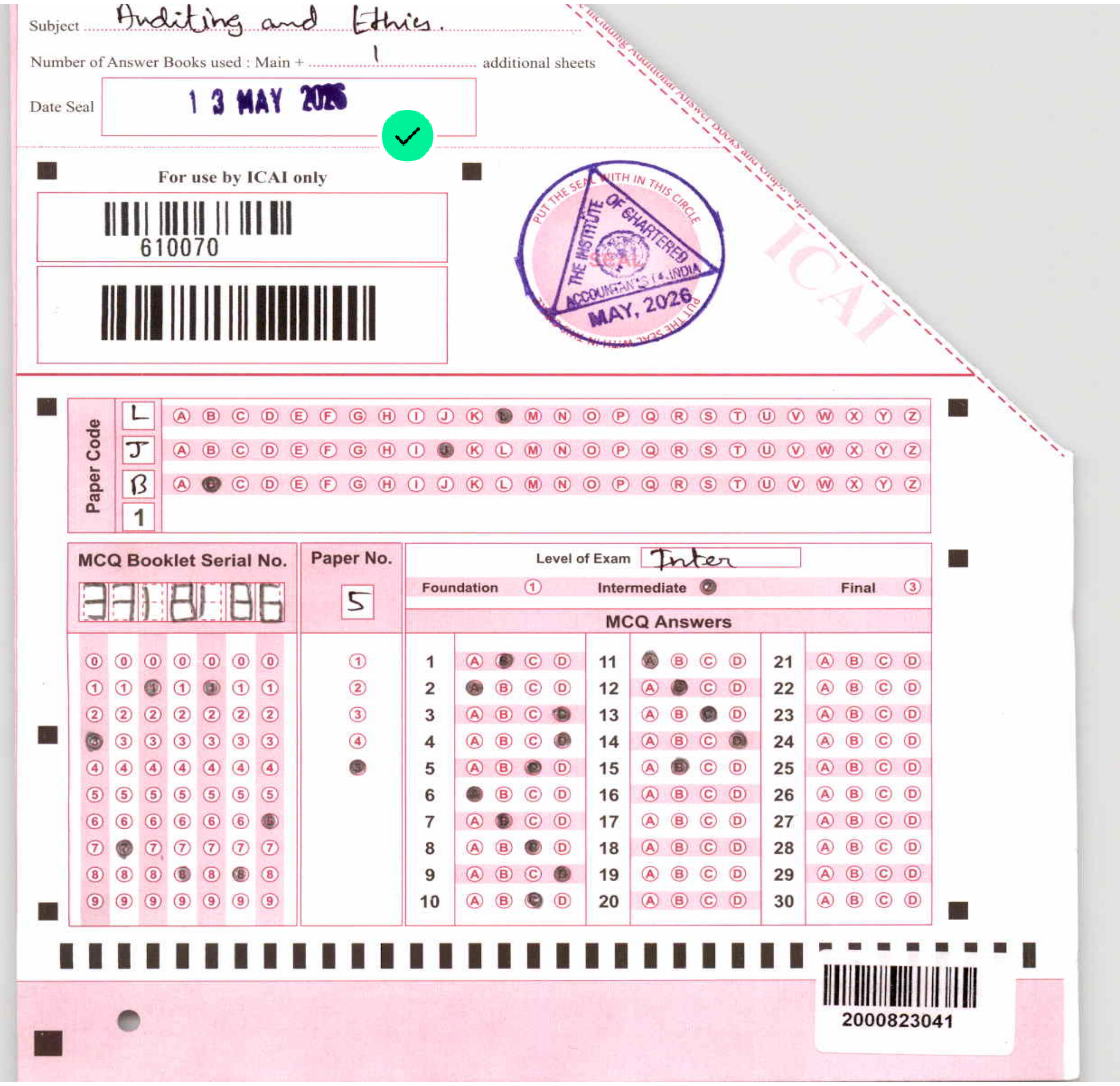
The Institute of Chartered Accountants of India

Code: IN5AE610070
Subject : 05 Auditing and Ethics

Total Marks: 70
Marks Obtained : 67



Subject Auditing and Ethics.

Number of Answer Books used : Main + 1 additional sheets

Date Seal 13 MAY 2026

For use by ICAI only

610070

MAY, 2026

Paper Code																										
L	A	B	C	D	E	F	G	H	I	J	K	●	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
J	A	B	C	D	E	F	G	H	I	●	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
B	A	●	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z
1																										

MCQ Booklet Serial No. 3718186

0	0	0	0	0	0	0
1	1	●	1	●	1	1
2	2	2	2	2	2	2
●	3	3	3	3	3	3
4	4	4	4	4	4	4
5	5	5	5	5	5	5
6	6	6	6	6	6	●
7	●	7	7	7	7	7
8	8	8	●	8	●	8
9	9	9	9	9	9	9

Paper No. 5

1 2 3 4 ●

Level of Exam Inter

Foundation ① Intermediate ● Final ③

MCQ Answers

1	A	●	C	D	11	●	B	C	D	21	A	B	C	D
2	●	B	C	D	12	A	●	C	D	22	A	B	C	D
3	A	B	C	●	13	A	B	●	D	23	A	B	C	D
4	A	B	C	●	14	A	B	C	●	24	A	B	C	D
5	A	B	●	D	15	A	●	C	D	25	A	B	C	D
6	●	B	C	D	16	A	B	C	D	26	A	B	C	D
7	A	●	C	D	17	A	B	C	D	27	A	B	C	D
8	A	B	●	D	18	A	B	C	D	28	A	B	C	D
9	A	B	C	●	19	A	B	C	D	29	A	B	C	D
10	A	B	●	D	20	A	B	C	D	30	A	B	C	D

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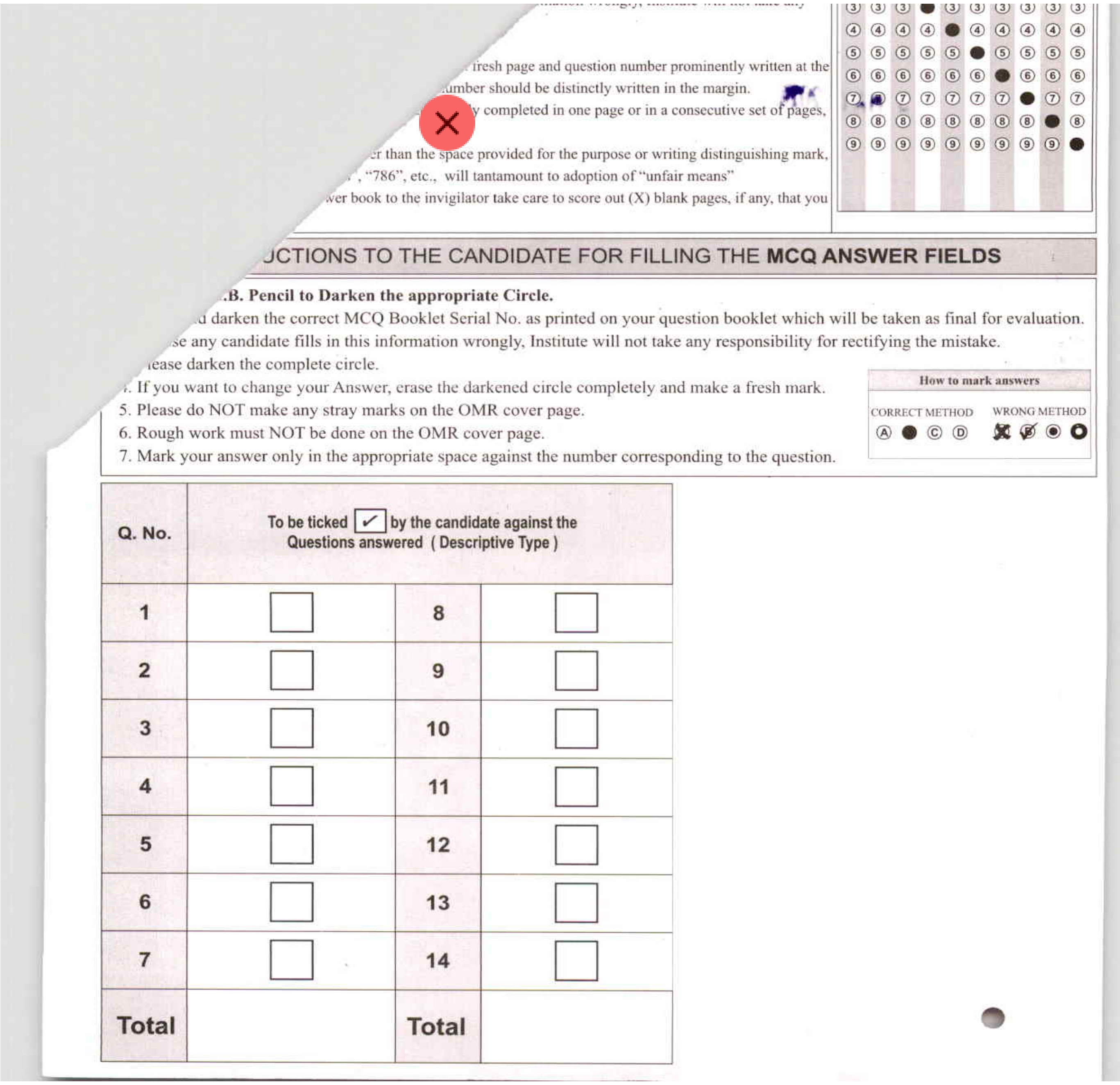

…rmation wrongly, Institute will not take any

…fresh page and question number prominently written at the …umber should be distinctly written in the margin.
…y completed in one page or in a consecutive set of pages,
…r than the space provided for the purpose or writing distinguishing mark, …, "786", etc., will tantamount to adoption of "unfair means"
…wer book to the invigilator take care to score out (X) blank pages, if any, that you

③	③	③	●	③	③	③	③	③	③
④	④	④	④	●	④	④	④	④	④
⑤	⑤	⑤	⑤	⑤	●	⑤	⑤	⑤	⑤
⑥	⑥	⑥	⑥	⑥	⑥	●	⑥	⑥	⑥
⑦	●	⑦	⑦	⑦	⑦	⑦	●	⑦	⑦
⑧	⑧	⑧	⑧	⑧	⑧	⑧	⑧	●	⑧
⑨	⑨	⑨	⑨	⑨	⑨	⑨	⑨	⑨	●

…UCTIONS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

…B. Pencil to Darken the appropriate Circle.

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

How to mark answers

CORRECT METHOD	WRONG METHOD
Ⓐ ● Ⓒ Ⓓ	☒ ⊘ ◉ ○

Q. No.	To be ticked ☑ by the candidate against the Questions answered (Descriptive Type)		
1	☐	8	☐
2	☐	9	☐
3	☐	10	☐
4	☐	11	☐
5	☐	12	☐
6	☐	13	☐
7	☐	14	☐
Total		Total	

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Q: 2 a

Q: 2a

As per SA 315 The auditor shall Obtain an understanding about the information system relevant to financial reporting including the following:

✓

(*) Class of transactions that are significant to the financial statements

(*) How the information system captures the transactions and events that are significant to Financial statements.

✓

(*) Procedures by which the transactions are Initiated, recorded, processed, ~~drawn~~ converted into Journal entries and thereby reported in the financial Statements

✓

(*) ~~[illegible]~~ relevent accounting records and other information used to Initiate and process the transactions.

Ⓕ Financial reporting process followed in the preparation of financial statements

Ⓕ Controls of Journal entries.

2aStep1 ✓
5 Marks

2a ✓
5 Marks

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Q. 2 b

Q. 2 b

as per SA 300 the following are the disadvantages of audit programe

(*) The work may become mechanical and some parts of the programme may be carried out without understanding the purpose or object ✓

(*) It tends to be ~~rigo~~ rigid and inflexible ~~inflexible~~ following set grooves. business may change its conduct of of business but work may be carried on by the old audit programme. ✓

(*) It Kills the initiative of efficient and enterprising employees. /assistants as it is hard and fast ✓

(*) Inefficient assistance may take shelter behind audit programme ie. defend their deficiencies in the work stating that No instruction was contained in programme regarding

2bStep1 ✓
3 Marks

the matter.

However, these limitations can be overcome by

✓ ⊛ imaginative supervision of the assistants work

✓ ⊛ Encouraging them to observe things objectively and bring to the notice of principal (or) manager significant matters that come to their notice

✓ ⊛ Have a receptive attitude towards the assistants.

✓

2bStep2 ✓
2 Marks

2b ✓
5 Marks

DO NOT WRITE ANYTHING HERE
DO NOT WRITE ANYTHING HERE
DO NOT WRITE ANYTHING HERE

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~~Q. 1C~~ Q. 2C

Q. 2C

(i)

as per Para 3 of CARO 2020 and clause xv thereof.

The auditor shall report, whether the company has entered into any non cash transactions with directors (or) persons connected with him, if so whether the provisions of Sec 192 of the companies act is complied.

✓

Here, in the given case, the auditor shall report on the transaction entered into by JK apparels with promoter K (~~sone~~ son of director, connected person) and on the compliance with Sec 192 as per specified above.

2cStep1 ✓
2 Marks

PTO

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Total Marks: 70
Marks Obtained : 67

08

(ii) as per the provisions of companies act 2013,
Shareholdings of Promoters shall be disclosed as under.

S.No	Name of the Promoter	No. of shares held	% of shares Held	% change during the year
	Mr K	₹	2%	

✓

(*) disclosure shall be made for each class of shares separately.

✓

(*) % percentage change shall be calculated based on the numbers existing at the beginning of the year.

2cStep2 ✓
2 Marks

(*) If issued for the first ~~time~~ Time during the year, the from that date of issue

2c ✓
4 Marks

2 ✓
14 Marks

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Q: 3 b

Q: 3 b

Immediately ~~Fmmediately~~ following the 'opinion' Section, the auditor shall include the "Basis for opinion" section containing the following.

✓

3bStep1 ✓
1 Marks

- (*) State that audit is conducted as per standards on auditing ✓
- (*) reference to the section of the auditors report containing responsibilities of auditor ✓
- (*) statement that the auditor is independent and has complied with the relevant ethical requirements ✓
- (*) Statement whether the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditors opinion

3bStep2 ✓
4 Marks

3b ✓
5 Marks

Q. 3C

Q. 3C

SA 230

as per (~~[illegible]~~) audit documentation,

The auditor shall document the significant matters arising during the audit including the following

✓

(*) Significant difficulties encountered during audit,

(*) risk that are identified as significant risk

(*) Findings that could result in modification of the auditor's opinion (or) inclusion of emphasis of ~~matter~~ matter paragraph as per (SA 706)

✓

(*) results of the audit procedures that suggest that
→ The financial statements may be materially misstated (or) a material misstatement exists
→ There is a need to revise the auditor's previous assessment

✓

DO NOT WRITE ANYTHING HERE
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of risk of material misstatement

and response to assessed risk

such documentation depends on the extent of professional Judgement exercised and it also explains the auditors conclusions

~~It~~

such matters are of particular interest to ~~all~~ those who review the audit documentation and perform succeeding year (or) subsequent audits for reviewing matters of continuing significance.

3cStep1 ✓
4 Marks

3c ✓
4 Marks

Q: 3a

Q: 3a

Factors affecting sample size in case of Test of controls.

✓ (*) The greater reliance that the auditor places on the operating effectiveness of controls, the ~~size~~ larger should be the extent of test of controls and larger the sample size is required

(*) If the stratification of the population is appropriate, sample size decreases

✓ (*) Higher Tolerable rate of deviation (or) increase in the Tolerable rate, thereby sample size decreases.

✓ (*) Higher the auditor's expected rate of deviation, larger will be the sample size and the size increases

✓ (*) Higher the desired level of assurance that the tolerable rate of deviation is ~~not~~ not exceeded by actual deviation rate in the population, larger

3aStep1 ✓
4 Marks

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DO NOT WRITE ANYTHING HERE
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DO NOT WRITE ANYTHING HERE

will be sample size and the size increases.

(ii) In the given case, Beta Engineering Ltd will require larger sample size as it has Higher expected rate of deviation than Alpha Manufacturing Ltd. (6% is greater than 2%)

✓

3aStep2 ✓
1 Marks

3a ✓
5 Marks

3 ✓
14 Marks

14

(Q: 6b)

Q: b
(Q: 6b)

As per (SA 710) "Comparation information, - corresponding figures and comparative financial statements."

If the prior period financial statements were audited by predecessor auditor, and if the auditor is permitted by law or regulation to refer to the report of the predecessor auditor

The auditor shall include Other matter Paragraph as per SA 706 and include the following. ✓

(*) state that the prior period financial statement were Audited by predecessor auditor ✓

(*) type of opinion expressed by him, if the opinion was modified state the ~~reasons for the same~~ reasons thereof.

6bStep2 ✓
3 Marks

(*) Date of the report ✓

DO NOT WRITE ANYTHING HERE

as per (SA706)

~~km~~

Other matter paragraph refers to the paragraph in the auditors report refering to matters other than those appropriately presented and disclosed in the financial statements that in the auditors professional Judgement are fundamental to the ~~as~~ user's understanding about audit, audit report and auditor's responsibilities.

6bStep1 ✓
2 Marks

~~The auditor may include such paragraph to ~~obtain user's~~ attention to such matters provided ;~~

~~(*) It is~~

~~I~~ The auditor may include such ~~prov~~ paragraph provided,

(*) It is NOT prohibited by law (or) regulation

(*) If SA 701 applies, The matter is not Identified as key audit matter

6b ✓
5 Marks

Code: IN5AE610070 **Total Marks:** 70
Subject : 05 Auditing and Ethics **Marks Obtained :** 67

Q: 6 C [OR].

Q: 2
Q: 6 C [OR].

As per SA 300 the auditor shall consider the following factors that are significant in directing the engagement team's efforts :-

- Volume of transactions (or) activity to determine whether it is efficient to the auditor to rely on internal internal control's operating effectiveness

✓

- Significant Industry developments ie change in industry regulations (or) new reporting requirements

✓

- changes in the financial reporting framework such as change in accounting standards.

✓

- Other significant changes ~~such~~ (or) developments such as change in law (or) regulation (or) legal environment affecting the entity.

✓

6cStep1 ✓
4 Marks

6c ✓
4 Marks

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

Q. 1 a

Q. 1 a

In the given case, the engagement partner considers deeper examination notwithstanding availability of documentation

The attitudes referred Here is Professional Skepticism

It refers to the attitude of Having a Questioning mind, being alert to circumstances that may indicate material misstatement due to fraud or error. and a critical assessment of audit evidence

⊛ It includes being alert to ;

⊛ Informal audit evidence that contradict with other audit evidence

1aStep1 ✓
1 Marks

⊛ conditions that may indicate possible fraud

⊛ Information that bring into Question reliability of documents (or) responses to inquires

It reduces the risk of

- overlooking unusual circumstances ✓
- overgeneralising while drawing conclusions ✓
- Using inappriate assumption in determining the nature, timing and extent of audit procedures and evaluating the results or, audit evidence.

1aStep2 ✓
2 Marks

(ii) Principle based approach :

It requires to comply with the spirit of ethics and it requires the professional accountant to use ~~of~~ exercise professional Judgement based on the professional knowledge and skill and experience. ✓

It requires them to exercise professional Judgement in analyzing every situation to arrive at conclusion

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Rule based approach. requires to comply ~~st~~ and strictly follow the established set of rules.

It may lead to a narrow outlook and the spirit of ethics may be overlooked. It is somewhat rigid and

It cannot be used in every practical situation.

Hence it is necessary to follow the ~~s~~ spirit of code

1aStep3 ✓
2 Marks

as it is rigid, it is not possible to deal with every practical situation

1a ✓
5 Marks

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(Q: 1b)

(Q: 1b) In the given case As per [SA 530] "Audit Sampling", CA R decides to select every 10th account until the required sample size is achieved.

Hence He is using Systemmatic (or) Interval sampling.

Under this method, the items in ~~a~~ all the units in the population is divided by the sample size to get the sampling interval.

Say 50, Having determined the ~~stand~~ starting point within the First Fifty every 50th item thereafter will be selected

1bStep1 2 Marks

While using this method, the auditor shall ensure that the items or sampling ~~are~~ units in the population are not structured in ~~the~~ such a way that it corresponds with a particular pattern in the population

DO NOT WRITE ANYTHING HERE

[Eg:-] if particular branch sales appears only as a post item and if the interval is 100, the auditor would select all (or) none of the branch sales.

this risk can be minimized by determining and Having more than one starting points in the population.

✓

1bStep2 ✓
2 Marks

(iii) The sampling method ~~sugged~~ suggested by CAR is (Block sampling)

✓

* It involves selection of blocks of contigious items in the population

1bStep3 ✓
1 Marks

It cannot be used as contigious items will have similar characteristics with each other and different with the items elsewhere in the population

1b ✓
5 Marks

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Q: 1C

Q: 1C

As per SA 580 "Written representations"

Date

① Written representations are necessary audit evidence and the auditors opinion cannot be ~~expr~~ expressed and the auditor's report cannot be dated before the date of written representation.

② Further the auditor is concerned about events upto the date of auditors report that require adjustment or disclosure

③ Hence the date of written representation shall be as near as practicable thereto but not later than (or) after the date of ~~the financial statements~~ auditor's report

✓

✓

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✓ Period

Written representations shall be for all the periods referred to In the auditors' report

However, there maybe circumstances where the entity's current ~~m~~ management maynot be present during all the periods referredto

They may assert that they are NOT in a position to provide representation for all the periods

However this does not diminish their responsibility for the Financial Statements as a whole and the auditor shall request representations for all the ~~periods~~ periods

This is because the management Has to Reaffirm that the written ~~a~~ representation of prior periods (or) previous periods remain appropriate

1cStep1 ✓ 3 Marks

1cStep2 ✓ 1 Marks

1c ✓ 4 Marks

1 ✓ 14 Marks

Q: 5a

Q: 5a

✓

The types of shares issued by the company are Sweat Equity Shares.

It refers to the issued shares issued by the company at discount or for consideration other than cash to its employees for providing know How or value addition.

5aStep1 ✓
1 Marks

In such case, the auditor shall verify ⊛ whether shares are of the same class of shares that are already issued by the company ✓

⊛ that the issue is authorised by a special resolution and the resolution specifies the number of shares, current market price, consideration, employees to whom the shares are issued ✓

⊛ If the shares are listed, check compliance with SEBI guidelines ✓

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and regulations

(F) The rights, limitations and restructions applicable to ordinary shares are also applicable to Sweat equity shares

and the Sweat Equity Shareholders shall rank paripassu with the ordinary shareholders,

✓

5aStep2 ✓
4 Marks

5a ✓
5 Marks

26

Q: 5b

Q: 5b

✓

Finance lease refers to the lease where :

① The present value of minimum lease payments is substantially equal to the fair value of the asset at inception

② The ~~lessee~~ leassee Has the option to purchase the a op asset at a price lower than the fair value at the date of exercise of option

③ The ownership transfers to the lessee at the end of the lease period

④ lease covers major part of the economic or useful life of the asset.

⑤ The asset is of special nature and can be used only by the lesser without major modifications

Operating Lease refers to the lease that does not transfer substantially all risk and rewards incidental to the ownership and which is not a finance lease

Type of Lease :

✓ for $\boxed{\text{Manufacturing equipment - Operating Lease}}$

Since :

⊛ Lease period covers less than 75%. of the economic life ($\frac{5}{10} \times 100 = 50\%$).

⊛ The ownership does not transfer at the end of the lease period

⊛ Operating and running expenses like Insurance maintenance are NOT borne by the Lessee and It is borne by the lessor

⊛ alternative use is available and it is NOT specialised ~~in~~ nature

PTO

Addl. Book No. 1

THE INSTITUTE OF CHARTERED ACCOU
ADDL. BOOK

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DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

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For Specialized manufacturing equipment,

It is a finance lease since;

⊛ Lease Period is equal to (or) more than the economic life. (8 years.)

✓

5bStep1 ✓
1 Marks

⊛ Operating and running expenses are ~~bon~~ borne by STP Ltd (Lessee)

⊛ It doesn't Have alternative use and Hence of special nature.

(ii) accounting treatment:

① Manufacturing equipment - as it is an operating lease, it is to be treated as rental agreement (or) arrangement and the asset does not appear as asset in

✓

the books of ~~Lessee~~ Leassee in the balance Sheet

② Specialized manufacturing equipment - as it is a finance Lease it is treated as a Loan arrangement and the asset appears as asset in the balance sheet of Leassee

✓

Tax benefit

① Manufacturing Equipment

Lease payments are treated as operating expenses. and are allowed as expense for tax benefit.

However, the Lessee cannot claim depreciation on the asset.

5bStep2 ✓
2 Marks

② Specialised manufacturing Equipment

as it is Loan arrangement both interest and depreciation are allowed as expense for tax

5bStep3 ✓
2 Marks

5b ✓
5 Marks

DO NOT WRITE ANYTHING HERE

3

Q: 5C

Q: 5C

As per (SA 260),

The auditor shall communicate the following to those charged with governance in case of listed entity.

① Statement that the auditor ~~a~~ (engagement partner) and others within the firm (or) network of firms have complied with ethical requirements including independence

✓

② all the conditions, matters (or) events (or) relationships the between the entity and the firm (or) network of firms that may have bearing (or) bear on the auditor's independence

✓

③ relevent (or) related to safeguards applied to reduce the threat of indepence or to an acceptable lower level (or) ~~to~~ eliminate the threat

✓

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(F) Total fees to be charged for audit and non audit services provided by the firm (or) network of firms to the entity during the period covered under audit. and the allocation of the fees to the network of firms.

✓

5cStep1 ✓
4 Marks

5c ✓
4 Marks

5 ✓
14 Marks

Q: 6 a

Q: 6 a

~~A.~~ Auditors responsibility is to conduct audit as per standards on auditing and form an ~~opinion and on the~~

~~opion~~ opinion on the Financial statement and issue an audit report

✓

The responsibility of the auditor is to obtain sufficient appropriate audit evidence about whether financial statements contain material misstatements due to fraud (or) error

✓

6a
2 Marks

6
11 Marks

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Result Overview

Awarded Marks:67	**Max Marks:70**

Not Attempted	**Optional**	M **Marked**

Q1_Compulsory (Score: 14/14)

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

Q2_Q6 (Score: 53/56)

Question No	Awarded Marks	Maximum Marks	Status
2	14	14	M
2a	5	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	⑂
4a	0	5	⑂
4b	0	5	⑂
4c	0	4	⑂
5	14	14	M
5a	5	5	M
5b	5	5	M
5c	4	4	M
6	11	14	M
6a	2	5	M
6b	5	5	M
6c	4	4	M