FINAL COURSE

GROUP – I

REVISION TEST PAPERS

SEPTEMBER, 2025

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REVISION TEST PAPER, SEPTEMBER, 2025 – OBJECTIVE & APPROACH

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I. Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (Academic) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS(A) whose significance and relevance from the examination perspective has stood the test of time.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To update them on the latest developments relevant for the forthcoming examination in select subjects;
- To enhance the confidence level of the students adequately.

Students must bear in mind that the RTP contains a variety of questions based on different topics of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials and Statutory Update/Judicial Update, wherever applicable.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Live Virtual Classes by renowned subject experts conducted free of charge in virtual mode for the students of Foundation, Intermediate and Final levels provide the students much required support in preparing for their exams conveniently at home as these classes can be accessed live or viewed later as recorded lectures through hand-held devices such as smart phones, laptops, I-pads, tablets, etc. anytime anywhere. Further, students are advised to attempt the Multiple-Choice Questions (MCQs) at MCQ Paper Practice Portal which is a holistic platform for self-assessment within the stipulated timeframe.

Students are welcome to send their suggestions for fine tuning the RTP to the Joint Director, Board of Studies (Academic), The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201309 (Uttar Pradesh). RTP is also available on BOS Knowledge Portal at *https://boslive.icai.org* for downloading.

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Get a good grasp of the concepts/ provisions/ amendments/ cases discussed therein.

After reading the Study Materials and Update thoroughly, then, proceed to solve the questions given in the RTP on your own. RTP is an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence, you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question.

- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time. Keep sometime for checking the answers as well.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.
- In case of case scenario based MCQs, read the facts given in the case attentively. Also, read each MCQ based thereon and all the options carefully, before choosing the correct answer.

III. Subject-wise Applicability

PAPER 1: FINANCIAL REPORTING

For Paper 1: Financial Reporting November, 2024 edition of the study material is applicable. The syllabus of Financial Reporting focuses on Ind AS integrated with Ethics and Technology. The Study Material has been divided into five modules for ease of handling by students.

For understanding the coverage of syllabus, it is important to read the Study Material along with the reference to Study Guidelines. It contains the detailed topic-wise exclusions from the syllabus. The Study Guidelines is given as part of "Applicability of Standards / Guidance

Notes/Legislative Amendments etc. for September, 2025 – Final Examination" appended at the end of this Revision Test Paper.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. The Revisionary Test Paper (RTP) of Financial Reporting contains twenty questions and their answers.

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

PAPER 2: ADVANCED FINANCIAL MANAGEMENT

Basically, the subject of Advanced Financial Management is to acquire the ability to apply financial management theories and techniques in strategic decision making. The major topics from which numerical questions are normally asked are as follows:

- Financial Policy and Corporate Strategy
- Risk Management
- Advanced Capital Budgeting Decisions
- Security Analysis & Valuation
- Portfolio Management

- Mutual Fund
- Derivatives
- Foreign Exchange Exposure and Risk Management
- International Financial Management
- Interest Rate Risk Management
- Business Valuation
- Mergers and Acquisitions

Accordingly, the detail of the topics, on which questions in this Revisionary Test Paper are based, is as follows:

Question No.	Topic
1	Case Scenario (Advanced Capital Budgeting Decisions)
2	Case Scenario (Financial Policy and Corporate Strategy)
3	Security Valuation
4	Security Valuation
5	Business Valuation
6	Derivatives Analysis & Valuation
7	Interest Rate Risk Management
8	Portfolio Management
9	Foreign Exchange Exposure and Risk Management
10	Foreign Exchange Exposure and Risk Management
11	Mergers, Acquisitions and Corporate Restructuring
12	Mutual Funds
13	International Financial Management
14	A theoretical Question
15	A theoretical Question

PAPER 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

RTP is a tool to refresh your knowledge which you have acquired while doing conceptual study from Study Material and other modes of knowledge like student journal, Saransh, bare acts etc.

This RTP of Advanced Auditing, Assurance and Professional Ethics is relevant for September 2025 Examination. Total 20 Questions consisting of case scenario based multiple choice questions, independent multiple choice questions and descriptive questions have been taken from the entire syllabus divided into Nineteen chapters.

These 20 questions are taken from different topics like Quality Control, Materiality, Risk Assessment and Internal Control, Reporting, Review of Financial Information, Digital Auditing and Assurance, Group Audits, Special Features of Audit of Banks & Non-Banking Financial Companies, Internal Audit, Due Diligence, Investigation & Forensic Accounting, Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance and Professional Ethics and Liabilities of Auditors etc. of different level. Some of the questions given in the RTP are descriptive i.e. direct theory questions (Knowledge and Comprehension) based whereas some of them are practical case studies based i.e. application-oriented theory question (Application and Analysis / Evaluation and Synthesis). The name of the chapter is clearly indicated before each question.

Examples and illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve the MCQs and case scenarios based MCQs uploaded in MCQ Paper Practice Dashboard to assess your level of understanding and hone your analytical and problem-solving skills.

Finally, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

PAPER – 1: FINANCIAL REPORTING

QUESTIONS

Case Scenario I

HIJ Ltd. is a globally diversified business conglomerate with operations spanning multiple business segments across various regions worldwide. For maintaining its financial records, the company follows Indian Accounting Standards. As the finance team diligently finalizes the books of accounts and prepares the financial statements for the financial year ending on 31st March 20X2, it requires insights and accounting suggestions on the following transactions:

(i) On 1st October 20X1, HIJ Ltd. subscribed for 40 million ₹ 1 loan notes in Z Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 30th September 20X6. Interest is payable on 30th September in arrears at 4% of par value. This represents an effective annual rate of return for HIJ Ltd. of 9.9%. HIJ Ltd.'s intention is to hold the loan notes until redemption.

(ii) On 1st April 20X1, HIJ Ltd. commenced joint construction of a property with G Ltd. For this purpose, an agreement has been entered into that provides for joint operation and ownership of the property. All the ongoing expenditure, comprising maintenance plus borrowing costs, is to be shared equally. The construction was completed on 30th September 20X1 and utilisation of the property started on 1st January, 20X2 at which time the estimated useful life of the same was estimated to be 20 years.

Total cost of the construction of the property was ₹ 40 crores. Besides internal accruals, the cost was partly funded by way of loan of ₹ 10 crores taken on 1st January, 20X1. The loan carries interest at an annual rate of 10% with interest payable at the end of year on 31st December each year. The company has spent ₹ 4,00,000 on the maintenance of such property.

The company has recorded the entire amount paid as investment in Joint Venture in the books of accounts. Suggest the suitable accounting treatment of the above transaction as per applicable Ind AS.

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

1. What would be the initial measurement of financial instruments as subscription of loan notes in Z Ltd.?

   (a) ₹ 40 million

   (b) ₹ 37.782 million

   (c) ₹ 38.4 million

   (d) ₹ 36 million

2. What would be the closing balance of financial instruments (as subscription of loan notes in Z Ltd.) as on 31st March 20X2?

   (a) ₹ 37.6 million

   (b) ₹ 34.218 million

   (c) ₹ 37.782 million

   (d) ₹ 36.182 million

3. With respect to point (ii), what is the nature of the agreement?

   (a) Agreement is in the nature of Joint venture

   (b) Agreement is in the nature of Joint Operations

   (c) Agreement is in the nature of Holding subsidiary relationship

   (d) Agreement is in the nature of Associates

4. What will the initial cost of PPE appearing in the books of HIJ Ltd.?

   (a) ₹ 40,50,00,000

   (b) ₹ 40,00,00,000

   (c) ₹ 20,25,00,000

   (d) ₹ 20,00,00,000

5. Calculate the depreciation charge for the year ended 31st March 20X2 to be charged by G Ltd. in its books?

   (a) ₹ 50,62,500

   (b) ₹ 1,01,25,000

   (c) ₹ 1,00,00,000

   (d) ₹ 50,00,000

Case Scenario II

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

   Costs relating to the production line are as follows:

Details	**Amount ₹ in lakhs**
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June, 20X2	1.20
Other overheads directly related to the construction	0.90

Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May, 20X2.

The other overheads were incurred during the two-month period ended on 31st May, 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs.

No impairment of the plant had occurred by 31st March 20X3.

ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the year ended 31st March 20X3:

Particulars	₹ in lakhs
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (deferred tax liabilities)	15
Profit from sale of land	2

On the basis of the facts given above, chose the most appropriate answer to Questions 6 to 10 below based on the relevant Indian Accounting Standards (Ind AS).

6. Which of the following items need to be capitalized in determining the cost of Production Line?

   (a) Abnormal cost of ₹ 0.3 lakhs

   (b) Recoverable GST of ₹ 1 lakhs

   (c) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs

   (d) Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs

7. Calculate the company's associate Flynet Ltd.'s cash flow from operations.

   (a) ₹ 158 lakhs

   (b) ₹ 170 lakhs

   (c) ₹ 174 lakhs

   (d) None of the above

8. What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?

   (a) Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.

   (b) Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.

   (c) Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.

   (d) Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.

9. Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for Dismantling Cost carried to Balance Sheet.

   (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs

   (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs

   (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs

   (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

10. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.

   (a) ₹ 13.26 lakhs

   (b) ₹ 14.60 lakhs

   (c) ₹ 13.96 lakhs

   (d) ₹ 15.76 lakhs

Consolidated Financial Statements

11. A Ltd. owns 100% of a subsidiary B Ltd. It disposes of 60% of its interest in the subsidiary for ₹ 360 million and loses control of the subsidiary. It will de-consolidate the subsidiary and account for the remaining 40% interest as an associate using the equity method of accounting. At the disposal date, the fair value of the retained investment in B Ltd. is determined to be ₹ 240 million. The carrying value of the identifiable net assets of the subsidiary is ₹ 440 million, excluding goodwill. There is ₹ 60 million of goodwill recorded related to the previously acquired interests in the subsidiary. A Ltd. tested the subsidiary's goodwill and long-lived assets prior to disposal and there was no impairment. There is ₹ 4 million credit in the available-for-sale reserve and ₹ 10 million credit in the revaluation reserve relating to the subsidiary B Ltd. The tax consequences of the gain have been ignored.

    Required:

    (i) Pass Journal Entries for sale of 60% stake of B Ltd. on disposal date

    (ii) Compute gain on 40% retained investment

Ind AS 105: Non-Current Assets Held for Sale and Discontinued Operations

12. A Ltd. has a wholly owned subsidiary B Ltd. A Ltd. sells subsidiary B Ltd. to C Ltd. a listed entity, for shares in C Ltd. and ends up owning 75% of C Ltd.'s shares.

    The net assets of B Ltd. prior to the disposal are ₹ 10,00,000 (fair value ₹ 13,00,000) and goodwill previously capitalised and not impaired is ₹ 6,00,000; the carrying value of B Ltd. in A Ltd.'s books is ₹ 15,00,000.

    At the date A Ltd. acquired B Ltd., B Ltd.'s profit and loss reserve was ₹ 400,000 and B has since made ₹ 100,000 post acquisition profits.

    The position prior to the transaction was as follows: (Amount in ₹)

Consolidation of A Ltd. and B Ltd. before transaction	A Ltd.	B Ltd.	Elim	Consol
Goodwill	-	-	600,000	600,000

Investment in subsidiary	1,500,000	-	(1,500,000)	-
Net assets	10,000,000	1,000,000	-	11,000,000
Total assets	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**
Share capital	2,000,000	500,000	(500,000)	2,000,000
Retained earnings	9,500,000	100,000	-	9,600,000
Pre-acquisition reserves	-	400,000	(400,000)	-
Total equity	**11,500,000**	**1,000,000**	**(900,000)**	**11,600,000**

The net assets of C Ltd. prior to its acquisition of B Ltd. were ₹ 380,000 (fair value ₹ 500,000). C Ltd. then issued shares worth ₹ 17,50,000 (which is the fair value of the consideration given for the acquisition of 100% of B), being ₹ 600,000 nominal value and ₹ 11,50,000 premium. The balance sheets of the three companies directly after the issue of shares by C Ltd. were as follows: (Amount in ₹)

Summarized balance sheets	**A Ltd.**	**B Ltd.**	**C Ltd.**
Investment in subsidiary	1,750,000	-	1,750,000
Net assets	10,000,000	1000,000	380,000
	11,750,000	1000,000	2,130,000
Share capital	2000,000	500,000	800,000
Additional paid in capital	-	-	1,150,000
Retained earnings	9,750,000	500,000	180,000
Total equity	11,750,000	1,000,000	2,130,000

The parent A Ltd., had an interest in B Ltd. that cost ₹ 15,00,000 and has in effect swapped this for an interest in C Ltd.'s group. In its separate financial statements, A Ltd. states its investment in C Ltd. group at the fair value of the consideration given ₹ 17,50,000.

The non-controlling interest is determined with reference to the proportionate share of the acquired C Ltd.'s net identifiable assets.

Required:

(i) Compute gain or loss on effective disposal of B Ltd.

(ii) Compute goodwill on acquisition of C Ltd.

Note:

a. C Ltd. is not required to prepare consolidated financial statements.

b. Ignore the possibility that the transaction could be classified as a reverse acquisition of C Ltd. by B Ltd.

Ind AS 28: Investment in Associates and Joint Ventures

13. H Ltd. purchased a 100% subsidiary S Ltd. for ₹ 500,000 at the end of March, 20X3, when the fair value of the S Ltd.'s net assets was ₹ 400,000. H Ltd. sold 60% of its investment in the S Ltd. in March, 20X5 for ₹ 675,000, leaving H Ltd. with 40% investment and significant influence. At the date of disposal, the carrying value of the net assets of S Ltd., excluding goodwill, is ₹ 800,000. The fair value of the investment in S Ltd. retained is proportionate to the fair value of the 60% investment sold.

Required:

Compute gain or loss for H Ltd. on sale of 60% stake in S Ltd. for the purpose of separate financial statements and consolidated financial statements.

Ind AS 41 : Agriculture

14. A Ltd. purchased 100 goats at an auction for ₹ 1,00,000 on 30th September, 20X7. Subsequent transportation costs were ₹ 1,000. A Ltd. would have to incur the same transportation costs if it had sold its goats in this auction. In addition, there would be a 2% auctioneer's fee on the market price of the goats payable by the seller. A Ltd. so incurred ₹ 500 on veterinary expenses.

On 31st March 20X8, the market value of the goats in the most relevant market increases to ₹ 1,10,000. Transportation costs of ₹ 1,000 would have to be incurred by the seller to get the goats to the relevant market. An auctioneer's fee of 2% on the market price of the goats would be payable by the seller.

On 1st June 20X8, the entity sold 18 goats at auction for ₹ 20,000 and incurred transportation charges of ₹ 150. In addition, there was a 2% auctioneer's fee on the market price of the goats paid by the seller.

On 15th September, 20X8, the fair value of the 82 goats was ₹ 82,820. 42 goats were slaughtered on that day, with a total slaughter cost of ₹ 4,200. The total market price of the carcasses on that day was ₹ 48,300, and the estimated transportation cost to sell the carcasses is ₹ 420. No other selling costs are expected.

On 30th September, 20X8, the market price of the remaining 40 goats was ₹ 44,800. The estimated transportation cost is ₹ 400. In addition, there would be a 2% auctioneer’s fee on the market price of the goats payable by the seller.

A Ltd. adopts the fair value model to recognize biological assets, as required by the standard, and reports on 30th September and 31st March each year and determines fair value on these dates.

Pass Journal Entries for the above transactions.

Ind AS 28: Investment in Associates and Joint Ventures

15. Beta Limited (investee) has issued 2,000 equity shares which are outstanding at the reporting date. On this date, Beta issues 1,000 share options to its employees, which can be converted into 1,000 equity shares of Beta. The grant-date fair value of each option issued is ₹ 1. The options will vest over five years and all 1,000 options are expected to vest.

    Beta recognises share-based remuneration expense of ₹ 200 in its profit or loss and an offsetting credit to equity in the current year. Alpha Limited (investor) holds 600 shares of Beta. Alpha has significant influence over Beta. Alpha recognises its share of the remuneration expense in its profit or loss as part of income from the equity-accounted investees. It records the offsetting credit as a reduction of its investment in Beta.

At the end of the vesting period, all options vest and are exercised. The exercise price is ₹ 3 per option. The face value per share is ₹ 1.

Required

(i) Pass journal entries in the books of Beta Limited and Alpha Limited for recording share-based payment expenses for the first year.

(ii) Pas Journal entries for exercising of option in the 5^{th} year, in the books of Beta Limited.

(iii) In the books of Alpha Limited, compute the loss on dilution of shares of Beta Limited and pass journal entries for the same. Beta has net assets totalling ₹ 11,000, immediately before the shares are issued.

Ind AS 109 : Financial Instruments

16. Zx issues a fixed-rate loan for ₹ 500,000 and incurs issue costs of ₹ 20,000, resulting in an initial carrying value of ₹ 480,000. The loan carries an interest rate of 8% per annum, and it is repayable at par at the end of year 10. However, under the contract, Zx can call the loan at any time after year 4 by paying a fixed premium of ₹ 30,000. The fair value of the option is ₹ 10,000 at inception. The effective interest rate amounts to 8.30213%.

Required:

(i) How is the embedded issuer-only call feature accounted for by Zx, the issuer initially?

(ii) Explain the accounting of the loan when

(a) In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000.

(b) At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000.

(c) At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

Ind AS 21 : The Effects of Changes in Foreign Exchange Rates

17. PQR Ltd. has entered into a fixed price contract on 1st February, 20X2 to provide annual maintenance services worth USD 10,000 which is rendered uniformly throughout the year over a period of two years (1st April, 20X2 – 31st March 20X4) to a foreign customer. As per the terms of the contract, it has received advance payment of USD 3,000 on 1st February, 20X2 and the balance is to be received on 31st March, 20X4.

The entity recognises revenue at the end of every year.

How should the entity account for the said transactions, where the consideration is received in advance?

Ind AS 7 : Statement of Cash Flows

18. A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of ₹ 2,00,000, but no trade receivables or trade payables on 1st April, 20X2. During 20X2-20X3, A Ltd. entered into the following foreign currency transactions:

1. A Ltd. purchased goods for resale from Europe for € 1,00,000 when the exchange rate was € 1 = ₹ 105. This balance is still unpaid at 31st March, 20X3 when the exchange rate is € 1 = ₹ 100.
2. A Ltd. sold the goods to an American client for \$ 1,50,000 when the exchange rate was \$1 = ₹ 85. This amount was settled when the exchange rate was \$1 = ₹ 87.
3. A Ltd. also borrowed € 1,00,000 under a long-term loan agreement when the exchange rate was € 1 = ₹ 105 and immediately converted it to ₹ 1,05,00,000.

Recommend how cash flows arising from above transactions would be reported in the statement of cash flows under indirect method.

Ind AS 116 : Leases

19. Wealth Ltd. has entered into lease agreement with a lessor for a period of 5 years at the annual lease rental of ₹ 8 lakhs. There is an option at the end of the said period that lease can be owned by lessee. Other factors to be noted are discount rate of 8% per annum and interest rate implicit in the lease of 10% per annum.

    Wealth Ltd. is reasonably certain to exercise the option to purchase the leased asset at the end of lease term and ₹ 56,00,000 is the exercise price agreed in the lease term for purchasing of land at the end of the 5^{th} year. Therefore, the same has been considered in computing the present value of the lease liability.

    At the end of the year 3, Wealth Ltd. exercised the option to purchase the land at value of ₹ 56 lakhs, whereas the market value on that date was ₹ 75 lakhs.

    For revised discount rate, consider the interest rate implicit in the lease.

    Required

    (i) Calculate the lease liability and right of use asset for the lease with the lessor. RoU is depreciated on SLM basis.

    (ii) Provide the amounts reflecting in the balance sheet, profit and loss and statement of cash flows at the end of year 1.

    (iii) What are the accounting entries if Wealth Ltd. decides to purchase the leased property at the end of year 3?

Ind AS 102 : Share-based Payments

20. Max Ltd. enters into a share-based payment arrangement with its employees on the following terms:

    - Each employee will receive 500 shares if they remain employed for a period of five years.

- It is expected that no employees are expected to leave during the five year period.
- The grant date fair value of the award is ₹ 4,000.
- If an employee leaves Max Ltd. after the five -year period, but before its shares are listed, the entity has an option to purchase the shares for fair value from the employee.
- On grant date, Max Ltd. expects to list in the list in the next 3-5 years. This is the first share-based plan and Max Ltd. has no past practice or stated policy of buying back shares from employees when the employees leave. Neither does Max Ltd. expect that it will settle the awards in cash.
- At the end of year 2, Max Ltd. on longer expects to list; and the employees are informed of this fact. Max Ltd. announces to employees that if it is not listed after the five years and employees leave, Max Ltd. will repurchase the shares. The fair value of the shares is ₹ 6,000 on this date.
- At the end of year 3, the fair value of the liability has increased to ₹ 9,000

Required

(i) Determine the accounting for years 1-3.

(ii) What would be the treatment of the awards, if at the end of year 2, Max Ltd. does not inform employees that it will repurchase the shares after a five-year period, and a listing of the entity's shares is still achievable. But at the end of year 6, Max Ltd. has not yet listed and two of the employees leave. Max Ltd. exercises its settlement choice and buys the leaving employee's shares at fair value.

SUGGESTED ANSWERS

Answer to Case Scenario I

1.	**Option (d) :** ₹ 36 million
2.	**Option (c)** : ₹ 37.782 million
3.	**Option (b) :** Agreement is in the nature of Joint Operations
4.	**Option (c)** : ₹ 20,25,00,000
5.	**Option (a) :** ₹ 50,62,500
6.	**Option (d):** Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs
7.	**Option (b) :** ₹ 170 lakhs
8.	**Option (b) :** Provision of ₹ 1.6 lakhs should be recognized with a corresponding charge to profit or loss.
9.	**Option (c) :** ₹ 1.76 lakhs; ₹ 1.42 lakhs
10.	**Option (a) :** ₹ 13.26 lakhs

11. **(i)** The accounting entry on the disposal date for the 60% interest sold, the gain recognised on the 40% retained investment and the de-recognition of the subsidiary is as follows:

		₹ in million	
Cash / Bank A/c	Dr.	360	
Investment in associate	Dr.	240	
Available -for-sale reserve	Dr.	4	
Revaluation reserve	Dr.	10	
To Net assets (including goodwill)			500
To Retained earnings			10
To Gain on disposal of controlling interest			104

The ₹ 104 million gain on the interest sold and the retained investment is recognised in the income statement and is disclosed in the consolidated financial statements.

(ii) Computation of remeasurement of the retained non-controlling investment to fair value:

	₹ in million
Fair value of retained investment	240
Percentage retained of carrying value of subsidiary [(440+ 60) x 40%]	(200)
Gain on retained investment	40

The gain or loss on the interest sold and on the retained investment recognised in the income statement, is calculated as follows:

	₹ in million
Fair value of the consideration	360
Fair value of retained investment	240
	600
Less: Carrying value of former subsidiary's net assets (440 + 60)	(500)
Available for sale reserve transferred to income	4
Gain on interest sold and on retained investment	104

12. Effective disposal of stake in B Ltd. [100%- (75% of 100%)] = 25% which will be considered as non-controlling interest in B Ltd.

With regard to A Ltd.'s consolidated financial statements, it is necessary to calculate the 'gain or loss' (on the disposal of 25% of B Ltd.) that is recognised in equity and the goodwill arising (on the acquisition of C Ltd.).

When control is retained, it should be noted that goodwill attributed to the portion sold remains unchanged and is allocated to the non-controlling interest. In addition, if control is retained, the gain or loss should be recognised in equity.

Gain or loss on disposal of 25% of B Ltd.	**₹**
Calculation of non-controlling interest B Ltd. in A's consolidated financial statement: Book value of assets and liabilities given up plus attributable goodwill [(₹ 10,00,000 + ₹ 6,00,000) x 25%]	4,00,000
Less: Fair value of business received in consideration (W.N.1)	(4,37,500)
Gain on disposal recognized in equity	37,500

The net assets compared should include an appropriate portion of any cumulative exchange differences and any reserve on FVOCI debt investments previously recognised in other comprehensive income and accumulated in equity.

Goodwill on acquisition of 75% of C Ltd.	**₹**
Fair value of business given in consideration (₹ 17,50,000 x 25%)	4,37,500
Non-controlling interest C Ltd. measured at the proportionate share of the acquired net-asset (₹ 5,00,000 x 25%)	1,25,000
	5,62,500
Less: Fair value of assets and liabilities acquired	(5,00,000)
Goodwill	62,500

The consolidated entry recognised is:

		₹	₹
Fair value of net identifiable assets -C Ltd.	Dr.	5,00,000	
Goodwill – C Ltd.	Dr.	62,500	
To Non-controlling interest B Ltd. (16,00,000 x 25%)			4,00,000
To Non-controlling interest – C Ltd. (500,000 x 25%)			1,25,000
To Equity			37,500

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction

(Amount in ₹)

Consolidation of A Ltd., B Ltd. and C Ltd. after the transaction	A Ltd.	B Ltd.	C Ltd.	Elim	Consolidated
Goodwill (W.N.2)	-	-	-	662,500	662,500
Investment in subsidiary (W.N.3)	1,750,000	-	1,750,000	(3,500,000)	-
Net assets	10,000,000	1,000,000	380,000	120,000	11,500,000
	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500
Equity share capital	2,000,000	500,000	800,000	(1,300,000)	2,000,000
Additional paid in capital	-	-	1,150,000	(1,150,000)	-
Retained earnings (W.N.4)	9,750,000	500,000	180,000	(792,500)	9,637,500
Non-controlling interest	-	-	-	525,000	525,000
Total equity	11,750,000	1,000,000	2,130,000	(2,717,500)	12,162,500

Note:

C Ltd.'s net assets are adjusted to fair value for the purpose of the consolidation as A Ltd. has acquired 75% of C Ltd. and gained control of C Ltd.

Working Notes:

1. A Ltd. receives consideration (that is, shares in C Ltd.) with a fair value of ₹ 17,50,000. However, the amount included in the calculation is the amount attributable to the interest in B Ltd. that has been disposed of, that is 25% of ₹ 17,50,000 = ₹ 4,37,500.

   The fair value of the part of the subsidiary B that is effectively disposed of is derived from the price paid by C Ltd. for the whole of B Ltd. which is ₹ 17,50,000.

2. The goodwill balance of ₹ 6,62,500 represents the previous balance of the goodwill of ₹ 6,00,000 arising on the acquisition of B Ltd., plus the goodwill of ₹ 62,500 arising on the acquisition of C Ltd. The original goodwill arising on the acquisition of B Ltd. is

retained and a portion (25%) is allocated to the non-controlling interest.

3. On consolidation the net assets of C Ltd. are increased from ₹ 3,80,000 to their fair value of ₹ 5,00,000.

4. **Computation of consolidated retained earnings**

	₹
Retained earnings of A Ltd. (excluding the investment revaluation gain of ₹ 2,50,000, which is reversed)	95,00,000
Add: Post-acquisition profits of B Ltd.	1,00,000
Add: Gain on disposal (recognised directly in equity)	37,500
	96,37,500

5. **Computation of non-controlling interest**

	₹
25% of C Ltd.'s fair value of net assets (₹ 5,00,000 x 25%)	1,25,000
Add: 25% of B Ltd.'s net assets (including goodwill) (₹ 16,00,000 x 25%)	4,00,000
	5,25,000

13. (i) Computation of gain on the sale of 60% investment in Separate Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

	₹
Sale proceeds	6,75,000
Less: Cost of investment in S Ltd. (5,00,000 x 60%)	(3,00,000)
Gain on sale in the parent's financial statements	3,75,000

(ii) Computation of gain on the sale of 60% investment in Consolidated Financial Statements of H Ltd.'s for the year ended 31st March, 20X5

In the consolidated financial statements, the group will calculate the gain or loss on disposal differently. The carrying amounts of all of the assets, including goodwill and the full amount of any cumulative exchange differences and any FVOCI-reserve previously recognised in equity, are de-recognised. when control is lost. This is compared to the proceeds received and the fair value of the investment retained.

The gain on disposal will be calculated as follows:

	₹
Sale proceeds	6,75,000
Add: Fair value of 40% interest retained	4,50,000
	11,25,000
Less: Net assets disposed, including goodwill (8,00,000 + 1,00,000)	(9,00,000)
Gain on sale in the group's financial statements	2,25,000

This gain on loss of control would be recorded in profit or loss. The gain or loss includes the gain of ₹ 1,35,000 (₹ 6,75,000 - (₹ 9,00,000 x 60%)) on the portion sold. However, it also includes a gain on remeasurement of the 40% retained interest of ₹ 90,000 (₹ 4,50,000 - ₹ 3,60,000). The entity will need to disclose the portion of the gain that is attributable to remeasuring any remaining interest to fair value that is ₹ 90,000).

14. Journal Entries

		₹	₹
Initial recognition of goats at 30th September, 20X7			
Biological asset (goats)	Dr.	97,000	
Loss on initial recognition	Dr.	4,000	

To Cash (purchase and transport to farm) (Initial recognition of the goats at fair value less costs to sell)		101,000
Veterinary expenses Dr. To Cash Recognition of veterinary expenses at 30th September, 20X7 (such expenses do not, in themselves, affect the fair value)	500	500
Biological asset (goats) Dr. To Gain on change in fair value less costs to sell (1,06,800-97,000) (Subsequent measurement of biological assets at fair value less costs to sell at 31st March, 20X7 reporting date)	9,800	9,800
Sale of goats on 1st June, 20X8 Cash Dr. Selling expenses (150+400) Dr. To Revenue (Recognition of the revenue from the sale of goats)	19,450 550	20,000
Transfer of biological assets to inventory on 15th September, 20X8 Inventory (Carcasses) Dr. Fair value loss on goats Dr. To Biological asset (goats) (the proportion of goats sold using the fair value at the previous reporting period, 31st March, 20X8) (1,06,800 x 42/100) To Cash (Transfer of goats slaughtered to inventory)	47,880 1,176	44,856 4,200

Subsequent measurement of goats at 30th September, 20X8		
Loss on change in fair value less costs to sell Dr.	18,440	
To Biological asset (goats) (fair value of goats at last reporting date less transfer to inventory) (43,504-(1,06,800-44,856))		18,440
(Subsequent measurement of biological assets at fair value less costs to sell at 30th September, 20X8 reporting date)		

Working Notes:

1.	**The fair value less costs to sell at initial recognition**		**₹**
	Fair value in the most relevant market		1,00,000
	Transport costs		(1,000)
	Auctioneer's fee		(2,000)
			97,000
2.	**The fair value less costs to sell at 31st March, 20X8 and gain thereupon**		
	Fair value in the most relevant market		1,10,000
	Transport costs		(1,000)
	Auctioneer's fee		(2,200)
			1,06,800
	Less: Original cost recorded		(97,000)
			9,800
3.	**The fair value less estimated costs to sell of the carcasses on 15th September, 20X8**		
	Market value of carcasses		48,300
	Transport costs		(420)
			47,880
	Initial cost of the carcasses at the date of transfer to inventory is measured at the fair value less costs to sell of the carcasses. [Ind AS 41.13]		

4.	**The fair value less costs to sell at 30th September, 20X8**	
	Fair value in most relevant market	44,800
	Transport costs	(400)
	Auctioneer's fee	(896)
		43,504

The reduction in the herd due to the sale of goats at 1st June, 20X8 is included in the fair value adjustment at 30th September, 20X8. An alternative to the above presentation is to remeasure the goats to fair value just prior to the point at which they are sold and record a cost of sales figure separately with a corresponding reduction in the value of the biological assets. This will result in the same net profit for the period, but the presentation of cost of sales and net fair value re-measurements on biological assets will be different.

15. (i) Journal Entries to be recorded over the five-year vesting period:

	₹	₹
In Beta's books		
Share based payments remuneration (profit or loss) Dr.	200	
To Shareholders' equity (ESOP reserve)		200
(To recognise share based payment at associate level)		
In Alpha's books		
Share based payment remuneration (profit or loss) Dr.	60	
To Investment in associate		60
(To recognise share based payment at investor level)		

(ii) Journal Entries in the books of Beta to recognise share issue:

		₹	₹
Cash	Dr.	3,000	
Shareholders' equity (ESOP reserve)	Dr.	1,000	
To Share capital			1,000
To Share premium			3,000
(To recognise exercise of options at the associate level)			

(iii) Accounting in the Financial Statements of Alpha

The issue of new share options results in a dilution of Alpha's interest in Beta by 10% [30% - {(600/(2,000+1000) x 100}]. However, Alpha maintains significant influence over Beta.

Alpha calculates loss on dilution as below.

	₹
Alpha's share of net assets before exercise (11,000 x 30%)	3,300
Alpha's share of net assets after exercise ((11,000+3,000) x 20%)	(2,800)
Cumulative adjustment required	500
Less: Adjustment previously recognized for share based payment expense (60 x 5 years)	(300)
Loss on dilution	200

Alpha passes the following entry to recognise dilution

	₹	₹
Loss on dilution (profit or loss) Dr.	200	
To Investment in associate		200
(To recognize dilution of investment in associate)		

16. It is first necessary to determine whether the call option is closely related to the host debt instrument. Because the fixed premium is required to be paid whenever the call option is exercised after year 4, it is not known if it will be equal to the present value of any interest lost during the remaining term after exercise of the option. Additionally, the call option's exercise price is ₹ 5,30,000 (inclusive of the premium) therefore, it is unlikely to be approximately equal to the debt instrument's amortised cost in year 4, or at any subsequent year. Consequently, the call option shall be separated from the host debt contract and accounted for separately. This assumes that the expected life of the instrument is the full 10-year term. Even if the expected life is assumed to be four years, the 10-year loan with a call option after four years is economically same as a four-year loan with a six-year extension option. Because there is no concurrent adjustment to the interest rate after four years, the term extension option would not be closely related, and it would need to be accounted for separately. Thus, whichever way the loan and option are viewed, the embedded derivative needs to be separated.

Even though the option is out of the money at inception, because the option's exercise price is greater than the debt instrument's carrying value, it has a time value.

Since the value of a callable bond is equal to the value of a straight bond less the value of the option feature, the accounting entries at inception is:

		Dr (₹)	Cr. (₹)
Embedded option (derivative asset)	Dr.	10,000	
Cash	Dr.	4,80,000	
To Debt instrument (host)			4,90,000

Since the call option will be fair valued and accounted for separately, with fair value movements taken to profit or loss, it has no impact on the entity's estimate of future cash flows; accordingly, the amortisation period will be the debt host's period to original maturity. The amortisation schedule is shown below:

	Opening amortised cost ₹	Interest expense @ 8.30213% ₹	Cash payments ₹	Closing amortised cost ₹
Year 1	490,000	40,680	40,000	490,680
Year 2	490,680	40,737	40,000	491,417
Year 3	491,417	40,798	40,000	492,216
Year 4	492,216	40,864	40,000	493,080
Year 5	493,080	40,936	40,000	494,016
Year 6	494,016	41,014	40,000	495,030
Year 7	495,030	41,098	40,000	496,128
Year 8	496,128	41,189	40,000	497,317
Year 9	497,317	41,288	40,000	498,605
Year 10	498,605	41,395	540,000	-

The entity would recognize interest expense in profit or loss and the loan's amortised cost in the balance sheet each year, in accordance with the above amortisation schedule.

In years 1 and 2, there is no change in interest rate since inception for an instrument of similar maturity and credit rating. The option's fair value (time value) at the end of year 2 is ₹ 6,000. The decrease in fair value of ₹ 4,000 since inception will be reported in profit or loss, and the option will be recorded at ₹ 6,000 at the end of year 2.

At the end of year 3, interest rates have fallen, and the option's fair value increases to ₹ 9,000. The increase in value of ₹ 3,000 will be recorded in profit or loss, and the option will be recorded at its fair value of ₹ 9,000 at the end of year 3.

At the end of year 4, interest rates have fallen further. The option's fair value increases to ₹ 20,000, and the entity decides to repay the loan at the end of year 4.

The accounting entries, to reflect the change in the option's fair value and the loan's early repayment at the end of year 4, are as follows:

		Dr (₹)	**Cr. (₹)**
Embedded option	Dr.	11,000	
To Profit or loss			11,000
(Early repayment of loan)			
Debt instrument (host)	Dr.	4,93,080	
Loss on de- recognition of liability	Dr.	56,920	
To Embedded option (derivative asset)			20,000
To Cash			5,30,000

17. If the advance received from the customer is determined to be in the nature of prepayments or progress payments, these are treated as non-monetary items.

Accordingly, in the instant case, PQR Ltd. receives the advance payment of USD 3,000 on 1st February which it translates into its functional currency using the exchange rate on 1st February, 20X2.

Applying paragraph 23(b) of Ind AS 21, the entity does not update the translated amount of the nonmonetary liability.

Applying Ind AS 115, Revenue from Contracts with Customers, it recognises revenue over a period of two years.

Since, the entity recognises revenue at the end of the year, revenue of USD 5,000 will be recognised at the end of the first year.

PQR Ltd. has determined that the consideration of USD 3,000 relates to the service it has rendered in the first year. At the end of year 1, the entity is entitled to an unconditional right to USD 2,000 of the remaining consideration.

Accordingly, at the end of the first year, on 31st March 20X3, it recognises revenue of USD 5,000 out of which USD 3,000 will be recognised by derecognising the contract liability and no exchange fluctuation will be involved. Balance of USD 2,000 revenue will be recognised by translating the exchange rate at the date of transaction and a receivable (monetary asset) will be recognised and translated at the exchange rate as at 31st March 20X3.

It will update the translated amount of the receivable until the receivable is settled on 31st March 20X4 and recognises the corresponding gain or loss in profit or loss.

At the end of the second year on 31st March 20X4, it recognises the balance revenue of USD 5,000 using the exchange rate at the date of the transaction.

18. An exchange gain on retranslation of the trade payable of ₹ 5,00,000 is recorded in profit or loss [€ 1,00,000 x (105 – 100) = ₹ 5,00,000].

A further exchange gain of ₹ 3,00,000 regarding the trade receivable is recorded in the statement of profit or loss [$ 1,50,000 x (87 – 85) = ₹ 3,00,000].

The loan was retranslated at 31st March, 20X3 @ ₹ 100 = ₹ 1,00,00,000, with a further exchange gain of ₹ 5,00,000 recorded in the statement of profit or loss.

A Ltd. therefore records a cumulative exchange gain of ₹ 13,00,000 (5,00,000 + 3,00,000 + 5,00,000) in arriving at its profit for the year.

In addition, A Ltd. records a gross profit of ₹ 22,50,000 (₹ 1,05,00,000 – ₹ 1,27,50,000) on the sale of the goods.

Statement of Cash Flows

Cash flows from operating activities (Indirect method)

Particulars	**Amount (₹)**
Profit before taxation (22,50,000 + 13,00,000)	35,50,000
Adjustment for unrealised exchange gains/losses:	
Foreign exchange gain on long term loan	(5,00,000)
Decrease in trade payables	(5,00,000)
Operating cash flow before working capital changes	25,50,000
Changes in working capital (Due to increase in trade payables)	1,05,00,000
Net cash inflow from operating activities	1,30,50,000
Cash inflow from financing activity	1,05,00,000
Net increase in cash and cash equivalents	2,35,50,000
Cash and cash equivalents at the beginning of the period	2,00,000
Cash and cash equivalents at the end of the period (W.N.)	2,37,50,000

Note: Taxation is ignored.

Working Note:

Closing Cash and Cash Equivalents

Particulars	**Amount (₹)**
Opening balance of cash and cash equivalents	2,00,000
Add: Received from settlement of Trade Receivables	1,30,50,000
Add: Received from conversion of loan	1,05,00,000
	2,37,50,000

19. (i) Calculation of ROU Asset and Lease Liability:

Year	Lease Payments / Purchase Price	PVF @ 10%	PV of Lease payments
1	8,00,000	0.909	7,27,200
2	8,00,000	0.826	6,60,800
3	8,00,000	0.751	6,00,800
4	8,00,000	0.683	5,46,400
5	64,00,000 (8,00,000 + 56,00,000)	0.621	39,74,400
			65,09,600

Entity would amortise the right-of-use asset over the useful life of the underlying asset (5 years). Annual amortisation expense would be ₹ 13,01,920 (₹ 65,09,600 / 5 years). Accordingly, ROU Asset balance at the end of Year 1 is ₹ 52,07,680 (₹ 65,09,600 - ₹ 13,01,920).

(ii) Presentation at the end of Year 1:

In Balance Sheet	In Profit and Loss	In Statement of Cash Flows
ROU Asset: ₹ 52,07,680 (W.N.2)	Depreciation = ₹ 13,01,920 (W.N.2)	Cash flow from financing activities: Lease payment = ₹ 8,00,000
Lease Liability: ₹ 63,60,560 (W.N.1)	Interest expense (Finance cost) = ₹ 6,50,960 (W.N.1)	

(iii) In the above part (i), it was considered that lessee was reasonably certain that he will exercise the option at the end of 5th year that's why the same has been considered in determination of lease payment. Now, lessee is exercising the option at the end of 3rd year which implies that there is **change in the assessment of an option** to purchase the underlying asset. Hence, paras 39 and 40(b) of IFRS 16 will come into the picture which are as follows *(only relevant part have been reproduced here):*

39 After the commencement date, a lessee shall apply paragraphs 40–43 to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

40 A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate,

if either:

(a)

(b) **there is a change in the assessment of an option to purchase the underlying asset**, assessed considering the events and circumstances described in paragraphs 20–21 in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

Therefore, the lease liability has to be remeasured on change in the assessment of exercising the option.

Original lease liability is ₹ 60,16,278 (Working Note 1). Since at the end of the 3rd year, the lease has been terminated due to exercise of option to purchase the asset, the revised lease liability is the amount paid on exercising the option i.e. ₹ 56,00,000. The difference of original lease liability and revised lease liability will decrease the carrying amount of the right-of-use asset.

Accordingly, the adjustment to ROU Asset would be

= ₹ 60,16,278–₹ 56,00,000 = ₹ 4,16,278.

Journal Entry

Particulars	**(₹)**	**(₹)**
Lease liability Dr.	4,16,278	
To ROU Asset		4,16,278
(Adjustment of difference in original lease liability and revised lease liability to ROU Asset)		

PPE Dr.	21,87,562	
To ROU Asset (₹ 26,03,840 (Refer W.N.2) - ₹ 4,16,278) (ROU Asset balance transferred to PPE on exercising of lease option)		21,87,562
Lease Liability Dr.	56,00,000	
To Bank/Lease payable (Extinguishment of lease liability)		56,00,000

Note: We have stopped till the entry to exercise the option to purchase the leased asset (as per the requirement of the question). Treatment for change in the value of PPE due to its fair value has not been considered here.

Working Notes:

1. Calculation of outstanding Lease Liability at the end of 3rd year

Year	Opening balance (A)	Interest @ 10% (B)	Lease payments (C)	Closing balance (A) + (B) - (C)
	₹	₹	₹	₹
1	65,09,600	6,50,960	8,00,000	63,60,560
2	63,60,560	6,36,056	8,00,000	61,96,616
3	61,96,616	6,19,662	8,00,000	60,16,278

2. Calculation of ROU Asset balance at the end of 3rd year

Year	Opening balance (A)	Depreciation (B)	Closing balance (A-B)
	₹	₹	₹
1	65,09,600	13,01,920	52,07,680
2	63,60,560	13,01,920	39,05,760
3	61,96,616	13,01,920	26,03,840

20. (i) On the grant date, the employer accounts for the arrangement as an equity settled share-based payment because there is no present obligation to settle in cash.

Journal Entries

	₹	₹
Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

At the end of year 2, Max Ltd. has created an obligation to settle in cash through a change in stated policy:

Employee benefit expenses (4,000 x 1/5) Dr.	800	
To Share-based payment reserve		800

The above entry is to record ₹ 4,000 vesting over a period of five years which was the expectation until year end.

Share-based payment reserve Dr.	2,400	
To Share-based payment liability (6,000 x 2/5)		2,400

In substance the reclassification represents the repurchase by Max Ltd. of its own shares, so no further expense is recognized. The subsequent measurement of the liability would follow the requirements for a cash settled share – based payment.

At the end of year 3, the award is accounted for on a cash – settled basis as follows:

Employee benefit expenses Dr.	3,000	
To Share-based payment liability (9,000x3/5–2,400)		3,000

(ii) The settlement of the two employee's award may create a valid expectation in the minds of the remaining employees that they will also receive cash when they leave. However, judgement will be required to determine if an isolated transaction establishes past practice resulting in a cash settlement obligation for Max Ltd. Depending on any contrary facts, Max Ltd. should treat the remaining awards as cash settled, because it now revisit the classification of any similar grants that it has made and evaluate if it should reclassify them to cash-settled.

PAPER – 2
ADVANCED FINANCIAL MANAGEMENT

QUESTIONS

Advanced Capital Budgeting Decisions

1. ABC Ltd. plans to invest ₹ 16,00,000 in a new unit. The project is expected to have a useful life of 4 years, with no salvage value at the end of its life. The annual depreciation charge for the project is ₹ 400,000.

   Projected revenues and costs for the project, ignoring inflation, are provided as follows:

Year	Revenues (₹)	Costs (₹)
1	12,00,000	6,00,000
2	14,00,000	8,00,000
3	16,00,000	8,00,000
4	16,00,000	8,00,000

   ABC Ltd. is subject to a corporate tax rate of 60%, and the cost of capital for the project, including inflation premium, is 10%.

   Depreciation provides a tax benefit, and inflation rates for revenues and costs over the project's lifespan are as follows:

Year	Revenue Inflation	Cost Inflation
1	10%	12%
2	9%	10%
3	8%	9%
4	7%	8%

Based on above information, answer the following questions:

I. The depreciation tax benefit for the project per year shall be..............

(a) ₹ 300,000

(b) ₹ 240,000

(c) ₹ 360,000

(d) ₹ 400,000

II. The inflation-adjusted revenue in Year 2 shall be...............

(a) ₹ 16,78,600

(b) ₹ 14,00,000

(c) ₹ 10,03,520

(d) ₹ 9,85,600

III. The total cash inflow in Year 1 after adjusting for inflation and tax benefit on depreciation shall be...........

(a) ₹ 672,000

(b) ₹ 660,000

(c) ₹ 985,600

(d) ₹ 499,200

IV. The inflation-adjusted cost in Year 2 shall be...............

(a) ₹ 16,78,600

(b) ₹ 14,00,000

(c) ₹ 10,03,520

(d) ₹ 9,85,600

V. The present value of cash inflow for the year 3 shall be approximately..........

(a) ₹ 4,52,598

(b) ₹ 4,27,208

(c) ₹ 4,79,898

(d) ₹ 4,53,772

Financial Policy and Corporate strategy

2. In a recent Board Meeting of N Ltd. following financials of N Ltd. for the year ending 31st March 2025 were presented:

Balance Sheet as on 31.03.2025

₹ '000

Liabilities		Assets	
Equity Capital	4,80,000	Fixed Assets	2,42,000
10% Bonds	92,000	Cash	88,000
Sundry Creditors	66,000	Sundry Debtors	1,10,000
Bills Payable	88,000	Closing Stock	3,3,0000
Other Current Liabilities	44,000		
Total Liabilities	**7,70,000**	**Total Assets**	**7,70,000**

Income Statement for the Year ending 31.03.2025

Particular	(₹ '000)	(₹ '000)
Sales		11,77,000
Less: Cost of Goods Sold		
Material	4,18,000	
Wages	2,64,000	
Factory Overheads	1,29,800	8,11,800
Gross Profit		3,65,200
Less: Selling & Distribution Cost	1,10,000	
Administrative Cost	1,22,800	2,32,800
Earnings Before Interest and Taxes (EBIT)		1,32,400
Less: Interest Charges		9,200
Earning Before Tax		1,23,200
Less: Taxes @ 50%		61,600
Net Profit (PAT)		**61,600**

During the Board Meeting:

(i) Director A said that the company can maintain a certain growth even though the net profit margin remains constant, and assets increases proportionately to sales and it distributes its 30% of its net profit. To maintain this growth rate, it will not require any external funds.

(ii) Director B proposed that just by maintaining a target capital structure and without issuing additional equity and maintaining target dividend pay-out ratio as proposed by Director A, more growth rate can be achieved.

(iii) Director C though agreed with views of Director A and Director B, but is of the view that in the coming year it is expected that sales is likely to rise by 15%, hence if required we can go for issue of equity shares, bonds or debentures to achieve the same growth in sales.

From the information given above, choose the correct answer to the following questions:

I. The Director A is talking about...............

(a) Internal Growth Rate

(b) Sustainable Growth Rate

(c) External Funding Requirements

(d) External Growth Rate

II. The Director B is talking about...............

(a) Internal Growth Rate

(b) Sustainable Growth Rate

(c) External Funding Requirements

(d) External Growth Rate

III. The Director C is talking about...............

(a) Internal Growth Rate

(b) Sustainable Growth Rate

(c) External Funding Requirements

(d) External Growth Rate

IV. If we go by the proposal of Director C, then approximately........funds shall be raised from in form of equity or debt, assuming that dividend as proposed by Director A is paid out and assets and current liabilities are increased in the same proportion as increase in sales.

(a) ₹ 1,15,500 thousand

(b) ₹ 85,800 thousand

(c) ₹ 79,332 thousand

(d) ₹ 36,212 thousand

Security Valuation

3. XYZ company has current earnings of ₹ 3 per share with 5,00,000 shares outstanding. The company plans to issue 40,000, 7% convertible preference shares of ₹ 50 each at par. The preference shares are convertible into 2 shares for each preference shares held. The equity share has a current market price of ₹ 21 per share.

(i) What is preference share's conversion value?

(ii) What is conversion premium?

(iii) Assuming that total earnings remain the same, calculate the effect of the issue on the basic earning per share (a) before conversion (b) after conversion.

(iv) If profits after tax increases by ₹ 1 million what will be the basic EPS

(a) before conversion and

(b) on a fully diluted basis?

4. The following data are available for three bonds A, B and C. These bonds are used by a bond portfolio manager to fund an outflow scheduled in 6 year Current yield is 9%. All bonds have face value of ₹100 each and will be redeemed at par. Interest is payable annually.

Bond	Maturity (Years)	Coupon rate
A	10	10%
B	8	11%
C	5	9%

(i) Calculate the duration of each bond.

(ii) The bond portfolio manager has been asked to keep 45% of the portfolio money in Bond A. Calculate the percentage amount to be invested in bonds B and C that need to be purchased to immunise the portfolio.

(iii) After the portfolio has been formulated, an interest rate change occurs, increasing the yield to 11%. The new duration of these bonds are: Bond A = 7.15 Years, Bond B = 6.03 Years and Bond C = 4.27 years.

Is the portfolio still immunized? Why or why not?

(iv) Determine the new percentage of B and C bonds that are needed to immunize the portfolio. Bond A remaining at 45% of the portfolio.

Present values be used as follows :

Present Values	t_1	t_2	t_3	t_4	t_5
$PVIF_{0.09,t}$	0.917	0.842	0.772	0.708	0.650

Present Values	t_6	t_7	t_8	T_9	t_{10}
$PVIF_{0.09,t}$	0.596	0.547	0.502	0.460	0.422

Business Valuation

5. Equity of KGF Ltd. (KGFL) is ₹ 410 Crores, its debt, is worth ₹ 170 Crores. Printer Division segments value is attributable to 74%, which has an Asset Beta (β_p) of 1.45, balance value is applied on Spares and Consumables Division, which has an Asset Beta (β_{sc}) of 1.20 KGFL Debt beta (β_D) is 0.24.

You are required to calculate:

(i) Equity Beta (β_E) of KGFL.

(ii) Ascertain Equity Beta (β_E) of KGF Ltd., if it decides to change its Debt Equity position by raising further debt and buying back of equity to have its Debt Equity Ratio at 1.90. Assume that the present Debt Beta (β_{D1}) is 0.35 and any further funds raised by way of Debt will have a Beta (β_{D2}) of 0.40.

(iii) Evaluate whether the new Equity Beta (β_E) justifies increase in the value of equity on account of leverage?

Derivatives Analysis & Valuation

6. (i) A Rice Trader has planned to sell 22000 kg of Rice after 3 months from now. The spot price of the Rice is ₹ 60 per kg and 3 months Futures on the same is trading at ₹ 59 per kg. Size of the contract is 1000 kg.

Required:

(a) What the trader can do to mitigate its risk of reduced profit if the price is expected to fall as low as ₹ 56 per kg, 3 months hence.

(b) Suppose if trader decides to make use of Futures, what would be the effective realized price from its sale when after 3 months, spot price is ₹ 57 per kg and Futures contract price for 3 months is ₹ 58 per kg?

(ii) A company is long on 10 MT of copper @ ₹ 534 per kg (spot) and intends to remain so for the ensuing quarter. The variance of change in its spot and Futures prices are 16% and 36% respectively, having correlation coefficient of 0.75. The contract size of one contract is 1,000 kgs.

Required:

(a) Calculate the Optimal Hedge Ratio for perfect hedging in Futures Market.

(b) Advice the position to be taken in Futures Market for perfect hedging.

(c) Determine the number and the amount of the copper Futures to achieve a perfect hedge.

Interest Rate Risk Management

7. Electra space is consumer electronics wholesaler. The business of the firm is highly seasonal in nature. In 6 months of a year, firm has a huge cash deposits and especially near Christmas time and other 6 months firm cash crunch, leading to borrowing of money to cover up its exposures for running the business.

It is expected that firm shall borrow a sum of €50 million for the entire period of slack season in about 3 months.

A Bank has given the following quotations:

Spot	5.50% - 5.75%
3 × 6 FRA	5.59% - 5.82%
3 × 9 FRA	5.64% - 5.94%

3-month €50,000 Futures contract maturing in a period of 3 months is quoted at 94.15 (5.85%).

You are required to determine:

(a) How an FRA, shall be useful if the actual interest rate after 3 months turnout to be:

(i) 4.50% (ii) 6.50%

(b) How 3 months Futures contract shall be useful for company if actual interest rate turns out as mentioned in part (a) above.

Portfolio Management

8. Mr. A, a HNI invested on 1.4.2014 in certain equity shares as below:

Name of Co.	No. of shares	Cost (₹)
X Ltd.	1,00,000 (₹ 100 each)	2,00,00,000
Y Ltd.	50,000 (₹ 10 each)	1,50,00,000

In September 2014, 10% dividend was paid out by X Ltd. and in October 2014, 30% dividend paid out by Y Ltd. On 31.3.2015 market quotations showed a value of ₹ 220 and ₹ 290 per share for X Ltd. and Y Ltd. respectively.

On 1.4.2015, a technical analyst indicated as follows:

(1) that the probabilities of dividends from X Ltd. and Y Ltd. for the year ending 31.3.2016 are as below:

Probability factor	Dividend from X Ltd. (%)	Dividend from Y Ltd. (%)
0.2	10	15
0.3	15	20
0.5	20	35

(2) that the probabilities of market quotations on 31.3.2016 are as below:

Probability factor	Price/share of X Ltd.	Price/share of Y Ltd.
0.2	220	290
0.5	250	310
0.3	280	330

You are required to:

(i) Analyze the average return from the portfolio for the year ended 31.3.2015;

(ii) Analyze the expected average return from the portfolio for the year 2015-16; and

(iii) Advise Mr. A, of the comparative risk in the two investments.

Foreign Exchange Exposure and Risk Management

9. On 1st February 2025, XYZ Ltd. a laptop manufacturer imported a particular type of Memory Chips from SKH Semiconductor of South Korea. The payment is due in one month from the date of Invoice, amounting to 1190 Million South Korean Won (SKW). Following Spot Exchange Rates (1st February) are quoted in two different markets:

USD/ INR	85.00/ 85.50	in Mumbai
USD/ SKW	1390.00/ 1390.90	in New York

Since hedging of Foreign Exchange Risk was part of company's strategic policy and no contract for hedging in SKW was available at any in-shore market, it approached an off-shore Non-Deliverable Forward (NDF) Market for hedging the same risk.

In NDF Market a dealer quoted one-month USD/ SKW at 1390.00/1390.60 to be settled at reference rate declared by Bank of Korea.

After 1 month (1st March 2020) the dealer agreed for SKW 1385/ USD as rate for settlement and on the same day the Spot Rates in the above markets were as follows:

USD/ INR	85.50/ 85.75	in Mumbai
USD/ SKW	1388.00/ 1388.60	in New York

Analyze the position of company under each of the following cases, comparing with Spot Position of 1st February:

(i) Do Nothing.

(ii) Opting for NDF Contract.

Note: Both ₹/ SKW Rate and final payment (to be computed in ₹ Lakh) to be rounded off upto 4 decimal points.

10. Shanti exported 400 pieces of a designer jewellery to USA at $ 400 each. To manufacture and design this jewellery she imported raw material from Japan of the cost of JP¥ 12000 for each piece.

The labour cost and variable overhead incurred in producing each piece of jewellery are ₹ 2,600 and ₹ 1300 respectively.

Suppose Spot Rates are:

₹/ US$	₹ 80.00 – ₹ 81.00
JP¥/ US$	JP¥ 135 – JP¥ 140

Shanti is expecting that by the time the export remittance is received and payment of import is made the expected Spot Rates are likely to be as follows:

₹/ US$	₹ 83.90 – ₹ 84.25
JP¥/ US$	JP¥ 125 – JP¥ 131

You are required to calculate the resultant transaction exposure.

Mergers, Acquisitions and Corporate Restructuring

11. C Ltd. and P Ltd. both companies operating in the same industry decided to merge and form a new entity S Ltd. The relevant financial details of the two companies prior to merger announcement are as follows:

	C Ltd.	P Ltd.
Annual Earnings after Tax (₹ lakh)	10000	5800
No. Shares Outstanding (lakh)	4000	1000
PE Ratio (No. of Times)	8	10

The merger will be affected by means of stock swap (exchange) of 3 shares of C Ltd. for 1 share of P Ltd.

After the merger it is expected that due to synergy effects, Annual Earnings (Post Tax) are expected to be 8% higher than sum of the earnings of the two companies individually. Further, it is expected that P/E Ratio of S Ltd. shall be average of P/E Ratios of two companies before the merger.

You are required to determine the extent to which shareholders of P Ltd. will be benefitted per share from the proposed merger.

Mutual Funds

12. A mutual fund raised ₹ 150 lakhs on April 1, 2018 by issue of 15 lakh units at ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 140 lakhs, Initial expenses amounted to ₹ 8 lakhs. During the month of April, the fund sold certain instruments costing ₹ 44.75 lakhs for ₹ 47 lakhs and used the proceeds to purchase certain other securities for ₹ 41.60 lakhs. The fund

management expenses for the month amounted to ₹ 6 lakhs of which ₹ 50,000 was in arrears. The fund earned dividends amounting to ₹ 1.5 lakhs and it distributed 80% of the realized earnings. The market value of the portfolio on 30th April, 2018 was ₹ 147.85 lakhs.

An investor subscribed to 1000 units on April 1, 2018 and disposed it off at closing NAV on 30th April, 2018. Determine his annual rate of earnings.

International Financial Management

13. The Treasury desk of a global bank incorporated in UK wants to invest GBP 200 million on 1st January, 2019 for a period of 6 months and has the following options:

    (1) The Equity Trading desk in Japan wants to invest the entire GBP 200 million in high dividend yielding Japanese securities that would earn a dividend income of JPY 1,182 million. The dividends are declared and paid on 29th June. Post dividend, the securities are expected to quote at a 2% discount. The desk also plans to earn JPY 10 million on a stock borrow lending activity because of this investment. The securities are to be sold on June 29 with a T+1 settlement and the amount remitted back to the Treasury in London.

    (2) The Fixed Income desk of US proposed to invest the amount in 6 month G-Secs that provides a return of 5% p.a.

    The exchange rates are as follows:

Currency Pair	1 Jan 2019 (Spot)	30 Jun 2019 (Forward)
GBP - JPY	148.0002	150.0000
GBP- USD	1.28000	1.30331

    As a treasurer, advise the bank on the best investment option. What would be your decision from a risk perspective? You may ignore taxation.

    Note: Calculate all figures in millions and round off them upto 4 decimal points.

Theoretical Questions

14. (a) What is a Unicorn startup? Who coined the term?

    (b) Secondary participants play a vital role in strengthening securitization transactions. Explain.

15. (a) Briefly explain the various market indicators used in Technical Analysis.

    (b) How the Buy and Sell signals are provided by Moving Average Analysis?

OR

Discuss the parameters used to identify Currency Risk.

SUGGESTED ANSWERS/HINTS

Question No.		Answer
1.	**I**	**(b)**
	II	**(a)**
	III	**(d)**
	IV	**(d)**
	V	**(c)**
2.	**I**	**(a)**
	II	**(b)**
	III	**(c)**
	IV	**(d)**

3. **(i)** **Conversion value of preference share**

Conversion Ratio x Market Price

2 × ₹ 21 = ₹ 42

(ii) Conversion Premium

(₹ 50/ ₹ 42) – 1 = 19.05%

(iii) Effect of the issue on basic EPS

	₹
Before Conversion	
Total (after tax) earnings ₹ 3 × 5,00,000	15,00,000
Dividend on Preference shares	1,40,000
Earnings available to equity holders	13,60,000
No. of shares	5,00,000
EPS	2.72
On Diluted Basis	
Earnings	15,00,000
No of shares (5,00,000 + 80,000)	5,80,000
EPS	2.59

(iv) EPS with increase in Profit

	₹
Before Conversion	
Earnings	25,00,000
Dividend on Pref. shares	1,40,000
Earning for equity shareholders	23,60,000
No. of equity shares	5,00,000
EPS	4.72
On Diluted Basis	
Earnings	25,00,000
No. of shows	5,80,000
EPS	4.31

4. (i) Calculation of Bond Duration

Bond A

Year	Cash flow	P.V. @ 9%		(1) x (4)
(1)	(2)	(3)	(4)	
1	10	0.917	9.17	9.17
2	10	0.842	8.42	16.84
3	10	0.772	7.72	23.16
4	10	0.708	7.08	28.32
5	10	0.650	6.50	32.50
6	10	0.596	5.96	35.76
7	10	0.547	5.47	38.29
8	10	0.502	5.02	40.16
9	10	0.460	4.60	41.40
10	110	0.422	46.42	464.20
			106.36	729.80

Duration of the bond A is = $\frac{729.80}{106.36}$ = 6.862 years or 6.86 year

Bond B

Year	Cash flow	P.V. @ 9%		(1) x (4)
(1)	(2)	(3)	(4)	
1	11	0.917	10.09	10.09
2	11	0.842	9.26	18.52
3	11	0.772	8.49	25.47
4	11	0.708	7.79	31.16
5	11	0.650	7.15	35.75
6	11	0.596	6.56	39.36
7	11	0.547	6.02	42.14
8	111	0.502	55.77	445.76
			111.13	648.25

Duration of the bond B is = $\frac{648.25}{111.13}$ = 5.833 years or 5.83 years

Bond C

Year	Cash flow	P.V. @ 9%		(1) x (4)
(1)	(2)	(3)	(4)	
1	9	0.917	8.25	8.25
2	9	0.842	7.58	15.16
3	9	0.772	6.95	20.85
4	9	0.708	6.37	25.48
5	109	0.650	70.85	354.25
			100.00	423.99

Duration of the bond C is = $\frac{423.99}{100}$ = 4.24 years

(ii) Amount of Investment required in Bond B and C

Period required to be immunized	6.000 Years
Less: Period covered from Bond A (45% of 6.86)	3.087 Years
To be immunized from B and C	2.913 Years

Let proportion of investment in Bond B and C is b and c respectively then.

b + c = 0.55 (1)

5.84b + 4.24c=2.913 (2)

On solving these equations, the value of b and c comes 0.3631 and 0.1869 respectively and accordingly, the % of investment of B and C is 36.31% and 18.69% respectively.

(iii) With revised yield the Revised Duration of Bond stands

0.45 x 7.15 + 0.3631 x 6.03 + 0.1869 x 4.27 = 6.21 year

No portfolio is not immunized as the duration of the portfolio has been increased from 6 years to 6.21 years.

(iv) New percentage of B and C bonds that are needed to immunize the portfolio.

Period required to be immunized	6.000 Year
Less: Period covered from Bond A (7.15 x 45%)	3.218 Year
To be immunized from B and C	2.782 Year

Let proportion of investment in Bond B and C is b and c respectively, then

b + c = 0.55

6.03b + 4.27c = 2.782

b = 0.2466

On solving these equations, the value of b and c comes 0.2463 and 0.3037 respectively and accordingly, the % of investment of B and C is 24.63% and 30.37 % respectively.

5. (i) Equity Beta

To calculate Equity Beta first we shall calculate Weighted Average of Asset Beta as follows:

= 1.45 x 0.74 + 1.20 x 0.26

= 1.073 + 0.312 = 1.385

Now we shall compute Equity Beta using the following formula:

$$\beta_{Asset} = \beta_{Equity}\left[\frac{E}{E + D(1-t)}\right] + \beta_{Debt}\left[\frac{D(1-t)}{E + D(1-t)}\right]$$

Accordingly,

$$1.385 = \beta_{Equity}\left[\frac{410}{410+170}\right] + \beta_{Debt}\left[\frac{170}{410+170}\right]$$

$$1.385 = \beta_{Equity}\left[\frac{410}{580}\right] + 0.24\left[\frac{170}{580}\right]$$

$$\beta_{Equity} = 1.860$$

(ii) Equity Beta on change in Capital Structure

Amount of Debt to be raised:

Particulars	**Value**
Total Value of Firm (Equity ₹ 410 cr + Debt ₹ 170 cr)	₹580 Cr
Desired Debt Equity Ratio	1.90 : 1.00
Desired Debt Level = $\frac{\text{Total Value x Debt Ratio}}{\text{Debt Ratio} + \text{Equity Ratio}}$	₹ 380 Cr
Less : Value of Existing Debt	(₹ 170 Cr)
Value of Debt to be Raised	₹ 210 Cr

Equity after Repurchase = Total value of Firm – Desired Debt Value

= ₹ 580 Cr – ₹ 380 Cr

= ₹ 200 Cr

Weighted Average Beta of KGFL:

Source of Finance	**Investment (₹ Cr)**	**Weight**	**Beta**	**Weighted Beta**
Equity	200	0.345	$\beta_{(E = X)}$	0.345x
Debt – 1	170	0.293	0.35	0.103
Debt – 2	210	0.362	0.40	0.145
	580	Weighted Average Beta		0.248 + (0.345x)

β_{KGFL} = 0.248 + 0.345x

1.385 = 0.248 + 0.345x

0.345x = 1.385 – 0.248

x = 1.137/0.345 = 3.296

β_{KGFL} = 3.296

(iii) Since there is no increase in the value of equity after buyback, it does not justify the increase in the equity beta.

6 **(i)** **(a)** The trader can mitigate its risk of reduced profit by hedging his position by selling Rice Futures.

So, the gain on futures contract

= (₹ 59 – ₹ 56) x 22,000 kg. = ₹ 66,000

Revenue from the sale of Rice

= 22,000 x ₹ 56 = ₹ 12,32,000

Total Cash Flow = ₹ 12,32,000 + ₹ 66,000 = ₹ 12,98,000

Cash Flow per kg. of Rice = $\frac{12,98,000}{22000}$ = ₹ 59

So, Rice Trader's cash flow per kg. is equal to the futures price. This way his loss from physical sale is compensated by gain from the futures contract.

(b) The effective realized price for its sale after 3 months if spot price is ₹ 57 per kg and Future Price is ₹ 58 per kg.

The gain on futures contract

= (₹ 59 – ₹ 58) x 22,000 kg. = ₹ 22,000

Revenue from the sale of Rice

= 22,000 x ₹ 57 = ₹ 12,54,000

Total Cash Flow = ₹ 12,54,000 + ₹ 22,000 = ₹ 12,76,000

Cash Flow per kg. of Rice = $\frac{₹12,76,000}{22,000}$ = ₹ 58

(ii) **(a)** The optional hedge ratio to minimize the variance of Hedger's position is given by:

$$H = \rho\frac{\sigma_S}{\sigma_F}$$

Where

σ_S= Standard deviation of ΔS (Change in Spot Prices)

σ_F=Standard deviation of ΔF (Change in Future Prices)

ρ= coefficient of correlation between ΔS and ΔF

H= Hedge Ratio

ΔS = change in Spot price.

ΔF= change in Future price.

Accordingly

Standard deviation of ΔS = $\sqrt{16\%}$ = 4% and

Standard deviation of ΔF = $\sqrt{36\%}$ = 6% and

H = 0.75 x $\frac{0.04}{0.06}$ = 0.50

(b) Since the company is long position in Spot (Cash) Market it shall take Short Position in Futures Market.

(c) Since contact size of one contract is 1,000 Kg, the

No. of Futures contract to be short = $\frac{10,000\text{ Kgs}}{1,000\text{ Kgs}} \times 0.50$

= 5 Contracts

Amount = 5000 x ₹ 534 = ₹ 26,70,000

7. **(a)** By entering into an FRA, firm shall effectively lock in interest rate for a specified future in the given it is 6 months. Since, the period of 6 months is starting in 3 months, the firm shall opt for 3 × 9 FRA locking borrowing rate at 5.94%. In the given scenarios, the net outcome shall be as follows:

	If the rate turns out to be 4.50%	**If the rate turns out to be 6.50%**
FRA Rate	5.94%	5.94%
Actual Interest Rate	4.50%	6.50%
Loss/ (Gain)	1.44%	(0.56%)

FRA Payment / (Receipts)	€50 m × 1.44% × ½ = €360,000	€50m × 0.56% × ½ = (€140,000)
Interest after 9 months on €50 Million at actual rates	= €50m × 4.50% × ½ = €1,125,000	= € 50m × 6.50% × ½ = €1,625,000
Net Out Flow	€ 1,485,000	€1,485,000

Thus, by entering into FRA, the firm has committed itself to a rate of 5.94% as follows: $\frac{€\ 1,485,000}{€\ 50,000,000}\times 100 \times \frac{12}{6}$ = 5.94%

(b) Since firm is a borrower it will like to off-set interest cost by profit on Future Contract. Accordingly, if interest rate rises it will gain hence it should sell interest rate futures.

$$\text{No. of Contracts} = \frac{\text{Amount of Borrowing}}{\text{Contract Size}} \times \frac{\text{Duration of Loan}}{3\text{ months}}$$

$$= \frac{€\ 50,000,000}{€\ 50,000} \times \frac{6}{3} = 2000 \text{ Contracts}$$

The final outcome in the given two scenarios shall be as follows:

	If the interest rate turns out to be 4.50%	**If the interest rate turns out to be 6.50%**
Future Course Action:		
Sell to open	94.15	94.15
Buy to close	95.50 (100 - 4.50)	93.50 (100 - 6.50)
Loss/ (Gain)	1.35%	(0.65%)
Cash Payment (Receipt) for Future Settlement	€50,000×2000× 1.35%×3/12 = €337,500	€50,000×2000× 0.65%×3/12 = (€162,500)

Interest for 6 months on €50 million at actual rates	€50 million × 4.50% × ½ = €11,25,000	€50 million × 6.50% × ½ = €16,25,000
	€1,462,500	€1,462,500

Thus, the firm locked itself in interest rate of $\frac{€\,1{,}462{,}500}{€\,50{,}000{,}000} \times 100 \times \frac{12}{6} = 5.85\%$

8. (i) Average return from the portfolio for the year ended 31.3.2015

Calculation of return on portfolio for 2014-15	(Calculation in ₹ / share)		
	X Ltd.	Y Ltd.	
Dividend received during the year	10	3	
Capital gain/loss by 31.03.15			
Market value by 31.03.15	220	290	
Cost of investment	200	300	
Gain/loss	20	(-)10	
Yield	30	(-)7	
Cost	200	300	
% return	15%	(-)2.33%	
Weight in the portfolio	57.14	42.86	
Weighted average return			7.56%

(ii) Average return from the portfolio for the year ended 2015-16 shall be calculated using the concept of joint probability as follows:

X Ltd.

Path	***Income from Dividend (₹)***	***Gain from Market Price (₹)***	***Total Yield (₹)***	***Joint Prob.***	***Exp. Yield (₹)***
1	10	220 – 220 = 0	10	0.20 x 0.20 = 0.04	0.40
2	10	250 – 220 = 30	40	0.20 x 0.50 = 0.10	4.00
3	10	280 – 220 = 60	70	0.20 x 0.30 = 0.06	4.20

4	15	220 – 220 = 0	15	0.30 x 0.20 = 0.06	0.90
5	15	250 – 220 = 30	45	0.30 x 0.50 = 0.15	6.75
6	15	280 – 220 = 60	75	0.30 x 0.30 = 0.09	6.75
7	20	220 – 220 = 0	20	0.50 x 0.20 = 0.10	2.00
8	20	250 – 220 = 30	50	0.50 x 0.50 = 0.25	12.50
9	20	280 – 220 = 60	80	0.50 x 0.30 = 0.15	12.00
Expected Yield (₹)					49.50
Market Value on 01.04.2015 (₹)					220
% Return					22.50

Y Ltd.

Path	***Income from Dividend (₹)***	***Gain from Market Price (₹)***	***Total Yield (₹)***	***Joint Prob.***	***Exp. Yield (₹)***
1	1.50	290 – 290 = 0	1.50	0.20 x 0.20 = 0.04	0.06
2	1.50	310 – 290 = 20	21.50	0.20 x 0.50 = 0.10	2.15
3	1.50	330 – 290 = 40	41.50	0.20 x 0.30 = 0.06	2.49
4	2.00	290 – 290 = 0	2.00	0.30 x 0.20 = 0.06	0.12
5	2.00	310 – 290 = 20	22.00	0.30 x 0.50 = 0.15	3.30
6	2.00	330 – 290 = 40	42.00	0.30 x 0.30 = 0.09	3.78
7	3.50	290 – 290 = 0	3.50	0.50 x 0.20 = 0.10	0.35
8	3.50	310 – 290 = 20	23.50	0.50 x 0.50 = 0.25	5.88
9	3.50	330 – 290 = 40	43.50	0.50 x 0.30 = 0.15	6.52
Expected Yield (₹)					24.65
Market Value on 01.04.2015 (₹)					290
% Return					8.50

Weight in portfolio (1,00,000 x 220): (50,000 x 290) 60.27 : 39.73

Weighted average (Expected) return (0.6027 x 22.50 + 0.3973 x 8.50) 16.94%

(iii) To analyze the risk of each investment we need to calculate the Standard Deviation of each investment as follows:

X Ltd.

Path	Prob. (1)	Yield (₹)	Dev. $(P_X - \overline{P_X})$	Square of dev. (2)	(1) X (2)
1	0.04	10	-39.50	1560.25	62.41
2	0.10	40	-9.50	90.25	9.03
3	0.06	70	20.50	420.25	25.22
4	0.06	15	-34.50	1190.25	71.42
5	0.15	45	-4.50	20.25	3.04
6	0.09	75	25.50	650.25	58.52
7	0.10	20	-29.50	870.25	87.03
8	0.25	50	0.50	0.25	0.06
9	0.15	80	30.50	930.25	139.54
					σ^2_M = 456.27

Standard Deviation (σ_X) 21.36

Y Ltd.

Path	*Prob. (1)*	*Yield (₹)*	*Dev. $(P_Y - \overline{P_Y})$*	*Square of dev. (2)*	(1) X (2)
1	0.04	1.50	-23.15	535.92	21.44
2	0.10	21.50	-3.15	9.92	0.99
3	0.06	41.50	16.85	283.92	17.04
4	0.06	2.00	-22.65	513.02	30.78
5	0.15	22.00	-2.65	7.02	1.05
6	0.09	42.00	17.35	301.02	27.09
7	0.10	3.50	-21.15	447.32	44.73
8	0.25	23.50	-1.15	1.32	0.33
9	0.15	43.50	18.85	355.32	53.30
					σ^2_N = 196.75

Standard Deviation (σ_Y) 14.03

Although Expected Return is higher in case of X Ltd. but it also has higher risk due to High S.D.

9. (i) Do Nothing

We shall compute the cross rates on both days and shall compare the amount payable in INR on these two days.

On 1st February 2025

Rupee – Dollar selling rate = ₹ 85.50

Dollar – SKW = SKW 1390.00

Rupee – SKW cross rate = ₹ 85.50 / 1390.00= ₹ 0.0615

Amount payable to Importer as per above rate (1190 Million x ₹ 0.0615) ₹ 731.8500 Lakh

On 1st March 2025

Rupee – Dollar selling rate = ₹ 85.75

Dollar – SKW = SKW 1388.00

Rupee – SKW cross rate = ₹ 85.75 / 1388.00 = ₹ 0.0618

Amount payable to Importer as per above rate (1190 Million x ₹ 0.0618) ₹ 735.4200 Lakh

Thus, Exchange Rate Loss = (₹ 735.4200 Lakh - ₹ 731.8500 Lakh) = ₹ 3.5700 Lakh

(ii) Hedging in NDF

Since company needs SKW after one month it will take long position in SKW at quoted rate of SKW 1390/ USD and after one-month it will reverse its position at fixing rate of SKW 1385/USD. The profit/ loss position will be as follows:

Buy SKW 1190 Million and sell USD (1190 Million/ 1390)	USD 8,56,115
Sell SKW 1190 Million and buy USD at Fixing Rate (1190 Million/ 1385)	USD 8,59,206
Profit	USD 3,091

Final Position

Amount Payable in Spot Market (as computed earlier)	₹ 735.4200 Lakh
Less: Profit form NDF Market USD 3091 x 85.50	₹ 2.6428 Lakh
	₹ 732.7772 Lakh

Thus, Exchange Rate Loss = (₹ 732.7772 Lakh - ₹ 731.8500 Lakh) = ₹ 0.9272 Lakh

Decision: Since Exchange Loss is less in case of NDF same can be opted for.

10. Profit as per Spot Rates

	₹
Sales Revenue (US$ 400 X 400 X ₹ 80)	1,28,00,000
Less: Cost of Imported Raw Material (400 X $\frac{12000}{135}$ X ₹ 81)	28,80,000
Labor Cost (400 X ₹ 2,600)	10,40,000
Variable Overheads (400 X ₹ 1300)	5,20,000
Profit	83,60,000

Profit as per expected Spot Rates

	₹
Sales Revenue (US$ 400 X 400 X ₹ 83.90)	134,24,000
Less: Cost of Imported Raw Material (400 X $\frac{12000}{125}$ X ₹ 84.25)	32,35,200
Labor Cost (400 X ₹ 2,600)	10,40,000
Variable Overheads (400 X ₹ 1300)	5,20,000
Profit	86,28,800

Increase/ (Decrease) in Profit due to Transaction Exposure ₹ 2,68,800

(₹ 86,28,800 – ₹ 83,60,000)

11. Working Notes:

(i) The Earnings of S Ltd.

	₹ lakh
Earnings of C Ltd.	10000
Earnings of D Ltd.	5800
	15800
Growth	0.08
Earnings of S Ltd. (15800 X 1.08)	17064

(ii) Market Value of S Ltd.

	₹ lakh
Earnings of S Ltd.	17064
P/E Ratio (10+8)/2	9
Market Value of S Ltd.	153576

(iii) No. of shares in S Ltd.

No. of shares of C Ltd.	4000
No. of shares issued to P Ltd.	3000
No. of shares of S Ltd.	7000

Gain to Shareholders of P Ltd.

Share of Shareholders of P Ltd. in S Ltd. (3000/7000) x 153576	₹ 65818.29 lakh
Market Value of P Ltd. before merger (5800 X 10)	₹ 58000.00 lakh
Gains to Shareholders	₹ 7818.29 lakh
No. of Shares (before merger)	1000 lakh
Gain Per Share	₹ 7.82

12.

	Amount in ₹ lakhs	**Amount in ₹ lakhs**	**Amount in ₹ lakhs**
Opening Bank Balance (150 - 140 - 8)	2.00		
Add: Proceeds from sale of securities	47.00		
Add: Dividend received	1.50	50.50	
Deduct:			
Cost of securities purchased	41.60		
Fund management expenses paid	5.50		
Capital gains distributed = 80% of (47 – 44.75)	1.80		
Dividend distributed =80% of 1.50	1.20	50.10	
Closing Bank			0.40
Closing market value of portfolio			147.85
			148.25
Less: Arrears of expenses			0.50
Closing Net Assets			147.75
Number of units (Lakhs)			15
Closing NAV per unit (147.75/15)			9.85

Rate of Earning (Per Unit)

	Amount
Income received (₹1.20 lakh + ₹ 1.80 lakh)/15 lakh	₹ 0.20
Less: Loss if units are disposed (₹ 150 lakh - ₹ 147.75)/15 lakh	₹ 0.15
Net earning	₹ 0.05
Initial investment	₹ 10.00
Rate of earning (monthly)	0.50%
Rate of earning (Annual)	6.00%

13. (1) Yield from Investment in Equity Trading Index in Japan

Conversion of GBP 200 million in JPY (148.0002)	JPY 29600.04 Million
Dividend Income	JPY 1182.00 Million
Stock Lending	JPY 10.00 Million
Investment Value at End	JPY 29008.0392 Million
Amount available at End	JPY 30200.0392 Million
Forward Rate of 30.06.2019	JPY 150/ GBP
Amount to be Remitted back to London	GBP 201.3336 Million
Gain = 201.3336 – 200	GBP 1.3336 Million

(2) Fixed Income Desk of US

Conversion of GBP 200 million in USD (1.28000)	USD 256.00 Million
Add: Interest @ 5% p.a. for 6 months	USD 6.40 Million
Amount available at End	USD 262.40 Million
Forward Rate of 30.06.2019	USD 1.30331/ GBP
Amount to be Remitted back to London	GBP 201.3335 Million
Gain = 201.3335 – 200	GBP 1.3335 Million

Decision: Investment in Japanese Yen is preferred over the investment in USD G- Sec as there is a marginal gain. From a risk perspective, the company should go for Option-2 Investment in G-Secs as they are risk free.

14 **(a)** A start-up is referred as a Unicorn if it has following features:

(i) A privately held start-up.

(ii) Valuation of start-up reaches US$ 1 Billion.

(iii) Emphasis is on the rarity of success of such start-up.

(iv) Other common features are new ideas, disruptive innovation, consumer focus, high on technology etc.

However, it is important to note that in case the valuation of any start-up slips below US$ 1 billion it can lose its status of 'Unicorn'. Hence a start-up may be Unicorn at one point of time and may not be at another point of time.

India has now emerged as the 3rd largest ecosystem for startups globally, after US and China, with over 59,000 DPIIT-recognized startups.

The next milestone for a Unicorn to achieve is to become a Decacorn, i.e., a company which has attained a valuation of more than US$ 10 billion.

This term was coined by venture capitalist Aileen Lee, first time in 2013.

(b) Yes, this statement is correct to some extent because each secondary participants play a vital role in securitization process as mentioned below:

(i) **Obligors:** They are the main root of the whole securitization process. They are the parties who owe money to the firm and are assets in the Balance Sheet of Originator. The amount due from the obligor is transferred to SPV and hence they form the basis of securitization process and their credit standing is of paramount importance in the whole process.

(ii) **Rating Agency**: Since the securitization is based on the pools of assets rather than the originators, the assets have to be assessed in terms of its credit quality and credit support available. Rating agency assesses the following:

- Strength of the Cash Flow.
- Mechanism to ensure timely payment of interest and principle repayment.
- Credit quality of obligors.
- Liquidity support.
- Strength of legal framework.

(c) **Receiving and Paying agent (RPA):** Also, called Servicer or Administrator, it collects the payment due from obligor(s) and passes it to SPV. It also follows up with defaulting obligor and if required initiate appropriate legal action against them. Generally, an originator or its affiliates acts as servicer.

(d) **Agent or Trustee:** Trustees are appointed to oversee that all parties to the deal perform in the true spirit of terms of agreement. Normally, it takes care of interest of investors who acquire the securities.

(e) **Credit Enhancer:** Since investors in securitized instruments are directly exposed to performance of the underlying securities and sometime may have limited or no recourse to the originator, they seek additional comfort in the form of credit enhancement. In other words, they require credit rating of issued securities which also empowers marketability of the securities.

(f) **Structurer:** It brings together the originator, investors, credit enhancers and other parties to the deal of securitization. Normally, these are investment bankers also called arranger of the deal. It ensures that deal meets all legal, regulatory, accounting and tax laws requirements.

15 **(a)** Various market indicators used in Technical Analysis are as follows:

(i) *Breadth Index:* It is an index that covers all securities traded. It is computed by dividing the net advances or declines in the market by the number of issues traded.

(ii) *Volume of Transactions:* The volume of shares traded in the market provides useful clues on how the market would behave in the near future. A rising index/price with increasing volume would signal buy behaviour because the situation reflects an unsatisfied demand in the market.

(iii) *Confidence Index:* It is the ratio of high-grade bond yields to low-grade bond yields. It is used by market analysts as a method of trading or timing the purchase and sale of stock,

and also, as a forecasting device to determine the turning points of the market.

(iv) *Relative Strength Analysis:* The relative strength concept suggests that the prices of some securities rise relatively faster in a bull market or decline more slowly in a bear market than other securities i.e. some securities exhibit relative strength.

(v) *Odd - Lot Theory:* The odd-lot theory is used primarily to predict tops in bull markets, but also to predict reversals in individual securities.

(b) The buy and sell signals provided by moving average analysis are as follows:

Buy Signal	Sell Signal
(a) Stock price line rise through the moving average line when graph of the moving average line is flattering out.	(a) Stock price line falls through moving average line when graph of the moving average line is flattering out.
(b) Stock price line falls below moving average line which is rising.	(b) Stock price line rises above moving average line which is falling.
(c) Stock price line which is above moving average line falls but begins to rise again before reaching the moving average line	(c) Stock price line which is slow moving average line rises but begins to fall again before reaching the moving average line.

OR

Some of the parameters to identity the currency risk are as follows:

(1) **Government Action:** The Government action of any country has visual impact in its currency. For example, the UK Govt. decision to divorce from European Union i.e. Brexit brought the pound to its lowest since 1980's.

(2) **Nominal Interest Rate:** As per interest rate parity (IRP) the currency exchange rate depends on the nominal interest of that country.

(3) **Inflation Rate:** Purchasing power parity theory discussed in later chapters impact the value of currency.

(4) **Natural Calamities:** Any natural calamity can have negative impact.

(5) **War, Coup, Rebellion etc.:** All these actions can have far reaching impact on currency's exchange rates.

(6) **Change of Government:** The change of government and its attitude towards foreign investment also helps to identify the currency risk.

PAPER – 3: ADVANCED AUDITING, ASSURANCE AND PROFESSIONAL ETHICS

QUESTIONS

PART A: Multiple Choice Questions

Integrated Case Scenarios

M/s BNM & Associates, Chartered Accountants, are in the completion phase of the statutory audit of M/s FES Limited, a technology company, for the financial year ended 31st March 2025.

Before concluding the audit, there was a difference of opinion between the audit committee and the auditors as to which among the following are the areas which the auditor should take into account to determine "Key Audit Matter" as per SA 701:

(I) During last quarter of the year, company's income was significantly affected by fluctuations in foreign exchange rates, with inadequate hedging arrangements. The auditors had to evaluate the impact of these transactions on financial statements.

(II) It was observed that the server maintenance work of company was likely prone to external access, which was an area of high risk as assessed and reported by management's expert committee.

(III) The auditor had to make important judgments in areas where the management of the company also used significant judgment. One key point was that the company depended heavily on a few major clients. While management believed that the market of the company was growing and would bring in more new clients, the auditors had to carefully consider this difference in view while reviewing the financial statements.

Following discussions, a mutual understanding was reached, and the audit of FES Limited was concluded smoothly.

Subsequently, BNM & Associates came to know about a tender floated by the Dwarka Municipal Corporation for computerisation of its records, requiring an earnest deposit of ₹ 85,000. BNM & Associates has one of its partners residing in Dwarka, hence he persuaded the firm to apply for the tender and paid the earnest deposit. However, another partner of the firm was of the view that such an act would lead to professional misconduct and insisted on withdrawing the tender application. The firm decided to approach an experienced CA before withdrawing the tender application and went on focusing on other assignments.

BNM & Associates also commenced the statutory audit of Cash Limited, a banking company headquartered in India. During the audit, the following observations were made:

(i) The staff and officers of the bank were frequently transferred from one position to another, without prior notice.

(ii) Cash was test-checked daily and counted in full occasionally by another officer of the bank, apart from the cashier.

(iii) Physical custody of cash was solely maintained by the senior-most officer at the branch.

(iv) Unpaid cheques received through outward clearing were securely stored in the bank's lockers.

After a detailed discussion and review of internal controls and practices, the firm finalised and issued the audit report for the financial year.

CA M, a partner at BNM & Associates, firmly believed that one should always pursue their passion, regardless of their profession or business. Driven by this belief, he engaged in the following activities beyond his Chartered Accountancy practice:

(1) Part-time employment with a Non-Profit Organisation based in Noida.

(2) Involved in agricultural activities on his personally owned agriculture land located outside Bangalore.

(3) Tutorship as a part-time faculty member at a private educational institute in Chennai.

(4) Holding an honorary office leadership in a charitable educational organisation in Trivandrum.

Based on the above facts, answer the following MCQs:

1. As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", which of the above-mentioned areas should the audit committee and the auditors consider while determining the 'Key Audit Matters'?

   (a) (I) & (III).

   (b) (II) only.

   (c) (I) & (II).

   (d) (I), (II) & (III).

2. Assuming the role of the auditor of Cash Limited, based on the above observations, which aspects would you report as control failures, and what would be your rationale for considering them as such?

   (a) (i) & (ii) – The frequent transfer of staff without prior notice suggests a lack of adequate control within the HR department. Similarly, permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling.

   (b) (i) only – The frequent transfer of staff without prior notice indicates that the HR department is not having a proper control in its functions.

   (c) (ii) & (iv) – Permitting someone other than the designated cashier to verify and fully count the cash reflects an absence of proper controls over cash handling. Further, any unpaid cheques received in outward clearance needs to be thrashed by the bank as they cannot be held by the bank in its custody.

   (d) (iii) & (iv) – Cash should always be maintained under the joint custody of two authorised officers, as entrusting it to a single individual poses a significant control risk. Additionally, any unpaid cheques returned during outward clearance should either be dispatched to the customers at their recorded addresses or the customers should be appropriately notified to collect them from the bank.

3. Among the various passion-driven activities undertaken by CA M as discussed in the case, which of these are generally permitted by the Institute of Chartered Accountants of India (ICAI)?

   (a) (1) & (3).

   (b) (3) only.

   (c) (2) & (4).

   (d) (1), (2) & (3).

4. According to the provisions of the Chartered Accountants Act, 1949, under which clause would CA M be guilty of professional misconduct?

   (a) Clause 10 of Part I of First Schedule.

   (b) Clause 2 of Part IV of First Schedule.

   (c) Clause 11 of Part I of First Schedule.

   (d) Clause 1 of Part III of Second Schedule.

5. Is there any professional misconduct involved in the submission of the municipality tender application by BNM & Associates under the Chartered Accountants Act, 1949?

   (a) Yes. As per Clause 6 of Part 1 of the First Schedule, a CA in practice shall be guilty of professional misconduct if he responds to any tender.

   (b) No. As per the Guidelines under the Act, a member can respond to any tender where the matter relates to anything other than audit. Further members can make earnest deposits in respect of a non-exclusive area for chartered accountants.

   (c) Yes. Even though the Guidelines under the Act permit a member to respond to any tender where the matter relates to anything other than audit, he is not permitted to make any money deposit. Hence, the act of the firm is professional misconduct.

(d) No. As per Guidelines under the Act, a member can respond to any tender which is requested by the Central government, State government or local government. Hence, there is no professional misconduct in this case.

Independent MCQs

6. During the audit of Tripti Chemicals Ltd., the auditors, Dishu & Co., identified unusual fluctuations in revenue while performing analytical review procedures. Upon further inquiry, they detected a misstatement in revenue recognition, which appeared to have been intentionally made by senior finance personnel. Although management contended it was a one-time error, the auditors suspected of potential fraud. In accordance with the Standards on Auditing, what would be the most appropriate course of action for the auditor?

   (a) Rely on management's assurance and proceed with issuing an unmodified audit opinion.

   (b) Perform additional analytical procedures only if the misstatement is material.

   (c) Evaluate whether the misstatement indicates fraud, reassess the risk of material misstatement due to fraud, and consider implications for audit evidence and management representations.

   (d) Immediately withdraw from the audit engagement without performing further procedures.

7. VMC & Co., a firm of Chartered Accountants, has been auditing the financial statements of Reyox Ltd., a listed company, for the past 7 years. CA Rajat, an engagement partner, has led the audit team throughout this period. A recent quality control review raised concerns regarding a familiarity threat, as CA Rajat had developed a close relationship with key management personnel of the client. Which of the following would be the most appropriate course of action for VMC & Co. to mitigate the threat of independence and objectivity in this case as per SQC 1 in this scenario?

(a) Continue with the same engagement partner, as long as documentation evidences independence in mind and appearance.

(b) Appoint a second partner to assist CA Rajat, but allow him to continue as the lead engagement partner.

(c) Rotate the engagement partner and appoint another qualified partner to lead the audit engagement.

(d) Request Reyox Ltd. to change their finance team to reduce familiarity threats from the client's side.

8. While conducting the statutory audit of a large manufacturing company with multiple warehouses in remote locations, the audit team faced challenges in performing physical stock counts due to logistical constraints. The team decided to adopt an emerging technology that uses sensors and high-resolution cameras to carry out inventory verification without being physically present at the site.

Which of the following technologies is most appropriately suited for this purpose?

(a) Blockchain.

(b) Drone Technology.

(c) Internet of Things (IoT).

(d) Robotic Process Automation (RPA).

PART B: DESCRIPTIVE QUESTIONS

Standards on Auditing, Statements and Guidance Notes

Quality Control

9. SDC & Associates, a medium-sized audit firm, is appointed as an auditor of Neuronix Ltd., a listed pharmaceutical company engaged in extensive R&D with complex global operations. CA Rashi an engagement partner of SDC & Associates is leading the audit team for the audit of the same. Neuronix Ltd. was earlier audited by a Big 4 firm that withdrew from the engagement citing scope limitations. During the audit planning, CA Rashi realises that while her team is skilled in standard manufacturing audits, they lack experience in pharma R&D and associated regulatory

frameworks. The firm is under pressure to complete the audit in time to meet the listing obligations of Neuronix Ltd. The Managing Partner insists on continuing the audit and advises CA Rashi to rely on the firm's standard procedures to ensure timely delivery.

In light of SQC 1 and SA 220, analyse the quality control considerations CA Rashi must evaluate before continuing with the engagement. What actions should she take to uphold audit quality and professional standards?

Materiality, Risk Assessment and Internal Control

10. CA Kavya has been appointed as the statutory auditor of XYR InfraTech Ltd. for the financial year 2024-25. The company operates in two business segments: (i) a consumer electronics division that manufactures smart televisions and earns stable profits; and (ii) an infrastructure development division engaged in metro rail projects under government contracts. The infrastructure division has reported operating losses in the past two years due to delays and cost overruns.

    While planning the audit, CA Kavya needs to determine materiality for the financial statements as a whole. She seeks guidance on the factors that may affect the identification of an appropriate benchmark and the benchmarks that may be applied to each division.

Reporting

11. Harsh Electronics Ltd., a manufacturing company, planned to set up a new R&D centre at its existing industrial premises in Pune to mark its 25th anniversary in the financial year 2024–25. To expand the premises, the company decided to acquire an adjacent plot of land owned by Ms. Reena, an executive director of the company.

    The company offered to exchange one of its underutilised land parcels, located in another industrial area rather than having a cash transaction. Though the company's land was nearly twice the size of Ms. Reena's land, it was considered less commercially useful. The exchange was approved by the Board and a registered agreement was executed in January 2023.

As an audit engagement partner for Harsh Electronics Ltd., what additional audit procedures would you perform in respect of this land exchange transaction, and what would be your responsibilities from a reporting perspective?

12. Kuber Tech Solutions Ltd. is in the process of finalising its financial statements for the year ended 31st March 2025. The company is required to present comparative financial statements, including figures for the year ended 31st March 2024. Roshan & Co., Chartered Accountants, has been appointed as the statutory auditor for the current year.

During the audit, CA Roshan, the engagement partner, notes the following:

Particulars	FY 2023–24	FY 2024–25
Auditor	Gupta & Mehra LLP, Chartered Accountants	Roshan & Co., Chartered Accountants
Audit Opinion	Adverse	Audit in progress
Reason for Modified Opinion	Material misstatement in valuation and disclosure of trade receivables	Misstatement remains uncorrected
Presentation of Financial Statements	Figures presented as comparatives in FY 2024–25 audit	Comparative financial statements (current + previous year)

(a) What are the duties of CA Roshan while reporting on the current year's financial statements, considering the prior year's adverse opinion?

(b) What modifications or disclosures are required in the current year's audit report in accordance with the relevant Standards on Auditing?

Review of Financial Information

13. Amar Projects Pvt. Ltd., a company involved in turnkey infrastructure projects, is in discussions for a strategic joint venture with a foreign company. As part of the due diligence process, the foreign entity has requested a review of Amar Projects' interim financial statements for the six-month period ending 30th September 2024, instead of a full audit.

To comply with this request, the management appoints CA Tanvi, a practicing Chartered Accountant, to conduct the review and issue a report under the applicable Standards on Review Engagements (SRE). Before accepting the engagement, CA Tanvi is evaluating the scope of the review, the nature of assurance, and the appropriate format of her review report.

(i) What kind of assurance is given in a review engagement? How is it different from an audit?

(ii) What are the key elements that must be included in the written review report as per SRE 2410? Also, explain whether a UDIN is required for such an engagement.

Digital Auditing and Assurance

14. Sujal is appointed as the auditor of Kashish Ltd., a company heavily dependent on digital platforms for its core business operations and financial reporting. During the preliminary discussions with management, Sujal observes following gaps in the company's IT risk management framework:

- No recent risk assessment of the IT environment has been conducted.
- No documented strategy for managing cybersecurity threats such as unauthorised access, system failures, or potential data breaches.
- The company has not classified its information assets or reviewed the systems connected to its digital infrastructure.
- No defined roles such as Chief Information Security Officer (CISO) or Chief Information Officer (CIO) exist to manage cybersecurity responsibilities.
- There has been no discussion with those charged with governance on how cybersecurity risks may impact internal controls, especially over financial reporting and revenue recognition.

As an auditor, what should Sujal's first step be in response to the above-mentioned observations?

Group Audits

15. CA Rajul has been appointed as the statutory auditor of the consolidated financial statements of Nemi Limited for the financial year 2024–25. The consolidated financial statements include the financial statements and financial information of 9 subsidiaries, all of which have been audited by other auditors. The management of Nemi Limited has provided CA Rajul with the audited financial statements, financial information, and audit reports of these subsidiaries. The following summary information pertains to these subsidiaries for the financial year 2024–25:

Particulars	**Amount**
Total Assets	₹ 2,200 crore
Total Revenue	₹ 1,400 crore
Net Cash Outflows	₹ 25 crore

Out of the 9 subsidiaries, three are located outside India. Their financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) of their respective countries and audited in accordance with the auditing standards applicable in those jurisdictions.

How should CA Rajul report this matter in the Independent Auditor's Report on the consolidated financial statements of NEMI Limited for the year 2024–25, in accordance with the applicable Standards on Auditing? Also, draft a suitable paragraph to be included in the auditor's report, making necessary assumptions.

Special Features of Audit of Banks & Non-Banking Financial Companies

16. You are auditing the branch operations of XS Bank, a scheduled commercial bank, for the year ending 31st March 2025. During the audit of the loans and advances portfolio, you observed the following:

- Advances were sanctioned without proper credit appraisal in some cases.

- Certain loans were sanctioned without adequate documentation like demand promissory notes and hypothecation letters and others where post-disbursement monitoring was weak.
- In several branches, securities were being held by a single officer instead of under joint custody.
- A few loan accounts had exceeded the sanctioned limit and drawing power, but no intimation was given to the Head Office.

On pointing out the above, branch manager replied that they rely on their internal control framework to mitigate such risks. Based on the above situation, explain the internal controls that bank is expected to implement in the area of loans and advances.

Internal Audit

17. Jeneva Technologies Pvt. Ltd., a private limited company engaged in the manufacturing of automation equipment, having turnover of ₹ 210 crores during the financial year 2023-24. Additionally, the company had taken a loan of ₹ 95 crores from a consortium of banks during the same year, which remained outstanding as of the balance sheet date.

    Meanwhile, Cross Buildcon Ltd., an unlisted public company involved in real estate development, had the following financial details for the year 2023-24:

Particulars	**Amount**
Paid-up share capital	₹ 48 crores
Turnover	₹ 198 crores
Outstanding borrowings from a bank	₹ 110 crores
Outstanding deposits	₹ 30 crores

The management of both companies has approached their respective consultants seeking clarity on whether they are required to appoint an internal auditor under the Companies Act, 2013.

As a professional consultant, you are required to advise:

(a) Whether Jeneva Technologies Pvt. Ltd. is required to appoint an internal auditor for the financial year 2024-25.

(b) Whether Cross Buildcon Ltd. is required to appoint an internal auditor for the financial year 2024-25.

(c) State who can be appointed as internal auditors under the Companies Act, 2013.

Due Diligence, Investigation & Forensic Accounting

18. Navyam Limited is into the business of construction for the past 20 years. Management of the Company came to know that building material sent to construction sites is of substandard quality whereas the payment released by the accounts department of the Company is on the higher side. Forensic Accountant was asked to carry out detailed investigation. Forensic Accountant completed his investigation and now preparing his report. What are the broad areas of information that needs to be incorporated in the report of forensic accountant?

Sustainable Development Goals (SDG) & Environment, Social and Governance (ESG) Assurance

19. SkinGlow Ltd., an e-commerce company dealing in skincare products, promotes its newly launched cream on its official website as "100% natural and chemical-free." However, a review of the product label reveals the presence of artificial fragrance and preservatives. A customer who noticed the same tried to complain, but there was no proper complaint form or helpline available on the website. Additionally, the company's website states that its primary business objective is to offer useful products and services to customers in exchange of reasonable profits. With reference to the principles of the Business Responsibility and Sustainability Reporting (BRSR) framework, identify which principle is being referred to in this case. Also, state the core elements of this principle.

Professional Ethics & Liabilities of Auditors (New)

20. Comment with reference to the provisions of the Chartered Accountants Act, 1949 and schedules thereto:

(a) CA Sahil is the statutory auditor of Greenway Ltd., a listed company falling under the top 1000 companies as per market capitalisation on the stock exchange. The company is required to submit its Business Responsibility & Sustainability Reporting (BRSR) as per SEBI regulations. Greenway Ltd. approached CA Sahil to prepare the BRSR study/report and assist in drafting disclosures. Additionally, the company requested CA Sahil to also provide assurance on BRSR Core, to be submitted as part of the regulatory filings. CA Sahil, being confident in his knowledge and expertise in sustainability reporting, agreed to both roles — preparing the BRSR study and providing assurance on the BRSR Core.

(b) M/s R & Co., a firm of Chartered Accountants, received ₹ 2 lakhs as advance against professional services from a charitable institution. Additionally, the institution entrusted ₹10 lakhs to the firm for the specific purpose of investment in designated securities. The auditors deposited it in their Savings bank account and no investment was made in the next three months.

SUGGESTED ANSWERS

PART A: Answers to Multiple Choice Questions

Question No.	Answer
1.	(a)
2.	(d)
3.	(c)
4.	(c)
5.	(b)
6.	(c)
7.	(c)
8.	(b)

PART B: Answers to Descriptive Questions

9. As per SQC 1, "Quality Control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements", CA Rashi, as the engagement partner, is required to evaluate whether the firm has the capabilities, competence, time and resources to undertake an engagement, following matters have to be taken into consideration: -

- Firm personnel have knowledge of relevant industries or subject matters;
- Firm personnel have experience with relevant regulatory or reporting requirements, or the ability to gain the necessary skills and knowledge effectively;
- The firm has sufficient personnel with the necessary capabilities and competence;
- Experts are available, if needed;
- Individuals meeting the criteria and eligibility requirements to perform engagement quality control review are available, where applicable; and
- The firm would be able to complete the engagement within the reporting deadline.

Under SA 220, "Quality Control for an audit of financial statements", the responsibility of an engagement partner in this regard in an audit engagement is on lines of SQC 1 which requires the firm should obtain such information as it considers necessary in the circumstances before accepting an engagement with a new client, when deciding whether to continue an existing engagement, and when considering acceptance of a new engagement with an existing client.

Information like integrity of principal owners, competence of engagement team and consideration of necessary capabilities including time and resources, compliance with relevant ethical requirements and significant matters arisen during current or previous audit engagement and their implications assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate.

In the given case:

- SDC & Associates lacks experience in pharmaceutical R&D audits, a highly regulated and technical field.
- The previous auditor's withdrawal citing scope limitations is a warning sign that must be evaluated.
- The engagement team lacks relevant expertise, and there is pressure from the managing partner to proceed regardless.
- Proceeding without addressing these issues would violate the requirements of SQC 1 and SA 220.

CA Rashi must not proceed with the engagement unless satisfied that all conditions under SQC 1 and SA 220 are met. She should:

- Assess the firm's capability and consider engaging external experts.
- Understand the reason for previous auditor's withdrawal.
- Ensure that a qualified EQCR reviewer is appointed and review is completed before issuing the audit report.

This will help maintain audit quality, ensure compliance with professional standards, and protect the firm from regulatory repercussions.

10. As per SA 320, determining materiality involves the exercise of professional judgment. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.

Factors that may affect the identification of an appropriate benchmark include the following:

- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
- Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for

example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);

- The nature of the entity, where the entity is at in its life cycle, and the industry and economic environment in which the entity operates;
- The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
- The relative volatility of the benchmark.

Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgment. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue.

In the case of XYR InfraTech Ltd.:

(i) **Consumer Electronics Division:** Since Consumer Electronics division earns stable and regular profits, CA Kavya may consider using profit before tax (PBT) or earnings as the benchmark.

(ii) **Infrastructure Development Division (Loss-making):** The Infrastructure Development Division has reported losses due to external factors (delays, overruns). In such cases, profit-related benchmarks may not be appropriate. Instead revenue or gross profit may be used as benchmarks.

Alternatively, considering its public utility nature, benchmarks like total cost or net cost (expenses less revenues) may be suitable. Where significant assets are involved, total assets may also be relevant.

11. In the given case, Harsh Electronics Ltd. has entered into a non-cash transaction during the financial year involving a land exchange with a director, Ms. Reena, who is also a member of the company's Board. The company transferred a land parcel, located in a different industrial zone, to Ms. Reena, and in return, acquired a strategically located plot adjacent to its main manufacturing facility in Pune, which was owned by her. The transaction was approved by the Board of Directors and was executed through a formally registered agreement in January 2023. This arrangement was entered into without any cash consideration and instead relied on the relative value and strategic importance of the properties being exchanged.

As this transaction involves a director and is non-cash in nature, it attracts specific attention from an audit perspective under the Companies Act, 2013 and the CARO, 2020. Accordingly, the auditor must evaluate the appropriateness of the transaction, ensure compliance with statutory provisions, and consider following reporting implications.

The auditor is required to report the transaction as per Clause (xv) of Paragraph 3 of the CARO, 2020 which states whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of the Companies Act, 2013 have been complied with.

In addition, this is a transaction with a related party. The provisions of section 188 of the Companies Act, 2013 as regards Related Party Transactions are to be checked for compliance. Section 189 of the Companies Act, 2013 requires a register to be maintained wherein the contract with related parties is to be entered. The compliance with section 177 and section 188 has to be reported under Clause (xiii) of Paragraph 3 of the CARO, 2020.

12. **(a)** In the given case, CA Roshan noticed that the previous year's financial statements contained an adverse opinion for the financial statement whole due to a misstatement in the evaluation and disclosure of the trade receivables. As per SA 710, "Comparative Information-Corresponding Figures and Comparative Financial Statements", if the auditor's report on the prior period, as previously issued, included an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:

(i) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or

(ii) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.

In the present case, the matter leading to the prior year's adverse opinion i.e., material misstatement in trade receivables from the prior year remains uncorrected in the current year's financial statements, CA Roshan must modify the current year's audit opinion, in accordance with SA 710.

(b) When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

(i) That the financial statements of the prior period were audited by a predecessor auditor;

(ii) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and

(iii) The date of that report.

In the given case, the previous year's audit was conducted by Gupta & Mehra LLP, who issued an adverse opinion due to a misstatement in trade receivables. Accordingly, CA Roshan should include an Other Matter paragraph in the current year's auditor's report, disclosing that the prior year financials were audited by

Gupta & Mehra LLP; an adverse opinion was expressed due to material misstatement in trade receivables; and the date of the prior auditor's report.

13. **(i)** A review engagement under SRE 2410 provides limited assurance, which is lower in scope than the reasonable assurance obtained in an audit. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the interim financial information to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Overview of distinctive areas between Audit and Review

Audit	***Review***
Audit is a type of reasonable assurance engagement providing reasonable level of assurance.	Review is a type of limited assurance engagement providing a lower level of assurance than reasonable assurance engagement.
It performs elaborate and extensive procedures including tests of controls and substantive procedures.	It performs fewer procedures primarily focusing on inquiry and analytical procedures.
It draws reasonable conclusions on the basis of sufficient appropriate evidence.	It draws limited conclusions on the basis of sufficient appropriate evidence.
It provides an assurance opinion. The language of assurance opinion is positively worded.	It provides an assurance conclusion. The language of assurance conclusion is negatively worded.

(ii) The auditor should issue a written report that contains the following:

(a) An appropriate title.

(b) An addressee, as required by the circumstances of the engagement.

(c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.

(d) If the interim financial information comprises a complete set of general-purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

(e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework.

(f) A statement that the auditor is responsible for expressing a conclusion on the interim financial information based on the review.

(g) A statement that the review of the interim financial information was conducted in accordance with Standard on Review Engagements (SRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity," and a statement that that such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

(h) A statement that a review is substantially less in scope than an audit conducted in accordance with Standards on Auditing and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

(i) If the interim financial information comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information does not give a true and fair view, or does not present fairly, in all material respects, in accordance with the applicable financial reporting framework.

(j) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with the applicable financial reporting framework

(k) The date of the report.

(l) Place of Signature.

(m) The auditor's signature and membership number assigned by the Institute of Chartered Accountants of India (ICAI).

(n) The Firm's registration number of the member of the Institute, wherever applicable, as allotted by ICAI.

Besides, UDIN has also to be generated and stated for review engagement as it is also in nature of an assurance engagement. UDIN has to be stated for engagements performed in accordance with SRE 2400 or SRE 2410.

14. Sujal's first step in response to the above observations should be to Identify the risk in following manner:

- The auditor has to determine whether the entity's risk assessment process considers cybersecurity risks.
- Entity should conduct a periodic risk assessment & develop a management strategy which identifies cybersecurity risks around IT

system failure affecting the entity's primary business or potential loss of data or inability to access data as required, Risk of unauthorized access to the IT network.

- The entity should maintain and periodically review an inventory of their information assets, i.e., Asset Management (e.g., intellectual property, patents, copyrighted material, trade secrets and other intangibles).
- The entity should classify and prioritise protection of their information assets based on sensitivity and business value and periodically review the systems connected to the network on which digital assets reside.
- From the governance perspective management should review how cybersecurity risks affect internal controls over financial reporting. In case of adverse attack how management is going to assess the impact on the recoverability of financial data and impact on revenue recognition.
- Management needs to identify if any established a risk-based cybersecurity program can be leveraged e.g. (NIST, ISO etc.)
- To determine overall responsibility for cybersecurity in the business environment entity should establish roles and responsibilities over cybersecurity (CISO, CIO). Further, the risk assessment should be discussed with those charged with governance (e.g., the Audit Committee or Board of Directors).

15. In a case where the parent's auditor is not the auditor of all the components included in the consolidated financial statements, then as prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditors. This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent's auditor.

In the given situation, CA Rajul, the statutory auditor of the consolidated financial statements, is not the auditor of all components included in the consolidation and intends to refer to the work of other auditors, such reference must be made through an Other Matter paragraph in the auditor's report. The draft "Other Matter Paragraph" is as under:

Other Matter Paragraph

We did not audit the financial statements and other financial information, in respect of nine (9) subsidiaries, whose financial statements include total assets of ₹ 2,200 crores as at March 31, 2025, and total revenues of ₹ 1,400 crores and net cash outflow of ₹ 25 crores for the year ended on that date. These financial statements and other financial information have been audited by other auditors and such financial statements, other financial information and auditor's reports have been furnished to us by the management of the Holding Company.

Our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries and joint ventures, and our report in terms of sub-sections (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries is based solely on the reports of such other auditors.

Three of these subsidiaries are located outside India whose financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Holding Company's management has converted the financial statements of such subsidiaries from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India.

We have audited these conversion adjustments made by the Holding Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiaries is based on the report of other auditors and the conversion adjustments prepared by the management of the Holding Company and audited by us. Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements and other financial information certified by the Management.

16. Banks are expected to implement the following internal controls in loans and advances are:

- The bank should make advances only after satisfying itself as to the creditworthiness of the borrowers and after obtaining sanction from the proper authorities of the bank.
- All the necessary documents (e.g., agreements, demand promissory notes, letters of hypothecation, etc.) should be executed by the parties before advances are made.
- Sufficient margin should be kept against securities taken to cover any decline in the value thereof and to comply with Reserve Bank directives. Such margins should be determined by the proper authorities of the bank as a general policy or after detailed scrutiny for specific accounts.
- All the securities should be received and returned by responsible officer. They should be kept in the Joint custody of two such officers.
- All securities requiring registration should be registered in the name of the bank or otherwise accompanied by the documents sufficient to give the title of the bank.
- All accounts should be kept within both the drawing power and the sanctioned limit as per prescribed norms. Additional temporary limit may be sanctioned, for a maximum of 20% of existing limit and 90 days maximum tenure.
- All the accounts which exceed the sanctioned limit or drawing power or are against unapproved securities or are otherwise irregular should be brought to the notice of the Management/Head Office regularly.
- The operation (in each advance account) should be reviewed at least once every year).

In the given case, the observations made during the audit indicate serious lapses in adherence to internal control procedures relating to credit appraisal, documentation, custody of securities, and monitoring of advance accounts. The branch's reliance on the internal control framework is not substantiated by its execution in practice. The bank must ensure strict compliance with its internal controls and regulatory guidelines to mitigate credit risk and safeguard its interest.

17. As per section 138 of the Companies Act, 2013, following class of companies (prescribed in rule 13 of Companies (Accounts) Rules, 2014) shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely-

(A) every listed company;

(B) every unlisted public company having-

(i) paid up share capital of fifty crore rupees or more during the preceding financial year; or

(ii) turnover of two hundred crore rupees or more during the preceding financial year; or

(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or

(iv) outstanding deposits of twenty-five crore rupees or more at any point of time during the preceding financial year; and

(C) every private company having-

(i) turnover of two hundred crore rupees or more during the preceding financial year; or

(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.

(a) In the case of Jeneva Technologies Pvt. Ltd., the company recorded a turnover of ₹ 210 crores during the financial year 2023–24 and had obtained a loan of ₹ 95 crores from a consortium of banks during the same period. As the turnover exceeds the prescribed threshold of ₹ 200 crores, the company falls within the criteria specified under Rule 13 of the Companies (Accounts) Rules, 2014. Hence, it is mandatorily required to appoint an internal auditor for the financial year 2024–25.

(b) In the case of Cross Buildcon Ltd., the company has a paid-up share capital of ₹ 48 crores, a turnover of ₹ 198 crores, outstanding borrowings from a bank amounting to ₹ 110 crores, and outstanding deposits of ₹ 30 crores as per the financial year 2023–24. Although the paid-up capital and turnover are below the prescribed thresholds, the outstanding borrowings and deposits exceed the specified limits under Rule 13 of the Companies (Accounts) Rules, 2014. Therefore, Cross Buildcon Ltd. is mandatorily required to appoint an internal auditor for the financial year 2024–25.

(c) As per section 138, the internal auditor shall either be a chartered accountant or a cost accountant (whether engaged in the practice or not), or such other professional as may be decided by the Board to conduct an internal audit of the functions and activities of the company.

- The internal auditor may or may not be an employee of the company.
- To be effective, the internal auditor must be regarded as a part of the management and not merely as an assistant thereto.

18. Broad areas of information to be incorporated in the report of Forensic accountant -

Issuing an report is the final step of a forensic accounting. Accountant / Investigators will include information detailing the fraudulent activity, if any has been found. The client will expect a report containing the findings of the investigation, including a summary of evidence, a conclusion as to the amount of loss suffered as a result of the fraud and to identify those involved in fraud.

The report may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions. The report will include schedules and graphics necessary to properly support and explain the findings.

The report will also discuss how the fraudster set up the fraud scheme, and which controls, if any, were circumvented. It is also likely that the investigative team will recommend improvements to controls within the organization to prevent any similar fraud occurring in the future.

19. In the case of SkinGlow Ltd., the misrepresentation of product contents and lack of a proper grievance mechanism are in direct conflict with Principle 9 of the BRSR framework. The company should take corrective measures to ensure alignment of its operations with responsible consumer practices as outlined in the BRSR principles 9 given below.

Principle 9 – Provide Value to the Consumers in a Responsible Manner:

The primary purpose of any business is to create or provide useful products and services to the customer in exchange of reasonable profits.

The core elements associated with the principle are:

(a) Entities should put in their efforts to reduce the negative impacts of their products and services on consumers, natural environment, and society at large.

(b) When conceptualizing, designing, and marketing their products, the organisation should not in any manner prevent the freedom of choice and fair competition.

(c) The entities should transparently and accurately disclose all kinds of adverse impacts to the user, planet, society, on the biodiversity from their products.

(d) When handling customer data, the right to privacy of the customer needs to be maintained.

(e) Entities should inform the customers on the safe and responsible ways of usage, reuse, recycling, and disposal of their products, and ways to eliminate over-consumption.

(f) When advertising about their products, the organisations should ensure that misleading and confusing information is not exposed to the customers about their products or its usage.

(g) Business enterprises should make available transparent and accessible grievance redressal and feedback management system for their customers to raise their voices or to seek clarifications.

(h) Entities, when in the business of providing essential goods and services (e.g., Utilities), should enable universal access, including to those whose services have been discontinued for any reason, in a non-discriminatory and responsible manner.

20. (a) As per the recent decisions taken by the Ethical Standards Board of ICAI, it is not permissible for member in practice being a statutory auditor to prepare Business Responsibility & Sustainability Reporting (BRSR) study to Audit Clients. However, he may provide advisory services on the same. It is permissible for member in practice being a statutory auditor to be "Assurance provider of BRSR core" for the same client.

In the given case, Greenway Ltd., a listed entity, is required to submit a BRSR as per SEBI regulations. The company approached CA Sahil to prepare the BRSR study and to provide assurance on the BRSR Core for regulatory submission. CA Sahil accepted both assignments.

In view of the above guidance issued by the ESB, it can be concluded that CA Sahil's acceptance of the assignment to prepare the BRSR study for his audit client Greenway Ltd. is not permissible. However, his role as an assurance provider for BRSR Core is permissible. Hence, CA Sahil would be held guilty of professional misconduct for accepting the assignment to prepare the BRSR study.

(b) If a Chartered Accountant in practice fails to keep moneys of his clients in a separate bank account or fails to use such moneys for purposes for which they are intended then his action would amount to professional misconduct under Clause (10) of Part I of Second Schedule to the Chartered Accountants Act, 1949.

In the course of his engagement as a professional accountant, a member may be entrusted with moneys belonging to his client. If he should receive such funds, it would be his duty to deposit them in a separate banking account, and to utilise such funds only in accordance with the instructions of the client or for the purposes intended by the client. However, an advance received by a Chartered Accountant against services to be rendered does not fall under Clause (10) of Part I of the Second Schedule.

In the given case by depositing the client's money of ₹ 10 lakh i.e., for the specific purpose of investment in designated securities, by M/s R & Co., a firm of Chartered Accountants, in their own savings bank account, the auditors have committed professional misconduct. Hence in the given case, M/s R & Co. will be held guilty of professional misconduct under Clause (10) of Part I of the Second Schedule of the Chartered Accountants Act, 1949.

Applicability of Standards / Guidance Notes / Legislative Amendments etc. for September, 2025 Examination

Final Course

Paper 1: Financial Reporting

(I) List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	**Topics of the syllabus**	**Exclusions**
3.	Application of Indian Accounting Standards (Ind AS) with reference to General Purpose Financial Statements	Indian Accounting Standard (Ind AS) 16 'Property, Plant and Equipment' Appendix B- Stripping Costs in the Production Phase of a Surface Mine
	(iv) Ind AS on Assets and Liabilities of the Financial Statements	Indian Accounting Standard (Ind AS) 37 'Provisions, Contingent Liabilities and Contingent Assets' Appendix A: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds Appendix B: Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
	(vii) Other Ind AS	Indian Accounting Standard (Ind AS) 29: Financial Reporting in Hyperinflationary Economies

		Indian Accounting Standard (Ind AS) 106: Exploration for and Evaluation of Mineral Resources Indian Accounting Standard (Ind AS) 114: Regulatory Deferral Accounts Indian Accounting Standard (Ind AS) 117: Insurance Contracts

(II) Important Points for Consideration

(1) November, 2024 edition of the Study Material is relevant for September, 2025 examination.

(2) The relevant Amendments / Notifications / Circulars / Rules issued by the Companies Act, 2013 and Limited Revisions in existing standards, issued up to 28th February, 2025 will be applicable for September, 2025 Examination.

(3) Newly notified Ind AS becomes applicable only one year after its notification. However, though Ind AS 117: Insurance Contracts has been notified on 12th August, 2024, yet being an industry specific standard, it has not been excluded for September, 2025 Examination. However, limited revisions in the existing applicable Ind AS consequent to notification of Ind AS 117 will be applicable in September, 2025 examination.

(3) Limited discussion of Accounting Standards has been given at relevant places in the form of differences of particular provision in Ind AS vis-à-vis AS. Accounting standards do not form part of the syllabus. However, with respect to AS 7, AS 9, AS 19 and AS 22 where there are significant differences between Ind AS and AS, questions on these Accounting Standards (i.e. AS 7, AS 9, AS 19 and AS 22) testing differential treatments in both the set of standards (i.e. Ind AS and AS) may be asked in the examination.