

CA FINAL AUDIT

MCQ COMPILER



COMPILER

**ADVANCED AUDITING, ASSURANCE
AND PROFESSIONAL ETHICS**

5TH EDITION

By India's Most Dynamic Faculty For Audit

CA AARTI LAHOTI

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CA FINAL

GROUP - I

5TH EDITION

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MODULE - III

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Price : Rs. 1495

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Right Concept. Right Practice. Right Result. — this simple philosophy forms the foundation of everything you will learn in this book.

Dear Students,

*It gives me immense pleasure to present **Module II – Q & A Scanner of Auditing for CA Final**, the second component of a comprehensive three-module preparation framework comprising -*

Module I – Theory Notes,

Module II – Q & A Scanner, and

Module III – MCQ Compiler.

At the CA Final level, success in Auditing depends on the ability to apply concepts, structure answers logically and present professional reasoning in line with ICAI expectations. This module has been designed to help you convert conceptual knowledge into clear, well-structured and exam-ready answers.

The questions included cover important and application-oriented areas of the syllabus, and the answers have been drafted with emphasis on language, structure and depth appropriate for CA Final examinations.

*For effective preparation, this module should be used alongside **Module I – Theory Notes** for conceptual clarity and **Module III – MCQ Compiler** for strengthening accuracy and application.*

Consistent writing practice from this module will significantly improve your confidence and examination performance.

*I had the privilege of securing **All India Rank 24** in the CA Final Examination held in November 2008.*

Auditing defines your identity as a Chartered Accountant, yet it is often feared as one of the most theoretical subjects at the CA Final level. With a structured approach to concepts, writing and revision, countless students have transformed Audit from a feared paper into their most favourite subject. These books, along with Regular, Fast Track and Marathon video lectures and continuous revision support on the Aarti Lahoti YouTube channel, are designed to help you approach Audit with clarity, confidence and a scoring mindset.

“Much like SA 200 sets out the overall objective of the independent auditor, the overarching objective of Aarti Lahoti’s notes and classes has always been to make Audit logical, relatable and scoring, not intimidating.”

Wishing you disciplined preparation and professional excellence.

Happy Auditing!

Warm Regards,

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CA Aarti Lahoti Classes



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1

INTEGRATED CASE STUDIES

INTEGRATED CASE STUDY - 1

Jupiter Industries Ltd., an established chemical manufacturer based in Vadodara, Gujarat, is listed on both the BSE & NSE. The company produces a variety of industrial chemicals & is a multi-faceted entity.

M/s Pinnacle & Associates, a Chartered Accountants firm, was appointed to conduct the statutory audit for F.Y. 2024-25. CA Rishi was the engagement partner for the said assignment. He noticed that those charged with governance in the company are also involved in managing the entity.

During the ongoing audit engagement, M/s Pinnacle & Associates had already issued the Limited Review Reports for the first & second quarters (Quarter 1 & Quarter 2). Before commencing the review for the third quarter (Quarter 3), the management informed CA Rishi that they would not provide access to a critical overseas subsidiary's books & records, citing confidentiality agreements with a joint venture partner. This imposed a scope limitation on the audit. CA Rishi considered this limitation likely to result in the need to express an opinion modification on the full-year financial statements & accordingly, he requested management to remove such limitations. However, the management refused to remove the said limitation.

After following the due procedures applicable in the circumstances, finally, CA Rishi with his engagement team, concluded that the possible effects on the financial statements of undetected misstatements, could be material & pervasive so that a qualified opinion would be inadequate to communicate the gravity of the situation. Accordingly, he proposed to withdraw from the engagement after consulting with the senior partners of the firm as on 25th November, 2024. In its resignation letter, the firm mentioned professional pre-occupation as the reason for the resignation.

Based on the above facts, answer the following:

1.	What was the immediate responsibility of M/s Pinnacle & Associates with respect to the issue of the Limited Review Report at the time of proposing resignation on 25th November 2024?	A
	(a) The Limited Review Report for Quarter 3 was required to be issued, & consequently, the audit report for the full year is also required to be issued before resignation.	
	(b) The Limited Review Report for Quarter 3 was required to be issued before resignation.	
	(c) Since Limited Review Report for Quarter 1 & Quarter 2 was already issued, no further Limited Review Report was required, & the firm could resign immediately.	
	(d) Limited review report for third quarter was required to be issued subject to the terms of the audit engagement.	
2.	What was the responsibility of CA Rishi when the management refused to remove the said limitation?	B
	(a) To communicate the matter to those charged with governance & determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.	
	(b) To determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.	
	(c) To determine whether it is possible to perform additional procedures to obtain sufficient appropriate audit evidence.	
	(d) To request for written representation from the management for the matters on which limitation is imposed & also communicate the matter to those charged with governance.	
3.	If the auditor proposed to resign on 25th November before issuing Limited Review Report for second quarter, then what will be the responsibility of M/s Pinnacle & Associates with respect to withdrawal from engagement & issue of limited review report at the time of resignation?	D
	(a) The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review reports for second & third quarter were required to be issued.	
	(b) The auditor shall communicate to management & those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review report was not required to be issued.	

	(c)	The auditor shall communicate to those charged with governance that the possible effects on the financial statements of undetected misstatements, if any, could be both material & pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation & the limited review report for second quarter was required to be issued.	
	(d)	The auditor shall communicate to those charged with governance the matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion & the limited review report for second quarter was required to be issued.	
4.	Whether in the given circumstance withdrawal from engagement was mandatory & if so, what is the responsibility of the auditor with respect to such withdrawal?		A
	(a)	In the given circumstance withdrawal from engagement was mandatory & in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.	
	(b)	In the given circumstance withdrawal from engagement was mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.	
	(c)	In the given circumstance withdrawal from engagement was not mandatory & in case of withdrawal, the auditor was required to withdraw from the audit, where practicable & possible under applicable law or regulation.	
	(d)	In the given circumstance withdrawal from engagement was not mandatory & in case of withdrawal, since withdrawal from the audit before issuing the auditor's report was not practicable or possible, he was required to disclaim an opinion on the financial statements.	
5.	Assuming Jupiter Industries Ltd., to be an unlisted company, whether the reason for resignation by M/s Pinnacle & Associates was proper?		C
	(a)	Yes, in the given case, the reason of resignation was due to the limitations imposed by the management & refusal to provide reasons for the same. Since, the company is unlisted, it was entirely at the auditor's discretion whether to disclose detailed reasons for the resignation or not.	
	(b)	Yes, as the requirement for clear mention of reasons is not applicable to unlisted company.	
	(c)	No, the auditor should have clearly mentioned the reasons for the resignation in the resignation letter issued to the Company.	
	(d)	No, the reasons should have been a little extensive & further the exact reason must be provided to the new auditor to be appointed by the company.	

INTEGRATED CASE STUDY - 2

MN & Associates, a firm of Chartered Accountants, having CA. M & CA. N as partners, is based at Mumbai. MN & Associates are appointed to conduct statutory audit of Zinc Ltd. Zinc Ltd. is required to appoint an internal auditor as per statutory provisions given in the Companies Act, 2013 & appointed CA. IA as its internal auditor. MN & Associates asked Mr. IA to provide direct assistance to him regarding evaluating significant accounting estimates by the management & assessing the risk of material misstatements. He also seeks his direct assistance in assembling the information necessary to resolve exceptions in confirmation responses with respect to external confirmation requests & evaluation of the results of external confirmation procedures.

CA. M accepted his appointment as tax auditor of a firm under section 44AB, of the Income-tax Act, & commenced the tax audit within two days of appointment since the client was in a hurry to file Return of Income before the due date. After commencing the audit, CA. M realised his mistake of accepting this tax audit without sending any communication to the previous tax auditor. In order to rectify his mistake, before signing the tax audit report, he sent a registered post to the previous auditor & obtained the postal acknowledgement.

CA. N provides management consultancy & other services to its clients. CA. N was also awarded 'Best Speaker of the year' as gratitude from the Institute. Later on, CA. N posted his framed photograph on his website wherein he was receiving the said award from the Institute. Upon hearing about the efficient services provided by MN & Associates Chartered accountants, they were approached by XYZ Cooperative Society to act as their statutory auditor for the upcoming financial years. The firm agreed to the offer & had the following options in mind with respect to the fees to be charged from them:

- (i) To charge fees as percentage of Net Profits, or
- (ii) To charge fees of ₹ 501/-.

Based on the abovementioned facts, you are required to answer the following MCQs:

1.	<p>With respect to the fees to be charged for its new assignment, which option can be opted by MN & Associates.?</p> <p>(i) To charge fees as percentage of Net Profits, or (ii) To charge fees of ₹ 501/-.</p> <p>(a) (i) Only (b) (ii) Only (c) Either (i) or (ii) (d) Neither (i) nor (ii)</p>	C
2.	<p>MN & Associates sought direct assistance from CA. IA, internal auditor as stated in the above scenario. Advise as to whether he is permitted to do so in accordance with relevant Standards on Auditing.</p> <p>(a) CA. IA cannot assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses. However, MN & Associates can ask Mr. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements as per SA 610. (b) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements. However, CA. IA may assist MN & Associates in assembling information necessary to resolve exceptions in confirmation responses as per SA 610 (c) MN & Associates cannot ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610. (d) MN & Associates can ask CA. IA for direct assistance regarding evaluating significant accounting estimates & assessing the risk of material misstatements & in assembling the information necessary to resolve exceptions in confirmation responses as per SA 610.</p>	B
3.	<p>As per the Chartered Accountants Act, 1949, under which clause CA. N is liable for misconduct?</p> <p>(a) Clause (9) of Part I of the First Schedule to the Chartered Accountants Act, 1949. (b) Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949. (c) Clause (8) of Part I of the Second Schedule to the Chartered Accountants Act, 1949. (d) Clause (7) of Part I of the Second Schedule to the Chartered Accountants Act, 1949.</p>	B
4.	<p>Before signing the tax audit report, CA. M sent a registered post to the previous auditor & obtained the postal acknowledgement. Will CA. M be held guilty of professional misconduct under the Chartered Accountants Act, 1949?</p> <p>(a) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949 CA. M will not be held guilty of professional misconduct as he communicated with the previous tax auditor before signing the audit report. (b) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing. (c) As per Clause (8) of Part I of First Schedule to the Chartered Accountants Act, 1949, CA. M will not be held guilty of professional misconduct since the requirement for communicating with the previous auditor being a chartered accountant in practice would apply to statutory audit only. (d) As per Clause (8) of Part I of Second Schedule to the Chartered Accountants Act, 1949, CA. M will be held guilty of professional misconduct since he has accepted the tax audit, without first communicating with the previous auditor in writing.</p>	B

INTEGRATED CASE STUDY - 3

JMP Limited is a public company listed on the BSE, having its registered office in Mumbai. The company is primarily engaged in the manufacturing of consumer electronics. During the preceding financial year, the company recorded a remarkable turnover of ₹ 4200 crores, accompanied by a net profit of ₹ 670 crores. Additionally, the company has secured a loan facility from the ICICI Bank amounting to ₹ 850 crores.

RST & Co., a firm of chartered accountants based in Mumbai, has been appointed as a joint auditor along with LM & Co. & ABC & Co., an esteemed chartered accountant's firm in the same city. JMP Limited has completed the

appointment related formalities as well as they have also signed engagement letters. The engagement letter contains details on the objective & scope of the audit, responsibilities of the auditors, management, & identification of the framework applicable. Moreover, while planning the audit, joint auditors have divided the responsibility for conducting audit in accordance with SA 299. Further, the audit team has established ₹ 42 Crore as the materiality threshold, calculated at 1% of turnover.

During the audit, LM & Co. came to know that one of the employees of the company had been involved in fraud amounting to ₹ 175 Lakhs.

Additionally, as a part of the audit procedure, the auditor had sent requests to 90 suppliers for confirming the year end balance. The said requests were designed in such a way that the supplier will directly respond to the auditor indicating that the supplier agrees or disagrees with the same. However, the confirmation responses were received only from 30 Suppliers.

Moreover, as a part of the audit procedure, the auditors of JMP Limited decided to roll out external confirmation from the 40 Debtors to confirm their year end balance. However, the management refused the auditors to send the confirmation. After asking the reason for such refusal, auditors concluded that such refusal was unreasonable, & the auditor was also unable to obtain relevant & reliable audit evidence from alternative audit procedures.

In addition, while forming an opinion, RST & Co. had a different opinion on the valuation of inventories, but LM & Co. & ABC & Co. had the same opinion & accordingly, given their majority stance, both LM & Co. & ABC & Co. assert that RST & Co. must endorse a Common audit report aligned with their opinion.

Apart from this, AB Private Limited, an associate enterprise of JMP Limited, appointed HJK & Co., another firm of chartered accountants located in Rajasthan as a statutory auditor for the first time for the current financial year. The financial statements of AB Private Limited were audited by its predecessor auditor in the previous financial year. During the audit of the current financial year, HJK & Co. came across a material misstatement in the opening balance, that affected the current year's financial statement. In this regard, the auditor discussed the facts with the management. However, management fails to address or disclose this adequately in the current year's financial statement.

The Other Important financial information of AB Private Limited is as below:

(₹ in Crores)

S.N.	Particulars	Current Year	Previous Year
1.	Paid up Share capital	1.80	1.80
2.	Credit Balance of Profit & Loss Account	1.50	0.65
3.	Turnover	28.00	20.00
4.	Borrowing from Banks & Financial Institutions	3.00	2.00

Based on the above facts, answer the following:

1.	Whether RST & Co. should adhere to the opinion formulated by LM & Co. & ABC & Co. or explore alternative options.	B
(a)	RST & Co. will have to go with the opinion framed by the majority of auditors.	
(b)	RST & Co. has the discretion to issue a distinct audit report independently. In such a scenario, the reference to the other audit report issued by the majority of auditors should be noted within the 'Other Matter Paragraph'.	
(c)	RST & Co. has the option to incorporate a distinct audit opinion paragraph within the Common audit report, accentuating its importance through the emphasis of the matter paragraph.	
(d)	RST & Co. can align with the opinion formed by the majority of auditors. However, any dissenting viewpoint held by RST & Co. should be prominently highlighted within the emphasis of the matter paragraph.	
2.	In the above given case, what should be the next course of action on the part of auditors of JMP Limited when the auditors conclude that the reason for management's refusal to allow to send the confirmation to the debtors is unreasonable & the auditor is unable to obtain relevant & reliable audit evidence from alternative audit procedures?	A
(a)	Auditor shall communicate the matter with TCWG & also determine the implications for the Audit & Auditor's opinion in accordance with SA 705.	
(b)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Key Audit Matter Paragraph as per SA 701.	

	(c)	Auditor should have included the reason for refusal by the management in the written representation received as per SA 580.	
	(d)	Auditor should have included the reason for refusal by the management & fact of inability to obtain the relevant & reliable audit evidence from alternative audit procedure in the Emphasis on Matter Paragraph as per SA 706.	
3.	Auditor of the RJ Private Limited, shall mention the fact that the financial statements for the prior period were audited by another auditor, in .		B
	(a)	Emphasis of Matter paragraph	
	(b)	Other Matter paragraph	
	(c)	Key Audit matter Section	
	(d)	Going Concern Section	
4.	In the above given case, what should be the course of the action on the part of HJK & Co., when they found material misstatement that has not been accurately accounted or presented or disclosed in the financial statement of current year?		A
	(a)	HJK & Co. should express a qualified opinion or an adverse opinion, as appropriate, in accordance with SA 705(Revised).	
	(b)	HJK & Co. should not pay attention to the material misstatement found in the opening balance, since they were not auditors for the previous financial year.	
	(c)	HJK & Co. should take such matter in the written representation received from the management & no need to report such fact in audit report.	
	(d)	HJK & Co. should disclose such a fact in the Emphasis of Matter paragraph section in the audit report.	
5.	In the context of the aforementioned scenario, does CARO apply to RJ Private Limited company, an associate company of JMP Limited?		C
	(a)	The CARO 2020 applies to the company as the turnover of the company exceeds the prescribed limit.	
	(b)	The CARO 2020 applies to the company as the borrowing of the company exceeds the prescribed limit.	
	(c)	The CARO 2020 does not apply to the company as the paid-up share capital of RJ Private Limited does not exceed 4 crores & turnover does not exceed 40 crores.	
	(d)	The CARO 2020 applies as RJ Private Limited is an associate entity of JMP Limited.	

INTEGRATED CASE STUDY - 4

ABC Limited is a manufacturing company having three manufacturing facilities in India & ranked within top 500 listed companies on stock exchanges in India. Company marked turnover of INR 15,000 crore & profit before tax of INR 2,000 crore during FY 2032-33. Company has not accepted any deposits from public since incorporation of the company. Mr. A is the promoter & Chief Executive Officer of the company. Mr. B, son of Mr. A, is a company's non-executive director & holds a graduate degree from IIT Bombay & a post-graduate degree from IIM Ahmedabad. During the audit, it was discovered that the company had acquired two subsidiaries, Maan Ltd. which deals in copper manufacturing & Dhan Ltd. which deals in paper manufacturing. Maan Ltd. & Dhan Ltd. are audited by M/s XYZ & Associates. ABC Ltd. prepared the consolidated financial statements for the current financial year under Indian Accounting Standards, which includes the financial statements of subsidiary Maan Ltd. However, the financial statements of Dhan Ltd. were not consolidated as the company has not yet been able to determine the fair values of certain material assets & liabilities of Dhan Ltd. as on the acquisition date. This acquisition is accounted for as an investment in the books of ABC Ltd. Had the company consolidated the financial statements of both subsidiaries, there would have been a material impact on important elements of the financial statements. Also, the financial statements of ABC Ltd. for the current financial year include the corresponding figures (without consolidation) of the previous financial year, i.e., FY 2031-32.

On the basis of the abovementioned facts, you are required to answer the following MCQs:

1.	With respect to the non-consolidation of financial statements of Dhan Ltd. with the financial statements of ABC Ltd., how should the auditor deal with the same in their audit report?		B
	(a)	The auditor should give a disclaimer of opinion.	
	(b)	The auditor should give an adverse opinion if the impact is material & pervasive in his audit report.	