

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES

PAPER – 1 : FINANCIAL REPORTING

Specific Comments

Question 1. This question is on the preparation of the Consolidated Balance Sheet. A few examinees did not prepare the Consolidated Balance Sheet in the format prescribed under Division II of Schedule III to the Companies Act, 2013 meant for Ind AS based Financial Statements. Many examinees incorrectly calculated the amount of retained earnings, NCI, unrealised profits and loss on settlement of debentures. A handful of examinees found it challenging to account for "dividend from pre-acquisition profit" and "goodwill impairment". Many examinees struggled in solving this question and erred at several places resulting in incomplete preparation of consolidated balance sheet. Several examinees did not prepare working notes and notes to accounts properly.

Question 2.(a) The question is on Ind AS 109 'Financial Instruments'. Many examinees did not use "Derivative" word in the journal entries. Some of the examinees lacked clarity about "Derivative financial liability".

(b) This question was based on Ind AS 34 'Interim Financial Reporting'. Many examinees incorrectly calculated "Quarterly tax expense" and "Average annual effective tax rate".

Question 3.(a) This question is based on Ind AS 40 'Investment Property'. Examinees were not able to explain the valuation model to be followed subsequently as per Ind AS 40 for assets classified as investment property. Some of the examinees erred in presenting the profit and loss account with respect to the income earned and expenses incurred on such investment properties.

(b) This question is based on Ind AS 12 'Income Taxes'. A few examinees wrongly calculated the amount of tax base by deducting the depreciation before adjusting the sale proceeds of asset sold during the year. While some of the examinees were not able to differentiate between the tax base and carrying amount of block of assets, resulting into no defer tax.

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Question 4.(a) This question is based on Ind AS 16 'Property, plant & equipment'. Some examinees incorrectly used terms such as "financial liability", "dismantling obligation", or "lease liability" instead of the "provision for decommissioning liability". Examinees erred in passing journal entries for unwinding discount as finance charge on the provision created for decommissioning liability.

(b) This question is based on Ind AS 102 'Share-based payment'. A few examinees made errors in calculating the amounts for employee benefit expenses, securities premium, and retained earnings. Some examinees incorrectly took the fair value option price as ₹ 45 instead of ₹ 75. A handful of examinees erred in passing journal entries for the fourth year relating to accounting of share-based options at the time of their exercise. Further some examinees showed the amount of securities premium as balancing figure rather than showing its computation.

Question 5.(a) This question is based on Ind AS 115 'Revenue from Contracts with Customers'. Many examinees erred in calculating the total award points to be redeemed within 3 years and revenue to be recognised relating to discounted points. The examinees failed to accurately bifurcate ₹ 1,50,00,000 into sales and liability component under customer liability programme.

(b) This question is based on Ind AS 101 'First Time Adoption of Ind AS'. It was noted that the examinees were not well versed in this Ind AS and hence gave vague answers. Many examinees erred in passing journal entries on the date of transition.

(c) Either This question is based on Ind AS 1 'Presentation of Financial Statements'. Many examinees lack a clear understanding of the concept of offsetting.

(c) Or This question is on 'Conceptual Framework for Financial Reporting'. Many examinees provided neither proper headings nor adequate explanations as to how qualitative characteristics of financial statement would enhance the usefulness of the financial information.

Question 6.(a) This question is based on Accounting and Technology. Some of the examinees not mentioned about the steps, technicalities and

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criteria involved to identify the performance obligation after implementation of automated process.

(b) This question is based on Ind AS 16 'Property, plant and equipment'. Some of the examinees wrongly calculated the amount of accumulated depreciation, depreciation subsequent to revaluation and revaluation surplus. A few examinees erred in passing journal entries related to revalued amount of assets.

(c) This question is based on Ind AS 8 'Accounting Policy, Changes in Accounting Estimates and Errors'. Some of the examinees correctly classified items as either prior period errors or changes in accounting estimates but were unable to provide adequate reasoning to support their classification.

PAPER – 2: ADVANCED FINANCIAL MANAGEMENT

Specific Comments

Question 1.(a) In this question on Security Valuation, overall performance was above average. However, some examinees made mistakes in the decision-making part of the question.

(b) In this question on Real Options, overall performance was at an average level. The most common mistake was in the calculation of probability and the value of the abandonment option.

(c) This theoretical question, based on key decisions within the scope of financial strategy, saw good overall performance.

Question 2.(a) Most examinees performed well in this question on Mutual Funds. However, some could only correctly solve half of the question.

(b) Overall performance in this question was below average, as a common mistake involved incorrectly adding back depreciation while computing cash flows.

Question 3.(a) This question, based on Interest Rate Risk Management, saw above-average performance overall. However, some examinees were unclear about the correct formula to use.

(b) In this question on Foreign Exchange Exposure & Risk Management, examinees performed above average overall. However, some examinees failed to reach the correct final balance.

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Question 4.(a) An average level of performance was observed in this question. The main issues were incorrect calculation of the revised Beta and failure to correctly attempt all subparts of the question.

(b) Overall performance in this question on EVA was below average, as many examinees were confused about the concept of NOPAT.

(c) In this theoretical question, overall performance was below average, with only a few examinees correctly addressing the key points related to Succession Planning.

(c) OR This question, based on the concept of swaps, saw above-average performance overall. However, some examinees incorrectly added the net settlement amount instead of deducting it.

Question 5.(a) Examinees performed poorly in this question on International Financial Management, as most of them did not fully understand the requirements of the question.

(b) Overall, an above-average level of performance was observed in this question on share buybacks. However, some examinees ignored the instructions regarding rounding off the buyback price.

(c) Examinees performed well in this question on Derivatives. However, a few examinees did not fully answer the question correctly.

Question 6.(a) Good performance was observed in this question on Portfolio Management. However, in some cases, a lack of preparation and understanding of the related concepts was evident.

(b) In this question on Foreign Exchange Exposure & Risk Management, an average level of performance was observed, as only a few examinees correctly completed all the required steps.

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

Specific Comments

Question 1.(a) SQC-1 factors considered for monitoring quality control engagements: Most of the examinees have mentioned specific engagement quality processes and review procedures in relation to the Engagement

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Quality Control Review rather than addressing the factors to be taken into account for Monitoring Quality Control Engagements.

(b) Reporting responsibility of the auditor under CARO 2020: Many examinees have correctly articulated the provision of Clause (ii) (b) of Para 3 of CARO 2020. However, they have overlooked the essential detail that the sanctioned limit is to be assessed at any given point throughout the year and that non-fund-based facility i.e. letter of credit facility must also be factored into the working capital limit when reporting under the aforementioned clause of CARO 2020.

Question 2.(a) Communication with the Previous Auditor as per the Chartered Accountant Act, 1949: Many examinees accurately identified the Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 and explanation thereof. Nonetheless, they neglected to mention the communication of the conditional acceptance to the client.

(b) SA 610: Documentation while using the direct assistance of an Internal Auditor: Instead of elucidating the requisite components for the external auditor's documentation when employing direct assistance from internal auditor's examinees gave generic responses pertaining to potential areas where direct assistance of an internal auditor could be viable or factors necessitating consideration prior to engaging in direct assistance such as independence, objectivity etc.

(c) Automated environment- controls around vendor setup and modification: Most of the examinees failed to understand the specific requirements of the question. Instead of focusing on control considerations for addressing cyber risks associated with vendor setup and modification, they mentioned general points about mitigating risks related to IT use cyber risk.

Question 3.(a) Misconduct for submitting false information, penalty provision and time limit for filing an appeal under the Chartered Accountant Act, 1949: Majority of the examinees correctly mentioned Clause (3) of Part II of the Second Schedule, penalty Provisions and time limit of 90 days for filing an appeal outlined in the Chartered Accountants Act 1949. However, some examinees lacks clarity about the distinct penalty provisions designated for Schedule I and Schedule II and gave both penalty provisions in their responses.

(b) Principal Auditor and Other Auditor - Procedures to be performed by principal auditor and documentation to be kept: Most of the examinees failed to address the procedures that the principal auditor should undertake when utilizing the work of another auditor, the specific stage of the audit for coordination, and the advisory points concerning reporting requirements. Only a few examinees elaborated on the documentation (what need to be documented) needed if the other auditor's opinion is a modified one.

Question 4.(a) Key Audit Matters in the Independent Auditor's Report -

Introductory language: Most of the examinees possess adequate understanding regarding the consideration of Key Audit Matters by the auditor in the Independent Auditor's Report and the factors influencing the identification of Key Audit Matters. However, they were unable to connect the given scenario to the pertinent factors as specified in the question and couldn't deliver the introductory language effectively.

Question 5.(a) SA-550 - newly identified related party transactions during audit: Many examinees gave general answer instead of required answer i.e., aspects to be considered by an auditor on identification of previously undisclosed related party transactions.

(b) **Presentation and disclosure of the Prospective Financial Information:** Most of the examinees failed to understand the requirements of the question. They focused primarily on the criteria that auditors take into account when preparing prospective financial information and also elaborated on the significance of the assumptions made by management in this process.

(c) **Professional Competence and Due Care - Subsection 113:** A few examinees explained the fundamental principles of professional ethics instead of focusing on the relevant facets of Professional Competence and Due Care.

Question 6.(a) SRS 4400: Engagements to Perform Agreed-Upon Procedures Regarding Financial Information: Examinees possess limited understanding of the subject matter and have mixed the issues that require consensus and those that should be specified in the engagement letter.

(c) **Functions of the Auditor in a Proprietary Audit:** Instead of focusing on the functions of the auditor in the context of proprietary audits, many examinees opted to present broad insights regarding the fundamental principles that govern proprietary audits.