

Mock Test Paper - Series II: December, 2025

Date of Paper: 8<sup>th</sup> December, 2025

Time of Paper: 2 PM to 5 PM

FINAL COURSE: GROUP I

**PAPER-3: ADVANCED AUDITING, ASSURANCE AND  
PROFESSIONAL ETHICS**

Time Allowed- 3 hours

Maximum Marks-100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

**PART I - Case Scenario based MCQs (30 Marks)**

***Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.***

1. CA Neha is auditing Rich Hotels Ltd., which processes vendor master modifications through email requests. Approvals are routed through an automated workflow. The entity does not use multi-factor authentication for email accounts. Recently, the company suffered a fraud where a spoofed email led to unauthorized changes in vendor bank details and inappropriate disbursement of funds. Based on the above situation, which risk arising from usage of IT should the auditor primarily consider?
  - (a) Data loss or data corruption due to inadequate cybersecurity controls
  - (b) Unauthorized changes to IT applications or other aspects of the IT environment
  - (c) Unauthorized access to data resulting in improper changes to master data
  - (d) Inappropriate manual intervention leading to inaccurate recording of transactions
2. Swarna Metals Ltd., a top - 1000 listed entity, has recently undertaken a major expansion project involving construction of a new manufacturing unit. During the process, several local communities expressed concerns regarding displacement, loss of livelihood, and inadequate communication from the company. The company has conducted an internal review and has now initiated steps to assess social and economic impacts, engage with communities, and create an action plan to mitigate adverse effects.

Based on the above situation, under which BRSR principle would the company's actions and disclosures primarily fall?

- (a) Protection and restoration of environment
  - (b) Respect for stakeholders' interests and responsiveness
  - (c) Ethics, transparency and accountability
  - (d) Promote inclusive growth and equitable development
3. Ruhi & Co., Chartered Accountants, mainly into statutory audit and tax audit, has received an order in writing from the Central Government, in respect of one of its clients, to carry out an investigation. Ruhi & Co. is contemplating getting the assistance of an expert with respect to certain matters.

Can Ruhi & Co. take the assistance of experts in pursuing the investigation? Choose the correct reasoning from the below option?

- (a) Yes, SA 620 – Using the work of experts, has a specific paragraph on using an expert's assistance for investigation.
- (b) Yes, Ruhi & Co. should consider whether the assistance of other experts like engineers, lawyers, etc. is necessary in the interest of a comprehensive and full proof examination of documents and information.
- (c) No, the objective of SA 620 is to use the work of an expert for audit of historical financial statements and not for investigation purposes.
- (d) No, since investigation is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts, the usage of an expert will hinder the independence of the investigator.

#### **Case Scenario I [MCQ 4-7]**

CKS Limited is a listed nationalised bank whose face value per share is ₹ 100 each having its operation across India. CKS Limited appointed Mr. Mir, Mr. Bir and Mr. Dir as its central joint auditors for the year 2024-25. After making sure that all of them are qualified to be appointed as statutory auditors of the bank, CKS Limited issued appointment letter as well as engagement letter to all of them. The engagement letter contains the details on objective and scope of audit, responsibilities of auditor, management and identification of framework applicable. It also contains the reference to expected form and content of report from all three joint auditors. During the year, CKS Limited has acquired another bank called Royal Limited. While finalising the books of accounts, some adjustments were made to give the effect of merger. These

adjustments were related to determination of goodwill of ` 2.5 crore, determination of amount of minority interest of ` 60 lakh and some intra-group transaction adjustment of ` 17 lakh were also made. Another adjustment which was made was harmonization of accounting policies of both CKS Limited and Royal Limited which was of ` 34 lakh.

While planning the audit, all joint auditors mutually decided that responsibility of verification of cash book will be entrusted with Mr. Bir. But Mr. Bir failed to detect the fraud committed by the cashier which he could have detected if he had properly checked the cash book. This fraud was revealed in the special audit which was conducted on the directions of RBI. Responsibility for verifying compliance with SLR requirement was entrusted with Mr. Mir. While performing audit on compliance with SLR requirements Mr. Mir used 12 odd dates in different months of financial year. Mr. Mir with his professional judgement used the below mentioned days:

Month	Day of month	Day
April	5 <sup>th</sup>	Friday
May	12 <sup>th</sup>	Sunday
June	6 <sup>th</sup>	Thursday
July	27 <sup>th</sup>	Saturday
August	20 <sup>th</sup>	Tuesday
September	6 <sup>th</sup>	Friday
October	28 <sup>th</sup>	Monday
November	12 <sup>th</sup>	Tuesday
December	5 <sup>th</sup>	Thursday
January	12 <sup>th</sup>	Sunday
February	21 <sup>st</sup>	Friday
March	2 <sup>nd</sup>	Sunday

Mr. Dir was entrusted with responsibility for calculation of Demand and time liability. On 31<sup>st</sup> March 2025, total liability stood at ` 250 crore. It includes Margin held for funded facilities of ` 3.5 crore, credit balance for one branch of ` 4.5 crore, adverse balance of Nostro Mirror Account of ` 2.3 crore and unadjusted deposit for agency business of ` 7.5 crore.

Wife of CA Mir was also a Chartered Accountant and was actively involved in purchase and sale of shares. She purchased 100 shares of CKS Limited of ` 100 each for ` 19,50,000. All the required communication were made among the joint auditors, and significant matters were discussed with those charged with governance. At the end, an unmodified report in accordance with SA 700 was issued, which was signed by all three joint auditors.

Based on the above facts, answer the following:

4. Which of the following statement is true as per given situation?
  - (a) For giving the effect of merger permanent consolidation adjustment of ` 361 lakh.
  - (b) For giving the effect of merger, permanent consolidation adjustment of ` 344 lakh and current period consolidation adjustment of ` 17 lakh was made.
  - (c) For giving the effect of merger, permanent consolidation adjustment of ` 310 lakh and current period consolidation adjustment of ` 51 lakh was made.
  - (d) For giving the effect of merger, permanent consolidation adjustment of ` 327 lakh and current period consolidation adjustment of ` 34 lakh was made.
5. List down all the months whose date has been selected inappropriately by CA Mir for calculation of SLR compliance?
  - (a) April, September and February.
  - (b) June and December.
  - (c) August and November.
  - (d) May, January and March.
6. While calculating SLR compliance of CKS Limited, what will be value of demand and time liability as on 31<sup>st</sup> March?
  - (a) ` 242 crore.
  - (b) ` 239 crore.
  - (c) ` 238 crore.
  - (d) ` 250 crore.
7. Will CA Mir be held guilty of professional misconduct after his wife purchased 100 shares for ` 19,50,000?
  - (a) Mr. Mir will be held guilty for professional misconduct as he is disqualified as an auditor of CKS Limited, since his relative owns shares of more than ` 100,000 market value.
  - (b) Mr. Mir will not be held guilty for professional misconduct as he is not disqualified as an auditor of CKS Limited, as his relative owns shares of less than ` 20,00,000 market value.

- (c) Mr. Mir will not be held guilty for professional misconduct as he is not disqualified as an auditor of CKS Limited, as his relative owns shares of less than ` 100,000 face value.
- (d) Mr. Mir will be held guilty for professional misconduct as he is disqualified as an auditor of CKS Limited, as his relative owns shares in CKS limited irrespective of amount of investment.

**Case Scenario II [MCQ 8-11]**

CA. Ashu is in midst of finalising audit reports of four clients. On reviewing each file, it is noticed as under:

- [A] With respect to a company engaged in business of selling of agricultural products which are outside ambit of GST, the engagement team has found that substantial part of revenue of the company (about 75%) is generated through cash sales. However, there is no proper system and internal control to verify accuracy of revenue generated through cash sales. Therefore, the team has been unable to verify such revenue generated through cash sales.
- [B] Another client, Grow Limited has been dragged to court by Glow Limited for stealing its trade secrets using cyber theft and filed a claim for ` 52 crore. On reviewing audit file of Grow Limited, CA Ashu finds that legal opinion of company's standing counsel is ambiguous. There are precedent case laws both in favour and against on such issue. The financial statements of Grow Limited are silent on this litigation matter.
- [C] It is noticed on review of audit file of a client that net profit before tax was ` 2.10 crore on a turnover of `100 crore. There is an export receivable from a chain of stores outstanding in financial statements of ` 3.20 crore for which there is no chance of recovery. The said chain of stores has gone bankrupt. There is also no hope of recovering money through ECGC (Export credit Guarantee Corporation) due to certain technical issues. Debt has not been written off by the client despite being communicated to client.
- [D] On reviewing file of a client, it is noticed that team was not informed about finished goods of ` 1.10 crore lying at a location taken on rent in March 2025. The said issue was flagged at time of reconciling inventories by the team. Hence, the audit team could not attend physical inventory counting. The alternative procedures cannot be performed in absence of adequate records pertaining to above location. Total inventories reflected in financial statements is ` 8.5 crores. PBT of client is `10 crores.

Based upon above, answer the following questions:

8. As regards description regarding revenue generated through cash sales of the company, which of the following statements is most appropriate in terms of SA 705?
  - (a) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “auditor was engaged to audit financial statements.”
  - (b) Adverse opinion will be issued and basis for adverse opinion will also be provided.
  - (c) Qualified opinion will be issued and basis for qualified opinion will also be provided.
  - (d) A disclaimer of opinion will be issued and basis for disclaimer of opinion will also be provided. Besides, statement in audit report will be changed from “financial statements have been audited” to “financial statements have not been audited.”
9. Considering litigation matter of Grow Limited, which of the following statements is most appropriate in this regard?
  - (a) Unmodified opinion needs to be expressed by auditor.
  - (b) It amounts to non-disclosure of a material contingent liability by the company. Qualified opinion needs be expressed by auditor.
  - (c) It amounts to non-disclosure of a material contingent liability by the company. Adverse opinion needs to be expressed by auditor.
  - (d) The company has not made a material provision resulting in material misstatement. Adverse opinion needs to be expressed by auditor.
10. Considering description of issue regarding non-recoverability of export receivable of ` 3.20 crore from a chain of stores, which type of opinion is appropriate to be issued in audit report?
  - (a) Disclaimer of opinion
  - (b) Unmodified opinion
  - (c) Qualified opinion
  - (d) Adverse opinion

11. Regarding issue of not informing team regarding inventory of finished goods lying at a location taken on rent in March 2025, which type of opinion is appropriate to be issued in case of this client?
- (a) Qualified opinion
  - (b) Modified opinion
  - (c) Unmodified opinion
  - (d) Either Modified or Qualified opinion

**Case Scenario III [MCQ 12-15]**

AKZ & Associates is a firm of Chartered Accountants based in Kerala. CA A, CA K and CA Z are the partners of the firm. The firm is engaged in various assignments including audits and its engagement partners who were handling their respective assignments for the financial year 2024-25 dealt with the following issues raised during and after the course of their respective audits.

AKZ & Associates are appointed as statutory auditors of JOY Ltd. for the financial year 2024-25. CA K, the engagement partner while conducting an audit of JOY Ltd. was encountered with significant difficulties. He observed that there are not only inordinate delays by the management but lack of willingness by the authorised personnel of the company in providing the required information necessary to perform audit procedures in making the assessment of JOY Ltd.'s ability to continue as a going concern in view of material uncertainty related to it. CA K wants to communicate this and other circumstances as additional information in his report with those charged with the governance.

Financial statements of JKP Ltd. for the year ended on 31<sup>st</sup> March 2025 were signed by CA Z, the engagement partner on 20<sup>th</sup> May 2025. The AGM was decided to be held during the month of August 2025. On 22<sup>nd</sup> May 2025, the company had received a communication from the Central Government that an amount of ₹ 9200 crore on account of incentives in respect of F.Y. 2022-23 which was kept in abeyance would be released to the company by 20<sup>th</sup> June 2025. Accordingly, the Board of Directors of the company agreed to amend the accounts and gave approval to include this amount in the financial statements of the company for the Financial Year ended on 31<sup>st</sup> March, 2025 and requested CA Z to consider this matter.

During the course of audit of BAC Limited there arose doubts as to the reliability of written representation regarding the existence and value of certain machineries. The management gave a certificate to prove the existence and value of machinery as appearing in the books of account. The certificate from the Registered Valuer shows a value which is inconsistent with the written representation of management.

LN institute of professional studies is a reputed educational institution providing various courses in the field of commerce and arts. The management of the institution is inclined towards imparting quality education to the students, therefore most of the faculties engaged by them are qualified professionals. CA A of AKZ & Associates is an alumnus of the institution, and he has joined as a visiting faculty for teaching financial management and accounting subject. The management of the LN institute of professional studios is highly satisfied with his teaching skills and the level of knowledge he possesses. Due to his capabilities, the management offers CA A to take up the assignment of statutory audit of their institute for the financial year 2024-25.

Based on the above facts, answer the following Questions

12. Since there arose a doubt on the management representation and considering the responsibilities of AKZ & Associates to obtain written representations from management as per relevant Standard on Auditing, select the incorrect option from the following:
- (a) Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal.
  - (b) The fact that management has provided reliable written representations affect the nature or extent of other audit evidence that the auditor obtains about the fulfilment of management's responsibilities, or about specific assertions.
  - (c) In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.
  - (d) The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with SA 230.
13. CA K, engagement partner, in the course of audit of JOY Ltd. wants to communicate as he considers necessary to include additional information in the auditor's report in accordance with SA 260. Following are the circumstances for which communication with those charged with governance is required.

Help CA K in getting identified incorrect circumstance from the below mentioned circumstances.

- (a) when the auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SA 720.
  - (b) when the auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SA 706 or is required to do so by other SAs.
  - (c) when there are no key audit matters to be communicated in accordance with SA 701.
  - (d) when a material uncertainty related to going concern is reported in accordance with SA 570.
14. In view of the Board of Directors of the JKP Ltd. agreeing to include an amount of ₹ 9,200 crore on account of incentives in respect of F.Y. 2022-23 in the financial statements of the company for the Financial Year ended on 31 March, 2025 by amending the accounts, CA Z shall consider the following procedures. Identify the incorrect procedure from the following:
- (a) Modify the opinion as required by SA 705 and then provide the auditor's report.
  - (b) Extend those audit procedures to the date of new auditor's report which were designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified.
  - (c) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.
  - (d) Carry out the audit procedures necessary in the circumstances on the amendment
15. In response to the management offer, guide CA A, whether to take up the assignment of statutory audit of LN institute of professional studies for the financial year 2024-25.
- Select the correct option with reference to provisions of the Chartered Accountants Act, 1949.
- (a) CA A can accept the assignment as his role as a visiting faculty will not interfere with the statutory audit functions.

- (b) CA A cannot accept the assignment as it violates clause (4) of Part I of the Second schedule to the Chartered Accountants Act, 1949.
- (c) CA A can accept the statutory assignment as he does not have any substantial interest in the LN Institute of professional studies.
- (d) CA A cannot accept the assignment as it violates clause (11) of Part I of the First schedule to the Chartered Accountants Act, 1949.

**PART II – Descriptive Question (70 Marks)**

**Question No.1 is compulsory.**

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

- 1 (a) ABC 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 AXT & 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.

Issues Identified:

- (1) In the MD&A, M/s AXT & Co., noted a misstatement regarding the company's claim of achieving a 22% reduction in production costs. Audit evidence suggests the reduction was only 15%.
- (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 AXT & Co., include in the "Other Information" section of the auditor's report for ABC 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 AXT & Co. report under the "Other Information" section? **(5 Marks)**
- (b) Alex & Associates is the statutory auditor of VC Ltd., a listed company and started its operations 6 years ago. The fieldwork for the audit of the financial statements of the company for the year ended 31<sup>st</sup> March, 2025 was completed on 5<sup>th</sup> May, 2025. The auditor's report was dated 19<sup>th</sup> May, 2025. During the documentation review of the engagement, it was observed that the engagement quality control review was completed on 22<sup>nd</sup> May, 2025. The engagement partner had completed his reviews in its entirety by 16<sup>th</sup> May, 2025. Comment. **(5 Marks)**
- (c) GRF Private Limited has appointed Mohit & Associates as the statutory auditors for the financial year 2024–25. The company operates a chain of fitness centres and health clubs. During the audit, the engagement partner, CA M noted the following:
- The customer base is declining due to intense competition.
  - Payments to creditors are delayed, and overdue interest is being charged.
  - Salaries of staff and trainers are not being paid on time.
  - Key financial ratios such as current ratio and debt-service coverage ratio have deteriorated sharply.
  - Bankers have refused additional working capital limits.

As the statutory auditor, discuss the audit procedures that CA M should perform under relevant SA, and also explain how he should report if the use of going concern assumption is appropriate but a material uncertainty exists which has been adequately disclosed in the financial statements. **(4 Marks)**

2. (a) While conducting audit of PKT Limited, a listed company, for year 2024-25, CA. Sonal notices that company has extinguished following material liabilities unilaterally without entering into settlement with creditors and reported these amounts as gains under "Other income". The details in this respect are as under:

S. No.	Particulars	Amount involved
(i)	Liabilities for purchases of raw material were written back on account of poor quality of raw material and difference in rates	` 3.75 crores
(ii)	Liabilities for capital goods were written back on account of defects in machinery supplied by creditors	` 2.25 crores

The management is of the opinion that these dues are no longer payable. Therefore, retaining these liabilities on financial statements would lead to overstatement of liabilities. Extinguishment of liabilities was made by company in accordance with normal trade practices and outstandings were written back after stopping dealing with such creditors. She wanted to send external confirmation requests to such creditors. However, management informed her that sending such requests may be used by creditors as proof of existence of liability.

She is contemplating inclusion of above matters under "Key Audit Matters" in audit report. Analyse the situation threadbare. **(5 Marks)**

- (b) You are the auditor of Om Manufacturing Ltd. for the financial year 2024-25. During the audit, you notice significant year-end withdrawals of cash and frequent payments made through bearer cheques. The company maintains a petty cash imprest system, and wages are paid partly in cash. On further scrutiny, you observe the following red flags:

- Several cash vouchers relate to "miscellaneous purchases" and "advertising expenses" supported only by acknowledgements on plain paper.
- A few receipts issued by suppliers appear to contain overwritten or altered figures.
- Wage sheets show rounding off differences and certain employee names do not appear in the HR master records.
- Reversal of certain customer credit balances as "refunds processed" without any customer communication.

As the statutory auditor, explain the audit procedures you would perform to detect and address possible inflation of cash payments and fraud in cash disbursements in the above circumstances. **(5 Marks)**

- (c) GKL Ltd. has recently integrated several Internet of Things (IoT) enabled devices into its production and retail operations, including connected manufacturing equipment, smart inventory systems, and mobile-based payment tools. The adoption of these technologies has created new data flows, automated controls, and greater dependence on third-party service providers.

As the statutory auditor, identify the key audit implications arising from the use of IoT in such an environment and outline the procedures you would perform to address the related risks. Also state the common risks of IOT. **(4 Marks)**

3. (a) Tree Ltd. appointed GH & Associates and IJ & Co. as joint auditors for conducting the audit for the year ending on 31<sup>st</sup> March 2025.

During the audit, it was observed that there is a significant understatement in the value of trade receivables. The trade receivable valuation work was looked after by GH & Associates, however, there was no documentation outlining the division of the work between the joint auditors.

Comment on the above situation with respect to the allocation of responsibilities among joint auditors as per relevant Standards on Auditing. **(5 Marks)**

- (b) Shine Appliances Ltd. uses a customised ERP system for recording all financial transactions. The management is concerned about compliance with Rule 11(g) of the Companies (Audit and Auditors) Rules, 2014, which mandates reporting on whether the company's accounting software had an Audit Trail (Edit Log) feature enabled, operative, and not tampered with during FY 2024–25.

Since the ERP allows both system-level and database-level logging, the management seeks guidance from CA M, the statutory auditor, on the internal controls that should be implemented to demonstrate that the Audit Trail feature was continuously enabled and not disabled at any point of time.

Advise CA M on the internal controls the company should establish and operate in this regard. **(5 Marks)**

- (c) CD & Associates are appointed as Statutory Auditors of the Iron Company Ltd. The Central Government holds 74% of the paid-up share capital in this company. The appointment letter of the company gave a very limited time to CD & Associates for accepting the audit. CA Sunny, the engagement partner, communicated with the previous auditor but due to lack of time he had to give

acceptance for the audit assignment before receiving a reply from the previous auditor. Hence CA Sunny gave a conditional acceptance of the appointment and commenced the audit. Discuss with reference to the Chartered Accountants Act, 1949 and the Schedules thereunder, whether CA Sunny has complied with same.

**(4 Marks)**

4. (a) Mr. Tony, the auditor of NDT Pvt. Ltd. has delegated following works to his articles and staff:

- Issue of audit queries during the course of audit.
- Issue of memorandum of cash verification and other physical verification.
- Letter forwarding draft observations/financial statements.
- Issuing acknowledgements for records produced.
- Signing financial statements of the company.

Is this correct as per the Professional Ethics and ICAI's guidelines and pronouncements?

**(5 Marks)**

- (b) ALP Chemicals and Paints Ltd., a manufacturing company listed on the stock exchange, has committed to improving its Environmental, Social and Governance (ESG) transparency. Sustainability reporting plays a crucial role in enhancing accountability for the entity's ESG performance. The company has been discharging untreated chemical water into a nearby river, adversely affecting aquatic life. Management now plans to install an effluent treatment plant. What should be addressed in the pillar envisaged above? Highlight the various key elements included in this Pillar.

**(5 Marks)**

- (c) SAE 3400 explains that prospective financial information can take the form of a forecast, a projection, or a combination of both. In this context, how do you differentiate a forecast from a projection? Also provide an example. Additionally, explain the nature of assurance provided by the practitioner regarding prospective financial information in accordance with SAE 3400.

**(4 Marks)**

5. (a) CA Vir was appointed as the auditor of Rise Limited for the financial year 2024-25. During the course of planning for the audit, CA Vir intends to apply the concept of materiality for the financial statements as a whole. Please guide him with respect to the factors that may affect the identification of an appropriate benchmark for this purpose.

What benchmark should be adopted by CA Vir, if Rise Limited is engaged in:

- (i) the manufacture and sale of air conditioners and is having regular profits.
  - (ii) the construction of large infrastructure projects and incurred losses in the previous two financial years, due to pandemic. **(5 Marks)**
- (b) RJN & Co is the statutory auditor of Plan My Trip Ltd. The company is in the business of tours and travels. The annual turnover of the company is ₹ 2200 crores and profits are ₹ 196 crores. 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 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 audit. Auditors have completed their documentation and hence in a way, representation based on verbal discussions with the auditors has also got documented. Auditors explained that it 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. **(5 Marks)**
- (c) Mr. Nilesh, a Chartered Accountant was the auditor of 'Gum Limited' for the year 2023-24 and 2024-25. During the financial year, the investment appeared in the Balance Sheet of the company amounting ₹ 7.75 lac and was the same amount as in the last year 2023-24. Later it was found that the company's investments were only for ₹ 59,000, however, the value of investments was inflated for the purpose of obtaining higher amount of Bank loan. Comment with reference to the Chartered Accountants Act, 1949, and Schedules thereto. **(4 Marks)**
6. (a) YT Ltd had a net worth of INR 1450 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. The 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 audit. The auditor did not enter into any formal agreement with the auditor's expert. Please advise. **(5 Marks)**

- (b) STS Associates, Chartered Accountants, conducting the audit of RPT Ltd., a listed company for the year ended 31-03-2025 is concerned with the presentation and disclosure of segment information included in Company's Annual Report. STS Associates want to ensure that methods adopted by management for determining segment information have resulted in disclosure in accordance with the applicable financial reporting framework. Guide STS Associates with 'Examples of Matters' that may be relevant when obtaining an understanding of the methods used by the management with reference to the relevant Standards on Auditing. **(5 Marks)**
- (c) PARK Bank Ltd. is reviewing the Cash credit limit worth ` 3 crores of Manish Manufacturing Pvt. Ltd. During the quarterly review, the credit officer noticed that the latest stock statement available was more than three months old. Based on this old statement, the drawing power (DP) calculations showed that the outstanding amount exceeded the permissible limit. Further, the sanction limits were due for renewal, but the renewal process had not been completed on time. However, the excess outstanding was only temporary and resulted from a short-term timing mismatch in receipts. The officer is unsure whether the account should be classified as a Non-Performing Asset (NPA) in light of these observations. Evaluate the situation and determine, with reasons, whether the bank should classify the account as NPA. **(4 Marks)**

**OR**

- (c) Mr. Rai who passed his CA examination of ICAI on 25<sup>th</sup> July, 2025 and started his practice from August 20, 2025. On 21st August 2025, one female candidate approached him for articleship. In addition to monthly stipend, Mr. Rai also offered her 1.5% profits of his CA firm. She agreed to take both 1.5% profits of the CA firm and stipend as per the rate prescribed by the ICAI. The Institute of Chartered Accountants of India sent a letter to Mr. Rai objecting the payment of 1.5% profits. Mr. Rai replies to the ICAI stating that he is paying 1.5% profits of his firm over and above the stipend to help the articled clerk as the financial position of the articled clerk is very weak. Is Mr. Rai liable to professional misconduct?

**(4 Marks)**