

HTF2

Roll No.

Total No. of Questions – 6

Total No. of Printed Pages – 8

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 book 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 or any other electronic gadget 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) CA Student Kalyan was going through a topic on “Audit programme” and learnt that an audit programme is designed to provide most appropriate audit evidence by prescribing procedures and techniques to verify an assertion. Guide the student in answering the following :
- (i) What type of audit evidence shall an auditor look into as the most appropriate evidence in verification of an assertion ? 3
- (ii) Specify the most appropriate audit evidence in respect of : 2
- verification of Cash in hand
 - verification of Investments pledged with bank
- (b) CA Ram Manohar and his team have just started the statutory audit of a listed company which is into manufacture of agro pesticides. The auditors wish to plan and perform the audit so as to reduce the risk of material misstatement to an acceptably low-level. Discuss, how the auditors can satisfy the objective of identifying and assessing the risk of material misstatement. 5
- Your answer should be in line with relevant Standards on Auditing.
- (c) ABC Limited is a large drug manufacturing unit, having units at Hyderabad and Ahmedabad. The management has nominated an expert team from different functions of the organization, to conduct the year end verification of inventories and for finalization of accounts for the financial year 2024-25. The statutory auditors also, as a part of their audit verification, wish to attend the year end physical inventory verification planned by the management. The inventory at all the locations are considered material to the financial statements. 4

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The auditor encountered following situations :

Hyderabad unit : Due to administrative reasons, the management had taken up the stock verification of inventory on 15th March 2025 itself.

Ahmedabad unit : The Company had taken up the inventory verification as planned on 31st March 2025. However, there was news of local disturbances in the city of Ahmedabad during the last week of March 2025, whereby the auditor cancelled his planned visit for attending inventory verification.

In the above circumstances, what additional audit procedures are to be undertaken by the statutory auditor for inventory verification ?

Your answer should be in tune with relevant standards on auditing.

2. (a) What do you mean by ' Deficiency in internal control' and ' Significant deficiency in internal control'? 5

(b) CA Student Ravi is learning the concept of "Key Audit Matters". However, he is confused between modification of audit report and reporting of key audit matters.

You are required to guide him in explaining the following :

(i) Purpose of communicating Key Audit Matters 2

(ii) Communicating Key Audit Matters is not a substitute for disclosure in financial statements. 3

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- (c) CA students Sriranga and Manga were discussing on the assurance, which the auditing services provide to the users, in the form of opinion on financial statements, by means of a written report. Such an assurance lends credibility to financial statements. You are required to state some of the aspects examined by the auditor, to ensure that the financial statements which are audited are not misleading. 4

3. (a) CA Student Manoj is studying on the exemptions available to a private limited company in respect of certain reporting requirements. You are required to guide Manoj on the following :
- (i) Applicability of Reporting requirements on adequacy of Internal Financial Controls (IFCs) with reference to financial statements to a private limited company. 2
- (ii) Applicability of Companies (Auditor's Report) Order, 2020 to a private limited company. 3
- (b) Enumerate the factors that may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms. 5
- (c) XYZ Developers, a property development firm, has secured a short-term construction loan from ABC Bank to finance a residential project. Upon completion of the project, XYZ Developers plan to refinance this loan with a long-term takeout loan from DEF Financial Institution. However, due to delays in the project's completion, XYZ Developers face difficulties in repaying the loan, and the bank classifies the loan as a Non-Performing Asset (NPA). 4

What is the meaning and primary objective of takeout finance in property development, and how does the classification of a loan as a Non-Performing Asset (NPA) impact income recognition by the lending bank ?

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4. (a) Takur and Co; Chartered Accountants were conducting an audit of an LLP. They have verified the Receivables and concluded that all the Receivables are genuine and recoverable. However, before the final completion of the audit, the auditors came to know of severe financial crisis of one of the Receivables, M/s. Raj Enterprises, whose outstanding account balance was material to the overall Receivables figure as on the date of financial statements. CA Takur had discussions with the appropriate level of management to address the issue, and the management finally agreed to make provision for the same, as suggested by the auditor.

You are required to –

- (i) Ensure how the auditor can fulfil the “Documentation” part of this matter. 3
- (ii) Mention any four different examples of “Audit Documentation”. 2
- (b) RK Associates, a leading Chartered Accountant firm were approached by SK Group, for appointment as statutory auditors for their new start-up company. It was learnt that some companies of the group faced raids by the Enforcement Directorate, in the recent past. The firm follows the SQC 1 and the firm’s Quality control policy requires it to obtain vital information about the client before accepting an engagement. Specify the matters which the firm would consider for verifying the integrity of the client, to decide on acceptance of the engagement. Your answer should be in line with SQC 1. 5

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(c) An auditor while verifying the sales during the year observed that the sales transactions in that year are more than 1 lakh in number. He wants to determine the sample size and its composition on the basis of his personal experience and knowledge and do the testing on his own judgment. Kindly advise him about the scientific approach to sampling and the method of sampling to be chosen in such a situation.

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5. (a) CA Taman is the auditor of a company dealing in trading of mobile accessories. This year the company has also started assembling of mobile phones. The audit manager instructed the team to develop the audit programme based on the previous year's audit plan and proceed with the audit. However, CA Taman disagreed, explaining to the audit manager that before commencing the audit and throughout its course, she would plan the nature, timing and extent of direction and supervision for the engagement team members and the review of their work. Explain :

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(i) What factors will CA Taman consider when planning the nature, timing, and extent of direction and supervision of the engagement team members and review of their work ?

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(ii) If, during the course of the audit, CA Taman discovers information that significantly differs from what was available when the audit procedures were initially planned, then what must she do ?

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(b) Following is the extract from the Balance Sheet of Rain Pvt. Ltd. : 5

(i) Borrowings as on 31/03/2025 ₹ 10 Cr.

(ii) Fresh borrowings from bank during the year ₹ 3 Cr.

(iii) Borrowings repaid during the year ₹ 5 Cr.

Parri passu charge has been created on the assets of the company.
Further, borrowing limits have not been exceeded.

From the above information, what audit procedures would you perform,
to ensure that all borrowings reflected in the balance sheet, are valid
claims owed to banks or other third parties ?

(c) State the auditor's duty regarding audit of LLP. 4

6. (a) State the required disclosures for inventories as required under Schedule 5
III (Part I) to the Companies Act, 2013.

(b) A government department conducted an inventory audit and discovered 5
that several items in inventory were found to be either damaged or
obsolete, but they had not been removed from the records. There were no
periodic physical verification reports of inventory, and the valuation of
the materials in stock was outdated.

Explain, how the audit of stores and inventories, as part of the
expenditure audit, under the duties and responsibilities entrusted to the
Comptroller and Auditor General (C&AG), can help address these issues.

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- (c) CA Raj has just concluded the audit of a company and noted certain findings /exceptions in the IT environment and controls, which need to be assessed and reported accordingly. Specify, what points shall the auditor consider in assessing and reporting of audit findings in IT Environment and IT Controls.

OR

- (c) Mentioned below are the threats to independence of auditors. Classify them, with reasons, into the appropriate type of threats viz. Advocacy threat, Intimidation threat, Familiarity threat, Self-review threat, Self-interest threat. (ANY FOUR)
- (i) Close business relationship with an audit client;
 - (ii) Auditors perform services that are themselves subject-matter of audit;
 - (iii) Auditor deals with shares or securities of the audited company;
 - (iv) Long association between specific auditors and their specific client counterparts;
 - (v) Auditor deterred from acting objectively with an adequate degree of professional skepticism.

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