

**CA INTERMEDIATE**

**3rd Edition**

**AUDITING  
AND  
ETHICS**

  
**COMPILER**



By India's Most Dynamic Faculty For Audit

**CA AARTI LAHOTI**

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**CA INTERMEDIATE**  
**NEW SCHEME - GROUP - II**

# **AUDITING & ETHICS**

## **MCQ COMPILER**

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*Author*

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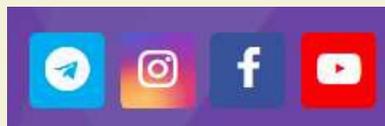
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*Dear Students,*

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*It gives me immense pleasure to present before you Module III – MCQ Compiler of Auditing & Ethics for CA Intermediate, the final part of an integrated three-module preparation framework consisting of:*

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*Happy Auditing!*

*Regards,*

*CA Aarti Lahoti*

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## LIST OF ABBREVIATIONS

<b>AFRF (SA 200)</b>	APPLICABLE FINANCIAL REPORTING FRAMEWORK
<b>FRF</b>	FINANCIAL REPORTING FRAMEWORK
<b>GPF</b>	GENERAL PURPOSE FRAMEWORK
<b>SPF (SA 800)</b>	SPECIAL PURPOSE FRAMEWORK
<b>RMM (SA 200)</b>	RISKS OF MATERIAL MISSTATEMENT
<b>SAAE (SA 200)</b>	SUFFICIENT APPROPRIATE AUDIT EVIDENCE
<b>TCWG (SA 260)</b>	THOSE CHARGED WITH GOVERNANCE
<b>MGMT</b>	MANAGEMENT
<b>WR (SA 580)</b>	WRITTEN REPRESENTATIONS
<b>FS</b>	FINANCIAL STATEMENTS
<b>AFS</b>	AUDITED FINANCIAL STATEMENTS
<b>CG</b>	CENTRAL GOVERNMENT
<b>NTE</b>	NATURE, TIMING & EXTENT
<b>EP (SQC 1 &amp; SA 220)</b>	ENGAGEMENT PARTNER
<b>EQCR (SQC 1 &amp; SA 220)</b>	ENGAGEMENT QUALITY CONTROL REVIEW
<b>KAM (SA 701)</b>	KEY AUDIT MATTERS
<b>EOM (SA 706)</b>	EMPHASIS OF MATTER
<b>OM (SA 706)</b>	OTHER MATTER

# NATURE, OBJECTIVE & SCOPE OF AUDIT - MCQs

1.	Which of the following is not an advantage of audit? [a] It provides high quality financial information. [b] It acts as a moral check on employees. [c] It enhances risk of management bias. [d] It helps in safeguarding interests of shareholders.	C
2.	Which of the following is NOT TRUE about an assurance engagement? [a] It relates to providing assurance about historical financial information only. [b] The practitioner obtains sufficient appropriate evidence. [c] There is some information to be examined by practitioner. [d] A written assurance report in appropriate form is issued by practitioner.	A
3.	Which of the following is TRUE about Engagement Standards? [a] Engagement standards ensure proper rights to practitioners in course of performance of their duties. [b] Engagement standards ensure preparation & presentation of FS in a standardized manner. [c] Engagement standards ensure uniformity by practitioners in course of performance of their duties. [d] Engagement standards ensure savings in resources of clients.	C
4.	Consider following statements in relation to “Limited assurance engagement”:- Statement I - It involves obtaining sufficient appropriate evidence to draw reasonable conclusions. Statement II - Review of interim financial information of a company is an example of limited assurance engagement. [a] Statement I is correct. Statement II is incorrect. [b] Both Statements I & II are correct. [c] Both Statements I & II are incorrect. [d] Statement I is incorrect. Statement II is correct.	D
5.	Which of the following is TRUE about Standards on auditing? [a] These deal mainly with voluntary responsibilities of auditors. [b] These deal mainly with mandatory responsibilities of auditors. [c] Their sole purpose is to help government authorities in augmenting revenues. [d] These deal mainly in carrying out audit according to legal provisions.	B
6.	CA Rahul, the statutory auditor of Vishal Enterprises, is conducting the audit for the financial year 2024–25. As part of his audit procedures, he examines whether the accounting records are reliable, verify the sufficiency of supporting documents like bills & vouchers, & performs procedures to assess internal controls. He also checks if FS have been drawn with reference to entries in books & disclose financial information appropriately. The management, however, asks him to determine the physical condition of certain machinery & to forecast the company’s profitability. Which of the following procedures falls within the scope of audit? [a] Auditor determining physical condition of machinery. [b] Auditor ensuring proper disclosure of financial information. [c] Auditor predicting future profitability of company. [d] Auditor authenticating genuineness of legal contracts.	B
7.	During course of audit of a company, it is noticed by auditor that Profit before tax of company is Rs. 5 lakhs. Depreciation on building reflected in Schedule of PPE forming part of FS has been computed for Rs.10 lacs. The	A

	<p>correct depreciation, according to him, should be Rs.25 lacs. The above description as a whole is an example of?</p> <p>[a] Misstatement</p> <p>[b] Assertion</p> <p>[c] Sampling method</p> <p>[d] Audit risk</p>	
8.	<p>The management of a company has approached its bankers &amp; requested for enhancement in working capital credit facilities. The bank manager requested for FS of the company for half year along with report providing assurance in this respect duly signed by CA. It also requires projected FS for coming years along with a report from CA providing assurance regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?</p> <p>[a] Standards on Review Engagements.</p> <p>[b] There are no standards for issuing such type of reports.</p> <p>[c] Standards on Related Services.</p> <p>[d] Standards on Assurance Engagements.</p>	D
9.	<p>ABC Ltd. appointed CA Jai to conduct the statutory audit. During the audit, the auditor identified some errors in the financial records &amp; he got it corrected. The audited statements were then submitted to tax authorities for compliance purposes. The audit procedures also helped the company improve its record-keeping processes. However, the management assumed that since the FS were audited, they could be used to predict future profits with certainty. In view of above, which of the following is not a likely benefit of auditing?</p> <p>[a] Since auditing is connected to future events, audited information can be easily relied upon by users.</p> <p>[b] Errors or frauds may be discovered during audit.</p> <p>[c] Government authorities can make use of audited accounts for different purposes.</p> <p>[d] It can help in bringing out deficiencies in maintenance of financial records.</p>	A
10.	<p>Gori told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of the following statements seems to be appropriate in this regard?</p> <p>[a] Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.</p> <p>[b] It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.</p> <p>[c] Management cannot mislead auditor due to high level of knowledge &amp; expertise possessed by him. The above is an outlier case-one of the rare, odd cases.</p> <p>[d] Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided to him. He has no duty in this regard.</p>	A
11.	<p>A practicing Chartered Accountant is appointed by a company to perform certain agreed-upon procedures relating to its trade payables. Such agreed upon procedures include verifying listing with books of accounts, sending confirmation letters &amp; reporting factual discrepancies to company management. Which of statements is correct in this context?</p> <p>[a] The practicing CA shall perform work in accordance with Standards on Related Services &amp; SA 220.</p> <p>[b] The practicing CA shall perform work in accordance with Standards on Related Services &amp; SQC 1.</p> <p>[c] The practicing CA shall perform work in accordance with Standards on Auditing including SA 220.</p> <p>[d] The practicing CA shall perform work in accordance with Standards on Assurance Engagements &amp; SQC 1.</p>	B
12.	<p>M/s DEF &amp; Associates have been appointed as the statutory auditor of JKL Ltd. for the first time for the financial year 2024-25. The engagement partner, CA D, is briefing his engagement team about the need of Engagement Standards &amp; Quality Control Standards in the areas of financial statement audits &amp; in other types of assurance services. Out of the following which one point is not correct about why standards are needed? <b>(Sep 2024)</b></p>	D

	[a] Standards equip professional accountants with professional knowledge & Skill.	
	[b] Standards ensure audit quality.	
	[c] Standards promote uniformity as audit of FS is carried out following these Standards.	
	[d] Standards ensure carrying out of audit against established benchmarks at par with local practices.	
13.	An employee of Fruits & Vegetables Limited was of the opinion that auditor of a company is required to express an opinion. On which one of the following the auditor of a company is required to express an opinion:	B
	[a] Only Balance Sheet of the Company.	
	[b] Financial Statements of the Company.	
	[c] Only Profit & Loss Account of the Company.	
	[d] Only Cash Flow Statement of the Company.	
14.	Judging the significance of a matter requires ..... of the facts & circumstances -	A
	[a] Objective analysis	
	[b] Subjective analysis	
	[c] Both subjective & objective analysis	
	[d] Qualitative analysis	
15.	No business or institution can effectively carry on its activities without the help of proper :	B
	[a] Audit	
	[b] Record & accounts	
	[c] neither (a) nor (b)	
	[d] both (a) & (b)	
16.	The auditor of Delicious Sweets Limited was of the opinion that objective of audit of FS of a company is to provide reasonable assurance that FS of that company are free from misstatements. Which type of misstatements are mentioned by auditor of Delicious Sweets Limited:	B
	[a] Simple	
	[b] Material	
	[c] Easy	
	[d] Competent	
17.	.....along with other disciplines such as accounting & law, equips you with all the knowledge that is required to enter into auditing as a profession.	A
	[a] Auditing	
	[b] Taxation	
	[c] Finance	
	[d] Law	
18.	The matter of difficulty, time, or cost involved is:	A
	[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.	
19.	Owing to the _____ limitations of an audit, there is _____ risk that some material misstatements of the FS will not be detected, even though the audit is properly planned & performed in accordance with the SAs.	A
	[a] Inherent, unavoidable	
	[b] Inherit, complete	
	[c] Management, unavoidable	
	[d] Regulatory, control	

20.	As explained in SA 200, "Overall Objectives of the Independent Auditor & the Conduct of an Audit in Accordance with Standards on Auditing",---- is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the FS are materially misstated) to an acceptably low level.	C
	[a] Absolute assurance	
	[b] Limited assurance	
	[c] Reasonable assurance	
	[d] Reasonable or absolute assurance	
21.	With respect to auditing, which of the following statement is correct:	C
	[a] Audited FS are absolutely free from all material misstatement due to fraud or error.	
	[b] An audit is an official investigation into alleged wrongdoing & auditor has specific legal powers to conduct investigation.	
	[c] The auditor can obtain only a reasonable assurance about whether the financial statement as a whole are free from material misstatement & report on it.	
	[d] An auditor's opinion is an assurance as the future viability of the enterprise or the efficiency or effectiveness of the management.	
22.	In order to form the opinion, the auditor shall conclude as to whether the auditor has obtained ----- about whether the FS as a whole are free from material misstatement, whether due to fraud or error.	A
	[a] Reasonable assurance	
	[b] Absolute assurance	
	[c] Limited assurance	
	[d] None of the above	
23.	Jasmine was of the view that audited FS are not a guarantee against probable wrong doings in the financial matters of companies. What kind of assurance does audit of FS provide?	B
	[a] It provides reasonable assurance meaning a low level of assurance.	
	[b] It provides reasonable assurance meaning a high level of assurance.	
	[c] It provides reasonable assurance meaning an absolute level of assurance.	
	[d] It provides reasonable assurance meaning a moderate level of assurance.	
24.	Which of the following is the responsibility of the auditor:	C
	[a] Preparation & presentation of the FS in accordance with applicable financial reporting framework.	
	[b] Design, implementation & maintenance of internal controls.	
	[c] Express an opinion on the FS.	
	[d] To obtain limited assurance.	
25.	Which of the following is incorrect:	A
	[a] An auditor conducting an audit in accordance with SAs is responsible for obtaining absolute assurance that the FS taken as a whole are free from material misstatement, whether caused by fraud or error.	
	[b] As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the FS will not be detected, even though the audit is properly planned & performed in accordance with the SAs.	
	[c] The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.	
	[d] The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud.	
26.	Which of the following is correct:	A
	[a] The auditor is not expected to, & cannot, reduce audit risk to zero & cannot therefore obtain absolute assurance that the FS are free from material misstatement due to fraud or error.	