



The Institute of Chartered Accountants of India

Code: IN5AE446633
Subject: 05 Auditing and Ethics

Total Marks: 70
Marks Obtained: 58

Subject: Auditing & Ethics
Number of Answer Books used : Main + _____ additional sheets
Date Seal: 13 SEP 2025

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446633

ICAI



Paper Code	H	A	B	C	D	E	F	G	<input checked="" type="radio"/>	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	
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MCQ Booklet Serial No.	Paper No.	Level of Exam: <u>Intermediate</u>		
<u>8728350</u>	<u>5</u>	Foundation <input type="radio"/>	Intermediate <input checked="" type="radio"/>	Final <input type="radio"/>
MCQ Answers				
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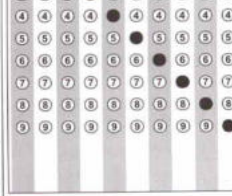




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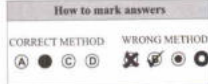
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INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

- 1. Pencil to Darken the appropriate Circle.
- 2. Darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
- 3. If any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
- 4. Do not use darkening the complete circle.
- 5. If you want to change your Answer, erase the darkened circle completely and make a fresh mark.
- 6. Please do NOT make any stray marks on the OMR cover page.
- 7. Rough work must NOT be done on the OMR cover page.
- 8. Mark your answer only in the appropriate space against the number corresponding to the question.



Q. No.	To be ticked <input checked="" type="checkbox"/> by the candidate against the Questions answered (Descriptive Type)	
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2	<input type="checkbox"/>	9 <input type="checkbox"/>
3	<input type="checkbox"/>	10 <input type="checkbox"/>
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Total		Total





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Q 2 (a)

As per SA 265, deficiency in internal control means -

i) Control is designed, implemented or operated in a manner that it is unable to prevent, detect or correct misstatement on timely basis, or,

ii) Control necessary to prevent, detect or correct misstatement on timely basis is missing.

2aStep1 ✓ 2

✓ Significant deficiency in internal control means deficiency or combination of deficiencies that in the auditor's professional judgement is of sufficient importance to merit the attention of those charged with governance.

2aStep2 ✓ 1

2a ✓ 3



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Q 2(c)(b)

(i) Purpose of communicating Key Audit

According to SA 701, 'Key Audit Matters'

(i) Purpose of communicating Key Audit Matters is to enhance communicative value of Audit report by providing transparency to users of financial statement.

2bStep1 ✓ 2 ✓ Since users to identify matters that in the auditor's professional judgement were of most significance in the audit of financial statements.

Keeps users in understanding entity and areas of significant management judgement.

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05

§ 2 (b) (ii)

(ii) According to SA 701, 'Key Audit Matters' communicating Key Audit Matters is not a substitute of:

a) Disclosure as per Applicable financial Reporting framework. ✓

b) Modification of auditor's opinion as per SA 705 ✓

c) Reporting as per SA 570, 'Material uncertainty related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern.' ✓

d) Key Audit Matters is not a separate opinion on individual matters.

So, according to the above stated provisions, CA Student Havi should understand that reporting of Key Audit matters is not a substitute for modification of audit report.

2bStep2 ✓ 3
2b ✓ 5

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Q 2 (c)

Following are the some of the aspects examined by auditor, to ensure that financial statements don't mislead anybody -

- (i) Accounts are drawn with respect to entries in the books of account.
- (ii) entries are supported by sufficient and appropriate audit evidence.
- (iii) None of the entries is omitted in the books of account.
- (iv) Information presented is clear and unambiguous.
- (v) financial statements amounts properly classified and disclosed in conformity with accounting standards.
- (vi) Financial statements gives a true & fair view of operational results and Assets & liabilities.

2cStep1 ✓ 4 2c ✓ 4
2 ✓ 12

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07

Q 3 (A)(i)

(i) According to section 143 (3)(i) of The Companies Act, 2013, Reporting on adequacy of internal financial control is not applicable to -

a) One person company,
b) Small company,
c) Private company, whose Turnover as per last audited financial statement is less than 50 crores and borrowings from bank and financial institution at any time during the financial year is less than 25 crores.

3aStep1 ✓ 2 ✓

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08

Q.3 (a)(ii)

(ii) Companies (Auditors Report) Order, 2020 is applicable to every company including foreign company except:

- One person company,
- Banking company,
- Insurance company,
- Section 8 company,
- Small company and
- Private company (not a holding or subsidiary of public company) and satisfied all three conditions -

→ Paid up share capital and Reserves & Surplus at balance sheet date upto 1 crore

→ Borrowing from bank and financial institutions at any time during the financial year upto 1 crore

3a 5 Revenue as per Schedule III (including revenue from discontinued operations) upto 10 crores

3aStep2 3

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09

Q. 3(b)

According to SA 210: Agreeing the terms of Audit engagement, factors to revise the terms of audit engagement are as follows:

- (i) Significant change in nature and size of business.
- (ii) Significant change in ownership.
- (iii) Recent change in senior management.
- (iv) change in law & regulation.
- v) change in reporting requirement.
- (vi) change in Applicable financial reporting framework.
- vii) Entity misunderstands objective & scope of Audit.
- (viii) change in terms of audit engagement (Checked terms of engagement).

3b Step 1 ✓ 5
3b ✓ 5

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10

Q 3 (C)

Meaning and primary objectives of Takeout finance.

Meaning

→ It is a long term financing agreement where lender promises to provide money on a particular date or on completion criteria for project completion is met.

3cStep1 ✓ 1

✓ loan procured later is used to replace earlier loan.
used generally for property development.

3cStep2 ✓ 2

Objective

→ To expand the source of finance.

→ To boost availability of longer term debt finance.

→ To address entities exposure issues & asset liability mismatch concerns of lenders.

✓

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Classification & Income Recognition

NPA classification is based on record of recovery of account balance becomes Non performing asset then income should be recognised on realisation basis

3cStep3 ✓ 1

3c ✓ 4

3 ✓ 14

✓



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Q. 1 (a)

(i) Types of audit evidence that an auditor shall use are as follows -

- a) Physical examination
- b) Documentary examination
- c) Inter-relationship of accounting data
- d) Minutes
- e) Subsequent actions by client.
- f) Statement of 3rd parties
- g) Statement of employees or management.

1aStep1 1

(ii) Most appropriate audit evidence in respect of -

- Verification of cash in hand → Cash Count
- Verification of investment pledged → Banker's Certificate

1aStep2 1a 3



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Q 1(b)

According to SA 315 ,

- i) Identify risk through understanding of entity, its environment including internal control.
- ii) ~~Identify~~ Access risk and evaluate if they potentially affecting many assertions at financial statement level.
- iii) Relate risk to what can go wrong at assertion level considering controls auditor intends to test.
- iv) Consider likelihood & magnitude of risk that could lead to material misstatement in the financial statement.

1bStep2 3

1bStep1 0

1b 3



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Q 1 (C)

→ According to SA 501 : specific considerations for selected items -

Inventory count at a date other than at the date of financial statement

Auditor shall perform additional audit procedures to obtain audit evidence, whether changes in inventory between count date and financial statement date properly recorded.

Perform procedures to obtain audit evidence -

1cStep1 ✓ 1

(i) whether perpetual inventory record properly adjusted

(ii) reliability of perpetual inventory record

(iii) reasons for significant difference between information obtained during physical count and perpetual inventory records

→ So ABC ud for Hyderabad unit should perform above discussed procedures

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Inventory count other than at the date of management count (unforeseen circumstances)

Observe inventory count on alternative date and perform procedures on intervening transactions

→ Co, ABC Ltd for ~~Hyderabad~~ ^{Ahmedabad} unit should perform above discussed procedures

1cStep2 1

1c 2

1 8

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17

Q 5 (a)(i)

(i) As per SA 300, factors should be considered by CA Taran when planning the nature, timing & extent of direction, supervision and reviews are as follows:

- Size and complexity of entity ✓
- Areas of Audit. ✓
- Identified Risk of material misstatement. ✓
- Competence & capability of engagement team member performing work. ✓



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Q 5 (a) (ii)

(ii) According to SA 300, Auditor shall modify overall audit strategy, plan, planned nature, timing & extent of further audit procedures based on revised risk of material misstatement.

This happens when information comes to auditor's attention that is significantly different from information when auditor planned audit procedures.

For eg - Audit evidence from substantive procedures contradicts audit evidence from Test of controls.

So, CA Aman should modify overall audit strategy, plan, nature, timing & extent of further audit procedures.

5aStep2 ✓ 2

5a ✓ 5

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Q 5 (b)

Audit procedures to be performed to ensure that all borrowings reflected in the balance sheet are valid claims owed to banks or other third parties are as follows :-

- (i) Examine board of directors approval, loan agreement.
- (ii) Agree details of loan recorded to loan agreement and verify borrowings limit not exceeded. of agreement
- (iii) Obtain and hold out confirmation from bank and third parties as per SA 505.
- (iv) When debt is retired ensure discharge is received on asset securing debt.
- (v) Obtain written representation from management that all borrowings reflected in the balance sheet are valid claims.
- (vi) Examine agreement of hire purchase / lease and trust deed in case of debentures.

5bStep1 5b 5

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~~Q 5 (b)~~ Q 5 (c)

following are the auditors duty regarding audit of LP :-

(i) Engagement letter : engagement letter should specify scope of audit and limitation.

(ii) Minutes book :- Examine minutes book for any resolution passed.

(iii) LP agreement :- examine LP agreement, it should specify -

- profit sharing ratio
- Borrowing power of LP.
- Amount of capital contributed by each partner
- interest on excess capital contributed.

(iv) Reporting : Auditor shall report -

5c 4

→ whether accounts of LP are correct & reliable

→ whether any limitation of scope of work

5cStep1 5 14

→ whether he has obtained all information & explanation necessary for audit purpose

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21

Q 6(a)

Disclosures for Inventories as required under Schedule III (part 1) to the Companies Act, 2013 are as follows -

Inventories

(i) Raw material	<input checked="" type="checkbox"/>
(ii) Work in progress	<input checked="" type="checkbox"/>
(iii) finished goods	<input checked="" type="checkbox"/>
(iv) Stock in Trade.	<input checked="" type="checkbox"/>

6aStep1 2

6aStep2 0

6aStep3 0

6a 2



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Q 6(b)

Audit of stores & inventories can help address these issues —

- 1) whether regulations governing purchase, receipt, custody, issues, sales are well devised and properly carried out. ✓
- 2) Verify whether purchases ^{are} authorized. ✓
- 3) whether purchase price are reasonable and as per contract and quality & quantity certificates issued by inspecting and receiving units. ✓
- 4) Examine receipts, issues & balance to check accuracy, reasonableness of inventory balance. ✓
- 5) Bring out to notice of any deficiency in quantity of stores & deficiency in internal control.

6bStep1 ✓ 4

6b ✓ 4

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Q 6 (C) OR part

(i) Auditors perform services that are themselves subject - matter of Audit.

→ It is a self review threat.

Self review threat - It involves review of judgement or conclusions reached in previous audit or non-audit engagement.

Audit team member previously been director or senior employee of client company.

(ii) Auditor deals with shares or securities of the audited company.

→ It is a Advocacy Threat.

Advocacy Threat is promoting clients opinion to a point that objectivity is compromised. So, dealing in shares of client results in advocacy threat.

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iv) long association between specific auditors and their specific client counterparts

→ It is a familiarity threat

familiarity threat is forming relationships with client ending ~~to~~ sympathetic to client interest.

so, long association between auditor and client leads to familiarity threat.

6cStep3 ✓ 1

(v) Auditor deterred from acting objectively with an adequate degree of professional skepticism.

→ It is intimidation threat

Intimidation threat is when auditors are deterred from acting objectively.

for eg - : Threats of litigation
: pressure to reduce audit work as fees is low

✓

6cStep4 ✓ 1

6c ✓ 4

6 ✓ 10

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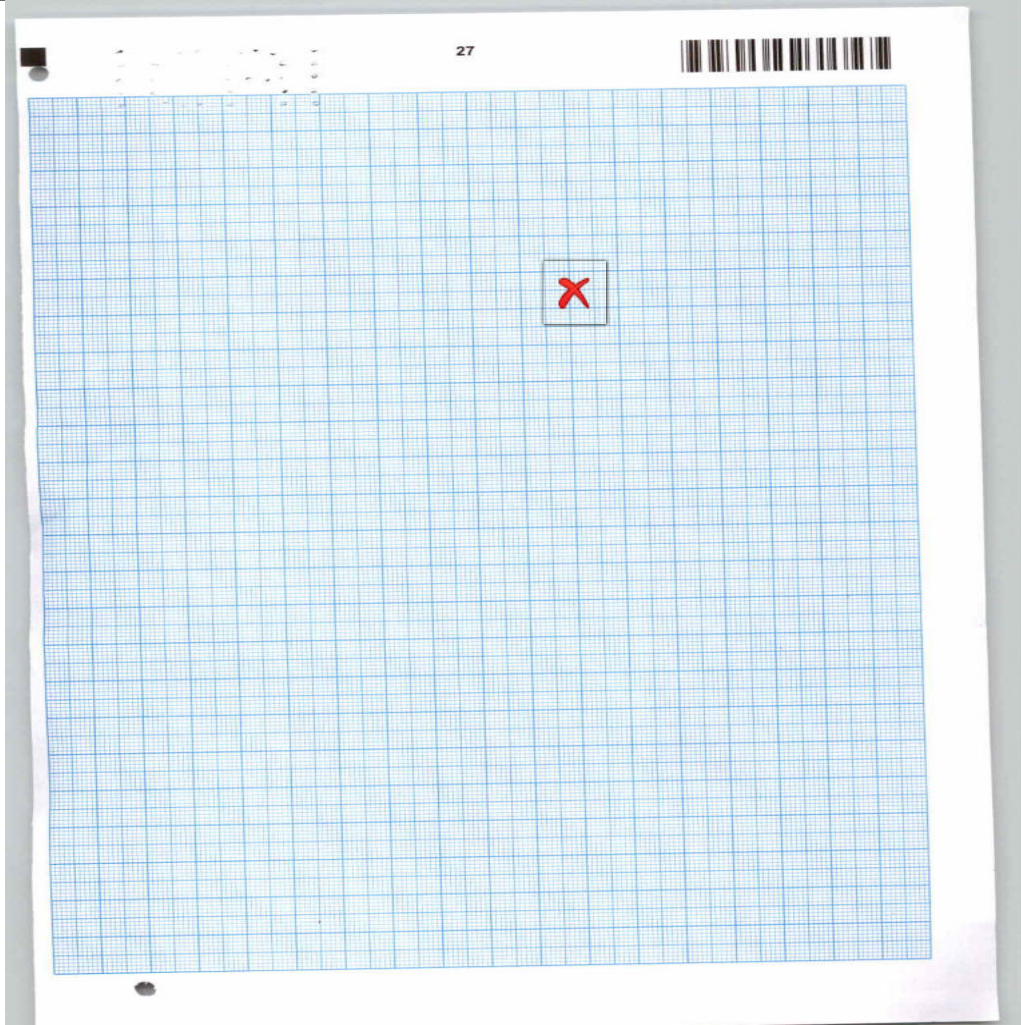
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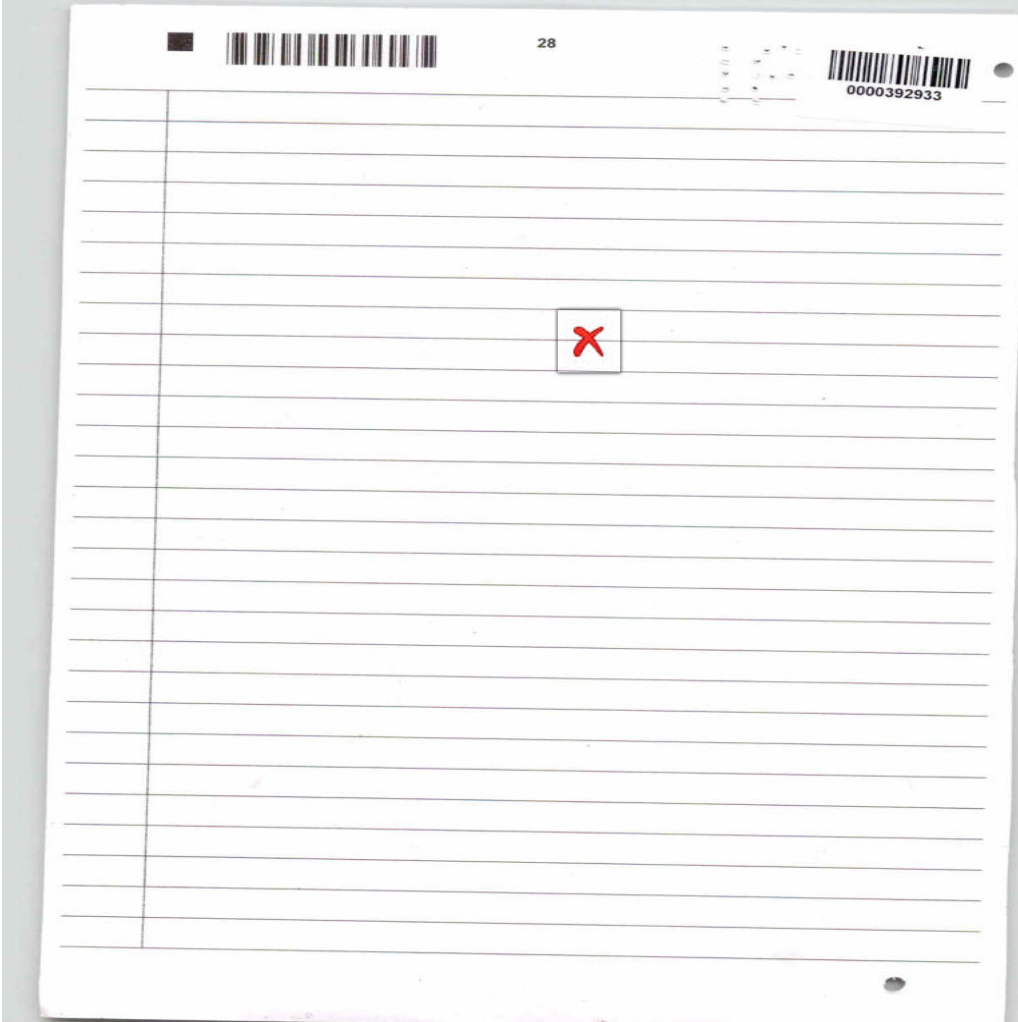




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Result Overview

Awarded Marks: 58

Max Marks:70

NA Not Attempted

O Optional

M Marked

Q1_Compulsory (Score: 8/14)

Question No	Awarded Marks	Maximum Marks	Status
1	8	14	M
1a	3	5	M
1b	3	5	M
1c	2	4	M

Q2_Q6 (Score: 50/56)

Question No	Awarded Marks	Maximum Marks	Status
2	12	14	M
2a	3	5	M
2b	5	5	M
2c	4	4	M
3	14	14	M
3a	5	5	M
3b	5	5	M
3c	4	4	M
4	0	14	O
4a	0	5	O
4b	0	5	O
4c	0	4	O
5	14	14	M
5a	5	5	M
5b	5	5	M
5c	4	4	M
6	10	14	M
6a	2	5	M
6b	4	5	M
6c	4	4	M