

# M.K.G CA EDUCATION

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## TEST-2

### CA INTERMEDIATE

### AUDITING AND ETHICS

#### Topics Covered:

1. Nature, Objective and Scope of Audit
2. Audit Strategy, Audit Planning and Audit Programme
3. Audit Documentation
4. Audit Evidence
5. Ethics and Terms of Audit
6. Audit Report

**QUESTION PAPER BOOKLET NO. 2022024**

**(25-02-2024 3:00 P.M. TO 6:00 P.M.)**

Roll No .....546871.....

Time allowed: 3 hours

Total No. of Printed Pages: 9

Maximum Marks: 100

#### GENERAL INSTRUCTIONS TO CANDIDATES

1. The Question Paper comprises two parts, Part I & Part II
2. Part I comprises Multiple choice Questions
3. Part II comprises questions which require descriptive type answers
4. TIME ALLOWED 180 MINUTES
5. MAXIMUM MARKS 100

## Part I

### MULTIPLE CHOICE QUESTIONS

#### Each question consists of 1 mark

1. Which of the following statement is false?
  - (a) Reliability of audit evidence is increased when it is obtained from independent sources outside the entity
  - (b) Audit evidence obtained indirectly are more reliable than audit evidence obtained directly by the auditor
  - (c) Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally
  - (d) Audit evidence provided by original documents are more reliable than audit evidence provided by photocopies
2. Audit evidence is necessary to support the auditor's opinion and report. It is \_\_\_\_\_ in nature and is primarily obtained from audit procedures performed during the course of the audit
  - (a) Cumulative
  - (b) Regressive
  - (c) Selective
  - (d) Objective
3. "If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence of inventory by attending the physical inventory counting unless impracticable." Purpose of attending inventory count is to:
  1. Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting
  2. Observe the performance of management's count procedures;
  3. Inspect the inventory;
  4. Perform test counts
  5. Valuation of the inventory
  6. Identify the weaknesses to be informed to those charged with governance as per requirement of SA 260
  7. Determine the key audit matters so as to be incorporated in the audit report as per requirements of SA 701

Select the main purpose:

  - (a) 1, 2, 6 and 7
  - (b) 1, 2, 3 and 4
  - (c) 1, 2, 5, 6 and 7
  - (d) 5, 6 and 7
4. ABC Ltd. is dealing in trading of electronic goods. Huge inventory (60% approximately) of the company is lying on consignment (i.e. under the custody of third party). CA. Mohit, the auditor of the company, wants to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory lying on consignment. Thus, he requested & obtained confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity, however, it raised doubts about the integrity and objectivity of the third party. Which of the following other audit procedures may be performed by CA. Mohit to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventory under the custody of third party?
  - (a) Attend third party's physical counting of inventory
  - (b) Arrange for another auditor to attend third party's physical counting of inventory

- (c) Inspect warehouse receipts regarding inventory held by third parties
  - (d) All of the above
5. A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information is known as:
- (a) Positive Confirmation request
  - (b) Negative Confirmation request
  - (c) Third party confirmation
  - (d) Request for Written representation
6. While designing external confirmation request, which of the following factors need to be considered:
- (a) Method of communication
  - (b) Management authorisation/encouragement to Confirming Party to respond to auditor
  - (c) Ability of Confirming Party to provide/confirm requested info
  - (d) All of the Above
7. As per SA 505, if management refuses to allow the auditor to send a confirmation request, the auditor.
- (a) need not to inquire the reasons from management and may modify the opinion directly
  - (b) need not to inquire the reasons from management & perform alternate procedures
  - (c) need to inquire the reasons and perform alternate audit procedures
  - (d) None of the above
8. As per SA 505 “External Confirmations”, if management refuses the auditor to send a confirmation request, the auditor shall:
- (a) Determine the implications for the audit and auditor's opinion in accordance with SA 705
  - (b) Evaluate the implications of the assessment of the relevant risk of material misstatements, including the risk of fraud
  - (c) Consider the matter as Key Audit matter and report as per SA 701
  - (d) None of the above
9. Initial Audit Engagement is an engagement in which prior period financial statements are:
- (a) not audited
  - (b) audited by the predecessor auditor
  - (c) audited by same auditor
  - (d) either (a) or (b)
10. Audit evidence is necessary to support the auditor’s opinion and report. It is \_\_\_\_\_ in nature and is primarily obtained from audit procedures performed during the course of the audit.
- (a) cumulative
  - (b) regressive
  - (c) selective
  - (d) objective
11. \_\_\_\_\_ refer to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity’s internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- (a) Audit assessment procedures

- (b) Substantive procedures
  - (c) Test of control
  - (d) Risk assessment procedures
12. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:
- (a) a disclaimer opinion
  - (b) a qualified opinion
  - (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.
  - (d) unmodified opinion
13. A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is called-
- (a) Negative confirmation request
  - (b) Non-response
  - (c) Exception
  - (d) Positive confirmation request
14. Which of the following is correct:
- (a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.
  - (b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
  - (c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.
  - (d) The auditor shall not assemble the audit documentation in an audit file.
15. Audit evidence includes
- (a) information contained in the accounting records underlying the financial statements
  - (b) both information contained in the accounting records underlying the financial statements and other information.
  - (c) other information.
  - (d) information contained in the accounting records underlying the financial statements or other information.
16. Most of the auditor's work in forming the auditor's opinion consists of:
- (a) obtaining audit evidence.
  - (b) evaluating audit evidence.
  - (c) obtaining or evaluating audit evidence.
  - (d) obtaining and evaluating audit evidence.
17. A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial
- (a) Misstatement
  - (b) Error
  - (c) Fraud
  - (d) Any of the above

18. If the prior period financial statements were not audited, the auditor shall state in \_\_\_\_\_ in the auditor's report that the corresponding figures are unaudited
- (a) Key Audit Matter
  - (b) Emphasis of Matter paragraph
  - (c) Other Matter Paragraph
  - (d) Basis for Opinion Section
19. A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue-
- (a) a qualified opinion
  - (b) an adverse opinion
  - (c) a disclaimer of opinion
  - (d) emphasis of matter paragraph.
20. An Audit report is:
- (a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.
  - (b) an opinion drawn on the entity's books of account to make sure that the records are true and fair representation of the transactions they claim to represent.
  - (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.
  - (d) an opinion drawn on the entity's books of account to make sure that the records are true and correct representation of the transactions they claim to represent.
21. Which of the following is not a Specific Evaluations by the Auditor?
- (a) The financial statements adequately disclose the significant accounting policies selected and applied.
  - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.
  - (c) The accounting estimates made by management are reasonable.
  - (d) The sufficient appropriate audit evidence has been obtained.
22. Which of the following is correct?
- (a) The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (b) The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (c) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
  - (d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.
23. When planning the audit,
- (a) the auditor considers what would make the financial information materially misstated.
  - (b) the auditor need not consider what would make the financial information materially misstated.
  - (c) the auditor need not consider what would make the financial information materially misstated at

planning stage.

(d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only.

24. With reference to SA 300, the auditor shall document:

(a) The overall audit strategy

(b) The audit plan

(c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes.

(d) All of the above

25. Judging the significance of a matter requires \_\_\_\_\_ analysis of the facts and circumstances.

(a) objective

(b) subjective

(c) both subjective and objective

(d) qualitative

26. An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of \_\_\_\_\_ exercised in performing the work and evaluating the results.

(a) professional skepticism

(b) professional integrity

(c) professional judgment

(d) professional sincerity

27. Standard on Quality Control (SQC) 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of \_\_\_\_\_.

(a) Management.

(b) Those charged with governance.

(c) Management or Those charged with governance.

(d) Auditor.

28. Professional skepticism is necessary to the critical assessment of

(a) audit documentation

(b) audit evidence

(c) audit procedures and techniques

(d) none of the above

29. As per SA 210 “Agreeing the Terms of Audit Engagements”, the auditor shall agree the terms of the audit engagement with:

(a) Management

(b) Those charged with governance

(c) Management or those charged with governance, as appropriate.

(d) Engagement team members

30. The matter of difficulty, time, or cost involved is:

(a) not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.

(b) in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative.

(c) not in itself a valid basis for the auditor to omit an audit procedure for which alternative exists.

(d) not in itself a valid basis for the auditor to omit an audit procedure.

**Part II****(70 Marks)****SUBJECTIVE QUESTIONS**


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*Note: Question no. 1 is compulsory. Answer any Four questions from the rest.*

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**Question 1**

**Evaluate whether the following statements is correct or incorrect with reason. Attempt any 7 out of 8.**  
**(2×7= 14)**

- (i) Auditor's Opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise.
- (ii) To maintain an adequate accounting system incorporating various controls is the responsibility of Management.
- (iii) The term independence implies that the auditor should respect the confidentiality of client information.
- (iv) Auditor is able to obtain only reasonable assurance due to inherent limitation of audit.
- (v) An unqualified opinion in audit report is a guarantee as to the future viability of the company.
- (vi) An auditor is not concerned with consistency of accounting policies relating to opening balances.
- (vii) Audit evidence obtained from external confirmation is always reliable.
- (viii) AAS 25 (SA 710) on 'comparatives' is applicable to corresponding previous year figures and not to comparative financial statement.

**Question 2(a)**

Discuss the points to be considered by auditor for the purpose of constructing an audit programme.  
**(5 Marks)**

**Question 2(b)**

Mention the Analytical Review procedures that may be useful as a means of obtaining audit evidence regarding various assertions relating to Trade receivables, loans and advances.  
**(4 Marks)**

**Question 2(c)**

How can an auditor verify the existence of related party relationships and transactions?  
**(5 Marks)**

**Question 3(a)**

What is Emphasis of matter Paragraph? State the circumstances when EOM para can be included in Auditor's report.  
**(4 Marks)**

**Question 3(b)**

When corresponding figures are presented, the auditors' opinion shall not refer to the corresponding figures. Discuss the exceptions of the above statement when the prior period financial statements.  
**(6 Marks)**

**Question 3(c)**

X Ltd. has a branch office in Malaysia. The company has appointed Mr. X, who is qualified to audit accounts as per Malaysian laws. Mr. Z, the statutory auditor objects to the same, contending that he alone can audit the branch office accounts. Discuss.  
**(4 Marks)**

**Question 4(a)**

Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse. **(5 Marks)**

**Question 4(b)**

Audit documentation provides evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements. Explain stating clearly purpose of audit documentation. **(5 Marks)**

**Question 4(c)**

Write short note on: Statistical and Non-statistical Sampling. **(4 Marks)**

**Question 5(a)**

Write short note on: Stratified sampling. **(4 Marks)**

**Question 5(b)**

Discuss the techniques available as substantive analytical procedures. **(6 Marks)**

**Question 5(c)**

CA A, auditor of ABC Ltd, wants to design substantive analytical procedure and for that he wants to check whether the data is reliable or not. Mention the relevant points which he has to consider whether data is reliable for purpose of designing the substantive analytical procedures. **(4 Marks)**

**Question 6(a)**

Examine the applicability of CARO, 2020 in the below mentioned cases:

- (a) Educating Child is a limited company registered under section 8 of the Companies Act, 2013.
- (b) Ashu Pvt. Ltd. having paid capital and reserves of Rs.50 lakh. During the year, the company had borrowed Rs.70 lakh each from a bank and a financial institution independently. Turnover for the year was Rs.900 lakh.

**(4 Marks)**

**Question 6(b)**

Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement and also by the quality of such audit evidence. Obtaining more audit evidence, however, may not compensate for its poor quality. Explain also stating the factors affecting auditor's judgment as to sufficiency of audit evidence. **(5 Marks)**

**Question 6(c)**

Explain various methods to obtain audit evidence. **(5 Marks)**



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