Mock Test Paper - Series I: September, 2026

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FINAL COURSE: GROUP I

PAPER-3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

ANSWERS

1.	(B)	13.	(D)
2.	(C)	14.	(A)
3.	(D)	15.	(D)
4.	(A)	16.	(B)
5.	(B)	17.	(A)
6.	(A)	18.	(C)
7.	(B)	19.	(B)
8.	(C)	20.	(D)
9.	(A)	21.	(B)
10.	(C)	22.	(C)
11.	(A)	23.	(B)
12.	(B)		

PART – II: DESCRIPTIVE QUESTIONS

1. (a) As per SQC 1, "Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", the firm should ensure that policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice. Such policies and procedures should include an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements. Quality control of engagements has to be monitored taking into account following factors:

- Deciding whether the quality control system of the firm has been appropriately designed and effectively implemented.
- Examining whether new developments in the professional standards, legal and regulatory requirements have been reflected in the quality control policies.

- Conducting monitoring by entrusting responsibility of monitoring process to a partner or other persons with sufficient and appropriate experience and authority in the firm.
- Dealing with complaints and allegations against the firm or any employees of it of non-compliance with professional standards or appropriate regulatory requirements by a person within or outside the firm.
- Taking appropriate remedial actions against the personnel who did not conform to quality control policies.
- Taking action when deficiencies in the design or operation of the firm's quality control policies and procedures, or non-compliance with the firm's system of quality control are identified.

In the given case, Nest & Co. failed to conduct periodic inspections of completed audits and did not update its quality control policies for changes in professional standards and regulations.

Further, complaints were not investigated, monitoring was assigned to inexperienced personnel, and identified deficiencies were not followed by appropriate corrective or remedial action.

Thus, it can be concluded that Nest & Co. has not complied with the monitoring requirements of SQC 1. Also, the firm needs to strengthen its monitoring process so that deficiencies in the design or operation of its system of quality control are identified, investigated and appropriately addressed.

(b) As per SA 701, Communicating Key Audit Matters in the Independent Auditor's Report, Key Audit Matters (KAMs) are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. They are selected from matters communicated with those charged with governance, having regard to matters involving significant auditor attention, including areas of higher assessed risk of material misstatement, significant auditor judgment and significant events or transactions.

(i) The impairment assessment of goodwill involved significant management judgment and auditor judgment and required significant audit effort, including the involvement of a valuation expert. It is therefore a matter that is likely to have required significant auditor attention and may constitute a Key Audit Matter. Accordingly, if determined to be one of the matters of most significance in the audit, it should be communicated in the Key Audit Matters section of the auditor's report, with an explanation of why it was considered a KAM and how it was addressed in the audit.

(ii) The fire occurred after the reporting period and is a non-adjusting subsequent event. Since it has been appropriately disclosed in the financial statements and the auditor considers it fundamental to users' understanding of the financial statements, the auditor may include an Emphasis of Matter paragraph under SA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report, with an appropriate cross-reference to the relevant disclosure.

The Emphasis of Matter paragraph does not modify the auditor's opinion.

Distinction

The goodwill impairment matter is addressed as a KAM under SA 701 because it required significant auditor attention and may have been one of the matters of most significance in the audit. In contrast, the subsequent fire is appropriately highlighted through an Emphasis of Matter paragraph under SA 706 because it is already appropriately disclosed and is considered fundamental to users' understanding.

However, inclusion of an Emphasis of Matter paragraph does not, by itself, make a matter a KAM. A matter may be both a KAM and an Emphasis of Matter only where it independently satisfies the respective requirements of SA 701 and SA 706.

(c) SA 720, "The Auditor's Responsibilities Relating to Other Information" deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.

Accordingly, the auditor is required to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.

If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

(i) If the other information is corrected, perform the procedures necessary in the circumstances; or

(ii) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

In the given case, the statement in the annual report that the manufacturing plant had contributed significantly to the company's revenue for the year ended 31st March 2026 is factually incorrect, since the plant was commissioned only in April 2026. The auditor should evaluate whether this constitutes a material misstatement of Other Information.

Since the auditor has identified a material misstatement in the Other Information after the date of the auditor's report, the auditor should discuss the matter with management and request management to correct the Other Information.

If management refuses to correct the identified material misstatement, the auditor should take appropriate further action, including communicating the matter to those charged with governance and, where appropriate, taking other action as required by SA 720.

2. (a) Tax Audit Assignments – Chapter VI of Council General Guidelines, 2008: In order to ensure the quality of tax audit, the Council of the Institute has decided the limit on the number of tax audits, to be affected by issuance of new guidelines, as follows –

(i) the existing limit of 60 tax audit assignments per member to be retained, but the same shall be in respect of tax audit assignments in a particular financial year.

(ii) the said limit of 60 would be the aggregate limit in respect of all tax audits accepted and signed by a member, both in his individual capacity and as a partner of a firm(s). In other words, an individual member cannot sign more than 60 tax audit reports in a financial year.

(iii) the limit on number of tax audit assignments per partner in a CA Firm cannot be distributed/or shared between the partners.

(iv) the limit of 60 would, however, not apply to tax audit assignments arising out of the requirements under clause (c), clause (d) and clause (e) of section 44AB, in relation to persons covered under section 44AE, 44ADA and 44AD, respectively.

(v) in the case of revision of tax audit report, the revised tax audit report shall not be taken into account for the purpose of reckoning the said limit of 60.

Accordingly:

Member	Assignments signed in individual capacity under section 44AB(a)/(b) + assignments signed in capacity of Partner under section 44AB(a)/(b) = Assignments counted	Compliance
CA Aarav	20 + 42 = 62	Non-Compliance
CA Bhavna	22 + 30 = 52	Complied
CA Chirag	12 + 45 = 57	Complied

The assignments relating to sections 44AE and 44AD are excluded from the above computation. The revised tax audit reports are also not counted for determining the limit.

Therefore, CA Bhavna and CA Chirag have complied with the limit of 60 tax audit assignments whereas CA Aarav has exceeded the limit and not complied with Guidelines.

Further, CA Aarav's contention that the limit of 60 can be shared amongst the partners is incorrect. The limit is applicable individually to each member and cannot be distributed/shared among the partners of the firm.

Also, CA Bhavna's contention that audits under sections 44AE and 44AD should be included is incorrect, as such assignments are specifically excluded from the prescribed limit.

(b) As per SA 570, "Going Concern", the auditor is required to evaluate whether management's use of the going concern basis of accounting is appropriate and whether, based on the audit evidence obtained, a material uncertainty related to going concern exists.

In the given case, the following matters indicate the existence of events or conditions that may cast significant doubt on the company's ability to continue as a going concern:

- Sharp decline in freight volumes indicates deterioration in the company's operating performance and may adversely affect its future cash flows.
- Breach of the debt covenant is a significant financial difficulty. Further, the bankers have reserved the right to recall the facility, which may result in an immediate liquidity pressure if the facility is recalled.
- The auditor should evaluate management's plans to mitigate these conditions, including the proposed sale of the non-core division and

renegotiation of loan terms. Since the sale is not yet contracted and loan renegotiation is only at a preliminary stage, the auditor should critically assess the feasibility, timing and likely effectiveness of these plans and obtain sufficient appropriate audit evidence regarding them.

If, after considering management's plans and other relevant evidence, the auditor concludes that a material uncertainty related to going concern exists, the auditor should determine whether the financial statements adequately disclose the nature of the uncertainty and the relevant events or conditions.

Where adequate disclosure is made, the auditor should include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern", drawing attention to the relevant disclosure in the financial statements.

Thus, the auditor should not rely merely on management's proposed turnaround plan; the uncontracted sale and preliminary loan negotiations require careful evaluation before concluding on the company's ability to continue as a going concern.

(c) The following IT-related risks arise in the given case:

- Risk of unauthorised changes to IT applications/environment: Changes made directly to the live payroll application without proper approval and testing may result in unauthorised or inappropriate changes, which may adversely affect the processing and reliability of data.
- System integration and compatibility risk: Different versions of inventory software are being used by different branches. Incompatibility between systems may result in incorrect transfer or processing of data, bugs or errors in integrated systems.
- Risk of inappropriate manual intervention: Allowing employees to override system-generated entries without independent review creates a risk of inappropriate manual intervention, which may result in errors or unauthorised transactions being processed.
- Risk of data loss or data corruption: The ransomware incident and inadequate backup arrangements indicate a risk of loss or corruption of financial and other sensitive data. Such incidents may also expose the entity to fraud, cybersecurity and business-continuity risks.

3. (a) The following principles of internal check have not been adequately followed in the given situation:

(i) Rotation of duties: The Sales Manager has been dealing with the same customers for a prolonged period and has developed close relationships with them. Periodic rotation of duties helps reduce the possibility of collusion, manipulation and concealment of irregularities. Further, the same individual having authority over credit limits and write-offs creates an inadequate segregation of duties.

(ii) **Separation of custody from recording:** The Stores Supervisor is responsible both for the physical custody of inventory and for maintaining inventory records. The functions of custody and recording should, as far as practicable, be entrusted to different persons so that the work of one person provides a check on the other. Absence of independent physical verification further weakens this control.

(iii) **Segregation of preparation and approval of payments:** The Finance Manager both prepares and approves payment instructions. No single person should have complete control over an important financial operation. Independent review and approval should be performed by another responsible official.

Inherent risks Associated with the relevant activities: Sales, inventory and payments are inherently susceptible to risks such as fictitious or unauthorised transactions, manipulation of receivables, inventory pilferage and fraudulent payments. The nature of these transactions gives rise to significant underlying inherent risks.

Impact of Control Deficiencies on Control Risk: The deficiencies in rotation, segregation of duties and independent verification mean that the internal controls may fail to prevent or detect material misstatements or fraud on a timely basis. Accordingly, control risk would be assessed as higher, requiring the auditor to perform appropriate additional audit procedures.

(b) The Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026, effective from July 1, 2026, introduced a three-category framework for NBFCs based principally on public funds, customer interface and asset size.

(i) Unregistered Type I NBFC (Exempt): Non-deposit-taking NBFCs with no public funds, no customer interface and asset size below ₹ 1,000 crore are exempted from the provisions of Sections 45-IA and 45-IC of the RBI Act, subject to the prescribed conditions. Existing NBFCs satisfying the criteria may apply for deregistration by December 31, 2026.

(ii) Type I NBFC (Registered): NBFCs with no public funds and no customer interface, but having an asset size of ₹1,000 crore or above, are required to remain registered as Type I NBFCs.

(iii) Type II NBFC (Registered): An NBFC which avails public funds or has a customer interface, irrespective of its asset size, is required to be registered as a Type II NBFC.

Conclusion: Alpha Finance Ltd.: Since it has no public funds, no customer interface and its asset size of ₹ 850 crore is below ₹ 1,000 crore, it satisfies the basic conditions for the Unregistered Type I NBFC exemption, subject to fulfilment of the other prescribed conditions.

Beta Holdings Ltd.: It does not qualify for the exemption because its asset size is exactly ₹ 1,000 crore. The requirement is that the asset size should be less than ₹ 1,000 crore. Therefore, Beta Holdings Ltd. would be required to be registered as a Type I NBFC if it continues without public funds and customer interface.

Gamma Finance Ltd.: Its asset size being below ₹ 1,000 crore does not by itself make it eligible for exemption. Since it has access to public funds and has a customer interface, it falls within Type II NBFC and is required to be registered.

(c) **Acceptance as Principal Auditor:** The principal auditor, Krishiv & Associates, should consider whether their own participation is sufficient to be able to act as the principal auditor. For this purpose, the auditor would consider:

(i) the materiality of the portion of the financial information which the principal auditor audits;

(ii) the principal auditor's degree of knowledge regarding the business of the components;

(iii) the risk of material misstatements in the financial information of the components audited by the other auditor; and

(iv) the performance of additional procedures as set out in this SA regarding the components audited by other auditor resulting in the principal auditor having significant participation in such audit.

4. (a) (i) **Identification of Pillar – Social (S) Pillar:** The situation primarily relates to the Social pillar of ESG, particularly labour practices, employee welfare, working conditions and human rights in the Company's supply chain.

(ii) The Social Pillar requires an entity to consider the impact of its activities and business relationships on employees, workers and other stakeholders.

ESG considerations are not necessarily confined to the Company's direct employees. Risks arising from contractors, suppliers and other business relationships may also be relevant to the Company's overall ESG performance.

Therefore, the fact that the contractor is an independent entity does not, by itself, make its labour practices irrelevant to the Company's ESG considerations. The Company should undertake appropriate due diligence and establish suitable requirements and monitoring mechanisms for its contractors.

(iii) **ESG-related concerns:** Two major concerns are:

(1) **Labour and human-rights risk:** The Company has prioritised cost reduction over assessment of labour and human-rights risks and has failed to conduct adequate due diligence on the contractor. Unsafe working conditions, non-payment of statutory benefits and inadequate documentation of workers' employment terms indicate potential violations of labour and human-rights expectations.

(2) **Supply-chain and reputational risk:** By appointing the contractor despite being aware of adverse allegations and failing to undertake further assessment, the Company may be exposed to reputational and ESG risks. If the Company subsequently represents that its supply chain follows responsible labour practices, such disclosure may also be misleading or incomplete.

Conclusion: The Company's approach of treating the contractor's ESG practices as entirely irrelevant merely because the contractor is an independent entity is not consistent with a comprehensive assessment of the Social dimension of ESG.

(b) Clause (10) of Part I of the First Schedule to the Chartered Accountants Act, 1949 provides that a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings or results of such employment, except as permitted by the Regulations.

Further, Regulation 192 of the Chartered Accountants Regulations, 1988 restricts a member in practice from charging fees based on a percentage of profits or fees contingent upon the findings or results of professional work, subject to the exceptions prescribed therein.

In the case of XYZ Ltd.: The fixed statutory audit fee of ₹8 lakh, by itself, is not objectionable. However, the additional fee of 2% of the increase in profit resulting from audit adjustments is directly linked to the findings/results of the statutory audit. The amount of fee would depend upon the extent to which the audit adjustments increase the reported profit.

Accordingly, such an arrangement is not permissible and would attract the prohibition contained in Clause (10) of Part I of the First Schedule, read with Regulation 192.

In the case of ABC Ltd.: The litigation-support assignment is a non-assurance service provided to a non-audit client. The proposed contingent fee in respect of such service is covered by the exception permitted under Regulation 192, subject to fulfilment of the conditions prescribed therein. Therefore, charging a fee contingent upon the successful outcome of this non-assurance assignment would not constitute professional misconduct under Clause (10).

Conclusion: The additional fee linked to the increase in profit from the statutory audit of XYZ Ltd. is not permissible. However, the contingent fee proposed for the litigation-support assignment for the non-audit client ABC Ltd. is permissible under the applicable exception in Regulation 192, subject to its prescribed conditions.

(c) As per SAE 3400 "The Examination of Prospective Financial Information", in an engagement to examine prospective financial information, CA Jigar, the auditor should obtain sufficient appropriate evidence as to whether:

(i) management's best-estimate assumptions on which the prospective financial information is based are not unreasonable and, in the case of hypothetical assumptions, such assumptions are consistent with the purpose of the information;

(ii) the prospective financial information is properly prepared on the basis of the assumptions;

(iii) the prospective financial information is properly presented and all material assumptions are adequately disclosed, including a clear indication as to whether they are best-estimate assumptions or hypothetical assumptions; and

(iv) the prospective financial information is prepared on a consistent basis with historical financial statements, using appropriate accounting principles.

While examining prospective financial information, principles laid down in other Standards on Auditing should be applied to the extent practicable.

5. (a) As per SA 505, "External Confirmations", external confirmations generally provide reliable audit evidence. However, when a confirmation response indicates a difference between the information requested or contained in the entity's records and the information provided by the confirming party, the auditor is required to investigate the exception.

In the given case, the bank has confirmed a Fixed Deposit of ₹2 crore in the name of Solstice Textiles Ltd., whereas the Fixed Deposit is neither recorded in the books nor reflected in the bank reconciliation statement. Accordingly, the auditor should not accept the Finance Manager's explanation merely on the basis of management representation.

The auditor should perform appropriate additional procedures to resolve the matter, including:

- Obtaining confirmation from the bank regarding the account holder and ownership of the Fixed Deposit and examining the account-opening/KYC documents.
- Verifying whether the Fixed Deposit actually belongs to another group entity and determining why Solstice Textiles Ltd.'s PAN was used.
- Assessing whether the matter indicates an undisclosed related party or related party transaction, and considering the requirements of SA 550, Related Parties.
- Evaluating the completeness of Solstice Textiles Ltd.'s bank balances and other relevant financial information.
- Considering whether the unusual banking arrangement indicates any risk of fraud or management override, having regard to SA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

The auditor should not rely on the management's uncorroborated explanation. If the matter remains unresolved after performing appropriate additional procedures, the auditor should evaluate its effect on the sufficiency and appropriateness of audit evidence and consider the implications for the auditor's report, including the requirements of SA 705, if applicable.

(b) As per SA 500, Audit Evidence, when information to be used as audit evidence has been prepared using the work of a management's expert, the auditor shall, to the extent necessary having regard to the significance of that expert's work for the auditor's purposes:

1. Evaluate the competence, capabilities and objectivity of the management's expert;
2. Obtain an understanding of the work of that expert; and
3. Evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion.

Evaluation of the appropriateness of the expert's work includes considering the relevance and reasonableness of the expert's findings or conclusions, their consistency with other audit evidence, and the relevance and reasonableness of significant assumptions and methods used. The auditor should also consider the relevance, completeness and accuracy of the source data used by the expert.

In the given situation, the incurred-but-not-reported (IBNR) claims reserve is material and involves significant estimation uncertainty and actuarial judgement. Therefore, the work of the actuary is significant to the auditor's purposes. The engagement team cannot rely merely on the fact that the actuary has certified the amount. It is required to evaluate the actuary's competence, capabilities and objectivity, understand the actuarial work performed and evaluate the reasonableness of the assumptions, methods, source data and conclusions.

The reporting deadline does not relieve the auditor from complying with SA 500. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the expert's work, appropriate additional audit procedures should be performed, which may include agreeing with management on further action or, where necessary, involving another expert, including the auditor's own expert under SA 620.

Conclusion: The engagement team's approach of accepting the certified IBNR figure without the required evaluation is not in accordance with SA 500. The auditor must perform the prescribed evaluation before relying on the actuary's work as sufficient appropriate audit evidence.

(c) Pursuant to Section 2(2)(iv) above, the Council has passed a resolution permitting a Chartered Accountant in practice to render entire range of “Management Consultancy and other Services”. The expression “Management Consultancy and Other Services” includes Organization structure and behaviour, development of human resources including design and conduct of training programmes, work study, job-description, job evaluation and evaluation of workloads and setting up executive incentive plans, wage incentive plans etc.

Since the services proposed to be rendered by CA Rudra fall within the permissible scope of Management Consultancy and Other Services, he is permitted to undertake the assignment. Therefore, CA Rudra is not guilty of professional misconduct for accepting and rendering these services.

6. (a) Verification of Accounts Receivable: As per SA 510, "Initial Audit Engagements – Opening Balances", while conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether-

(i) Opening balances contain misstatements that materially affect the current period's financial statements; and

(ii) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

When the financial statements for the preceding period were audited by another auditor, the current auditor may be able to obtain sufficient appropriate audit evidence regarding opening balances by perusing the copies of the audited financial statements.

Ordinarily, the current auditor can place reliance on the closing balances contained in the financial statements for the preceding period, except when during the performance of audit procedures for the current period the possibility of misstatements in opening balances is indicated.

For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures, say, the collection of opening accounts receivable during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period.

In addition, according to SA 580, "Written Representations", the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgment or intent in relation to, or the completeness of, a specific assertion. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

In the given case, the management of KaM (P) Ltd. has restrained CA Rig, its auditor, from obtaining appropriate audit evidence for balances of Accounts Receivable outstanding as it is from the preceding year. CA Rig, on believing that the preceding year balances have already been audited and on the statement of the management that there are no receipts and credits during the current year, therefore excluded the verification of Accounts Receivable from his audit programme.

Thus, CA Rig should have requested the management to provide written representation for their views and expressions; and he should also not exclude the audit procedure of closing balances of Accounts Receivable from his audit programme. Consequently, CA Rig shall also be held guilty for professional misconduct for not exercising due diligence, or grossly negligence in the conduct of his professional duties as per the Code of Ethics.

(b) As per SA 402, Audit Considerations Relating to an Entity Using a Service Organisation, where an entity uses the services of a service organisation that are relevant to financial reporting, the user auditor is required to obtain an understanding of the nature and significance of the services provided and their effect on the entity's internal control relevant to the audit.

In the given case, ProPay Solutions performs payroll processing activities, including maintaining payroll records, computing salaries and processing statutory deductions. Accordingly, the auditor of Comet Logistics Ltd. needs to consider the controls at ProPay Solutions relevant to payroll processing.

The auditor may consider the following reports issued by the service organisation's auditor:

- **Type 1 Report:** It provides information regarding the description and design of controls at ProPay Solutions and whether such controls are suitably designed as at a specified date. However, it does not provide evidence regarding the operating effectiveness of those controls. Therefore, a Type 1 report alone is not sufficient where the auditor intends to rely upon the operating effectiveness of payroll controls.
- **Type 2 Report:** It contains the description and design of controls and also provides the service auditor's opinion on the operating effectiveness of those controls over a specified period. Hence, where the auditor of Comet Logistics Ltd. intends to rely on the operating effectiveness of controls at ProPay Solutions, a suitable Type 2 report would provide relevant audit evidence.

The auditor should also evaluate the competence and independence of the service auditor, the adequacy of the period covered by the Type 2 report and whether any significant changes in the controls have occurred subsequent to the period covered by the report.

Since the auditor of Comet Logistics Ltd. is required to consider both the design and operating effectiveness of payroll controls at ProPay Solutions, a Type 2 report is appropriate. A Type 1 report may assist in understanding and evaluating the design of controls but, by itself, does not provide evidence of their operating effectiveness.

(c) As per Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949, a Chartered Accountant in practice shall be deemed to be guilty of professional misconduct if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualification as may be prescribed, for the purpose of rendering such professional services from time to time in or outside India.

In view of the above, the objections of the Institute of Chartered Accountants of India, as given in the case, are correct and reply of Mr. Chetan, stating that he is paying 1 % profits of his firm over and above the stipend to help the articled clerk as the position of the articled clerk is weak is not tenable.

Hence, Mr. Chetan is guilty of professional misconduct in terms of Clause (2) of Part I of First Schedule to the Chartered Accountants Act 1949.

OR

(c) **Turnover -** In assessing the turnover which the business would be able to maintain in the future, the following factors should be taken into account:

(i) **Trend:** Whether in the past sales have been increasing consistently or they have been fluctuating. A proper study of this phenomenon should be made.

(ii) **Marketability:** Is it possible to extend the sales into new markets or that these have been fully exploited? Product wise estimation should be made.

(iii) **Political and economic considerations:** Are the policies pursued by the Government likely to promote the extension of the market for goods to other countries? Whether the sales in the home market are likely to increase or decrease as a result of various emerging economic trends?

(iv) **Competition:** What is the likely effect on the business if other manufacturers enter the same field or if products which would sell in competition are placed on the market at cheaper price? Is the demand for competing products increasing? Is the company's share in total trade constant or has it been fluctuating?