

**Multiple Choice Questions (MCQs)  
on Guidance Note on  
the Companies (Auditor's Report)  
Order, 2020**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

**Multiple Choice Questions (MCQs) on  
Guidance Note on the Companies  
(Auditor's Report) Order, 2020**



**The Institute of Chartered Accountants of India**  
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## Foreword

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The Ministry of Corporate Affairs issued the Companies (Auditor's Report) Order, 2020 (CARO 2020) on 25<sup>th</sup> February 2020 which would be applicable for statutory audits of financial statements for periods beginning on or after April 1, 2020. CARO 2020 contains several important changes including many additional reporting requirements *vis-à-vis* CARO 2016 to further enhance overall quality of reporting by the auditors. It is essential that the members are fully abreast of these changes while discharging their professional responsibilities. The Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India (ICAI) has issued the Guidance Note on the Companies (Auditor's Report) Order, 2020 providing detailed guidance to the members on various aspects and provisions of CARO 2020.

I am happy to note that to provide further clarity on the subject, the Auditing and Assurance Standards Board of ICAI has now come out with this publication, *"Multiple Choice Questions (MCQs) on Guidance Note on the Companies (Auditor's Report) Order, 2020"*. The objective of this publication is to provide a supplementary resource to the members on the Guidance Note on the Companies (Auditor's Report) Order, 2020. The publication contains clause-wise MCQs alongwith answers on guidance given in the Guidance Note on the Companies (Auditor's Report) Order, 2020.

I compliment CA. G. Sekar, Chairman, CA. (Dr.) Debashis Mitra, Vice-Chairman and all members of the Auditing and Assurance Standards Board of ICAI for their efforts in bringing out this publication for the benefit of the members at large.

I am confident that the members would find this publication highly useful.

July 08, 2020  
New Delhi

**CA. Atul Kumar Gupta**  
President, ICAI

## Preface

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The Ministry of Corporate Affairs issued the Companies (Auditor's Report) Order, 2020 (CARO 2020) on 25<sup>th</sup> February 2020. CARO 2020 would be applicable for audits of financial year 2020-21 and onwards. CARO 2020 contains several significant changes and several new reporting requirements *vis-à-vis* CARO 2016. The Auditing and Assurance Standards Board (AASB) of ICAI has issued the Guidance Note on the Companies (Auditor's Report) Order, 2020 (Guidance Note on CARO 2020) under the authority of the Council of ICAI for providing detailed guidance to the members on CARO 2020.

AASB has also developed supplementary resources on Guidance Note on CARO 2020 to provide support to the members so that they can fulfill the requirements of CARO 2020 in letter and spirit. These resources include video lectures, audio book and MCQs on Guidance Note on CARO 2020 which are available on the Digital Learning Hub of ICAI. We feel happy to place in hands of the members this publication, "Multiple Choice Questions (MCQs) on Guidance Note on the Companies (Auditor's Report) Order, 2020" brought out by AASB. The publication contains number of MCQs on guidance on various clauses of CARO 2020 given in the Guidance Note on CARO 2020.

We wish to place on record our sincere gratitude to all experts *viz.* CA. Parveen Kumar, CA. Ratan T. Goel, CA. Ridhima Dubey, CA. Pranav Jain, CA. Vivek Newatia, CA. Madhumathi L, CA. Mohit Bhuteria and CA. (Dr.) Shiwaji Bhikaji Zaware for their contribution in developing MCQs for enrichment of knowledge of the members.

We express our sincere thanks to CA. Atul Kumar Gupta, Honourable President, ICAI and CA. Nihar Niranjana Jambusaria, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

We also express our sincere thanks to all the Board members and all the Central Council members for their suggestions, support and guidance in finalising various pronouncements of the Board. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director and other staff of AASB in finalizing this publication.

We are confident that the members would find this publication immensely useful.

**CA. (Dr.) Debashis Mitra**  
Vice Chairman, AASB

**CA. G. Sekar**  
Chairman, AASB

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## **MCQs on Clause (i)**

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### **Select True/ False:**

1. Reporting on title deeds of immovable properties is not required where company is lessee and lease agreement is duly executed in favour of the company.
2. Transfer Development Rights (TDRs), plant and machinery embedded in land, etc., are not considered as an immovable property.
3. The auditor using the work of registered valuer tantamount to using the work of an auditor's expert as laid out in SA 620, "Using the Work of an Auditor's Expert".
4. The reporting under clause 3(i)(e) is not applicable where the notice is received by the company as a beneficial owner.
5. Investment property and Non-current Assets Held for Sale will not be considered by the auditor for reporting under clause 3(i)(a)(A).
6. What constitutes proper records is a matter of professional judgement made by the auditor after considering the facts and circumstances of each case.
7. The purpose of showing the situation of PPE is to make verification possible.
8. Immovable property shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth.
9. The auditor cannot obtain the support of any legal expert in case there is any dispute or litigation as to the title of the immovable property.

## **MCQs on Guidance Note on CARO 2020**

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10. Where the proceedings under Prohibition of Benami Property Transactions Act 1988 are initiated post balance sheet date but before the signing of the auditor's report, the auditor should consider the requirements of SA 560, "Subsequent Events".
11. It is to be ensured that the information contained in the electronic records remains accessible and unaltered and its origin, destination, date, etc. can be identified.
12. When details of disposals are not available, it may be assumed that the asset sold is the asset which was acquired earliest in point of time.
13. If PPE register is not maintained by the company, it is not necessary to be mentioned by the auditor while reporting under clause 3(i)(a)(A).
14. Reporting under clause 3(i)(e) is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated with the company being treated as a benamidar.
15. The auditor should review the minutes of meetings of the Board of Directors, Audit Committee, Risk Management Committee and other secretarial records to verify whether any reference to proceedings against the company under Prohibition of Benami Property Transactions Act 1988 has been made.
16. "Reasonable intervals" does not depend upon the circumstances of each case.
17. Revaluation need not be performed every year or in every reporting period.

**Choose the correct option(s):**

18. While reporting under clause (i), auditor has to report on which of the following aspects:
- a) Benami properties
  - b) Physical verification
  - c) Title deeds
  - d) All of above
19. The auditor may accept PPE register in electronic form if:
- a) The controls and security measures in the company are such that once finalised, the PPE register cannot be altered without proper authorisation and audit trail
  - b) The PPE register is in such a form that it can be retrieved in a legible form
  - c) Both (a) & (b)
  - d) Neither (a) nor (b)
20. The records relating to property, plant and equipment should contain the following details:
- a) Situation
  - b) Original cost
  - c) Component-wise breakup
  - d) All of the above
21. The auditor may have to consider the applicable documentation requirements of intangible assets as laid down in:
- a) Designs Act, 2000
  - b) Patents Act, 1970
  - c) Information Technology Act, 2000
  - d) All of the above

**MCQs on Guidance Note on CARO 2020**

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22. Physical verification of the assets is the responsibility of the \_\_\_\_\_
- a) auditor
  - b) those charged with governance
  - c) management
  - d) shareholders

**Answers:**

1	True	6	True	11	True	16	False	21	d
2	True	7	True	12	True	17	True	22	c
3	False	8	True	13	False	18	d		
4	True	9	False	14	True	19	c		
5	False	10	True	15	True	20	d		

## **MCQs on Clause (ii)**

---

### **Select True/ False:**

1. While reporting under this clause, the auditor is required to comment whether the management has conducted physical verification of inventory at reasonable intervals, and whether the coverage and procedure of such verification by the management is appropriate.
2. Only in cases where discrepancy of 10% or more arises in quantity, for any class of inventory, the auditor has to report the fact and also report whether they have been properly dealt with in the books of account.
3. Reporting under this clause requires the auditor to comment whether the management has conducted physical verification of inventory at reasonable intervals and such reasonable intervals can be over a period of three years for entities having large number of items spread across various geographical locations.
4. The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within all the classes of an inventory based on value.
5. Physical verification of inventory is the responsibility of the management of the company who should verify all material items at least once in three years and more often in appropriate cases.
6. The auditor should determine the reasonableness and adequacy of procedures adopted for physical verification of inventories and its coverage having regard to the nature of inventories, their locations, quantities, value and feasibility of conducting the physical verification.

## **MCQs on Guidance Note on CARO 2020**

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7. Reporting under this clause requires the auditor to report where working capital limits are unsecured or sanctioned on the basis of assets other than current assets.
8. It may be noted that for the purpose of reporting under this clause, the auditor is required to check the working capital sanctioned limit and also its utilization.
9. While reporting under this clause, the auditor should determine the sanctioned limit with reference to the sanction letter issued by banks or financial institutions and relevant agreements executed with them. Where the utilization is less than the sanctioned limit of five crore rupees, such cases will not be covered for the purpose of reporting.
10. The auditor is also required to audit such quarterly returns/statements submitted to banks/financial institutions with reference to books of account and relevant records and report disagreement, if any.
11. Reporting on returns/statements would include stock statements, book debt statements, credit monitoring arrangement reports, statements on ageing analysis of the debtors/other receivables, and other financial information to be submitted in stipulated format on a quarterly basis to lenders.
12. Reporting under this clause will include only fund based credit facilities availed by the company. Non-fund based credit facilities availed by the company may be ignored.
13. It is also pertinent to note that the threshold of five crore rupees should be examined for any day during the year for which the reporting is to be made, and not as at the end of the financial year.

**Choose the correct option(s):**

14. While reporting under this clause, which of the following is correct:
- a) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory
  - b) The 10% threshold for reporting must be applied on a gross basis before adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory
  - c) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for each class of Inventory
  - d) The 10% threshold for reporting must be applied on a net basis after adjusting excesses and shortages within the class of an inventory and must be based on value for all classes of Inventory
15. For the purpose of reporting under this clause, which of the following is correct:
- a) The auditor is required to check the working capital sanctioned limit and not its utilization
  - b) The auditor is required to check the working capital sanctioned limit and also its utilization
  - c) The sanctioned limit may be less than five crore rupees but due to excess withdrawals/ levy of interest/ temporary overdrawings, the balance may exceed five crore rupees. Such cases are also in scope of reporting under this clause
  - d) The auditor is not required to check in case utilization is less than the working capital sanctioned limit



**MCQs on Guidance Note on CARO 2020**

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**Answers:**

1	True	6	True	11	True
2	False	7	False	12	False
3	False	8	False	13	True
4	False	9	False	14	c
5	False	10	False	15	a

## **MCQs on Clause (iii)**

---

### **Select True/ False:**

1. Reporting under this clause is required for all companies. There are no exemptions for NBFCs.
2. Whether an advance is in the nature of a loan would depend upon the circumstances of each case.
3. Reporting under sub-clause (a) of clause (iii) extends to all forms of guarantees.
4. In case of loans/advances in nature of loans, the “terms and conditions” would primarily include rate of interest, security, terms and period of repayment and restrictive covenants, nature of entity etc.
5. Auditor can identify whether a transaction is prejudicial in nature merely by checking compliance with laws and regulations and where such compliance is ensured no further audit procedures are required to be performed.
6. Reporting under clause (iii)(c), (d) and (e) cover the loans and advances in nature of loans granted during the year and also all loans and advances in nature of loans having opening balances.
7. An amount is considered to be overdue when the payment has not been received on the due date as per the lending arrangement.
8. Clause (iii)(e) is a new clause and requires reporting in respect of loan or advance in the nature of loan granted which has fallen due during the year and has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties.
9. Scope of clause (iii) in CARO 2020 is very wide vis-à-vis clause (iii) in CARO 2016.

**MCQs on Guidance Note on CARO 2020**

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**Choose the correct option(s):**

10. Company A has an opening loan of Rs. 100 and granted 3 more loans of Rs. 200, 300 and 400 during the year. Company extended tenure in respect of two loans (Rs. 100 and Rs. 200) when fell due for payment. Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year for purpose of reporting under clause (iii)(e) in the instant case would be:
- a) 33%
  - b) 20%
  - c) 100%
  - d) 0%

**Answers:**

1	False	6	True
2	True	7	True
3	False	8	True
4	True	9	True
5	False	10	a

## **MCQs on Clause (iv)**

---

### **Select True/ False:**

1. While reporting under this clause, the auditor is required to obtain from the management the details of the directors or any person in whom any of the director of the company is interested.
2. While reporting under this clause, the auditor should obtain and check the details of the transactions carried out with such persons, excluding of any guarantee given and security provided.
3. In case of transactions that are covered under the exceptions as provided under section 185 of the Act, the auditor is not required to obtain any evidence in support of such exception.
4. Section 185 of the Act prohibits advance of any loan to directors, etc., directly or indirectly. What is an indirect loan has been defined in section 185 of the Act.
5. The auditor may also check the details of the persons covered under this clause from the Form MBP-1 and from the register maintained under section 189 of the Act.
6. Section 186 of the Act does not prohibit a company from making investments through more than two layers of investment companies.
7. While reporting under this clause, the auditor should check whether the company has disclosed the full particulars of the loan given, investment made or guarantee given or security provided in the financial statements and the purpose for which the same is proposed to be utilized by the recipient.

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8. The provisions of section 186 of the Act shall also apply to a government company engaged in defence production and a government company, other than a listed company, in case such company obtains approval of the Ministry or department of the Central Government which is administratively in charge of the company, or, as the case may be, the State Government before making any loan or giving any guarantee or providing any security or making any investment under the section.
9. While reporting under this clause, the auditor is required to check whether rate of interest is not lower than the prevailing yield of one year, three year, five year, seven year or ten year government security closest to the tenor of the loan granted.
10. While reporting under this clause, the auditor is required to check whether, at the end of the financial year in case of transactions covered under Section 186, the company has exceeded the limit of sixty per cent of its paid-up share capital, free reserves and securities premium account or one hundred per cent of its free reserves as defined in section 2(43) of the Act and securities premium account, whichever is more.
11. Reporting under this clause requires the auditor to obtain the details of, loans given to any person or other body corporate, guarantee given or security provided in connection with a loan to any other body corporate or person and securities acquired of any other body corporate by way of subscription, purchase or otherwise, made during the year only.
12. Reporting under this clause requires the auditor to check if the company is in default in the repayment of any deposits accepted or in payment of interest thereon for the purpose of compliance with Section 186.

**Choose the correct option(s):**

13. While reporting under this clause, which of the following is correct:
- a) The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of the directors only
  - b) The auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of the directors and any person in whom any of the director of the company is interested
  - c) The auditor should report the nature of non-compliance and the amount outstanding as at the balance sheet date in respect of the directors only
  - d) The auditor should report the nature of non-compliance and the amount outstanding as at the balance sheet date in respect of the directors and any person in whom any of the director of the company is interested
14. While reporting under this clause, which of the following is correct:
- a) Under this clause, the auditor is required to report on the compliance of section 186 of the Act to the extent it relates to loans made during the year
  - b) Under this clause, the auditor is required to report on the compliance of section 186 of the Act in respect of giving of loans, guarantee or providing any security in connection with a loan, by a company to any person or other body corporate

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- c) Under this clause, the auditor is also required to report on the compliance of section 186 of the Act which governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person or other body corporate and acquiring securities of any other body corporate by a company
- d) Under this clause, the auditor is also required to report on the compliance of section 186 of the Act which governs giving of loans, and guarantee or providing any security in connection with a loan, by a company to any person only

**Answers:**

1	True	6	False	11	False
2	False	7	True	12	True
3	False	8	False	13	b
4	False	9	False	14	c
5	True	10	False		

## **MCQs on Clause (v)**

---

### **Select True/ False:**

1. Reporting under this clause is required for deposits only and not deemed deposits.
2. An advance for supply of goods or provision of services, which is not appropriated against supply of goods or provision of services within a period of three hundred and sixty five days from the date of acceptance is deemed to be a deposit.
3. While reporting under this clause, the auditor should consider the Companies (Acceptance of Deposits) Rules, 2014.
4. Only the limits of deposits accepted by the company are covered in the scope of reporting under this clause.
5. Irrespective of the quantum of deposits accepted, the auditor should ascertain that the deposits accepted by the company are within the limits on each day of the accounting year.
6. Apart from the other audit procedures, the auditor should also carry out enquiries of the management and obtain management representations.
7. Reporting on non-compliance with sections 73 to 76 of the Companies Act, 2013 is not required under this clause.
8. In the case of Non-Banking Financial Companies and Housing Finance companies, the auditor should specify that sections 73 to 76 of the Companies Act 2013 are not applicable to such company.
9. Where the company has not complied with the order passed by the Company Law Board, reporting under this Clause is not applicable.



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**Choose the correct option(s)**

10. The Companies (Acceptance of Deposits) Rules, 2014 cover the following main items:
- a) nature of deposits and persons from whom it can be accepted
  - b) nature of deposits and terms and conditions of acceptance by companies from its members and persons other than its members
  - c) manner and extent of deposit insurance

**Answers:**

1	False	6	True
2	True	7	False
3	True	8	True
4	False	9	False
5	False	10	b

## **MCQs on Clause (vi)**

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### **Select True/ False:**

1. All companies are required to make and maintain cost records.
2. If a company deals in multiple products/ services and one of the products is specified in Companies (Cost Records and Audit) Rules, 2013, the company should maintain cost records for all products/ services.
3. Reporting under clause 3(vi) is required only when company is required to have a cost audit.
4. For the purpose of ascertaining whether maintenance of cost records is required, turnover of all products and services for the immediately preceding financial year is considered.
5. Cost records are required to be maintained in Form CRA 1.
6. Auditor is required to make a detailed examination of cost records made and maintained by the company.
7. The auditor should insist on obtaining cost audit report for the financial year under audit before reporting under CARO 2020.
8. Auditor should make such reference to the cost records as is necessary for the purpose of audit of financial statements.
9. Auditor is required to mention the extent of examination of cost records.
10. Cost records do not form part of the books of account within the meaning of section 2(13) of the Companies Act 2013.

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- 11. Where the cost audit report for immediately preceding financial year has a qualification or observation, the auditor has no further responsibility for the same.
- 12. Auditor is not required to comment on the cost audit.

**Choose the correct option(s):**

- 13. The auditor should obtain the following management representation letters:
  - a) Whether cost records are required to be made and maintained?
  - b) Whether prescribed cost accounts and records are being made and maintained regularly?
  - c) Where there were qualifications/ observations in the cost audit report of the immediately preceding financial year, whether such matters have been addressed in the current year?
  - d) All of the above

**Answers:**

1	False	6	False	11	False
2	False	7	False	12	True
3	False	8	True	13	d
4	True	9	True		
5	True	10	False		

## **MCQs on Clause (vii)**

---

### **Select True/ False:**

1. Under this clause, scope of auditor's inquiry is restricted to only those statutory dues, which the company is required to deposit regularly to an authority.
2. Statutory dues would include fees payable to the licensing authority in respect of business being carried on under license granted by an authority.
3. Statutory dues would include electricity bill payable to an electricity company which has been established under a statute.
4. Statutory dues would not include payment of bonus under Payment of Bonus Act 1965.
5. If the company does not comply with requirements of advance tax on account of erroneous application of tax laws, the same shall not be considered as default in payment of statutory dues.
6. The auditor should have expert understanding of various statutes governing the company and the dues payable by the company under those statutes.
7. It is not necessary for the auditor to examine the sustainability or otherwise of the claim of the company regarding disputed amounts.
8. Minor amounts are not required to be reported under clause (vii)(b).
9. Demands in respect of which stay has been granted to the company, should not be regarded as disputed dues.

**MCQs on Guidance Note on CARO 2020**

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10. The accounting treatment of disputed amounts followed by the company does not affect reporting under clause (vii)(b).

**Answers:**

1	True	6	False
2	True	7	True
3	False	8	False
4	True	9	False
5	False	10	True

## **MCQs on Clause (viii)**

---

### **Select True/ False:**

1. The auditor is not required to review the tax assessments completed subsequent to the balance sheet date but prior to signing of the auditor's report if the surrendered or disclosed income relates to the year under audit or prior years.
2. Where the addition is made by the income tax authorities and the company has disputed such additions, reporting under this clause is applicable.
3. The surrender or disclosure of unrecorded income might relate to any assessment year under the Income Tax Act, 1961.
4. The auditor should obtain a representation letter from the management that all the assessments completed during the year have been duly informed to the auditor.
5. This clause is a new reporting requirement in CARO 2020.
6. Under this clause, the emphasis is on the words surrendered or disclosed which implies that the company must have voluntarily admitted to the addition of such income, which can be demonstrated on the basis of the returns filed by the company.
7. For reporting under this clause, the auditor is required to examine all income tax returns filed by the company since the date of its formation.
8. The auditor needs to evaluate whether the surrendered or disclosed income is required to be classified as extraordinary items keeping in view the requirements of AS 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies".

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9. Proper recording, by implication, includes proper disclosure thereof in the board of director's report and the financial statements of the company.

**Choose the correct option(s):**

10. The meaning of "undisclosed income" is referred from:
- a) Benami Transactions (Prohibition) Act, 1988
  - b) The Companies Act, 2013
  - c) The Income Tax Act, 1961
  - d) The Reserve Bank of India Act, 1934

**Answers:**

1	False	6	True
2	False	7	False
3	True	8	True
4	True	9	False
5	True	10	c

## **MCQs on Clause (ix)**

---

### **Select True/ False:**

1. For reporting under clause (ix)(a), defaults in respect of all lenders is to be considered.
2. Lender wise details are to be provided for all defaults when reporting under clause (ix)(a).
3. Defaults under clause (ix)(a) include defaults in respect of public deposits.
4. For reporting under clause (ix)(a), preference share capital is excluded from the scope.
5. Clause (ix)(a) requires reporting in case of defaults committed during the year only.
6. Public Sector Units, Government Companies and Foreign Governments are included in the definition of government for the purpose of this clause.
7. Where the company has made an application for re-schedulement or restructuring of its borrowings, auditor should not report default in respect of such borrowings.
8. Non-payment of principal or interest due to dispute with lenders is not a default for the purpose of clause (ix)(a).
9. If delay in repayment of principal and payment of interest is only because of public holiday on due date and company had sufficient funds to make such payments, auditor need not report this as default.
10. For reporting of declaration of the company as wilful defaulter, there is no cut-off period and auditor needs to report irrespective that company was declared wilful defaulter 10 years ago.
11. If an individual declares the company as a wilful defaulter, the auditor has to report this under this clause.



## **MCQs on Guidance Note on CARO 2020**

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12. Auditor can rely on oral representation that the company has not been declared a wilful defaulter by any bank, financial institution, government or other lenders.
13. Where a company has been declared a wilful defaulter subsequent to the year-end but before the date of audit report, the auditor should report the same in the report.
14. For reporting under this clause, term loans taken from only banks/ financial institutions need to be examined.
15. Auditor should establish a one to one relationship between the amount of term loan and its utilization.
16. Company has acquired an improved version/model of assets as against the assets for which the loan had been sanctioned. The auditor should report this as a diversion of funds under clause (ix)(c).
17. The auditor should examine the term loans taken in earlier years but utilized during the year under audit for the purpose of reporting under this clause.
18. Under Ind AS framework, certain loans may be classified either as equity or compound instrument. The auditor should not, therefore, consider such loans for reporting under this clause.
19. Where the company has taken only general-purpose term loans, there can never be diversion of funds as envisaged under this clause.
20. The auditor is required to report on utilization of long-term funds for short term purposes.
21. Using short term funds like working capital to make a non-current investment in equity instruments is an example of prudent financial management.
22. Current maturity of long-term loan is a short-term fund.
23. Extensive capitalization in production facility is an example of long-term utilization.

## **MCQs on Guidance Note on CARO 2020**

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24. The auditor uses the data in the financial statements to ascertain whether short-term funds have been used for long-term purposes.
25. A current ratio of greater than 1 is conclusive evidence that short-term funds have not been utilized for long-term purposes.
26. The auditor may also review the cash flow statement to ascertain whether short-term funds have been used for long-term purposes.
27. Under clause (ix)(d), auditor is merely required to report whether short-term funds have been used for long-term purposes. There is no further reporting requirement under clause (ix)(d).
28. For the purpose of clause (ix)(e), definitions of subsidiary, joint venture and associate will be as per the provisions of Companies Act 2013.
29. For clause (ix)(e), funds mean only long-term funds.
30. For clause (ix)(e), entity from whom funds have been taken includes banks/ financial institutions/ government and any other lender irrespective of the legal form.
31. For clause (ix)(e), the auditor considers only funds taken during the year.
32. Where the funds taken during the year have been repaid before the year end, no reporting is required under clause (ix)(e).
33. For clause (ix)(e), the auditor should perform procedures to ensure compliance with AS 18, "Related Party Disclosures" or Ind AS 24, "Related Party Disclosures" (as the case may be) and SA 550, Related Parties.

### **MCQs on Guidance Note on CARO 2020**

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34. Where the accounts of subsidiary, joint venture and associate are audited by another auditor, the principal auditor of the reporting company cannot seek information from such other auditor to verify transactions referred to in this clause.
35. Securities for clause (ix)(f) is limited to equity share capital.
36. For clause (ix)(f), the auditor considers only loans taken during the year.
37. Where the loans taken during the year have been repaid during the year, no reporting is required under clause (ix)(f).
38. The auditor should obtain and verify the documents related to charges created including any modification thereof as an audit procedure for clause (ix)(f).
39. Default under clause (ix)(f) refers only to default in repayment of loan.

#### **Select the correct option(s):**

40. For the purpose of reporting under clause (ix)(b), the auditor should perform the following procedures:
  - a) Obtain signed declaration from the company
  - b) Seek response while obtaining balance confirmation from lender
  - c) Verify CIBIL report of the company and information available in public domain including websites of RBI, banks, credit information companies
  - d) All of the above

### MCQs on Guidance Note on CARO 2020

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41. For the purpose of reporting under clause (ix)(c), the auditor considers the following borrowings:
- a) Term loans
  - b) Cash credit
  - c) Overdraft accounts and call money accounts
  - d) All of the above
42. As per RBI Master Circular, the diversion of funds includes:
- a) Utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction
  - b) Transferring borrowed funds to the subsidiaries/Group companies or other corporates by whatever modalities
  - c) Investment in other companies by way of acquiring equities/debt instruments without approval of lenders
  - d) All of the above
43. Under clause (ix)(c), the auditor is required to report the following:
- a) Amount diverted
  - b) Purpose for which amount was sanctioned
  - c) Purpose for which the amount was utilized
  - d) All of the above
44. Which of the following is an example of obligation that is covered under clause (ix)(e):
- a) Subsidiary's loan repayment to banks
  - b) Joint venture's GST liability
  - c) Salary payable by the subsidiary company
  - d) All of the above

**MCQs on Guidance Note on CARO 2020**

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45. Which of the following is indicative that borrowed funds have not been used to grant loans or advances or to meet the obligations of subsidiary, joint venture and associate:
- a) Sufficient cash flows from operations of the reporting company
  - b) Funds raised by way of fresh issue of equity by the reporting company
  - c) Net inflows from investing activities, example sale of building
  - d) All of the above

**Answers:**

1	True	11	False	21	False	31	False	41	a
2	False	12	False	22	False	32	False	42	d
3	False	13	True	23	True	33	True	43	d
4	True	14	False	24	True	34	False	44	d
5	False	15	False	25	False	35	False	45	d
6	False	16	False	26	True	36	True		
7	False	17	True	27	False	37	False		
8	False	18	False	28	True	38	True		
9	True	19	False	29	False	39	False		
10	False	20	False	30	True	40	d		

## **MCQs on Clause (x)**

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### **Select True/ False:**

1. Initial public offer/further public offer covers issue of non-convertible redeemable preference shares.
2. Explanation to Section 24 of Companies Act 2013 defines the expression “public offer”.
3. The expression “debt instrument” is not defined in Companies Act 2013.
4. Schedule III to Companies Act 2013 requires that both utilized and unutilized amount of any initial public offer or further public offer made by the company should be disclosed in the financial statements.
5. Offer for sale of specified securities to the public by any existing holder is outside the purview of reporting requirement under clause (xx)(a).
6. The auditor is required to establish a one-to-one relationship with the amount of moneys raised by way of initial public offer/further public offer and its utilization.
7. In some cases funds raised during the year could not have been applied for stated purpose during the year because funds were raised at the fag-end of the year. The auditor is not required to report such cases because utilization of funds is not practical in such cases.

## MCQs on Guidance Note on CARO 2020

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### Choose the correct option(s):

8. In case of private placement, maximum number of persons to whom offer/invitation can be made is:
- a) 50
  - b) 100
  - c) 200
  - d) 500
9. A company making an offer/invitation on private placement is required to allot its securities within how many days from the date of receipt of application money for such securities:
- a) 15
  - b) 30
  - c) 45
  - d) 60
10. While reporting under clause (xx)(a), the auditor should also have regard to the provisions of following:
- a) SEBI LODR Regulations 2015
  - b) SEBI ICDR Regulations 2018
  - c) SEBI ICDR Regulations 2018 and SEBI LODR Regulations 2015

### Answers:

1	True	6	False
2	False	7	False
3	True	8	c
4	False	9	d
5	True	10	a

## **MCQs on Clause (xi)**

---

### **Select True/ False:**

1. The nature of fraud and amount involved is required to be reported under this Clause.
2. Reporting under this clause is required only when fraud is carried out by the company's officers or employees.
3. Reporting under this clause is required even where fraud is noticed by the auditor.
4. The auditor is not required to report all frauds noticed or reported to him while conducting the audit.
5. The nature and amount involved in frauds on the company and frauds by the company are required to be reported on separately.
6. Misstatements can result from fraudulent financial reporting or misappropriation of assets.
7. Fraudulent financial reporting may involve deception such as manipulation, falsification, or alteration of accounting records or supporting documents from which the financial statements are prepared.
8. While planning the audit, the auditor should discuss with other members of the audit team, the susceptibility of the company to material misstatements in the financial statements resulting from fraud.
9. Materiality can be considered while reporting under this clause.
10. It is important that the auditor obtains written representation from management that any uncorrected misstatements resulting from frauds are, in management's opinion, immaterial, both individually and in the aggregate.



### MCQs on Guidance Note on CARO 2020

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11. Reporting requirement under clause (xi)(b) does not apply to situations where during the year the predecessor auditor of the company has reported under section 143(12) before appointment of the successor auditor.
12. Where any fraud has been reported by the auditor after the date of financial statements but upto the date of issuance of auditor's report, the same needs to be reported under clause (xi)(b).
13. The auditor is required to consider whistle-blower complaints of past years while reporting under clause (xi)(c).

### Answers:

1	True	6	True	11	False
2	False	7	True	12	True
3	True	8	True	13	False
4	False	9	True		
5	True	10	True		

## **MCQs on Clause (xii)**

---

### **Select True/ False:**

1. In order to meet out liabilities, Nidhi company has to maintain a ratio of 1:20 of Net Owned Funds to Deposits.
2. Cultivating habit of saving is an important and only objective for incorporation of a Nidhi Company.
3. Form NDH 3 submitted by a Nidhi Company is required to be certified by a Chartered Accountant only.
4. The auditor will examine if the Nidhi Company has submitted return with registrar in Form NDH-3 every half year.
5. The auditor should ask the management to provide the computation of the deposit liability and net owned funds to review if the ratio is in accordance with prescribed requirements. It is out of scope of the auditor to verify the calculations made by the management.
6. Since Form NDH-3 submitted by a Nidhi Company is already certified, it is not the responsibility of the auditor to re-verify the information provided therein.
7. Scope of the auditor's enquiry covers defaults made by Nidhi company during the year under audit only. Defaults existing during any period and made good during the year need not to be reported.
8. In case of default by a Nidhi Company related to payment of interest on deposit or repayment thereof or both, the auditor needs to report nature of default, amount of default, period of default and any other details.
9. The auditor needs to examine if a Nidhi Company has invested in encumbered term deposits in its own name an amount not less than 10% of the deposits.

**MCQs on Guidance Note on CARO 2020**

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**Choose the correct option(s):**

10. As per rule 5(1) of Nidhi Rules 2014, every Nidhi Company shall ensure that it has:
- (a) Not less than 200 members
  - (b) Not less than 100 members
  - (c) Not more than 200 members
  - (d) No lower and upper limit on number of members

**Answers:**

1	True	6	False
2	False	7	False
3	False	8	True
4	True	9	True
5	False	10	a

## MCQs on Clause (xiii)

---

### Select True/ False:

1. Section 177 and section 188 of the Companies Act 2013 if not complied with will result into qualification under this clause.
2. As per section 188 of Companies Act 2013, approval of the Board of Directors and shareholders is not required in respect of related party transactions entered into by the company in its ordinary course of business and on an arm's length basis.
3. 'Arm's length transaction' means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.
4. For purpose of reporting under this clause, auditor only needs to obtain written representation and no other procedure is required to be performed.
5. As part of audit procedures, management representation that specific related party transactions do not involve undisclosed side agreements should also be obtained.
6. It is very easy to determine 'arm's length prices'.
7. As per section 177 of Companies Act 2013, audit committee (of every listed companies and other classes of companies which is required to constitute audit committee) to approve transactions of the company with related parties.
8. A smaller entity may not have the same controls provided by different levels of authority and approval that may exist in a larger entity.
9. As part of reporting under this clause, the disclosure requirements as per AS 18 or Ind AS 24 (as may be applicable) need to be checked.

**MCQs on Guidance Note on CARO 2020**

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**Choose the correct option(s):**

10. The transactions which are covered by section 188 of the Act are:
- a) Sale, purchase or supply of any goods or materials;
  - b) Selling or otherwise disposing of, or buying, property of any kind;
  - c) Leasing of property of any kind;
  - d) Availing or rendering of any services;
  - e) Appointment of any agent for purchase or sale of goods, materials, services or property;
  - f) Such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company;
  - g) Underwriting the subscription of any securities or derivatives thereof, of the company.
  - h) All of the Above

**Answers:**

1	True	6	False
2	True	7	True
3	True	8	True
4	False	9	True
5	True	10	h

## **MCQs on Clause (xiv)**

---

### **Select True/ False:**

1. Clause (xiv)(a) has been re-introduced in CARO 2020 from CARO 2003.
2. This clause is not applicable in respect of companies which are excluded from the ambit of internal audit under section 138 of Companies Act 2013.
3. Section 138 of Companies Act 2013 defines the term 'internal audit function'.
4. As per section 138 of Companies Act 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014, internal auditor may be either an individual or a partnership firm or a body corporate.
5. Internal audit department should always be headed by a CA.
6. The auditor should include in the audit documentation as to how assessment of internal audit system was made and conclusions reached thereon.
7. As per provisions of Companies Act 2013, the head of internal audit is required to be present in all meetings of audit committee.
8. The statutory auditor should consider the internal audit reports shared by the company till the date of completing the audit.
9. The statutory auditor is compulsorily required to have meeting with the internal auditor to discuss the findings and observations of the internal auditor.

**MCQs on Guidance Note on CARO 2020**

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10. Clause (xiv)(b) has been re-introduced in CARO 2020 from CARO 2003.

**Answers:**

1	True	6	True
2	False	7	False
3	False	8	True
4	True	9	False
5	False	10	False

## **MCQs on Clause (xv)**

---

### **Select True/ False:**

1. While verifying about the requirements of clause 3(xv), the auditor would have to verify and report where the director of the company has exchanged currency notes with the cashier of the company from company's cash box.
2. Reporting under clause 3(xv) gets attracted where the company has given discount coupons of its own retail store to all its shareholders. The said discount coupon is a bearer document.

### **Choose the correct option(s):**

3. During the audit/verification under clause 3(xv), which are most critical records to ascertain whether the company has complied with the provisions of section 192 of Companies Act 2013:
  - a) Annual financial statements of the company
  - b) Secretarial records and documents filed with ROC
  - c) Personal records of the management of the company
  - d) Information and explanation given by the management
4. Clause 3(xv) will not be applicable for the transactions between the company and following persons as relatives of the director or person connected with such director:
  - a) Son's wife
  - b) Daughter's husband
  - c) Brother's wife
  - d) Step sister



### **MCQs on Guidance Note on CARO 2020**

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5. During the audit/verification under clause 3(xv), to ascertain whether the company has complied with the provisions of section 192 of Companies Act 2013, auditor should verify/obtain the following as audit evidence:
  - a) Financial information and records (including assets register) of the company
  - b) Secretarial records and documents filed with ROC
  - c) Obtain representation letter from the management about entering of non-cash transactions
  - d) All of above
6. Which of the following persons is a person connected with the director as per provisions of section 192 with reference to compliance of clause 3(xv):
  - a) Sister's husband
  - b) Brother's wife
  - c) Daughter's husband
  - d) Wife's sister
7. In a case wherein a company has entered into an arrangement wherein it shall be acquiring a non-cash asset from the director of the holding company. You being statutory auditor, you are not required to give unfavourable comment under clause 3(xv) if:
  - a) A resolution for the arrangement has been approved in general meeting of the company
  - b) A resolution for the arrangement has been approved in general meeting of the company and also in the general meeting of the holding company
  - c) A resolution for the arrangement has been approved only in the general meeting of the holding company
  - d) A resolution for the arrangement has been approved in general meeting of the company but was not approved in the general meeting of the holding company

### MCQs on Guidance Note on CARO 2020

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8. Under clause 3(xv), the auditor would have to verify the transactions with the director or the persons connected with the director and give unfavourable comment except in case wherein:
  - a) The notice for approval of the resolution includes the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer
  - b) The notice of the resolution does not include the particulars of the arrangement
  - c) The notice for approval of the resolution includes the particulars of the arrangement along with the value of the assets estimated by the management
  - d) The notice for approval of the resolution includes the quantum and particulars of assets involved
9. Clause 3(xv) deals with the transactions between the company and:
  - a) Director of the company or the persons connected with the director
  - b) Director of the holding company
  - c) Director of the subsidiary or associate company
  - d) All of the above
10. You being statutory auditor, in respect of transactions with the director or a person connected with the director, you are not required to give unfavourable comment under clause 3(xv) if:
  - a) The consideration is shown as payable as at the end of the year
  - b) The consideration is settled in the same financial year through cheque
  - c) Both (a) and (b)
  - d) None of the above

**MCQs on Guidance Note on CARO 2020**

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**Answers:**

1	False	6	c
2	False	7	b
3	b	8	a
4	c	9	d
5	d	10	c

## **MCQs on Clause (xvi)**

---

### **Select True/ False:**

1. Financial activity as principal business is when a company's financial assets constitute more than 75 per cent of the total assets and income from financial assets constitute more than 75 per cent of the gross income.
2. NBFCs cannot accept demand deposits.
3. The term "income from financial assets" is defined in RBI Act 1934.
4. While examining computation of financial assets and income from financial assets, fixed deposits and income from fixed deposits are required to be included for computation of the asset/ income pattern.
5. The term "Housing Finance Institution" is defined in National Housing Bank Act, 1987.
6. As per RBI Master Direction, Core Investment Companies should hold not less than 90% of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies as on the date of the last audited balance sheet.
7. Core Investment companies having total assets of not less than Rs. 500 Crores either individually or in aggregate along with other CICs in the Group and which raises or holds public funds are categorized as Systematically Important Core Investment Company (CIC-ND-SI).
8. Every CIC is required to apply to the RBI for grant of certificate of registration within a period of three months from the date of becoming a CIC-ND-SI.

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9. Clause (xvi)(d) is applicable only in case of audits of consolidated financial statements.
10. If the group has no CIC or not more than one CIC, the auditor is required to report this fact under clause (xvi)(d).

**Answers:**

1	False	6	True
2	True	7	False
3	False	8	True
4	False	9	False
5	True	10	True

## **MCQs on Clause (xvii)**

---

### **Select True/ False:**

1. This clause has been continued in CARO 2020 from CARO 2016.
2. The term “cash losses” is not defined in Indian Accounting Standards.
3. Management is required to compute cash losses and the auditor is only required to check computation made by management.
4. Auditor can compute cash losses by making adjustments to figures appearing in cash flow statement.
5. In case of restatement of financial statements for previous financial year as per Ind AS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, net profit/loss after tax determined after such restatement should be considered.
6. Net profit/loss after tax should not be adjusted for deferred tax income/expense.
7. Net profit/loss after tax should not be adjusted for items of expenses of contingent nature such as demand for tax liability for which provision has been made in the financial year but which has been appealed against by the company.
8. Figure of cash losses for current year and previous year need not be adjusted for the effect of qualifications in the respective audit reports.

**MCQs on Guidance Note on CARO 2020**

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9. Where any of the qualifications in the audit report is not capable of being quantified, the auditor should state that the effect of such unquantified qualification(s) has not been taken into consideration for the purpose of making comments in respect of this clause.
10. Where company has incurred cash losses only in current year, reporting under this clause is not applicable.

**Answers:**

1	False	6	False
2	True	7	True
3	False	8	False
4	False	9	True
5	True	10	False

## MCQs on Clause (xviii)

---

### Select True/ False:

1. Reporting under this clause is applicable in the case of casual vacancy caused by resignation of an auditor.
2. The incoming auditor is not required to communicate with the previous auditor.
3. The auditor who has resigned from the company should file a statement in Form ADT-3 with the Registrar of Companies within thirty days from the date of resignation.
4. In the case of listed companies, there are no additional requirements prescribed by SEBI with regard to auditor's resignation.
5. The incoming auditor is not required to obtain the outgoing auditor's letter of resignation.
6. The incoming auditor should obtain a management representation letter that there are no concerns of outgoing auditor beyond those stated in the no objection certificate and resignation letter received from the outgoing auditor.
7. Where a joint auditor resigns, the other joint auditors are not required to consider the reasons for resignation of the outgoing auditor.
8. Change of auditors pursuant to mandatory rotation requirements under the Companies Act, 2013 is outside the scope of reporting under this clause.
9. The outgoing auditor's latest audit/review report is not required to be considered by the incoming auditor.



**MCQs on Guidance Note on CARO 2020**

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10. The incoming auditor is required to hold a meeting with the outgoing auditor to discuss the issues, objections or concerns raised by the outgoing auditor in the case of resignation.

**Answers:**

1	True	6	True
2	False	7	False
3	True	8	True
4	False	9	False
5	False	10	False

## **MCQs on Clause (xix)**

---

### **Select True/ False:**

1. Although there is no legal requirement under the Companies Act 2013 for the companies to make explicit disclosures in the financial statements or in the director's report on whether material uncertainty exists about the company's ability to meet its liabilities existing at the date of balance sheet as and when they fall due within a period of one year, the auditor is still required to report on this under this clause.
2. As per SA 570(Revised), Going Concern, it is management's responsibility to conclude whether going concern basis of accounting should be used as basis for preparation of financial statements. Auditor may rely on management assertion.
3. The auditor is also required to consider the subsequent period transactions between the date of balance sheet and the date of audit report for the test of existence of material uncertainty regarding going concern.
4. Under this clause, the auditor needs to comment on the basis of financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities only.
5. Parameters prescribed in this clause appear to be exclusive and the auditor needs to perform audit procedures based on these parameters.
6. The auditor has to make the assessment as on the date of balance sheet and should perform necessary procedures as required by SA 560. The auditor is generally not liable for events occurring after the date of balance sheet.

### MCQs on Guidance Note on CARO 2020

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7. Since interim financial statements (MIS) prepared by the management after the balance sheet date have not been audited, instead of helping the auditor, they may create confusion regarding various audit assertions.
8. While reporting under this clause, where the company has given commitments or guarantees on behalf of the other entities, the auditor should also evaluate the financial position and plans of those entities to determine whether there would be an outflow of resources from the company which may impair its ability to meet its own liabilities as and when they fall due.
9. For reporting under this clause it is important that the auditor establishes a one-to-one relationship between the unpaid liabilities and the realizable assets. Evaluation on overall basis will be an incorrect approach.
10. Since the annual report is prepared after the audit has been completed, the auditor may not have access to the information to be mentioned in director's report, management discussions and analysis forming part of the annual report. Hence there is no responsibility on the auditor regarding the information mentioned in the annual report.

### Answers:

1	True	6	False
2	False	7	False
3	True	8	True
4	False	9	False
5	False	10	False

## **MCQs on Clause (xx)**

---

### **Select True/ False:**

1. This clause is applicable to all companies.
2. For purposes of section 135 of Companies Act 2013, net profit shall be calculated in accordance with provisions of section 198 of Companies Act 2013.
3. Companies (Corporate Social Responsibility Policy) Rules, 2014 list the activities which may be included by companies in their CSR policies.
4. As part of his audit procedures, auditor is required to obtain agenda and minutes of meetings of CSR Committee.
5. Auditor is required to review whether the CSR activities undertaken by the company are in accordance with Schedule VII to Companies Act 2013.
6. Under clause (xx)(a), auditor is not required to report the non-compliance, if any, in respect of earlier financial year(s).
7. In situations where auditor issues his audit report before six months of the expiry of financial year, reporting under clause (xx)(a) would not be required.
8. Under clause (xx)(b), auditor is required to report that the amount transferred to such specified bank account has been utilized by the company for CSR activities as per CSR policy within three years from the date of such transfer.

**MCQs on Guidance Note on CARO 2020**

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9. The auditor is required to evaluate if the company has considered disclosure of such unspent amounts as commitments in the contingent liabilities and commitments section of the financial statements in accordance with the requirements of Schedule III to Companies Act 2013.
10. Under clause (xx)(b), auditor is required to report the non-compliance, if any, in respect of earlier financial year(s).

**Answers:**

1	False	6	False
2	True	7	False
3	False	8	False
4	True	9	True
5	True	10	True

## **MCQs on Clause (xxi)**

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### **Select True/ False:**

1. Reporting under this clause is required for only those entities included in the consolidated financial statements to whom CARO 2020 is applicable.
2. Reporting under this clause is not required in situations, where component auditor has not issued his audit report by the date of the principal auditor's audit report.
3. Reporting under this clause is required irrespective of whether components are audited by principal auditor or other auditors.
4. Qualifications/adverse remarks given in the parent company's standalone CARO report are outside the scope of reporting under this clause.
5. Term qualification/adverse remark used in this clause mean a qualification/adverse opinion as per principles enunciated in SA 705(Revised).
6. In case of qualification/adverse remark given by individual component, the auditor is not required to reevaluate the materiality of such remarks from a consolidation perspective.
7. Principal auditor may request component auditor to comment on which clauses amount to a qualification/adverse remark and the response of component auditor can be treated as conclusive while reporting under this clause.
8. Term qualification/adverse remark used in this clause refers to unfavourable or qualified answers used in paragraph 4 of CARO 2020.

**MCQs on Guidance Note on CARO 2020**

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9. Default by a component in repayment of borrowings will always be in the nature of qualification/adverse remark in audit report of component auditor.

**Choose the correct option(s):**

10. While reporting under this clause, principal auditor is required to include following details:
- (a) details of companies, paragraph numbers and text of CARO report containing qualifications/adverse remarks
  - (b) details of companies and paragraph numbers of CARO report containing qualifications/adverse remarks
  - (c) details of companies and text of CARO report containing qualifications/adverse remarks
  - (d) details of companies, paragraph numbers of CARO report containing qualifications/adverse remarks and response of component auditors

**Answers:**

1	True	6	True
2	False	7	False
3	True	8	True
4	False	9	False
5	False	10	b