the above situation from the view point of quality control system in audit firm in terms of requirements of SQC 1 ? Guide the firm in establishing the policies and procedures in respect of an engagement partner. 5

- (b) CA A has been appointed as an auditor of Datacom Ltd. to conduct statutory audit. The company has various derivative contracts – options, forward contracts, interest rate swaps etc. which were required to be fairly valued for which company got the fair valuation done through an external third party. CA A involved a registered valuer Mr. S as an auditor's expert to do the valuation of derivatives in order to obtain sufficient appropriate audit evidence. CA A and Mr. S are new to each other and they were working for the first time. Mr. S performed his work and submitted the report. CA A, while evaluating the adequacy of the work of Mr. S, observed that expert's work involved use of significant assumptions and methods. Consequently he wants to test the relevance and reasonableness of those assumptions and methods in the applicable circumstances. Guide CA A in this regard as per relevant Standard on Auditing. 5
- (c) Metaverse is the emerging 3-D digital space that uses virtual reality, augmented reality, and other advanced internet technology to allow people to have lifelike personal and business experiences online. It represents a convergence of digital technology to combine and extend the reach and use of Cryptocurrency, Artificial Intelligence (AI), Augmented Reality (AR) and Virtual Reality (VR). 4

State the key considerations for sustainable future of Metaverse.

3. (a) Brown Enterprises Limited, an unlisted public company, has granted loans to two of its subsidiaries, stood as a guarantor for loans taken by a Limited Liability Partnership (LLP), and made investments in a start-up company during the financial year 2024-25. The company's financial statements disclose the following : 5

(1) Loans Provided :

- ₹ 10 crore to Subsidiary A, with ₹ 6 crore outstanding as of March 31, 2025.
- ₹ 5 crore to Subsidiary B, fully repaid during the year.
- ₹ 3 crore loan to a UR & Co. a partnership firm with ₹ 1.5 crore overdue for 120 days. UR & Co., is not a related party.

(2) Guarantees :

- Guarantee provided to Milestone LLP for ₹ 7 crore loan availed from a bank, outstanding in full as of March 31, 2025.

(3) Investments :

- ₹ 4 crore equity investment in KD start-up.

**Additional information:**

- For the overdue loan, Brown Enterprises Ltd. has initiated legal proceedings for recovery but no settlement has been achieved.
- All loans and guarantees have been documented with terms and conditions.
- One loan, ₹ 2 crore to Subsidiary A, was renewed upon maturity without repayment, adjusting the overdue balance.

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Based on the above facts you are required to :

- (i) Analyse the reporting requirements under CARO, 2020, for Brown Enterprises Ltd.
- (ii) The management of Brown Enterprises Limited contended that reporting requirements under CARO, 2020, of overdue in respect of UR & Co., and Subsidiary A, are not applicable. Comment.
- (b) M/s JAZZ & Co. is a partnership firm consisting of two partners CA J and CA Z. 5

CA J is exclusively associated with the firm and is not doing practice in individual capacity, whereas CA Z is doing practice in his individual capacity also.

For the financial year 2023-24, the firm has already undertaken audits and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under :

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA J	30	60	20 <del>XP</del>
CA Z	5	10	12 ✓

For the financial year 2023-24, CA Z has undertaken audits in individual capacity and signed audit reports under section 44AB/44AD of the Income Tax Act, 1961 as under :

	Under section 44AB for corporate clients	Under section 44AB for non-corporate clients	Under section 44AD/44ADA
CA Z	4	9	8

For the financial year 2023-24, the firm is approached further to take up the following assignments :

3 tax audit assignments under section 44AB for corporate clients

4 tax audit assignments under section 44AD.

Advise whether the firm should accept the further tax audit assignments for the financial year 2023-24 as above in the light of professional code of conduct.

- (c) Coastal Ventures Ltd., a newly formed real estate development firm, is applying for a loan from a financial institution to fund a new residential project. The bank requires the submission of the company's financial statements for the year ending March 31, 2025. The company engages an independent practitioner CA X to compile the financial statements based on its accounting records and other information provided. The financial statements will be prepared in accordance with Ind AS (Indian Accounting Standards). CA X intends to record the agreed terms of engagement in an engagement letter prior to performing the engagement.

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CA X is of the view that independence requirements will not be applicable for the above assignment. Do you agree ?

CA X is concerned with engagement acceptance and continuance. Suggest him focus points in respect of management responsibilities that will be recorded in the agreed terms of engagement in the engagement letter.

4. (a) Instant Finance Ltd. is a Non-Banking Financial Company (NBFC-BL) primarily engaged in providing loans to small businesses and individuals. As per its audited financials for the year ending March 31, 2025, the following information was observed :

(1) Instant Finance Ltd. has an aggregate risk-weighted asset base of ₹ 1,000 crore.

(2) The company has reported Tier 1 capital of ₹ 130 crore, which includes ₹ 15 crore raised through perpetual debt instruments.

(3) Instant Finance Ltd. has investments in shares and bonds of other NBFCs totalling ₹ 10 crore, which amounts to 12% of its owned fund.

(4) The company's primary business involves lending against gold jewellery, with such loans comprising 60% of its financial assets.

As a statutory auditor, you are entrusted with assessing compliance with the prudential norms prescribed under the Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023, regarding capital adequacy.

You are required to :

- (i) Evaluate whether Instant Finance Ltd. complies with the minimum Tier 1 capital requirements as per the RBI prudential norms.
- (ii) Discuss the treatment and impact of perpetual debt instruments in the calculation of Tier 1 capital for NBFCs primarily engaged in lending against gold jewellery.
- (iii) Analyse the adjustment required in Tier 1 capital for Instant Finance Ltd. due to its investments in other NBFCs.
- (b) CA A, the proprietor of A & Collegues, Chartered Accountants, is developing his practice and recently secured a major audit assignment for B state Cooperative Society. The engagement fee for this audit is ₹ 1 Cr. In view of his vision of growth to expand the development of his business, CA A has entered into an agreement with an unregistered financial consultant, Mr. X, who is an MBA from a local university. Mr. X introduced CA A to his business clients and in return, CA A agrees to pay him a 2.5% commission (₹ 2.5 lakhs) on the audit fee as a referral bonus.
- Additionally, as per the State Cooperative Registrar's Circular, 5% of the audit fee (₹ 5,00,000) has to be deposited into the State Treasury to cover administrative expenses. CA A complies with this requirement.
- Comment with reference to the Chartered Accountants Act, 1949 and schedules thereto.

(c) Glow management Ltd., a workspace operator, seeks to secure funding from investors. The funds will be used for repayment of debt and cost of capital for strengthening its Balance sheet. To support this, the company has prepared its financial statements for the year ended March 31, 2025. The investors request a limited assurance review rather than a full audit, to ensure the reliability of the financial statements. The management of Glow management Ltd. engages an independent practitioner (CA Kishore to perform a review engagement under SRE 2400.) During the review, CA Kishore identifies that there was significant increase in deferred revenue. On inquiry, CA Kishore found management's explanation unreasonable that it is related to advances received for upcoming projects and was unable to corroborate this with contracts.

Based on the evidence gathered and procedures performed, CA Kishore determines, that the financial statements are materially misstated. He is bound to express a qualified conclusion, as the effects of the matter(s) giving rise to the modification are material, but not pervasive to the financial statements.

In the above context, you are required to help CA Kishore to :

- (i) State the phrases to be used in conclusion paragraph as appropriate.
- (ii) State the matters to be included in the basis for conclusion paragraph.

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5. (a) Footwear Ltd., a manufacturing company has recently appointed you as its Internal Auditor to review its financial and operational controls. You have to conduct the internal audit in compliance with the standards of Internal Audit, within the framework governing Internal Audits. During the audit, you have identified misappropriation of inventories and suspected fraudulent activities by a procurement manager. You thought it would be more appropriate to bring the same immediately to the attention of the management. As per the principles outlined in Standard on Internal Audit, you need to prepare an internal audit report covering the audit findings. Explain the stages of internal audit reporting results as per relevant Standard on Internal Audit and state the key elements to be included while issuing a clear, well documented Internal Audit Report by you as an internal auditor. 5

1) Objectives  
2) Best practice  
3) Key elements  
4) Reporting  
5) Preparation

1) Obj. & Scope  
2) Principles  
3) Summary of key observations  
4) Summary of critical findings of observations  
5) Detailed conclusions based on observations

(b) GAS limited, is in the business of renewable energy, including fuel cell, electrolyzer, battery energy storage system wishes to contribute to clean energy ecosystem and National Green Hydrogen mission. GAS limited is among top 1000 listed entities and have to mandatorily provide BRSR reporting (Business Responsibility and Sustainability Reporting) on ESG parameters in accordance with the principles of "National Guidelines on Responsible Business Conduct" as mandated by SEBI. One of the principles states that "This can work only with close participation and collaboration amongst the entities, authorities, the civil associations contributing to one another for a better livelihood, and assistance to the marginalized communities." Elucidate the essence of core elements associated with the aforesaid principle. 5

Principle 8 - Promote Inclusive growth & equitable dev.

(1) Growth & dev of all  
(2) Women dev & emp  
(3) Disruptive or displac X - fair representation

- (c) M/s GSTR & Associates, Chartered Accountants, is an audit firm 4  
 consisting of three partners. The partnership firm was formed in the year  
 2019. M/s GSTR & Associates, specialised in internal audits and tax  
 consultancy services, admitted CA Y as partner in the year 2024. CA Y  
 had vast experience in audit of listed companies as he was the senior  
 audit manager of a leading audit firm before he joins M/s GSTR &  
 Associates. Ruby Limited, a listed entity, appointed M/s GSTR &  
 Associates, Chartered Accountants as statutory auditors for the year  
 ended 31<sup>st</sup> March 2025. CA Y, the engagement partner signed the balance  
 sheet of Ruby Limited for the year ended 31<sup>st</sup> March 2025 on 21<sup>st</sup> May  
 2025. M/s GSTR & Associates, Chartered Accountants never subjected  
 themselves to the Peer Review process of the Institute. Comment with  
 reference to the Chartered Accountants Act, 1949. *clause (1) Part II of 2016 Act*
6. (a) Key Ventures Limited is availing the services of Chipmetric Limited for 5  
 processing of its accounting data including payroll operations. Payroll  
 costs account for 75% of the total costs of Key Ventures Limited. CA Tej,  
 the auditor of Key Ventures Limited wants to obtain an understanding of  
 the nature and significance of the services provided by Chipmetric  
 Limited and their effect on the user entity's internal control to identify  
 and assess the risks of material misstatement. In this regard, he wants to  
 use Type 1 or Type 2 report. *MB. Nature.*
- What shall be the considerations of CA Tej in determining the sufficiency  
 and appropriateness of the audit evidence? Suggest the procedures if he  
 plans to use a Type 1 or Type 2 report as audit evidence to support the  
 understanding about the design and implementation of controls at  
 Chipmetric Limited as per relevant Standard on Auditing.

- (b) During the statutory audit of ELITE Bank Ltd., a leading private sector bank, for the financial year 2024-25, the following issue emerged to statutory central auditors. ELITE Bank Ltd. acquired a commercial property in satisfaction of a loan default by a borrower in Financial Year 2016-2017. The property was recorded at net book value of the loan. The bank plans to sell this property in the next fiscal year to recover its dues. A legal dispute has emerged over the ownership of the property, with a third party claiming partial rights. The matter is pending in court. The management has not disclosed this dispute in the financial statements but contends that a favourable court ruling is expected. The auditor's review reveals that the property's fair market value is significantly lower.

Based on the above facts, you are required to :

- (i) Identify specific audit procedure the auditor should undertake to ensure compliance of the Banking Regulation Act, 1949.
- (ii) Under which head ELITE Bank Ltd. should record the above mentioned property ?
- (iii) Suggest also other audit procedures that an auditor should focus upon.