

*Commercial's*



# AUDITING *and* ETHICS

CA INTER - Group-2, Paper-5 (NEW SYLLABUS)

Applicable for May 2024  
and onwards Examination



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MULTIPLE CHOICE  
QUESTIONS (MCQs)

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## SECTION – A: CHAPTER WISE MCQ

### CHAPTER – 1

#### Nature, Objective and Scope of Audit

1. Which of the following is not an advantage of audit?

a) It provides high quality financial information	b) It acts as a moral check on employees
c) It Enhances risk of management bias	d) It helps in safeguarding interests of shareholders.

2. Which of the following is NOT TRUE about an assurance engagement?

a) It relates to providing assurance about historical financial information only	b) The practitioner obtains sufficient appropriate evidence.
c) There is some information to be examined by practitioner.	d) A written assurance report in appropriate form is issued by practitioner.

3. Which of the following is TRUE about engagement standard?

a) Engagement standards ensures proper rights to practitioner in course of performance of their duties.	b) Engagement standards ensure preparation and presentation of financial statements in standardized manner.
c) Engagement standards ensure uniformity by practitioners in course of their duties.	d) Engagement standards ensure savings in resources of client.

4. Consider following statements in relation to "Limited assurance engagement":-

Statement I-It involves obtaining sufficient appropriate evidence to draw reasonable conclusions.

Statement II- Review of interim financial information of a company is an example of limited assurance engagement.

a) Statement I is correct. Statement II is incorrect.	b) Both Statements I & II are correct.
c) Both Statements I & II are incorrect.	d) Statement I is incorrect, Statement II is correct.

5. Which of the following is TRUE about standards on auditing?

a) These deals with mainly voluntary responsibilities of auditor.	b) These deals with mainly mandatory responsibilities of auditor.
c) Their sole purpose is to help government authorities in augmenting revenues.	d) These deal mainly in carrying out audit according to legal provisions.

ANSWER:

1)	(c) It Enhances risk of management bias
2)	(a) It relates to providing assurance about historical financial information only
3)	(c) Engagement standards ensure uniformity by practitioners in course of their duties.
4)	(d) Statement I is incorrect. Statement II is correct.
5)	(b) These deals with mainly mandatory responsibilities of auditor.

**CHAPTER – 2**  
**Audit Strategy, Audit Planning and Audit Programme**

**1. Which of the following is not considered in planning an audit generally?**

a) Understanding of legal and regulatory framework of an entity.	b) Need to consider determination of materiality
c) Evaluating audit evidence	d) Need to consider involvement of expert.

**2. Which of the following is true about audit plan?**

a) Once an audit plan has been finalized for an engagement, changes cannot be made into it.	b) Audit plan includes scope, timing and direction of planned risk assessment procedure.
c) Changes in audit plan cannot lead to changes in audit strategy	d) Audit plan has to be documented by auditor.

**3. Which of the following is not included in audit programme normally?**

a) Extent of checking	b) Date of Checking
c) Nature or type of procedure	d) Planning of risk assessment procedures.

**4. Which of the following is not an advantage of an audit programme?**

a) It acts as a guide for audit of coming years.	b) It fixes responsibility of assistants.
c) It serves as a shelter for assistants.	d) It serves as a proof of work done by auditor.

**5. Which of the following is most important principle for formulating an audit plan?**

a) Gaining knowledge of client's workforce.	b) Gaining knowledge of client's business.
c) Gaining knowledge of client's vendor.	d) Gaining knowledge of tax laws applicable to client.

**ANSWER:**

1)	(c) Evaluating audit evidence
2)	(d) Audit plan has to be documented by auditor.
3)	(d) Planning of risk assessment procedures.
4)	(c) It serves as a shelter for assistants.
5)	(b) Gaining knowledge of client's business.

**CHAPTER – 3**  
**Risk Assessment And Internal Control**

**1. Which of the following is true regarding materiality?**

a) It is unaffected by nature of an item.	b) It is unaffected by requirements of law or regulations.
c) It is not a matter of professional judgment	d) It is not always a matter of relative size.

**2. The operations of a company are automated substantially. Which of the following statements is most appropriate in this respect?**

a) It results in complex business environment.	b) It results in simple business environment and easier audit.
c) Automation has no relationship with complexity of business environment.	d) It results in simple business environment. However, it increases complexity of audit.

**3. Who is responsible for maintaining effective internal financial controls?**

a) Statutory auditor	b) Audit Committee
c) Management	d) Shareholders

**4. Which of the following is not a risk to a company's internal control due to its IT environment?**

a) Potential loss of data	b) Inability to access data when required
c) Unauthorized access to data	d) Processing of large volumes of data

**5. Which of the following is not an example of "General IT controls"?**

a) Controls pertaining to Disaster recovery plan	b) Controls pertaining to batch preparation
c) Controls pertaining to data security	d) Controls pertaining to validation of input data in an application

**ANSWER:**

1)	(d) It is not always a matter of relative size.
2)	(a) It results in complex business environment.
3)	(c) Management
4)	(d) Processing of large volumes of data
5)	(d) Controls pertaining to validation of input data in an application.



## CHAPTER – 4 Audit Evidence

1. Which of the following is not one of functions of internal auditor of an organization?

a) Performing assurance activities	b) Performing consulting activities to improve governance of organization
c) Performing risk management activities	d) Expressing independent opinion on financial statements of organization

2. An auditor finds during course of an audit that the entity has entered into many related party transactions. Which of the following statements is true?

a) The risk that management may override controls in respect of related party transactions is lower.	b) The risk that management may override controls in respect of related party transactions is higher
c) There is no effect on the risk that management may override controls in respect of related party transactions	d) Risk of overriding of controls by management has no relationship at all with related party transactions.

3. Which of the following is not an objective of a company's policies for ensuring "internal financial controls"?

a) Efficient conduct of business	b) Safeguarding of assets
c) Prevention and detection of frauds and errors	d) Assessing audit risk

4. Which of the following is not an advantage of statistical sampling?

a) Sample size does not increase in proportion to size of area tested.	b) Sample selection is more objective.
c) It provides a means of deriving a calculated risk and corresponding precision.	d) In case of verifying compliance with specific legal requirements, it is suitable.

5. A company auditor receives external confirmation from an entity to whom company has sold goods. The said amount is properly classified in financial statements of company. Which of the following statements is not true in this regard?

a) It shows that said trade receivable exists	b) It shows that said trade receivable is properly valued.
c) It shows that company has a right to said trade receivable.	d) It shows that amount of said trade receivable has been recorded in proper account.

**ANSWER:**

1)	(d) Expressing independent opinion on financial statements of organization
2)	(b) The risk that management may override controls in respect of related party transactions is higher
3)	(d) Assessing audit risk
4)	(d) In case of verifying compliance with specific legal requirements, it is suitable.
5)	(b) It shows that said trade receivable is properly valued.

## CHAPTER – 5

### Audit of Items of Financial Statements

1. An auditor is verifying purchases to ensure their genuineness. Consequently, he is also trying to verify that no fake "trade payables" are present in financial statements. Which assertions concerning purchase transactions and trade payables respectively are being verified by auditor?

a) Occurrence; Existence	b) Occurrence; Completeness
c) Existence; Occurrence	d) Completeness; Occurrence

2. Which of the following statement is most appropriate as regards to disclosure of goods in transit in financial statements of a company?

a) No separate disclosure of goods in transit is required.	b) Disclosure of total goods in transit under head of inventories is required.
c) Disclosure of goods in transit under each sub-head of inventories is required.	d) Disclosure of goods in transit for raw material and finished goods is required.

3. Sweat Equity shares are issued by a company at a discount or for consideration other than cash to its:-

a) Directors only	b) Clients only
c) Directors or employees	d) Auditors only

4. Which of the following is not an element of cost of an item of machinery included under head "Property, Plant and Equipment"?

a) Installation costs	b) Freight cost of bringing the item to its location
c) Inaugural costs	d) Employee benefit cost for making such an item suitable for production

5. Which of the classification is not required by a company in respect of its "Cash and cash equivalents?"

a) Balance with Banks	b) Balance with scheduled banks
c) Cash on hand	d) Cheques on hand

**ANSWER:**

1)	(a) Occurrence; Existence
2)	(c) Disclosure of goods in transit under each sub-head of inventories is required.
3)	(c) Directors or employees
4)	(c) Inaugural costs
5)	(b) Balance with scheduled banks

ANSWER

**CHAPTER – 6**  
**Audit Documentation**

1. Which of the following statement is appropriately suited to preparation of audit documentation?

a) Audit documentation has to be prepared simultaneously as audit progresses.	b) Audit documentation has to be prepared 60 days after date of audit report.
c) Audit documentation has to be prepared when information is required by regulator.	d) Audit documentation has to be prepared 60 days after completion of audit work.

2. Audit documentation is owned by: -

a) Client	b) Auditor
c) Team member responsible for documentation	d) Regulator

3. Which of the following is least likely to be included in audit documentation of a company engaged in manufacturing and export of goods?

a) Previous years audited financial statements	b) Projected cash flow statement for next twelve months provided by management in support of going concern assumption
c) Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers	d) Statement showing verification of ageing of trade receivables as on date of balance sheet

4. Which of the following is false in relation to audit documentation when an external auditor relies upon work of internal auditor?

a) Evaluation of objectivity and competence of internal auditor has to be documented.	b) Nature of work used and reason for relying upon work used forms part of documentation.
c) Documentation on whether quality control is exercised in internal audit work forms part of audit documentation.	d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation.

**ANSWER:**

1)	(a) Audit documentation has to be prepared simultaneously as audit progresses.
2)	(b) Auditor
3)	(c) Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers
4)	(d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation.

## CHAPTER – 7 Completion And Review

1. An auditor of a company communicates significant findings from audit with those charged with governance in the company. Which of the statements is false in regard to communication made?

a) Evaluation of adequacy of communication process is required on part of the auditor.	b) Planned scope and timing of audit has also to be communicated.
c) Communication of rationale behind audit procedures is necessary.	d) Significant difficulties encountered during audit, if any, have to be communicated.

2. Written representations are: -

a) Necessary audit evidence	b) Sufficient appropriate audit evidence
c) Not audit evidence	d) Audit evidence depending upon auditor's professional judgment

3. Which of the following is false regarding communication of misstatements identified during course of an audit?

a) The auditor should request those charged with governance for correction of identified misstatements.	b) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is material.
c) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is immaterial.	d) The auditor should communicate effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

4. Which of the following is not an example of subsequent event?

a) Event occurring between date of financial statements and date of auditor's report.	b) Event occurring on date of financial statements.
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c) Event occurring after filing audit report with tax authorities. Had such an event been known earlier, auditor would have amended report.	d) Event occurring during course of performing audit procedures after date of financial statements.
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5. Which of the following is not an example of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

a) Adverse key financial ratios	b) Inability to invest in modernisation of plant
c) Inability to pay creditors on time	d) Inability to pay salary of staff

**ANSWER:**

1)	(c) Communication of rationale behind audit procedures is necessary.
2)	(a) Necessary audit evidence
3)	(b) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is material.
4)	(b) Event occurring on date of financial statements.
5)	(b) Inability to invest in modernisation of plant



## CHAPTER – 8 Audit Report

1. While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?

a) present fairly in all material respects	b) give a true and fair view
c) with the foregoing explanation	d) All of the above

2. \_\_\_\_\_ is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.

a) Emphasis of Matter Paragraph	b) Other Matter Paragraph
c) Key Audit Matter	d) Management Responsibility Paragraph.

3. Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.

Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.

a) Only Statement 1 is correct	b) Only Statement 2 is correct
c) Both the statements are correct	d) None of the statement is correct

4. Which of the following is not correct?

a) SA 700 - Forming an Opinion and Reporting on the Financial Statements	b) SA 701- Key Audit Matters in the Independent Auditor's Report
c) SA 705- Comparative Information Corresponding figures and Comparative Financial Statements	d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

5. Responsibilities of Joint Auditors are governed by:

a) SA 200	b) SA 229
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c) SA 299

d) SA 230

**ANSWER:**

1)	(c) with the foregoing explanation
2)	(a) Emphasis of Matter Paragraph
3)	(d) None of the statement is correct
4)	(c) SA 705- Comparative Information Corresponding figures and Comparative Financial Statements
5)	(c) SA 299

## CHAPTER – 9

### Special Features Of Audit Of Different Types Of Entities

1. The audit of municipal corporation of a large metro city is in progress. Which of the following is not likely an objective of such as audit?

a) To report on the adherence to legal and administrative requirements	b) To report on whether value is being fully received for money spent
c) To report on the weakness of systems of financial control	d) To provide better civic amenities to residents of metro city

2. "Save Democracy" is an NGO working in cause of promoting democracy and democratic institutions in many countries including India. Its Indian counterpart has received funds from a renowned "Flower Trust" of US. As auditor of NGO, which of the following laws/orders would be relevant to you in context of above information?

a) Income Tax Act, 1961	b) Foreign Contribution Regulation Act, 2010
c) Companies Act, 2013	d) Orders issued by Ministry of Social Justice and Empowerment

3. The appointment of first auditor of a multi-state cooperative society is made by: -

a) Central Registrar	b) Board of society
c) Members of society	d) Central Government

4. Consider following revenue sources of Union Government.

(P) Revenues from direct taxes

(Q) Revenues from Goods and Services Tax

(R) Revenues from Custom Duties

(S) Revenues from Excise Duties

Out of P, Q, R and S, which of the following flow to "Consolidated Fund of India"?

a) P, Q and R	b) P, Q and S
c) P and Q	d) P, Q, R and S

5. An LLP files compliance returns with: -

a) Registrar of firms & societies	b) Central Registrar
c) Registrar of Companies	d) Local fund audit wing

**ANSWER:**

1)	(d) To provide better civic amenities to residents of metro city
2)	(b) Foreign Contribution Regulation Act, 2010
3)	(b) Board of society
4)	(b) P, Q and S
5)	(c) Registrar of Companies