

MTP 6 (Ch. 13 – Group Audits, 14 and 15 – Audit of Banks, NBFC and PSU)

Marks: 20

Time: 35 Minutes

Instructions: Part A comprises of MCQ.

Part B Comprises of descriptive questions.

Part – A (Multiple Choice Questions)

- Q.1** Suban Engineering, a borrower of the branch, had fully utilized its sanctioned cash credit limit of ₹ 400 Lacs, with an outstanding balance of ₹ 413 Lacs as of March 31, 2025. The bank classified the account as a Sub-standard Asset. **2**
- During an inspection, the DGM observed that the borrower's premises were damaged, with no machinery, stock, or other assets present. The borrower was unreachable, and an independent verification of assets confirmed that no mortgaged security was available, except for a piece of land with a realizable value of ₹ 33 Lacs. The bank accepted this report and made a provision considering the account as a Sub-standard Asset.
- Whether correct classification and provisioning norms have been applied in the account of Suban Engineering?
- (a) The account is correctly classified, but provision should be made for hundred percent of the unsecured portion besides making specified provision on secured portion.
- (b) The account should have been classified as Doubtful asset and besides making required provision on secured portion, provision should have been made for hundred percent of the unsecured portion.
- (c) The account should have been classified as Loss asset and full provision should have been made in the books of accounts.
- (d) The account should have been classified as Doubtful asset and full provision should have been made in the books of accounts.
- Q.2** RCE Ltd. was set up under the Companies Act, 2013 and got itself registered as non-banking financial company with the Reserve Bank of India, fulfilling the required criteria. During the financial year ended 31 March 2025, the company's operations have started. The company's total assets were ₹ 298 crore out of which trade receivables, loans receivable in cash, cash and bank balances comprised of ₹ 199 crore. During the financial year ended 31 March 2025, the company's operations generated total income of ₹ 99.50 crore. The management also did an assessment and observed that income from its financial assets was not much during the year and amounted to only ₹ 60 crore. The management is looking at various alternatives to improve its operations, if required, to generate better income in the coming years. **2**

Further, the company during the year also accepted and gave demand deposits which have been very efficient for the company. Management has a plan to significantly increase these deposits in the next 2 years as that would help in the overall functioning of the company.

In the context of the above, please answer which of the following options would be correct.

- (a) The company does not meet the criteria of financial assets and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
- (b) The company does not meet the criteria of income and hence would not be considered as NBFC. Further, it cannot accept and give demand deposits and the same thing should be reported by the statutory auditors of the company.
- (c) The company meets the criteria of financial assets and income. An NBFC can only accept demand deposits but cannot give demand deposits. Hence in this case, the statutory auditors should report regarding the same.
- (d) The company meets the criteria of financial assets and income. An NBFC can only give demand deposits but it cannot accept demand deposits. Hence in this case, the statutory auditors should report regarding this matter.

Q.3 Setir Ltd. is a company in which 59% of the paid up share capital is held by Punjab Government. The company is engaged in the business of providing consultancy services in relation to construction projects.

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The Punjab Government is also planning to induct funds in the company in future, if required.

Nocri Ltd is a company controlled by Setir Ltd. The business of Nocri Ltd. is construction and has an annual turnover of INR 2500 crore approx.

The audit of the financial statements of Nocri Ltd for the financial year ended 31 March 2025 got completed but Nocri Ltd observed that during the course of audit, there was lot of intervention of Comptroller & Auditor General of India, wherein C&AG was giving directions to the auditors on the manner in which audit should be conducted in respect of certain areas.

Further, it also received comments from C&AG on the audit report of the auditors. Nocri Ltd. is seeking legal opinion to go against C&AG so that they can avoid unnecessary interference of C&AG and is also looking to have new auditors appointed by Nocri Ltd with whom they will have an engagement letter with the terms that those auditors don't accept any interference of C&AG which the existing auditors have not been able to avoid.

In this context, please advise which of the following should be correct?

- (a) The stand of the existing auditors should have been better i.e. not to accept any interference of C&AG.
- (b) Management could have planned the audit work better by including the same terms in engagement letter with existing auditors instead of appointing another auditors.
- (c) C&AG involvement could have been accepted if this was the audit of Setir Ltd. but not in case of Nocri Ltd. and hence Nocri Ltd. should also reach out to its parent company to get this resolved.
- (d) Stand of Nocri Ltd. is wrong as the C&AG may get involved in the audit of Nocri Ltd.

Part B (Descriptive Questions)

Q.1 Gupta & Co. has been appointed as a statutory auditor of TCB Bank Ltd., a private sector bank, registered with RBI. Mr. Kaival Gupta, the engagement partner, while performing the audit as per the checklist, noted down the following points, which would be part of the audit queries, as tabulated below:

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Sr. No.	Queries
1	Interest in a State Government Guaranteed advance has been taken to income even though such advance has remained overdue for more than 90 days.
2	There is an account for which an ad hoc limit has not been reviewed for 180 days from the date of such ad hoc sanction and such account has been treated as a performing asset in the books.
3	One of the NPAs was sold for a value higher than the net book value. Profit was not recognized but the excess provision in respect of the same has been reversed.
4	In case of one of the accounts, an additional temporary limit has been sanctioned for 25% of the existing limit and for 120 days tenure.
5	On verification of outstanding forward exchange contracts, the 'net position' in respect of one of the foreign currencies was not squared and was uncovered by a substantial amount.

You are required to provide the reasons due to which such queries would have been raised by Mr. Kaival and describe the actions that may be taken by the person responsible on behalf of TCB Bank Ltd. for solving such queries.

- Q.2** HG & Co. is the statutory auditor of KFN NBFC Ltd. While planning the audit procedures to be done during the audit of entity, there was a difference of opinion between Mr. H and his partner Mr. G. Mr. G is of the opinion that evaluation of Internal control system and verification of registration with RBI should not be the part of audit procedure, as it is the part of internal audits only. Is the contention of Mr. G correct? Also state what broad areas should mandatorily become part of the audit procedure of HG & Co. for conducting the audit of KFN NBFC Ltd.?
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- Q.3** H Limited is an investment company preparing its Financial Statements in accordance with Ind AS. The company obtains funds from various investors and commits its performance for fair return and capital appreciation to its investors. During the year under audit, it had been observed that the company had invested 25% in S1 Ltd., 50% in S2 Ltd. and 60% in S3 Ltd. of the respective share capitals of the Investee Companies. When checking the investment schedule of the company, an issue cropped as to whether there would arise any need to consolidate accounts of any such investee companies with those of H Limited in accordance with Section 129(3) of the companies Act, 2013 which contains no exclusion from consolidation. Analyse the issues involved and give your views.
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Instructions for submission of answer sheet

Single PDF of answer sheet is to be e-mail at test.altclasses@gmail.com

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Mention the following on answer Sheet:

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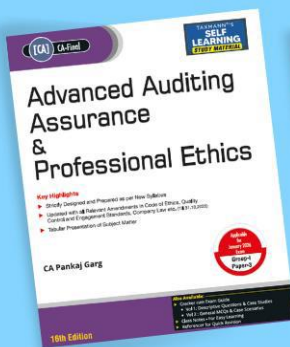
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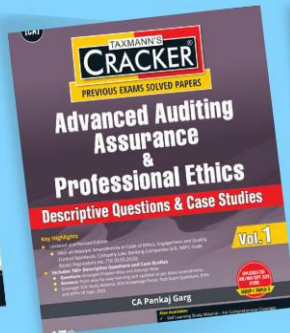
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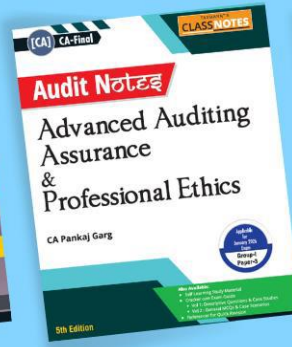
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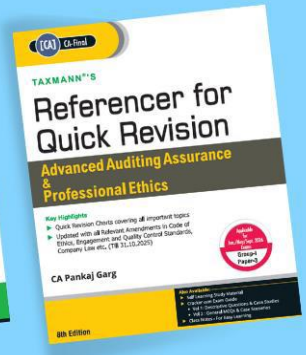
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