FINAL – November 2017

AUDIT

Test Code – FNJ 0010
Branch (MULTIPLE)
(Date : 04.06.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1(8 Marks)

Engagements to Report on the Compilation of Pro Forma Financial Information: As per SAE 3420," Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", before agreeing to accept an engagement to report on whether pro forma financial information included in a prospectus has been compiled, in all material respects, on the basis of the applicable criteria, the practitioner shall-

1. Determine that the practitioner has the capabilities and competence to perform the engagement; **(1 Mark)**
2. On the basis of a preliminary knowledge of the engagement circumstances and discussion with the responsible party, determine that the applicable criteria are suitable and that it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended; **(1 Mark)**
3. Evaluate the wording of the opinion prescribed by the relevant law or regulation, if any, to determine that the practitioner will likely be able to express the opinion so prescribed based on performing the procedures specified in this SAE; **(1 Mark)**
4. Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources; **(1 Mark)**
5. If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; **(1 Mark)**
6. If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement; and **(1 Mark)**
7. Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for: **(2 Marks)**

    a. Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available;

    b. Compiling the pro forma financial information on the basis of the applicable criteria; and

    c. Providing the practitioner with:

    i) Access to all information (including, when needed for purposes of the engagement, information of the acquiree(s) in a business combination), such as records, documentation and other material, relevant to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria;

    ii) Additional information that the practitioner may request from the responsible party for the purpose of the engagement;

iii) Access to those within the entity and the entity's advisors from whom the practitioner determines it necessary to obtain evidence relating to evaluating whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria; and

iv) When needed for purposes of the engagement, access to appropriate individuals within the acquiree(s) in a business combination.

Question 2 (8 marks)

a) As per **SA 402 "Audit Considerations relating to an Entity Using a Service Organisation"**, for obtaining understanding of the user entity in accordance with SA 315, the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operation including: **(1/2 mark for each point)**

1. The nature of services provided by the service organisation and the significance of such services to the user entity, including its effect on the internal control of user entity.
2. The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation.
3. The degree of interaction between the activities of the service organization and those of user entity and
4. The nature of the relationship between the user entity and the service organization including the relevant contractual terms for the activities undertaken by the service organisation.

When obtaining an understanding of internal control relevant to the audit in accordance with SA 315 "Identifying and Assessing the Risks of Material Mis-statement through Understanding the Entity and its Environment", the user auditor shall evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation, including those that are applied to the transactions processed by the service organization.

(2 marks)

b) The user auditor shall determine whether a sufficient understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement**.(1 mark)**

If the user auditor is unable to obtain a sufficient understanding from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures: **(3marks)**

1. Obtaining a Type 1 or Type 2 report, if available;
2. Contacting the service organisation, through the user entity, to obtain specific information;
3. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation; or
4. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation

Question 3 (8 marks)

As per SRE 2400, "Engagement to Review Historical Financial Statements", prior to accepting a review engagement, the practitioner shall:

1. Determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable including, in the case of special purpose financial statements, obtaining an understanding of the purpose for which the financial statements are prepared and of the intended users; and **(1 mark)**

2. Obtain the agreement of management that it acknowledges and understands its responsibilities:

a. For preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation; **(1 mark)**

b. For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and**(1 mark)**

c. To provide the practitioner with: **(2 marks)**

   (1) Access to all information of which management is aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

   (2) Additional information that the practitioner may request from management for the purpose of the review; and

   (3) Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain evidence.

If the practitioner is not satisfied as to any of the matters set out above as preconditions for accepting a review engagement, the practitioner shall discuss the matter with management or those charged with governance. If changes cannot be made to satisfy the practitioner as to those matters, the practitioner shall not accept the proposed engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with this SRE. Accordingly, the practitioner shall not include any reference within the practitioner's report to the review having been conducted in accordance with this SRE. **(1 marks)**

If it is discovered after the engagement has been accepted that the practitioner is not satisfied as to any of the above preconditions, the practitioner shall discuss the matter with management or those charged with governance, and shall determine: **(2 marks)**

a. Whether the matter can be resolved;

b. Whether it is appropriate to continue with the engagement; and

c. Whether and, if so, how to communicate the matter in the practitioner's report.

Question 4 (5 Marks)

Examples of Accounting Estimates that may have a High Estimation Uncertainty: As per SA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures", the auditor shall determine whether, in the auditor's judgment, any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks. **(1 Mark)**

Examples of accounting estimates that may have high estimation uncertainty include the following: **(1 Mark each)**

i Accounting estimates that are highly dependent upon judgment, for example, judgments about the outcome of pending litigation or the amount and timing of future cash flows dependent on uncertain events many years in the future.

ii Accounting estimates that are not calculated using recognised measurement techniques.

iii Accounting estimates where the results of the auditor's review of similar accounting estimates made in the prior period financial statements indicate a substantial difference between the original accounting estimate and the actual outcome.

iv Fair value accounting estimates for which a highly specialised entity-developed model is used or for which there are no observable inputs.

Question 5(5 Marks)

Auditor to make Inquiries regarding Management's own Assessment of Risk of Fraud and Controls: As per SA 240 "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements", management accepts responsibility for the entity's internal control and for the preparation of the entity's financial statements. **(1 mark)**

Accordingly, it is appropriate for the auditor to make inquiries of management regarding management's own assessment of the risk of fraud and the controls in place to prevent and detect it. The nature, extent and frequency of management's assessment of such risk and controls may vary from entity to entity.**(1 mark)**

In some entities, management may make detailed assessments on an annual basis or as part of continuous monitoring. In other entities, management's assessment may be less structured and less frequent. The nature, extent and frequency of management's assessment are relevant to the auditor's understanding of the entity's control environment. For example, the fact that management has not made an assessment of the risk of fraud may in some circumstances be indicative of the lack of importance that management places on internal control. **(1 mark)**

The auditor's inquiries of management may provide useful information concerning the risks of material misstatements in the financial statements resulting from employee fraud. However, such inquiries are unlikely to provide useful information regarding the risks of material misstatement in the financial statements resulting from management fraud. **(1 mark)**

Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with an attitude of professional skepticism, the auditor may judge it necessary to corroborate responses to inquiries with other information. . **(1 mark)**

Question 6

As per **SA 501 "Audit Evidence – Additional Considerations for Specific Items",** the auditor should perform audit procedures, designed to obtain sufficient appropriate audit evidence during his attendance at physical inventory counting. SA 501 is additional guidance to that contained in SA 500, "Audit Evidence", with respect to certain specific financial statement amounts and other disclosures.

If the auditor is unable to be present at the physical inventory count on the date planned due to unforeseen circumstances, the auditor should take or observe some physical counts on an alternative date and where necessary, perform alternative audit procedures to assess whether the changes in inventory between the date of physical count and the period end date are correctly recorded. The auditor would also verify the procedure adopted, treatment given for the discrepancies noticed during the physical count. The auditor would also ensure that appropriate cut off procedures were followed by the management. He should also get management's written representation on

(a) the completeness of information provided regarding the inventory, and

(b) assurance with regard to adherence to laid down procedures for physical inventory count.

By following the above procedure, it will be ensured that the physical verification conducted by the management was in order.

(5Marks)

Question 7 (5 marks)(1 mark for 1 factor)

Factors Influencing the amount of Working Papers: As per SA 230 “Audit Documentation”, which refers to the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached, the amount of audit working papers depend on factors such as-

a) The size and complexity of the entity.
b) The nature of the audit procedures to be performed.
c) The identified risks of material misstatement.
d) The significance of the audit evidence obtained.
e) The nature and extent of exceptions identified.
f) The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
g) The audit methodology and tools used.
h) Timely preparation of Audit Documentation

Question 8(6 Marks)

Non-Compliance with the Accounting Standards: As per SRS 4410, “Compilation Engagements”, the financial information may be prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users (that is, a “general purpose financial reporting framework”). The requirements of the applicable financial reporting framework determine the form and content of the financial information. The financial reporting framework may, in some cases, be referred to as the “basis of accounting.” **(2 marks)**

Commonly used general purpose financial reporting frameworks includes Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, Indian Accounting Standards (Ind AS) issued by ICAI and Accounting Standards (AS) issued by ICAI etc. **(2 marks)**

Thus, for not following and omission of some information which was required to be followed in the current situation for Hope Ltd., we should bring this matter to the attention of the management for rectification and, if the same is not rectified by the management, we should include the same in the Notes to the Accounts and the compilation report of the accountant. **(2 marks)**

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FINAL – November 2017

AUDIT

Test Code – FNJ 0010
Branch (MULTIPLE) (Date : 11.06.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1

Power of Tribunal in case Auditor acted in a Fraudulent Manner:

- As per sub- section (5) of the section 140 of the Companies Act, 2013, the Tribunal either *suo motu* or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors. **(2 Marks)**
- However, if the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place. **(2 Marks)**
- It may be noted that an auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447 of the said Act. **(2 Marks)**
- It is hereby clarified that the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers. **(2 Marks)**

Question 2

Reporting to Shareholders	**Reporting to those Charged with Governance**	
Section 143 of the Companies Act, 2013 deals with the provisions relating to reporting to Shareholders. Thus, it is a Statutory Audit Report which is addressed to the members.	Standard on Auditing 260 deals with the provisions relating to reporting to those Charged with Governance.	2 marks
Statutory Audit Report is on true and fair view and as per prescribed Format.	It is a reporting on matters those charged with governance like scope of audit, audit procedures audit modifications, etc	1 mark
Statutory Audit Reports are in public domain.	Reporting to those Charged with Governance is an internal document i.e. private report.	1 mark

Audit Qualification	Emphasis of Matter	
Standard on Auditing 705 “Modifications to the Opinion in the Independent Auditor’s Report”, deals with the provisions relating to Audit Qualification	Standard on Auditing 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report” deals with the provisions relating to Emphasis of Matter	1 mark
Audit Qualifications are also known as “subject to report” or “except that report”.	Emphasis of Matter is a paragraph which is included in auditor’s report to draw users’ attention to important matter(s) which are already disclosed in Financial Statements and are fundamental to users’ for understanding of Financial Statements	1 mark
Audit Qualifications are given when auditor is having reservations on some of the items out of the financial statements as a whole i.e. Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements relating to if the impact of material misstatements is not pervasive on the financial statements but is present at some levels of the financial statements, qualified report is issued.	Emphasis of Matter is a paragraph which is issued when there is a uncertainty relating to future outcome of exceptional litigation, regulatory action, etc.;or there is early application (where permitted) of a new accounting standard that has a pervasive effect on the financial statements in advance of its effective date.	2 marks

Question 3

a. **Statutory Liquidity Ratio (SLR) Requirements:** The Reserve Bank of India requires statutory central auditors of banks to verify the compliance with SLR requirements of 12 odd dates in different months of a financial year not being Fridays. The resultant report is to be sent to the top management of the bank and to the Reserve Bank. The report of the statutory auditors in relation to compliance with SLR requirements has to cover two aspects-

- correctness of the compilation of DTL (Demand and Time Liabilities) position; and
- maintenance of liquid assets. **(1 Mark)**

b. **Audit Approach and Procedure:**

i. Obtain an understanding of the relevant circulars of the RBI, particularly regarding composition of items of DTL. **(1/2 Mark)**

ii. Require the branch auditors to send their weekly trial balance as on Friday and these are consolidated at the head office. Based on this consolidation, the DTL position is determined for every reporting Friday. The statutory central auditor should request the branch auditors to verify the correctness of the trial balances relevant to the dates selected by him. The branch auditors should also be specifically requested to examine the cash balance at the branch on the selected dates. **(1/2 Mark)**

iii. Examine, on a test basis, the consolidations regarding DTL position prepared by the bank with reference to the related returns received from branches. The auditor should examine whether the valuation of securities done by the bank is in accordance with the guidelines prescribed by the RBI. **(1/2 Mark)**

iv. While examining the computation of DTL, specifically examine that the following items have been excluded from liabilities- **(1 Mark)**

- Part amounts of recoveries from the borrowers in respect of debts considered bad and doubtful of recovery.
- Amounts received in Indian currency against import bills and held in sundry deposits pending receipts of final rates.
- Un-adjusted deposits/balances lying in link branches for agency business like dividend warrants, interest warrants, refund of application money, etc., in respect of shares/debentures to the extent of payment made by other branches but not adjusted by the link branches.
- Margins held and kept in sundry deposits for funded facilities-

v. Similarly, specifically examine that the following items have been included in liabilities-**(1 Mark)**
  - Net credit balance in branch adjustment accounts including these relating to foreign branches. Interest on deposit as at the end of the firm half year reversed in the beginning of the next half-year.
  - Borrowings from abroad by banks in India needs to be considered as 'liabilities to other' and thus, needs to be considered at gross level unlike 'liabilities towards banking system in India', which are permitted to be netted off against 'assets towards banking system in India'. Thus, the adverse balances in Nostro Mirror Account needs to be considered as 'Liabilities to other'
  - The reconciliation of Nostro accounts (with Nostro Mirror Accounts) needs to be scrutinized carefully to analyze and ascertain if any inwards remittances are received on behalf of the customers / constituents of the bank and have remained unaccounted and / or any other debit (inward) entries have remained unaccounted and are pertaining to any liabilities for the bank.

vi. Examine whether the consolidations prepared by the bank include the relevant information in respect of all the branches. **(1/2 Mark)**

vii. It may be noted that, even though interest accrues on a daily basis, it is recorded in the books only at periodic intervals. Thus, examine whether such interest accrued but not accounted for in books is included in the computation of DTL. **(1/2 Mark)**

viii. The auditor at the central level should apply the audit procedures listed above to the overall consolidation prepared for the bank as a whole. Where such procedure is followed, the central auditor should adequately describe the same in his report. **(1/4 Mark)**

ix. While reporting on compliance with SLR requirements, the auditor should specify the number of unaudited branches and state that he has relied on the returns received from the unaudited branches in forming his opinion. Recently, there has been introduction of Automated Data Flow (ADF) for CRR & SLR reporting and the auditors should develop necessary audit procedures around this. **(1/4 Mark)**

Question 4

Non-cash Transactions with Relative of Director: As per Clause (xv) of paragraph 3 of CARO, 2016, the auditor is required to report "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 Companies Act, 2013 have been complied with". **(1 mark)**

Section 192 of the said Act deals with restriction on non-cash transactions involving directors or persons connected with them. The section prohibits the company from entering into such types of arrangements unless it is an arrangement by which the company acquires or is t o acquire assets for consideration other than cash, from such director or person so connected. **(1 mark)**

In the instant case, RNT Ltd. has entered into non-cash transactions with Mr. Ram, son of one of the directors, which is an arrangement by which RNT Ltd. is in process to acquire assets for consideration other than cash. In the above situation, the provisions of section 192 of Companies Act, 2013 have been complied with. **(1 mark)**

However, the reporting requirements under this clause are given in two parts. The first pa rt requires the auditor to report on whether the company has entered into any non -cash transactions with the directors or any persons connected with such director/s. The second part of the clause requires the auditor to report whether the provisions of sec tion 192 of the Act have been complied with. Therefore, the second part of the clause becomes reportable only if the answer to the first part is in affirmative. **(1 mark)**

In the given situation, RNT Ltd. has entered into non -cash transactions with Mr. Ram, son of director, which is affirmative answer to the first part of the Clause (xv) of Paragraph 3 of CARO, 2016, thus, reporting is required for the same. Draft report is given below:

According to the information and explanations given to us, RNT Ltd. has entered into non-cash transactions with Mr. Ram, son of one of the directors, during the year, for the acquisition of assets, which in our opinion is covered under the provisions of section 192 of the Companies Act, 2013. **(2 marks)**

Question 5

Decline in Net Profits despite Increasing Sales: As per the facts that there has been consistently high turnover but declining net profits is an anomalous situation. It may be attributed to one or more following reasons requiring further investigation-

(i) **Unfavourable Sales mix**: Where the company sells different chemical products with different product margins, the product with the maximum PV ratio/margin should have a higher share in the total sales. If due to revision of sales mix, more quantities of unprofitable products are sold, profits will be reduced despite an increase in sales. **(1 Mark)**

(ii) **Negative Impact of Financial Leverage**: Where the company does not have sufficient own funds (equity) but has a higher debt-equity ratio, the interest commitments will be higher. As the volume of its operation increases, higher debt and interest charges would result in lower profits. **(1 Mark)**

(iii) **Other Items included in Sales**: The figure of sales as per Statement of Profit and Loss may include incidental revenues, e.g., freight, excise duty, sales-tax, etc. where the amount of excise duty goes up considerably the total sales may show an increase which is not represented by a real increase in sales quantity/value. **(1 Mark)**

(iv) **High Administrative and Selling Expenses**: Administrative and selling costs are generally period costs which are fixed in nature. Their increase is generally not proportional to sale increase. However, a reduction in profit could also be due to increase in administrative overheads and sales overheads at a rate higher than the rate of increase in sales. **(1 Mark)**

(v) **Cost-Price Relationship**: If the increases in cost of raw materials and labour has not been compensated by a corresponding increase in the sales price this would also result in higher sales and declining profits. In spite of same sales quantity, for the increasing cost of raw materials and other services, per unit values of the product has been increased which is however unmatched by the increase in cost. **(1 Mark)**

(vi) **Competitive Price**: Where sales have been made at cut-throat prices in order to eliminate competition from the market, the profits would be in the declining trend in the short-run. **(1/2 Mark)**

(vii) **Additions to Fixed Assets**: Where there are heavy additions to fixed assets and consequent depreciation charges in the initial years of additions, there may be reduction in profits in spite of increased sales. **(1/2 Mark)**

Question 6

(a) Delegation of Authority to the Employee: As per Clause (12) of Part I of the First Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in pr actice is deemed to be guilty of professional misconduct "if he allows a person not being a member of the Institute in practice or a member not being his partner to sign on his behalf or on behalf of his firm, any balance sheet, profit and loss account, report or financial statements". **(1 mark)**

In this case CA. 'Zen' proprietor of M/s Z & Co., went to abroad and delegated the authority to another Chartered Accountant Mr. Yen, his employee, for taking care of routine matters of his office who is not a partner but a member of the Institute of Chartered Accountants of India. **(1 mark)**

The Council has clarified that the power to sign routine documents on which a professional opinion or authentication is not required to be expressed may be delegated in the certain instances and such delegation will not attract provisions of this clause like issue of audit queries during the course of audit, asking for information or issue of questionnaire, etc. **(1 mark)**

However, issuance of production certificate to a client under Central Excise Act, 1944 is not a routine work. Thus, issuance of such certificate by Mr. "Yen" being an employee of M/s Z & Co. is outside his authorities. Therefore, CA. 'Zen' is guilty of professional misconduct under Clause (12) of Part I of First Schedule of the Chartered Accountants Act, 1949. **(1 mark)**

(b) **Making Roving Inquiries:** Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. **(1 mark)**

Such a restraint has been put so that the members maintain their independence of judgement and may be able to command respect from their prospective clients. **(1 mark)**

In case of making an application for the empanelment for the allotment of audit and other professional work, the Council has opined that, "where the existence of such a panel is within the knowledge of the member, he is free to write to the concerned organization with a request to place his name on the panel. However, it would not be proper for the member to make roving inquiries by applying to any such organization for having his name included in any such panel." **(1 mark)**

Accordingly, Mr. Den is guilty of misconduct in terms of the above provision as he has solicited professional work from the Finance Ministry, by inquiring about the maintenance of the panel . **(1 mark)**

(c) **Charging Excess Fees:** The prescribed scale of fees for the professional assignments done by the chartered accountants is recommendatory in nature. Charging an excessive fee for a professional assignment does not constitute any misconduct in the context of the provisions of the Chartered Accountants Act, 1949 and regulation made thereunder since the matter of fixation of actual fee charged in individual cases depends upon the mutual agreement and understanding between the member and the client. **(2 marks)**

In the given case, CA. Pratash has charged excess fees comparative to the scale of fees recommended by the Committee as well as duly considered by the Council of ICAI. In this context, it may be noted that the scale of fees is the minimum prescribed scale of fees. **(1 mark)**

From the above facts and provisions, it may be concluded that CA. Pratash is not liable for any misconduct under the Chartered Accountants Act, 1949. Therefore, the contention of WRV Pvt. Ltd. is not tenable. **(1 mark)**

(d) **Maintenance of Branch Office in the Same City:** As per section 27 of the Chartered Accountants Act, 1949 if a chartered accountant in practice has more than one office in India, each one of these offices should be in the separate charge of a member of the Institute. However, a member can be in-charge of two offices if the second office is located in the same premises or in the same city, in which the first office is located; or the second office is located within a distance of 50 Kilometres from the municipal limits of a city, in which the first office is located. **(1 mark)**

In the given case, Mr. Ken, Chartered Accountant in practice as a sole proprietor at Mumbai has an office in suburbs of Mumbai, and due to increase in the work he opened another branch within the city near the sales tax office. **(1 mark)**
He also employed a retired sales tax commissioner to run the new office and the second office is situated within a distance of 30 kms from his office in the suburb. **(1 mark)**

In view of above provisions, there will be no misconduct if Mr. Ken will be in-charge of both the offices. However, he is bound to declare which of the two offices is the main office. **(1 mark)**

(4 * 4 = 16 marks)

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