

 BB VIRTUALS

CA FINAL AUDIT



MCQs

BOOKLET

May -24
& Onwards

Covering Individual &
Case Study Based **MCQs**

CA SHUBHAM
KESWANI

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Standards on Auditing

SQC-1/SA 220

1. What is the maximum recommended time limit within which assembly of engagement files should be completed after the engagement reports have been finalized?

- a. 30 days
- b. 65 days
- c. 45 days
- d. 60 days

2. At least, the firm should obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code.

- a. Half yearly
- b. Annually
- c. Once in two years
- d. Once in three years

3. What is excluded from the definition of "Firm"?

- a. Sole practitioner
- b. Partnership
- c. Corporation
- d. Other entity of professional accountants

4. PMP Ltd. is an associate of PMP Inc, a company based in Kuwait. PMP Ltd. is listed in India having its corporate office at Assam. The company's operations have remained stable over the years and the management is looking to expand the operations for which the management is considering different business ventures.

The company's auditors issued clean audit report on the audit of the financial statements for the year ended 31 March 2023.

For the financial year ended 31 March 2024, the auditors made some changes in their audit team. While the audit partner remained the same, the field incharge has been replaced, as the field incharge who was engaged in the audit of the financial statements for the year ended 31 March 2023 has left the firm. The audit team has a new person as External Quality Control Reviewer (EQCR) who has specialized knowledge of the industry in which the company is operating. EQCR has been employed with the firm for over 2.5 years and is yet to clear his CA (Chartered Accountancy) final exams. The changes were made on the basis of the consideration that the firm has enough experience of engagement with this client.

The audit team commenced the work for audit of the year ended 31 March 2024 after detailed planning and it was observed that EQCR had various comments on certain matters which were not accepted by the audit partner. Audit partner had better understanding of the client and after assessing the comments of the EQCR did not find those relevant. The audit partner without concurrence of the EQCR finalized the audit and issued the audit report. In the given situation, please advise which one of the following is correct?

- a. The changes in the audit team were not appropriate except for the field incharge who had left the firm. EQCR should have been a member of the Institute of Chartered Accountants of India (ICAI).



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- b. The audit partner did the right thing by ignoring the comments of EQCR as he is the final authority to decide on any matter and take decisions. Further EQCR was junior to the audit partner.
- c. The audit partner must discuss each and every comment of EQCR with the client and ensure that a proper disclosure in respect of those points should be made either in the financial statements or the audit report.
- d. EQCR had sufficient and appropriate experience. He should have been given the authority to objectively evaluate various matters, before the report is issued, the significant judgments the engagement team made and the conclusions they reached in formulating the report. By ignoring the comments of the EQCR, audit partner took additional professional responsibility on himself. By considering the comments of EQCR, he could have passed the responsibility to EQCR.

5. Bansal Arora & Co., a Chartered Accountants firm, is currently performing an audit for Wool Ltd., a sizable manufacturing company. Mr. Bhavesh Bansal, an experienced audit engagement partner, holds the responsibility of ensuring that the audit engagement aligns with the professional standards, adheres to regulatory requirements, and complies with the legal obligations. His duties encompass the overall supervision, direction, and the final issuance of the audit report. While conducting the audit, the engagement team encounters a complex issue pertaining to the valuation of the company's inventory. Within the team, there are difference of opinions on how to address this matter, resulting in a contentious situation. What is Mr. Bhavesh's responsibility in this situation?

- a. Mr. Bhavesh shall adhere to the firm's policies only for addressing and resolving differences of opinion.
- b. Mr. Bhavesh should secure management's representation concerning the valuation and proceed with further audit procedures.
- c. Mr. Bhavesh should ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm.
- d. Mr. Bhavesh should communicate the issue to the client's management for resolution.

| Q | Ans | Reason |
|---|-----|--|
| 1 | D | Recommended time limit for assembly of engagement files should be completed after the engagement reports have been finalized is 60 days. |
| 2 | B | At least annually, firm should obtain written confirmation of compliance with policies and procedures on independence from all firm personnel required to be independent as per terms of code. |
| 3 | C | Corporation excluded from definition of firm. |
| 4 | A | EQCR should be a member of the Institute of Chartered Accountants of India (ICAI). |
| 5 | C | Ensure that appropriate consultation occurs within the engagement team and, if necessary, with individuals at an appropriate level within or outside the firm on contentious matters. |

SA 230

1. Consider the term Experienced auditor. Which of the following statements is most appropriate in relation to above?

- a. It is a term not specifically defined under Standards on Auditing. It generally means an auditor who has reasonable practical audit experience.
- b. It is a term not specifically defined under Standards on Auditing. It generally means an auditor who has minimum 5 years of experience.



- c. It is a term specifically defined under Standards on Auditing. It refers to a person who has practical audit experience and reasonable understanding of auditing processes, SAs, business environment of entity and auditing and financial reporting issues relevant to entity's industry.
- d. It is a term specifically defined under Standards on Auditing. It refers to a person who has practical audit experience of minimum 5 years and reasonable understanding of auditing processes, SAs, business environment of entity and auditing and financial reporting issues relevant to entity's industry.

2. The audit of DST Limited is near completion. CA Shweta had performed risk assessment procedures and tests of controls. Besides, various tests were performed to verify management assertions regarding transactions and balances. Further, substantive analytical procedures had also been performed. The process of finalization of audit report is in last stages. The team has started to prepare audit documentation for being placed in audit file. They are putting various information now in writing as part of audit documentation so that audit file is complete before issue of audit report. Which of following statements is in accordance with Standards on Auditing?

- a. The approach followed by team is proper as it is auditor's duty to see that audit documentation is prepared at time of issue of audit report.
- b. The approach followed by team is proper as audit file has to be assembled before issue of audit report.
- c. The approach followed by team is not proper as audit documentation is being prepared at the time of finalization of audit report.
- d. The approach followed by team is not proper as audit documentation can be prepared in 60 days from date of auditor's report.

Ans. c

Reason: The auditor has to prepare documentation on timely basis. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed in accordance with SA 230.

3. Mr. C, auditor of a listed company, DEX Limited, signed its audit report on 21.8.2022. The regulator called the audit file in connection with some proceedings on 20.7.2023. He submitted audit files in the form of editable Excel files without any security feature on 10.8.2023. It later transpired that the audit file was modified between 20.7.2023 and 10.8.2023 by deleting certain information and adding fresh information in its place.

Which of the following statements is likely to be correct in this regard?

- a. Audit file was required to be assembled by 21.8.2022. Modification in the audit file after 21.8.2022 was generally not permissible.
- b. Audit file was required to be assembled by 21.8.2022. Modification in the audit file before 20.7.2023 was generally permissible.
- c. Audit file was required to be assembled by 20.10.2023. Modification in the audit file before 20.7.2023 was generally permissible.
- d. Audit file was required to be assembled by 20.10.2022. Modification in the audit file after 20.10.2022 was generally not permissible except in certain exceptional circumstances.

Ans (d)

Reason: Audit file to be assembled within 60 days of date of Audit report & no modifications allowed after that except in exceptional circumstances.



1. Where the auditor has doubts about the integrity or honesty of management or those charged with governance, the auditor may consider it appropriate to _____

- a. Obtain legal advice
- b. Modify audit opinion
- c. Communicate to regulatory authorities
- d. Withdraw from the engagement

Reason: It's only a doubt not conclusion about fraud that's why better to take legal advice then consider other actions.

2. An audit Firm is conducting an audit of a publicly listed manufacturing company. The engagement team members have a good working relationship with the company's management and have not encountered any issues related to fraud in previous audits. With regards to the discussion to be made by the engagement team, please choose the correct option from the following:-

- a. Since the engagement team has a good relationship with management and no prior issues of fraud have been encountered, they can skip the discussion on fraud risks.
- b. The engagement team should have a discussion among team members, emphasizing how and where the entity's financial statements may be susceptible to material misstatement due to fraud.
- c. The engagement team should solely rely on management's representations about the absence of fraud and there is as such no requirement the discussion on fraud risks.
- d. The engagement team should discuss fraud risks only if they have encountered issues of fraud in previous audits.

Ans. (b)

Reason: As per SA 240, Para 15, SA 315 requires discussion among engagement team members and determination by engagement partner of matters to be communicated to those team members not involved in the discussion. This discussion place particular emphasis on how and where entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. Discussion shall occur notwithstanding engagement team members' beliefs that management and TCWG are honest and have integrity.

3. BB Ltd. is a large multinational company. The auditor is conducting a retrospective review of management's judgments and assumptions related to significant accounting estimates from the prior year's financial statements. What is the primary objective of performing such review?

- a. To assess the accuracy of the auditors professional judgments made in the prior year based on information available at the time.
- b. To determine whether there is a possible bias on the part of management in making significant accounting estimates.
- c. To reassess the accuracy of the auditors procedures performed in the prior year's audit engagement.
- d. To reassess the materiality thresholds used in the prior year's audit.

Ans. (b)

Explanation: To determine whether there is a possible bias on the part of management in making significant accounting estimates. According to SA 240, Para A46, the purpose of performing a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year is to determine whether there is an indication of a possible bias on the part of



management. It is not intended to call into question the auditor's professional judgments made in the prior year that were based on information available at the time.

Author's note: Same topic covered in SA 540

4. SK Ltd. is undergoing an audit. The auditor has performed initial risk assessments and conducted audit procedures to gather evidence. The auditor now needs to evaluate whether the assessments of risks of material misstatement at the assertion level remain appropriate. What is the purpose of such evaluation?

- To determine the financial statement assertions that are most susceptible to fraud.
- To determine the materiality thresholds for the audit only
- To gain further insight into the risks of material misstatement due to fraud and decide if additional or different audit procedures are required.
- To quantify the likelihood and magnitude of potential fraud occurrences

Ans. c

Reason: According to SA 240, Para A48, read with SA 330, requires the auditor, based on the audit procedures performed and the audit evidence obtained, to evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate. This evaluation is primarily a qualitative matter based on the auditor's judgment. Such an evaluation may provide further insight about the risks of material misstatement due to fraud and whether there is a need to perform additional or different audit procedures.

5. Daksha Ltd. is a manufacturing company. During the audit, the auditor suspects the possibility of material misstatements in the financial statements due to fraud. The auditor has identified a specific risk related to inappropriate journal entries. How can the auditor address the risk of material misstatement in such a scenario?

- The auditor should focus on reviewing the journal entries made at the period end, as they are more likely to contain inappropriate or unauthorized entries.
- The auditor should focus on reviewing the journal entries made throughout the year or at the period end but ignore the possibility of misstatements through consolidating adjustments and reclassifications, as they are less significant in relation to fraud risks.
- The auditor should perform a comprehensive review of the financial reporting process throughout the year, including the examination of journal entries, consolidating adjustments, and reclassifications.
- The auditor should rely solely on managements representations regarding the accuracy of the financial reporting process.

Ans. (c)

Reason: As per SA 240, Para A41, material misstatements of financial statements due to fraud can involve manipulation of the financial reporting process, including inappropriate or unauthorized journal entries, consolidating adjustments, and reclassifications. In this scenario, to effectively address the risk of material misstatement due to fraud, auditor should perform comprehensive review of financial reporting process throughout the year. This includes examining not only the journal entries made at the period end but also the consolidating adjustments and reclassifications.

6. Uttama Ltd. is a large manufacturing company. The company's financial statements indicate a consistent increase in revenue and profitability over the past few years. However, during the audit, the auditor becomes aware of several red flags, including significant related-party transactions, unusual adjustments to inventory, and conflicting information provided by management. The auditor suspects the potential for fraudulent financial reporting. In this scenario, what is the auditor's responsibility?



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- The auditor should assume that management will not override controls and focus solely on detecting material misstatements.
- The auditor should exercise professional skepticism and be alert to the potential for management override of controls to manipulate the financial statements.
- The auditor should rely on the effectiveness of internal controls to prevent management override and minimize the risk of fraud.
- The auditor should primarily focus on detecting fraud using specialized forensic techniques and disregard the potential for management override of controls.

Ans (b)

7. If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters _____ to the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.

- On a timely basis
- At the end of audit
- Monthly basis
- Quarterly basis

Ans (a)

SA 250

1. M/s ABC & Associates are the statutory auditors of PQR Ltd. for the FY 2023-24. While conducting the audit, CA Aman, the engagement partner noticed the following:

- ✓ Payments of various fines and penalties
- ✓ Unusual cash payments
- ✓ Payments to various government employees not supported by any document
- ✓ Notices received from various regulatory authorities.
- ✓ Heavy payments to legal counsels.

CA Aman should consider the above as indicative of:

- Doubt on Internal Controls of PQR Ltd.
- Doubt of non-compliance to laws by PQR Ltd.
- Doubt on the accounting system of PQR Ltd.
- Doubt on the going concern assumption of PQR Ltd.

2. CA D is auditor of a company having manufacturing facilities in about 10 acres of land in NCR. The premises have been newly built with promoters' funds. The company started its operations in August 2023 and an unmodified opinion was expressed on financial statements of company for year 2023-24. Subsequently, company has received a notice from Director, Town & Country planning of having failed to conform to various rules relating to covered area and floors. The company would have to pay a heavy regularisation and compounding fees or otherwise even face demolition of building. The above situation is an example of: -

- Inherent limitations of internal controls operating in the company
- Inherent limitations on auditor's ability to detect material misstatements
- Inherent risk
- Sampling risk

Ans (b)

Reason: It is an example of inherent limitations on auditor's ability to detect material misstatements due to occurrence of non-compliance with laws and regulations in accordance with SA 200 and SA 250.

SA 260

Ms. Kee, the engagement partner of Best Hospitality Limited's audit team did not perform the necessary communication with those charged with governance over some critical issues identified during the course of the audit. Moreover, when management identified that the engagement partner has not communicated to those charged with governance of the Best Hospitality Limited, they also chose not to communicate. Upon identification of this issue, the personnel charged with governance inquired with management and auditors as to why there was no communication of the critical matters to them.

Upon such inquiry, Engagement Partner contended that it was the responsibility of Management to communicate first, then only the audit team should communicate. However, Management was of the view that they are not liable to communicate to those charged with governance. As an Engagement Quality Control Reviewer, what will be your opinion?

- The auditor is responsible for communicating matters required by SA 260 to those charged with governance. Also, management has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of its responsibility.
- SAs are not applicable to the management and hence the management was not responsible for communicating the same to those charged with governance. Also, as per SA 260, Auditor can only communicate when management has already informed those charged with governance about the matters. Auditors cannot communicate first without management's communication.
- Communication by management with those charged with governance of matters that the auditor is required to communicate does relieve the auditor of the responsibility to also communicate them if the management has already communicated. Hence, in the current case Management should have communicated as it was their responsibility.
- SA 260 requires the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance which includes matters already communicated by the management of non-material nature. Hence, it was the responsibility of the Auditor to communicate.

Ans (a)

Reason: Auditor is responsible for communicating matters required by SA 260 to TCWG. Also, management has responsibility to communicate matters of governance interest to TCWG. Communication by auditor doesn't relieve management of its responsibility.

SA 299

X, Y and Z are joint auditors of a company engaged in manufacturing of chemicals. They have developed a joint audit plan and identified common areas. Besides, they have also identified and allocated work by signing work allocation documents among themselves. Verification of trade receivables was allocated to Z. Which of the following statements is in accordance with relevant SA in this regard?

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- a. X and Y should necessarily review work performed by Z to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- b. X and Y should perform tests to ascertain whether work has been actually performed in accordance with Standards on Auditing.
- c. X and Y are entitled to assume that Z has actually performed work in accordance with Standards on Auditing.
- d. X and Y are not entitled to assume that Z shall bring to their notice significant observations relevant to responsibilities noticed during the course of the audit.

Ans (c)

Reason: Joint Auditors are entitled to assume that other Join Auditor has actually performed work as per SA.

SA 320

Performance materiality means the amount or amounts set by the auditor at _____ than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements _____ materiality for the financial statements as a whole.

- a. higher, exceeds
- b. less, exceeds
- c. less, falls below
- d. higher, falls below

SA 402

Wani Private Limited uses ERP software for all business processes. The application is hosted in cloud and is maintained by a third party. Statutory Auditor is not confident about the risk management process in the third party organization and requests for audit access to such data centre. The request was declined and management informed that the third party is ISO certified and audit on controls at Service Organisation is regularly being conducted. What the auditor should do?

- Do not ask for anything else since the Third Party is ISO certified.
- Insist on conducting audit in the Third Party.
- Take the ISO certificate.
- Take the Service Organisation control audit report to review.

Ans (d) Take Type 1/2 Report.

SA 530

1. Lots Limited has trade receivables amounting to Rs.1.80 crore in its financial statements as on 31 March, 2023. CA Z as statutory auditor has decided to test 3 trade receivables from 15 trade receivables outstanding as on the balance sheet date. The details of the sampling method chosen by him is summarized in the table below.:-

| Name of Trade Receivable | Dr Balance (₹) | Cumulative balance | Sample |
|--------------------------|----------------|--------------------|---------------------|
| AK Industries | 400000 | 400000 | |
| BJ Trade Ltd | 500000 | 900000 | |
| Dot slim products | 1500000 | 2400000 | Selected Sample (1) |
| DN Pvt Ltd | 2000000 | 4400000 | |
| DST Ltd | 3500000 | 7900000 | |
| EE & Co. | 200000 | 8100000 | |
| JM & Co. | 375000 | 8475000 | Selected Sample (2) |
| KIM Industries | 225000 | 8700000 | |
| MAP Enterprises | 1425000 | 10125000 | |
| NIP Ltd | 5600000 | 15725000 | Selected Sample (3) |
| PIT Ltd | 1500000 | 17225000 | |
| RER Ltd | 600000 | 17825000 | |
| SMO & Co. | 50000 | 17875000 | |
| TER Systems | 25000 | 17900000 | |
| UTK Industries | 100000 | 18000000 | |

First sample was chosen by selecting a random number from random number generator which was 2200000. This number fell in cumulative balance relating to Dot Slim products. Hence, first sample of this balance was taken. Thereafter, sampling interval was added to last value and again process is repeated to obtain 3 samples. Which of following statements is true in above depicted situation?

- The above method of sampling fits description of the systematic selection method and it promotes audit efficiency.
- The above method of sampling fits description of the monetary unit sampling method. In such a method, larger value items have a greater chance for selection.
- The above method of sampling fits description of the monetary unit sampling method. However, the method has no predisposition toward selecting large-value items.

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- d. The above method of sampling fits description of the systematic selection method combined with random sampling and it promotes audit efficiency.

2. BDJ Private Ltd. was established in 2001 and since then the company's operations have grown significantly. The company is based in Kanpur and has branch offices outside Kanpur.

The company is engaged in tours and travels business and because of the nature of the business, it has voluminous transactions. The annual turnover of the company is INR 700 crore.

During the audit of the financial statements of the company for the year ended 31 March 2023, the auditors observed wide variation in various details of sales and various expenses as compared to last year. Various balances of trade receivables, loans and advances, statutory liabilities showed significant increase and many balances were found to be non-moving which were aged for more than 3 years.

On the basis of the materiality and planned procedures, the audit team requested the client for testing of various samples for sales, expenses etc. The client observed that the number of samples that the team has requested increased as compared to last year and asked the team to cut down on the number of samples so that it is the same number of samples which were tested in the previous years. The audit team did not agree with this and explained various factors which the team had considered for sample selection and the reasons for changes in the samples and also explained the requirements of SA 530 to the client but the client still did not agree.

Now there is a situation of deadlock and you are requested to provide your guidance to resolve this matter.

- The argument of the client is not valid. Sample selection is based on certain principles as per SA 530 and that is on the assessment of the audit team. It may change year on year and hence the client should provide the required information to the audit team.
- The audit team should make a formal request in writing for these details from the client and if the client still refuses then they should report this matter to the audit partner. In that case, the auditing standards require audit partner to check some of the documents which may not be provided by the client to the audit team.
- In the given situation, the audit team instead of getting into any arguments should cut down the number of samples and should increase their procedures around analytical work. That would resolve the problem.
- The explanation of the audit team is not valid. Referring SA 530 was not correct in this case. The audit team should have explained their entire approach around risk assessment to the client before starting the fieldwork and should have formally shared that with the client in writing.

3. During the audit of SAT Limited, CA. K has taken a sample of 50 purchase invoices for performing certain audit procedures. The total of 50 purchase invoices is Rs. 10 lacs. Out of the above sample, he detected a misstatement in 2 purchase invoices amounting to Rs. 5,000. Tolerable misstatement related to his testing is Rs. 2,00,000. Purchases reflected in the statement of profit and loss is Rs.5 crores. Which of the following statements is most appropriate in this regard?

- Projected misstatement is likely less than tolerable misstatement. No further action is required from the auditor.
- Projected misstatement is likely less than tolerable misstatement. However, the sample size should be increased for further testing keeping in view the misstatements found.
- Projected misstatement is likely more than tolerable misstatement. Therefore, the sample size should be increased for further testing.



- d. Projected misstatement is likely more than tolerable misstatement. Therefore, controls relating to purchases need to be tested more vigorously.

4. Auditors do not normally examine all the information available to them as it would be impractical to do so and using audit sampling will produce valid conclusions. Random selection ensures that all items in the population have an equal chance of selection, e.g. by use of random number tables or random number generators. Block sampling method includes selection of a block or blocks of continuous items from within the organisation.

Which of the following selection can be considered as block sampling method?

- Auditor Mr. A divided the trade receivables into 2 groups as: balances above ₹ 20 lakh and balances between ₹ 10 lakh to ₹ 20 lakh and selected different percentage of items from each group.
- Auditor Mr. A determined the starting point as 10 for the list of receivables and selected every 10th balance for receivables thereafter as samples to perform the tests.
- Auditor Mr. A selected sample size as all the high-value balances from the list of trade receivables to ensure that these balances shown are correctly recorded.
- Auditor Mr. A uses a sample of 50 consecutive cheques to test whether cheques are signed by authorised signatories rather than picking 50 single cheques throughout the year.

5. CA P, as part of a statutory audit exercise, is testing a company's internal controls over purchase orders it places for acquiring capital assets. The company places huge orders for the acquisition of capital assets every year, keeping in view the nature of its business and corresponding requirements.

While testing controls in a sample of purchase orders for the acquisition of capital assets, he failed to notice a lack of adherence to certain established parameters for placing such orders. The above situation is indicative of _____

- Sampling risk
- Non-sampling risk
- Control risk
- Inherent risk

| Q | Ans | Reason |
|---|-----|--|
| 1 | D | Sampling interval concept is used in systematic selection method. |
| 2 | A | Sample selection is based on principles as per SA 530 and on the assessment of audit team. It may change year on year and hence client should provide required information to the audit team |
| 3 | C | Projected misstatement = $(5,000/10L) * 5 Cr = ₹2.5 L$ i.e. greater than TM of 2L. Hence, reasonable basis for conclusion not reached, more testing to be done. |
| 4 | D | Selection of contagious/continuous items in population is block selection. |
| 5 | B | Since its auditor couldn't check samples properly it's a non-sampling risk. |

SA 550

M/s Ram Raj & Associates have been appointed as statutory auditors of Venus Ltd. For the FY 2022-23. During the year, the company has entered into some related party transactions. CA Ram, the engagement partner has taken a management representation letter regarding the proper accounting, presentation and disclosure of such related party transactions. Is there any further responsibility of CA Ram with respect to the other procedures to be performed for related party transactions?

- No, there is no further responsibility of CA Ram as the best audit evidence for the related party transaction is the management representation letter.

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- b. No, there is no further responsibility of CA Ram as the audit firm is responsible for verifying the balances and disclosure of related party transactions. The identification of related party transactions is the responsibility of the management of Venus Ltd.
- c. Yes, the audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.
- d. Yes, the auditor has the responsibility to detect fraud and error with respect to the related party transactions.

Ans ©

Reason: Audit firm has the responsibility to perform the audit procedures to identify, assess and respond to the risk of material misstatement arising from the entity's failure to appropriately account for related party relationships, transactions and balances.

SA 560

3. **When the management amends the financial statements, which were already issued, what audit procedures is the auditor required to perform?**
 - a. Carry out the audit procedures necessary to gain sufficient appropriate audit evidence over the event.
 - b. Extend the audit procedures to the date of the new auditors report.
 - c. Provide a new auditors report on the amended financial statements. The new auditors report shall not be dated earlier than the date of approval of the amended financial statements
 - d. All of above

2. CA Jayant is statutory auditor of a listed company Move and Move Limited for financial year 2023-24. On 15th June, 2024, there was an incident of fire in a logistics park where part inventories of company were also stored. It resulted in loss of inventories to the tune of Rs.20 crore for the company. Profit before tax in draft financial statements of the company for year 2023-24 is Rs.25 crore. Which statement is most appropriate in this regard?

- a. The above situation is in nature of adjusting event and auditor's duty is to see those financial statements for year 2023-24 should be adjusted to include above information.
- b. The above situation is in nature of non-adjusting event and auditor's duty is to see that its nature and probable financial impact is disclosed in financial statements for year 2023-24.
- c. The above situation is in nature of non-adjusting event and auditor's duty is to see those financial statements for year 2023-24 should be adjusted to include above information.
- d. The above situation is in nature of adjusting event and auditor's duty is to see that its nature and probable financial impact is disclosed in financial statements for year 2023-24.

3. Mr. Sunil Verma is conducting the statutory audit of Upshaant Ltd., an unlisted public company, for FY 2023- 24 as an engagement partner on behalf of Verma & Associates having six partners out of which four are chartered accountants and two are advocates. This was the third consecutive year of audit by the said audit firm of Upshaant Ltd. For current year's audit, a new audit engagement letter was sent by the audit firm to the company.

The financial statements of Upshaant Ltd. For FY 2023- 24 was required to be amended due to occurrence of subsequent events after the balance sheet date because of which the audit report was also amended by Verma & Associates which indicated that the auditor's procedures on subsequent events were restricted solely to the amendment of the financial statements described in the relevant note to the financial statements.

Whether due to amendment in audit report, its date need to be changed and what other alternative was available to Verma & Associates with respect to such amendment in financial statements?



- a. Date of audit report will be changed. Alternative available was to provide new or amended audit report by including a Key Matters paragraph.
- b. Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by extending the Basis of opinion paragraph.
- c. Date of audit report will be changed. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.
- d. Original Date of audit report will remain unchanged and additional date will be included. Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph.

4. Which of the following statements is not correct about performing audit procedures to identify subsequent event?

- a. The procedures are to be performed for the period between the date of financial statements & date of auditor's report or as near as practicable.
- b. Obtain written representation from the management that events have been adjusted or disclosed as per applicable financial reporting framework
- c. Perform additional procedures on matters which have already yielded satisfactory conclusions.
- d. The auditor has to perform procedures in respect of all the facts which would have an impact on the auditor's report.

| Q | Ans | Reason |
|---|-----|---|
| 1 | d | All procedures required as per SA 560. |
| 2 | b | The event has occurred after closure of year. It is a non-adjusting subsequent event and it does not have effect on items of financial statements for year 2023-24. However, financial impact is material. Inventories destroyed are 80% of PBT. Impact should be disclosed in financial statements for year 2023-24 in accordance with SA 560. |
| 3 | d | Whenever F.S. are amended to give effect to a subsequent event. There are two options. Original Date of audit report remain unchanged and additional date will be included (dual dating). Alternative available was to provide new or amended audit report by including an Emphasis of Matter paragraph or Other Matter(s) paragraph. |
| 4 | c | No need to perform additional procedures on matters which have already yielded satisfactory conclusions. |

SA 570

3. TPL Limited is engaged in business of construction of flyovers and its operations are restricted to one state. During year 2023-24, owing to adverse findings of a safety audit conducted by state government, one of the flyovers constructed by company in a city has been closed. The company has been blacklisted and issued show cause notice as to recovery of costs. Further, directors of company have also been arrested under proceedings launched under law due to shoddy quality of construction endangering lives of citizens. Even Supreme Court has denied any relief to directors. CA T is auditor of the company for financial year 2023-24. The second rung of management has provided cash flow forecast for coming years to him reflecting avenues from where cash flows would be generated and related outflows. However, he remains unconvinced regarding assumptions behind cash flow forecast. What are Implications for auditor's report in this regard?
- a. Express Disclaimer of opinion
 - b. Express qualified opinion
 - c. Express adverse opinion
 - d. Express qualified or adverse opinion depending upon circumstances.

2. Which of the following is not an indicator about material uncertainty over the entity's ability to continue as a going concern:

- a. Net liability or net current liability position.
- b. Cancellation of company's production license due to change on government policies.
- c. Non-declaration of dividend to equity shareholders.
- d. Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.

3. CA Chetan has noticed as part of statutory audit of a company that its key financial ratios are in red and its topline has fallen drastically over years. The company is struggling to pay its loans and even TDS deducted from employee salaries is deposited after a gap of about five to six months with interest. The company is filing its GSTR-3B just in nick of time to avoid blocking of its e-way bill generation facility on e-way bill portal. In these circumstances, company has prepared a cash flow forecast for coming years. Which is not likely to be a reliable and appropriate audit procedure in this regard?

- a. Check arithmetical accuracy of cash flow forecast
- b. Accept increase in cash flow from sales and realization from customers.
- c. Make inquiry regarding how piled up statutory dues would be paid
- d. Check whether any material payments have been left out in cash outflows

| S No. | Ans. | Reason |
|-------|------|---|
| 1 | c | Blacklisting by government and proceedings to recover costs and legal proceedings are examples of events which cast doubt on entity's ability to continue as going concern. The auditor is unconvinced about the going concern assumption which management has sought to justify by preparing cash flow forecast. Adverse opinion is to be issued in such case in accordance with SA 570. |
| 2 | c | Non declaration of dividend isn't a material uncertainty. |
| 3 | b | In a business where company's sales are falling, auditor has to question company regarding increase in cash flow from sales and customers. He has to ask basis of assumptions behind increased cash flows. He cannot meekly accept cash flows shown in forecast in such a situation where there is uncertainty about going concern assumption in accordance with SA 570. |

SA 580

Arrange the following audit procedures in proper order, in case of requested written representations not provided:

- (i) Take appropriate actions including determining possible effect on audit opinion.
- (ii) Re-evaluate integrity of management.
- (iii) Discuss matter with management.
- (iv) Evaluate effect on reliability of representations (oral or written) and audit evidence.

- a. (i)-4 (ii)-2 (iii)-1 (iv)-3
- b. (i)-2 (ii)-3 (iii)-4 (iv)-3
- c. (i)-2 (ii)-4 (iii)-1 (iv)-3
- d. (i)-4 (ii)-1 (iii)-3 (iv)-2

Ans (a)

An auditor's expert may be either an auditor's internal or an external expert. Which of the following cannot be an auditor's internal expert?

- Partner of the Auditor's Firm
- Temporary Staff of the Auditor's Firm
- Permanent Staff of Auditor's Network Firm
- A Prospective CA, soon to join the Auditor's Firm as a Partner.

Ans (d)

1. Description of each key audit matter in the "key audit matters section" needs to cover except following aspects:

- Reference to related disclosures, if any, in the financial statements.
- Explanation on the matter given by management.
- How the matter was addressed in the audit.
- Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.

Ans (b)

2. While auditing the complete set of consolidated financial statements of Tulips Ltd., a listed company, using a fair presentation framework, M/s Pintu & Co., a Chartered Accountant firm, discovered that the consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so. Thus, M/s Pintu & Co. decided to provide an adverse opinion for the same and further determined that, there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section. Comment whether M/s Pintu & Co. needs to report under SA 701 'Communicating Key Audit Matters in the Independent Auditor's Report'?

- M/s Pintu & Co. have the option to follow SA 701, thus, need not to report any key audit matters.
- SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, no 'Key Audit Matters' para needs to be stated under audit report.
- SA 701 is mandatory in the case of audit of listed entities, however, as there are no key audit matters other than the matter to be described in the Basis for Adverse Opinion section, M/s Pintu & Co. shall state, under 'Key Audit Matters' para, that 'except for the matter described in the Basis for Adverse Opinion section, we have determined that there are no other key audit matters to communicate in our report.'
- M/s Pintu & Co. is under compulsion to follow SA 701 as the audit is of a listed company and shall report under 'Key Audit Matters' para the matter same as stated in 'Adverse Opinion' para regarding non-consolidation of a subsidiary.

Ans (c)

1. CA Kamal is the statutory auditor of Autocover Ltd. for the FY 2023-24. The company is engaged in the business of manufacture of car accessories. CA Kamal noticed that the inventories of the company amounting to ₹ 46 crore (equal to 25% of the total assets of the company) at the end of the year do not exist. Also, sales amounting to ₹ 33 crore (equal to 10% of the total sales during the year) have not actually occurred. CA Kamal noticed both the

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material discrepancies just before the finalisation of the audit report for the year ending 31.03.2024. CA. Kamal considers that the above misstatement would distort the true and fair view to a greater extent. What is correct course of action that CA Kamal should consider in such a situation?

- CA Kamal should consider withdrawing from the audit engagement or issuing a disclaimer of opinion for the FY 2022-23.
- CA Kamal should consider issuing an adverse opinion and mentioning both the material discrepancies in the basis for adverse opinion paragraph of the auditor's report.
- CA Kamal should ask the management to explain both the discrepancies in the notes to accounts and he himself should highlight the matter in the Key Audit matter paragraph of the auditor's report.
- CA Kamal should give a qualified opinion along with the specific mention of the matters in the Emphasis of matter paragraph in the auditor's report along with appropriate disclosure in the notes to accounts to be made by the management of Autocover Ltd.

Ans (b)

Description: Since impact of material misstatement isn't restricted to single element of F.S. its deemed to be pervasive. Also Auditor has SAAE, hence, adverse opinion issued.

2. During the conduct of audit, it was found that the management has intentionally made material misstatements in the several items of the financial statements to deceive the users of the financial statements, to reduce the pressures of meeting market expectations and to increase the reputation of the company. What would be the implications on the auditor's report if no adjustments are made to the financial statements regarding the misstatements made by the management?

- The auditor would issue a qualified audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that 'except for' these matters the financial statements are fairly presented. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Adverse Opinion' paragraph below the opinion paragraph.
- The auditor would issue an adverse audit opinion stating that financial statements 'do not give a true and fair view'. The auditor should also include a 'Basis for Qualified Opinion' paragraph below the opinion paragraph.

Ans (c)

SA 710

CA Ram identified that there was a misstatement last year and the same is still not corrected. Although unmodified audit report was issued last year by CA Ram. Guide CA Ram on the audit opinion considering the fact that the last year's misstatement has been identified in the current year and unmodified opinion was issued in the last year?

- In accordance with SA 710, CA Ram should give unmodified opinion, but include Other matters paragraph in the audit report as last year's profit is being reflected in reserve and surplus.
- In accordance with SA 710, CA Ram should seek legal opinion.
- In accordance with SA 710, CA Ram should qualify current period audit report with respect to corresponding figures only.
- In accordance with SA 710, CA Ram should give unmodified opinion, but last period's modified opinion should be highlighted in Emphasis of matter paragraph.

Ans (c)

CA Shubham Keswani

Ch-2 Professional Ethics

1. CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others. Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants for 3 days in a week and for 2 hours in a day. However, he forgot to take specific permission for such private tutorship from the Council. Later on, he came to know that the Council has passed a Resolution under Regulation 190A granting general permission (for private tutorship, and part-time tutorship under Coaching organization of the Institute) and specific permission (for parttime or full-time tutorship under any educational institution other than Coaching organization of the Institute). Such general and specific permission granted is subject to the condition that the direct teaching hours devoted to such activities taken together should _____ in order to be able to undertake attest functions.

- not exceed 25 hours a week.
- not exceed 21 hours a week.
- not exceed 25 hours a month.
- not exceed 21 hours a month.

2. CA. Intelligent, a Chartered Accountant in practice, provides part-time tutorship under the coaching organization of the Institute. On 30th June, 2023, he was awarded Best Faculty of the year as gratitude from the Institute. Later on, CA. Intelligent posted his framed photograph on his website wherein he was receiving the said award from the Institute. As per Chartered Accountants Act, 1949, under which clause Intelligent is liable for misconduct?

- Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (9) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- Clause (7) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.

3. How can auditors effectively mitigate intimidation threats?

- By forming personal relationships with the client's management to build trust.
- By accepting gifts and financial incentives from the client.
- By maintaining independence and reporting any threats or pressures to appropriate parties.
- By refraining from seeking clarification from the client during the audit.

4. What does NOCLAR stand for in the context of auditing?

- National Obligation for Compliance with Laws and Regulations
- Non-Compliance with Laws and Regulatory Requirements
- New Oversight of Client Legal and Regulatory Compliance
- New compliance with laws and regulations

5. CA Mridul has been appointed as statutory auditor of PQT Limited, a reputed listed company engaged in the manufacturing of electronic products, in accordance with provisions of the Companies Act, 2013. Currently, he is also actively involved in advising the government in favour of proposed legislation likely to be introduced in one of the coming sessions of Parliament to attract investments and cutting-edge technology in the electronic products sector on behalf of his client. He has participated in TV programmes on the matter, written articles in business

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papers on the subject, and given key suggestions to the government in this regard. In all public appearances and statements, he has openly stated the fact of being associated with PQT Limited in the capacity of auditor. Which of the following statements is likely to be correct in this regard?

- The described situation can involve self-interest threats to the independence of the auditor.
- The described situation can involve familiarity threats to the independence of the auditor.
- The described situation can involve advocacy threats to the independence of the auditor.
- The described situation can involve self-review threats to the independence of the auditor.

6. CA. D, a chartered accountant in practice, availed of a loan against his personal investments from a bank. He issued 2 cheques towards repayment of the said loan as per the instalments due. However, both the cheques were returned back by the bank with the remarks "Insufficient funds". As per Chartered Accountants Act, 1949, under which clause CA D is liable for misconduct?

- Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- Clause (12) of Part I of the First Schedule to the Chartered Accountants Act, 1949.
- Clause (2) of Part IV of the First Schedule to the Chartered Accountants Act, 1949.

7. CA Dharma has established another branch in the same city. Branch was inaugurated on 3rd October 2023 and on 4th October 2023, friends of CA Dharma gave an article on the front page of local newspaper congratulating CA Dharma on opening of another branch which also includes half page photograph of CA Dharma with his consent. In your opinion was the news in newspaper a misconduct on the part of CA Dharma and what actions can be taken against him?

- Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members for 3 years and fine upto ₹ 5,00,000.
- Yes, it is a misconduct under under clause 5 Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto ₹ 1,00,000.
- Yes, it is a misconduct under clause 7 of Part I of First Schedule and he can be reprimanded, his name can be removed from the register of members for 3 months and fine upto ₹ 1,00,000.
- Yes, it is a misconduct under clause 8 of Part I of Second Schedule and he can be reprimanded, his name can be removed from the register of members permanently and fine upto ₹ 5,00,000.

8. Mr. Hopeful, an aspiring student of ICAI, approached Mr. Witty, a practicing Chartered Accountant, for the purpose of articleship. Mr. Witty, the principal, offered him stipend at the rate of ₹ 2,000 per month to be paid every sixth month along with interest at the rate of 10% per annum compounded monthly to compensate such late payment on the plea that cycle of professional receipts from clients is six months. Mr. Hopeful agreed for such late payment in the hope of getting extra stipend in the form of interest. Mr. Witty, however, used to disburse salary to all of his employees on time. As per Chartered Accountants Act, 1949, under which clause Mr. Witty is liable for misconduct.

- Clause (1) of Part II of the Second Schedule to the Chartered Accountants Act, 1949.
- Clause (4) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.
- Mr. Witty is paying interest thus he is not liable for misconduct.
- Clause (10) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.