

CA INTER AUDIT

NEW ICAI MCQ BOOKLET -  
SUMMARY

All Integrated MCQ's are Summarized in **Just 8 Pages**

- ICAI MCQ Booklet Crux are Summarized Here
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BY CA HEMANT SOMANI | AIR 46

**Case Scenario 1 : SA's**

1	<b>SA 501 → Question:</b> "Which assertion is best verified by attending the physical inventory count?" <b>Answer:</b> (b) Existence and condition (not ownership.)
2	<b>SA 530 → Question:</b> "Which sampling method did Ms. Soni use for creditors (every 11th from 550, sample size)" <b>Answer:</b> (c) <b>Systematic sampling</b>
3	<b>Question:</b> "Best way for Mr. Rishab to verify inventory ownership?" <b>Answer:</b> (b) Check purchase documents i.e., purchase requisition, purchase order (Not Just Physical Count)
4	<b>Auditor approach for Share Capital Verification →</b> <ul style="list-style-type: none"> <li>• <b>Question:</b> "Correct approach for unchanged share capital?"</li> <li>• <b>Crux:</b> No change still requires evidence—confirmation from Company Secretary is key.</li> <li>• <b>Answer:</b> (c) Get confirmation from Company Secretary (Auditor can't assume without any evidence)</li> </ul>
5	<b>SA 580 – WR →</b> <ul style="list-style-type: none"> <li>• <b>Question:</b> "Is Auditor right to reject "qualified Language" in written representation? i.e., "representations are made to the best of its knowledge and belief"</li> <li>• <b>Crux:</b> "To the best of knowledge" is okay (SA 580) if auditor trusts management—not a dealbreaker.</li> <li>• <b>Answer:</b> (d) No, it's acceptable if satisfied</li> </ul>
6	<b>SA 230 - → only administrative changes in the final audit file are allowed" i.e., allows admin edits (sorting), not substantive changes like recalculations.</b>

**Case Scenario 2 : SA's**

1	<b>SA 315:</b> Business Understanding is COMPULSORY for the Auditor → <b>Crux:</b> SA 315 mandates business knowledge for planning and risk spotting
2	<b>SA 505 - Receivables Confirmation →</b> Positive confirmation (Direct response), response required in both the case cases, whether Party is agree or disagree with the information
3	<b>SA 530 - Question:</b> " Rohit selected the sample → without following any structured approach though he made sure to avoid any conscious biasness or predictability <b>Crux:</b> Haphazard sampling is unstructured, avoids bias, no random tables.
4	<b>Inventory Assertion → Question:</b> "Which assertion is Mudit verifying by checking that inventory balance as at the year end does not include any element of next financial year <b>Crux:</b> <u>Cut-off</u> ensures items are in the right period—no future items now.
5	<b>Fixed Assets Assertion → Question:</b> "Which assertion does Mudit check with title deeds and purchase bills?" <b>Crux:</b> Rights and obligations verify ownership via legal documents.

**Case Scenario 3 (SA's)**

1	<b>SA 300: Audit Program → Question:</b> "Is Mr. Sumit right that one audit program fits all four clients?" • <b>Crux:</b> No, Different industries need different tailored programs—uniformity isn't practical.
2	<b>SA 520 - Question:</b> "What audit procedure is Ms. Reshu performing by comparing wages and employee numbers?" • <b>Answer:</b> (a) Substantive analytical procedures
3	<b>Question:</b> "Is Mr. Saurabh right about special resolutions for sweat equity and capital reduction?" <b>Crux:</b> Yes, Companies Act (Sections 54, 66) requires special resolutions for both—Saurabh's correct.
4	<b>SA 610 - Internal Audit Reliance → Question:</b> "Can Mr. Sumit fully rely on the internal audit team?" <b>Crux:</b> SA 610 allows IA use, But not full reliance, <u>So, Answer:</u> (c) No, sole responsibility remains with External auditor
5	<b>SA 200 - Risk Type → Question:</b> "What risk arises from unauthorized travel expense entries?" <b>Crux:</b> Weak controls (SA 200) mean control risk—misstatements aren't caught. (Not Inherent Risk)

**Case Scenario 4 (SA's)**

1	<b>SA 505 - Negative Confirmations → Question:</b> "Is it okay to send negative confirmations for large trade receivables?" • <b>Crux:</b> Negative confirmations (SA 505) need low risk and small balances—not suitable here, here seems Risky.
2	<b>Receivables Completeness →</b> To ensure COMPLETENESS of DEBTOR, → Checking BAD DEBIT schedule is Irrelevant ... as Bad debt schedule checking is for Valuation Checking (Not Completeness)
3	<b>Share Options Classification → Question:</b> "Where should 'Share Options Outstanding' be classified?" • <b>Crux:</b> Schedule III mandates separate disclosure under "Reserves & Surplus".
4	<b>Inventory Procedure → Question:</b> "Which inventory procedure isn't analytical?" • <b>Answer:</b> (d) Purchase testing & cut-off tests (it's not analytical procedure, it's Substantive)

**Case Scenario 5**

1	<b>Question:</b> "company have policy of limiting cash transactions → So can auditor exclude petty cash review from the audit program, okay ? <b>Crux:</b> (b) Yes, due to strong controls (company have policy of limiting cash transactions)
2	<b>Question:</b> "Is confirming creditors as of March 20, 2024, justified?" <b>Crux:</b> Near balance sheet date (March 31) with mngt input is acceptable. ( <b>Answer:</b> (c) Yes, if close to balance sheet)
3	<b>Non-Responding Creditors → Question:</b> "Which isn't a good procedure for non-responding creditors?" <b>Answer:</b> (d) Management representation (it's not a substitute of other evidences)
4	<b>PPE Revaluation Disclosure</b> <ul style="list-style-type: none"> <li>• <b>Question:</b> "Is separate disclosure needed for 5% PPE revaluation?"</li> <li>• <b>Crux:</b> Schedule III requires disclosure only if &gt;10% 5% doesn't qualify. → so, in given case, No, it's less than 10%</li> </ul>



5	<b>LLP Audit Rules</b> → LLP Rules 2009 mandate audits if turnover > ₹40L or capital > ₹25L
<b>Case Scenario 6 (BANK AUDIT)</b>	
1	<b>NPA Provision</b> → <b>Question:</b> "Is ₹5L provision for AB Industries (Doubtful D1, ₹10L) correct?" • <b>Crux:</b> Doubtful (D1) needs 25% of secured amount—₹5L is too high. → <b>Answer:</b> (c) No, should be ₹2.5L (25%)
2	<b>Shyam's Loans Classification</b> → <b>Question:</b> "Are Shyam's loans (housing 120 days due, car 60 days due only), so both NPAs?" • <b>Crux:</b> Borrower-wise rule (RBI)—one loan overdue 90+ days makes all NPAs. → <b>Answer:</b> (a) Yes, both • <b>Confusing Point:</b> Split (b) ignores borrower rule—both are NPAs.
3	<b>Question:</b> "Minimum provision for RS Enterprises (D2, ₹30L, secured)?" • <b>Crux:</b> Doubtful (D2) needs 40% of secured amount—₹12L fits. → <b>Answer:</b> (b) ₹12L
<b>Case Scenario 7 (SA's)</b>	
1	<b>SA 560</b> → <b>Question:</b> "What's CA Mahavir's duty for subsequent events?" → <b>Answer:</b> (b) Perform procedures to know about events occurring between the date of FS and date of auditor's report.
2	<b>SA 501</b> - "Best way for CA Chandana to verify third-party inventory?" • <b>Answer:</b> (a) Need Confirmation from 3 <sup>rd</sup> party (Confirm quantity/condition or inspect)
3	<b>Forex Conversion Procedure</b> → <b>Question:</b> "What procedure did CA Prabha use for forex conversion?" <b>Answer:</b> (b) Recalculation (conversions checks math accuracy—)
<b>Case Scenario 8 (Assertions)</b>	
1	<b>Sales Testing Approach</b> → <b>Question:</b> "Is CA J's 100% test of details and controls for sales appropriate?" • <b>Crux:</b> 100% suits for test of details (sales), but controls typically use sampling—unusual here. • <b>Answer:</b> (b) Yes for TOC, unlikely for controls
2	• <b>Question:</b> "Which assertion is CA J checking while verifying correctness of recording of sales based on invoices (including adjustment of discounts) and TDS adjustments for employee benefit expenses respectively?" • <b>Crux:</b> Both verify accurate recording (measurement) i.e., measurement, measurement
3	<b>Assertion Views</b> • Assertions are the representations made by the <b>auditors</b> . → <b>Wrong</b> (it's <u>management</u> ) • Assertions are generally <b>explicit and not implicit</b> → <b>Wrong</b> (can be Implicit or Explicit) • Verification of the assertions helps the auditor in finding out whether FS are in accordance with applicable FRF or not. → <b>CORRECT</b>
4	<b>Consignee Inventory Assertions</b> • <b>Question:</b> "What assertions are verified for consignee inventory?" • <b>Crux:</b> Excluding third-party goods checks completeness (inclusion) and rights (ownership). • <b>Answer:</b> (b) Completeness and Rights & Obligations ( <u>Not</u> → Cut-off testing)
<b>Case Scenario 9 (LLP)</b>	
1	• LLP combines limited liability (like a company) with flexibility (like a partnership). It needs at least <u>2 individuals</u> , and 2 must get <u>DPIN</u> (Designated Partner Identification Number). The authority is the Registrar of Companies ( <u>ROC</u> ), not Registrar of Firms.
2	• Audit is mandatory for LLPs if turnover exceeds ₹40 lakhs or contribution exceeds ₹25 lakhs (as per LLP Act, 2008). Here, turnover is ₹5 crores and contribution is ₹50 lakhs—both exceed thresholds, so audit is required. (twin criteria of turnover and contribution thresholds.)
3	<b>Audit Trail Rules</b> → Audit trails benefit both businesses (internal control) and auditors (verification), → but for LLPs it's not Mandatory to maintain Audit trail in Accounting software
4	<b>Auditor Appointment</b> → For the first year, the auditor must be appointed <u>before the financial year ends</u> (March 31, 2024). Piyush's plan to contact CA S in August 2024 is too late.
5	<b>Consequences of Late appointment of Auditor (after end of FY i.e., in Aug'24)</b> • <b>Key Point:</b> Annual return (Form 11) is due within 60 days of year-end (May 30, 2024), and Statement of Account and Solvency (Form 8) is due within 30 days from 6 months post-year-end (October 30, 2024). August 2024 misses the annual return deadline but not Form 8.
<b>Case Scenario 10 (Audit of Items of FS)</b>	
1	<b>Question:</b> "How should Royal Constructions <b>value obsolete inventory</b> ?" • <b>Crux:</b> Obsolete inventory uses net realizable value (AS 2)—₹50,000, (cost or NRV whichever is lower).
2	<b>PPE Cost Calculation</b> → <b>Question:</b> "What amount should be <b>included in PPE cost</b> ?" • Employee benefits related to acquisition = ₹1,05,000 <input checked="" type="checkbox"/> (Capitalized) • Testing costs = ₹1,25,000 <input checked="" type="checkbox"/> (Capitalized) • Less: Proceeds from sale of samples = ₹(35,000) <input checked="" type="checkbox"/> (Deducted from cost) • Total PPE Cost: ₹1,05,000 + ₹1,25,000 – ₹35,000 = ₹1,95,000
3	<b>Independence Threat from Fees</b> • <b>Question:</b> "What threat arises from ₹10L fees?" • <b>Crux:</b> High fees create financial dependency—self-interest threat to objectivity. → <b>Answer:</b> (a) Self-interest threat
<b>Case Scenario 11 (SA's)</b>	



1	<b>SA 520 : Question:</b> "What procedure did CA Ekum perform at the audit start?" → Comparing financials with prior periods/industry (SA 520) is analytical. <b>Answer:</b> (b) Analytical procedure (Not inspection of document)
2	<b>PPE → Crux:</b> New production cost & admin other general OH costs aren't part of PPE—Sachin's partly right.
3	<b>IC Evaluation → Question:</b> "What method did Mr. Sachin use for sales controls?" <b>Crux:</b> he gave a comprehensive series of questions concerning the internal control related to sales to the client → <b>Answer:</b> (c) I.C questionnaire
4	<b>Sales Assertions → Question:</b> "Which assertion did Mr. Sachin verify for sales? i.e., whether the recorded sales pertained to goods ordered by valid customers, duly despatched, and invoiced during the audit period <b>Answer:</b> (a) Occurrence
5	<b>SA 200 → Question:</b> he noticed that this segregation of duties was often not followed in practice, which risk ? <b>Answer:</b> (d) Control risk
6	<b>SA 530 → Question:</b> "Which sampling method? → He divided Debtor balance into 4 group (i.e., Balance in excess of Rs. 20 Lacs, between 12 Lacs to 20 Lacs, etc...) <b>Answer:</b> it's Stratified sampling
<b>Case Scenario 12 (SA's)</b>	
1	<b>SA 560 - Fire Incident Disclosure</b> <b>Question:</b> " fire incident took place after balance sheet date (i.e., 1 <sup>st</sup> May 2024) ?" <b>Answer:</b> (c) Disclose in notes (Non-adjusting event)
2	<b>SA 450 - Material Misstatements</b> <b>Qn:</b> "Are uncorrected misstatements (₹10L machinery wrongly capitalised, ₹20L WIP overstated) material?" <b>Crux:</b> ₹30L total > 5% PBT (₹25L)—material per SA 450, affects opinion. <b>Answer:</b> (b) so uncorrected misstatement are Material, consider effect on opinion
3	<b>Qn:</b> "What assertion is verified for WIP inventory i.e., → resulted in overstatement of WIP inventories?" <b>Answer:</b> (b) Valuation
4	<b>SA 580 - WR → Question:</b> "Is the management's qualified representation proper i.e., Language is "We confirm that (to the best of our knowledge and belief" .....?" <b>Answer:</b> (a) Proper
<b>Case Scenario 13 (Bank Audit &amp; Ethics)</b>	
1	<b>Question:</b> "too certificate from auditor (bank audit) under Companies Act undertaking i.e., "disqualification of a person as auditor of a company if he, his relative or partner is <b>indebted</b> to the company"" <b>Answer:</b> (a) it's to Addresses <b>self-interest</b> , Audit firm can given such undertaking <b>Point to note:</b> Companies act is also applicable on the bank.
2	<b>Questn:</b> "Which principle to it relates → auditor gave declaration that "We declare that we will not communicate or allow to be communicated to any person, not legally entitled thereto, any information relating to the affairs of PST Bank" ?" <b>Answer:</b> (b) Confidentiality (Not Integrity)
3	<b>Question:</b> Stock auditors made an adverse comment on borrower enjoying a cash credit facility " → So what's the standard role of Stock auditor ? which comments they make generally ? <b>Answer:</b> (a) they make Comments on valuation of security and drawing power
4	<b>About foreign letters of credit:</b> <ul style="list-style-type: none"> <li>It's <u>Non-funded facility</u>, on which <u>bank earns commission/charges</u>. → Correct</li> <li>Branch earns interest on issuance of foreign letter of credit which is <u>credited in interest earned account</u> of profit and loss account of branch. → Incorrect (Because it's credited to Other Income)</li> <li>The bank which receives foreign letter of credit is known as <u>beneficiary bank</u>. → Incorrect (it's Advising bank)</li> </ul>
<b>Case Scenario 14 (Bank Audit)</b>	
1	<b>Out-of-Order Overdraft</b> <ul style="list-style-type: none"> <li><b>Qn:</b> "When is the overdraft to Times Ltd. out of order?" (Sanctioned OD Limit of 75 Lacs, But DP is 50 Lacs)</li> <li>The outstanding balance remains continuously in excess of Rs. 75 Lakh → Out of Order</li> <li>The outstanding balance remains continuously in excess of Rs 50 Lakh → Out of Order</li> <li>The outstanding balance in the account is less than Rs.75 Lakh but there are no credits or payments deposited into the account continuously for 90 days as on balance sheet date. → Out of Order</li> </ul>
2	<b>Government Guarantees →</b> Only for <u>Central govt guaranteed</u> advance there are Exception (i.e., NPA will be classified as Standards Assets .. no provisioning ... However, <u>for Income Recognition</u> , it will be <u>treated as NPA only</u> ) (No exception for State Govt guaranteed Advance)
3	<b>Drawing Power Calculation</b> (Very easy, Like Comprehensive Questions covered in Qn bank ... can skip)
4	<b>Security Value Erosion →</b> Also, the outstanding balance in one of the Loan accounts was Rs. 25 Lakh and the realisable value of the security as assessed by the bank / approved valuers was Rs. 2.25 Lakh → It was classified as <u>doubtful</u> category and provision was made <b>Answer:</b> Security value <10% means "loss asset" - full provision/Written off, (not doubtful).
5	<b>In addition to Main report, which other reports SCA needs to be issues:</b> (i) Long Form Audit Report. → Yes



- (ii) Report on compliance with SLR Requirements. → Yes
- (iii) Report on Treasury Operations – as per RBI guidelines. → Yes
- (iv) Report on compliance as per Ghosh committee recommendations. → Yes
- (v) Report on adverse credit - lending ratio in the rural areas. → NO

**Case Scenario 15 (Audit Strategy & Sampling)**

- 1 **SA 300 - Audit Strategy Factor → Question:** "Which isn't a factor in establishing audit strategy?"  
• **Answer:** (d) Nature, timing, extent of procedure for cash & cash equivalent
- 2 **SA 320 - Materiality Benchmark**  
• **Question:** "Which benchmark for materiality for Priority Ltd (Profit Making Entities).?"  
• **Answer:** (c) % of PBT (Not Revenue)
- 3 **SA 530 → Question:** "Effect of increasing tolerable misstatement to ₹10L?"  
• **Answer:** (a) Decreases sample sizes
- 4 **SA 530 - Misstatement Projection → Question:** "Correct statement on projecting sample misstatements?"  
• **Answer:** (b) Projected misstatements + anomalous misstatements = best estimate

**Case Scenario 16 (SA's)**

- 1 **SA 210 - Engagement Letter → Question:** "What's true about the engagement letter exchange?"  
• **Crux:** SA 210: Auditor sends letter to Client → it includes expected form & content of report and possible deviations.
- 2 • **Question:** "two vehicles are not in the name of Trust but in the name of trustees?"  
• **Answer:** (b) Misstatement in "Rights and Obligations"
- 3 **SA 505 - Question:** "Action if management refuses supplier confirmation?"  
• **Crux:** SA 505: Verify refusal reason, use alternatives—Do not impact opinion directly.  
• **Answer:** (b) Seek evidence, perform alternatives

**Case Scenario 17 (Assertion & SA's)**

- 1 **Assertions for Employee Expenses**  
• employee benefit expenses recorded in the books were actually incurred during the relevant period → Occurrence  
• The expenses in respect of all personnel have been accounted for. → Completeness  
• The expenses recognised during the period are pertaining to the current accounting period → Cutt-off
- 2 **Dividend Disclosure**  
• **Question:** Dividend to equity shareholders for the year 2022-23, was declared on 15.04.2023 and was recognised as liability in the year 2022-23  
• **Answer:** No, it's not liability, it should be disclosed in the notes to accounts
- 3 **SA 505 - Debtor Confirmation**  
• As per SA 505, confirmation should be directly obtained by the auditor. Further, for all significant account balances as on the Balance sheet date confirmations should necessarily be collected and for the smaller outstanding balances, random sampling could be performed
- 4 **Fixed Assets Assertion →** some of the invoices were not in the name of the company → Which Assertion?  
**Answer:** Rights and obligation
- 5 **In QN: Cash and cash equivalents were classified as balances with banks, cheques and drafts on hand, cash on hand and earmarked balances with banks (e.g. unpaid dividend).**  
Which of the following is incorrect disclosure of the same? → Earmarked balances with banks. (e.g.: unpaid dividend)  
**Reason:**  
**Cash and cash equivalents shall be classified as:**
  - Balances with banks, Cheques, drafts on hand, Cash on hand, Others (specify nature)
  - Earmarked balances with banks (for example, for unpaid dividend) shall be separately stated.

**Case Scenario 18 (SA 210)**

- 1 **SA 210 → Question:** Before accepting Engt Letter, Mngt make clear to Auditor that → mngt inability in providing support to him in respect of certain procedures expected to be performed during the audit  
**Answer:** The auditor should not accept such an engagement.
- 2 **Preconditions for accepting audit:**
  - FRF acceptable
  - management providing auditor with access to all relevant info & additional information upon auditor's request
  - provide unrestricted access to employees within entity
  - management responsibility for the preparation of FS as per applicable FRF
  - Obtaining management responsibility on necessary IC to enable preparation of FS which are free from MMS whether due to error or fraud
- 3 **SA 210 Engagement Letter Revision → Question:** "Which factor for revision in Engagement letter is incorrect?"  
• **Crux:** Modest size/nature change doesn't trigger revision—significant does.
- 4 **Ethics - →** "Is it ethical for outgoing auditors to not respond?"  
• **Crux:** No response violates professional behaviour—ethical breach.  
• **Answer:** (d) Unethical, professional behaviour violation

**Case Scenario 19 (Inventory & Ethics)**



1	<b>SA 501/705 - Inventory Count → Qn</b> "Action if inventory count is impracticable and alternatives is also not possible?" • <b>Crux:</b> SA 501/705: Modify opinion due to scope limit—no evidence possible.
2	<b>Employee Expenses Assertion</b> • <b>Question:</b> "Which assertion for bifurcating employee expenses (into salaries & wages, contribution to PF, expenses on ESOP)?" • <b>Crux:</b> "Disclosure" ensures proper note breakdown—per accounting rules.
3	<b>Ethics Principle → Question:</b> "Which principle is violated by signing a clean report directly, and he did not performed all procedure due to insufficient time?" • <b>Answer:</b> (a) Professional competence and due care
4	<b>Independence Threat → Question:</b> "Threat from undue fee dependence on GHB Ltd.?" • <b>Answer:</b> (c) Self-interest threat
<b>Case Scenario 20 (Joint Audit &amp; Society)</b>	
1	<b>SA 299 - Joint Audit Disagreement → Question:</b> "Action if joint auditors differ on opinion?" • <b>Answer:</b> (d) Separate reports with references
2	<b>Securities Premium Use → Question:</b> "What can't securities premium be used for?" • <b>Answer:</b> (a) Writing off P&L debit balance
3	<b>Charitable Contribution Limit → Question:</b> "How much can NAND Co-op society contribute to charity?" • <b>Crux:</b> Section 34: Max 10% of net profits after reserve transfer. • <b>Answer:</b> (a) Not exceeding 10% of net profits
4	<b>Audit Documentation → Question:</b> "Which need not be in audit documentation?" • <b>Crux:</b> Draft engagement letter (i.e., it's not Final yet)
<b>Case Scenario 21 (SA's)</b>	
1	<b>SA 570 - Financial events or conditions that may cast significant doubt on going concern does not include:</b> • <b>Answer:</b> (c) Shortage of important supplies [It's Operational Event]
2	<b>SA 570 - Type of audit report when G.C is appropriate but material uncertainty exists with adequate disclosure:</b> • <b>Answer:</b> (c) Unmodified opinion.
3	<b>SA 705 - Opinion if written representations are unreliable:</b> • <b>Crux:</b> Disclaimer (a) is issued as the auditor can't form an opinion without reliable evidence.
<b>Case Scenario 22 (Assertion &amp; Bank audit)</b>	
1	<b>Audit procedure to check ownership of property Pledged with Bank as Security:</b> • <b>Question:</b> How to verify property ownership when pledged as security? • <b>Answer:</b> (a) Request management to obtain bank confirmation for holding original title deeds of pledged immovable property
2	• <b>Question:</b> What's tested when checking if vendors are real and goods were received? • <b>Answer:</b> "Occurrence" assertion ensures transactions actually happened (e.g., no fake vendors).
3	• <b>Question:</b> Why mngt issued credit notes after the accounting period? • <b>Rule:</b> Credit notes post-year-end may indicate fictitious sales reversed later. • <b>Crux:</b> Fictitious sales (a) to meet targets, later canceled, is a common audit red flag.
4	<b>Correct drawing power calculation:</b> • <b>Question:</b> What's the right drawing power given incorrect calculation? • <b>Rule:</b> Drawing power = (Stock + Receivables - Margin) based on bank norms. • <b>Crux:</b> Stock (60 lacs) + Receivables (45 lacs) = 105 lacs; Margin (25% of 105 = 26.25 lacs); DP = 105 - 26.25 = 76.50 lacs (b).
<b>Case Scenario 23 (SA's)</b>	
1	<b>SA 315 - → Question:</b> What's the best way to test if a control works? • <b>Answer:</b> (a) Observing application of control. (Instead of Inquiry or reperformance)
2	<b>SA 315 → What internal control review doesn't reveal to the auditor:</b> • <b>Rule:</b> SA 315 assesses controls, not final opinion modification, which depends on evidence. • <b>Answer:</b> (c) Whether his opinion needs modification.
3	<b>SA 265 → Question:</b> Which weaknesses are "significant Deficiencies" in Internal control? • <b>Crux:</b> All → i.e., Not performing bank reconciliation timely, lack of proper sequence in purchase orders, not verifying wage sheets by responsible official and lack of insurance for cash in transit
4	<b>SA 265 → What's the Auditor responsibility for significant control deficiencies:</b> • <b>Answer:</b> (d) Communicate deficiencies with sufficient information & context to mngt. • <b>Confusing Point:</b> "Fixing controls" isn't auditor's job, just reporting.
<b>Case Scenario 24 (SA's)</b>	
1	<b>Sampling techniques for transactions:</b> • Random number tables were used for selection → Random Sampling • No structured method of sampling → Haphazard Sampling • Transactions exceeding Rs. 8,000 were selected → Monetary • The first 200 sales invoices from the sales book for the month of July were selected for sales → Block sampling
2	<b>SA 520 - Question:</b> What's the name of audit procedure → of comparing salary expenses over years?

	<ul style="list-style-type: none"> <li><b>Crux:</b> Comparing salaries is “substantive analytical Procedure”, not test of details.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> What isn't the auditor's job for 3<sup>rd</sup> party inventory?</li> <li><b>Rule:</b> Auditor confirms <u>quantity/condition</u> or <u>inspects</u>, → <b>not values</b> independently from internal records.</li> <li><b>Answer:</b> (b) Independent valuation of inventory from companies internal records.</li> </ul>
<b>Case Scenario 25 (SA's)</b>	
1	<b>SA 210 - What doesn't justify revising an engagement letter:</b> <ul style="list-style-type: none"> <li><b>Answer:</b> (c) Replacement of Engagement Partner.</li> </ul>
2	<b>Incorrect statement in engagement letter: → Question:</b> Which scope statement is wrong? <ul style="list-style-type: none"> <li><b>Crux:</b> Auditor responsibility for preparation of FS</li> </ul>
3	<b>Categorizing prior year audit info: → Question:</b> What's the extract from last year's audit file? <ul style="list-style-type: none"> <li><b>Rule:</b> Audit programme is a detailed plan of procedures.</li> <li><b>Crux:</b> Extract with procedures (b) is an audit programme.</li> <li><b>Answer:</b> (b) Audit programme.</li> <li><b>Reason:</b> Matches procedure plan per definition. <b>Confusing Point:</b> “Plan” vs. “programme” might confuse, but it's specific steps.</li> </ul>
4	<b>SA 560 - Incorrect subsequent events procedure:</b> <ul style="list-style-type: none"> <li><b>Rule:</b> SA 560 requires checking events up to Audit report date, not just balance sheet date.</li> <li><b>Crux:</b> Reading minutes only up to 31.03.2024 (d) misses later events.</li> </ul>
<b>Case Scenario 26 (SA's)</b>	
1	<ul style="list-style-type: none"> <li><b>Question:</b> The entity has implemented a control whose objective is to ensure that production systems are processed to meet financial reporting objectives, this control is categorised in which category ?</li> <li><b>Answer:</b> (a) Data centre and network operations. (Not Application control)</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> Company has taken some borrowing → CA F wanted to ensure that all borrowing on the balance sheet represent valid claims by banks or other third parties → what should be his audit procedure (Validity)</li> <li><b>Answer:</b> Reviewed board minutes for approval of new lending agreements.</li> <li><b>Wrong Answer:</b> “Recompute interest”</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> Which is not a procedure to find out the related parties ?</li> <li><b>Rule:</b> i.e., tax returns or regulatory filings etc.</li> <li><b>Answer:</b> (c) Inventory records don't reveal related parties;</li> </ul>
4	<b>SA 520 - Analytical procedure for purchase reasonableness overall reasonableness of purchase quantity and price of raw material?:</b> <ul style="list-style-type: none"> <li><b>Answer:</b> (a) Consumption Analysis. (comparing raw material use).</li> </ul>

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<b>Case Scenario 27 (Bank Audit)</b>	
1	<ul style="list-style-type: none"> <li><b>Crux:</b> RBI norms → In case of Consortium loan given → each bank should classify NPA/standards assets based on individual bank recovery, not lead bank certificate. (if lead bank is getting the Regular instalment, but Other banks are not getting there share, then Other bank will classify it as NPA)</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Crux:</b> Central Government guarantee provide exemption for NPA provisioning but not income recognition.</li> </ul>
3	<b>Security type for ABC Traders' warehouse:</b> <ul style="list-style-type: none"> <li><b>Question:</b> What security and stock audit requirement?</li> <li><b>Rule:</b> Warehouse is mortgage (fixed asset); stock audit not mandatory below ₹5 crores.</li> <li><b>Crux:</b> Mortgage, no audit (d) since limit is ₹4.50 crores.</li> </ul>
4	<ul style="list-style-type: none"> <li><b>Question:</b> Is substandard classification and provision correct?</li> <li><b>Rule:</b> Security &lt;10% of outstanding (₹25 lacs vs. ₹308 lacs) = loss asset, 100% provision.</li> <li><b>Crux:</b> Loss asset (not substandard); full provision required.</li> </ul>
<b>Case Scenario 28 (Govt Audit)</b>	



1	<ul style="list-style-type: none"> <li><b>Question:</b> Which type of audit is to require to be done.. to identify the payments without approval?</li> <li><b>Answer:</b> “Audit of Sanctions” checks authorization by competent authority. (Not Rules)</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> Which type of audit assesses whether project goals were met?</li> <li><b>Answer:</b> (d) Performance Audit.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> Which type of audit flags unbudgeted fund use?</li> <li><b>Rule:</b> “Audit against Provision of Funds” ensures budget allocation. (not sanction)</li> </ul>
4	<ul style="list-style-type: none"> <li><b>Question:</b> Which type of audit spots spending against rules?</li> <li><b>Rule:</b> Audit against Rules &amp; Orders checks compliance with regulations.</li> </ul>
5	<ul style="list-style-type: none"> <li><b>Question:</b> Which type of audit flags wasteful spending?</li> <li><b>Rule:</b> “Propriety Audit” ensures spending aligns with financial principles.</li> </ul>
<b>Case Scenario 29 (Ethics)</b>	
1	<b>Ethical principle violated by fudging financials:</b> <ul style="list-style-type: none"> <li><b>Question:</b> A chartered accountant was preparing financials for client, he instructed his junior CA to to arrange some of the numbers, particularly the reported revenues and expenses, to present a more favourable picture.</li> <li><b>Crux:</b> Integrity (b) is violated by misleading adjustments.</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> What threat raised to auditor due to close relationship with CEO?</li> <li><b>Rule:</b> Familiarity threat arises from sympathy due to relationships.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> What’s breached by sharing data without permission?</li> <li><b>Rule:</b> “Confidentiality” protects client info.</li> </ul>
<b>Case Scenario 30 (SA’s)</b>	
1	<ul style="list-style-type: none"> <li><b>Question:</b> Which are non-funded facilities from the list?</li> <li><b>Crux:</b> LCs and guarantees</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> CA B’s decision to perform both TOC as well as substantive tests as assessed ROMM is high, which SA’s deal with it ?</li> <li><b>Rule:</b> “SA 330” designs responses to assessed risks.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> Why to review SMA a/c’s ?</li> <li><b>Answer:</b> It would help auditor in identifying accounts which may involve downgrading from standard category to non-performing asset.</li> </ul>
<b>Case Scenario 31 (Audit of Items of FS)</b>	
1	<ul style="list-style-type: none"> <li><b>Question:</b> What’s tested by ensuring that unauthorized staff costs is excluded?</li> <li><b>Crux:</b> Occurrence (b) checks if costs are for real employees.</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> All the items of inventory pertaining to the relevant year shall be included regardless of the location, which assertion ?</li> <li><b>Rule:</b> “Cut-off” ensures proper period recording.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> The auditor reviews purchase invoices have been made in the name of client. Which assertion</li> <li><b>Rule:</b> “Rights and Obligations” confirms entity ownership.</li> </ul>
4	<ul style="list-style-type: none"> <li><b>Question:</b> What he want to test by checking that inventory is recorded at lower of cost/NRV?</li> <li><b>Rule:</b> “Valuation” ensures proper amount per AS 2.</li> </ul>
<b>Case Scenario 32 (SA’s)</b>	
1	<ul style="list-style-type: none"> <li><b>Question:</b> “CA P” performed both the statutory audit and the non-audit engagement services for Green Ltd.</li> <li><b>Rule:</b> “Self-review threat” when auditing own work.</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> Income tax auditor has material significant indirect financial interest.?</li> <li><b>Rule:</b> “Self-interest threat” from financial stake.</li> </ul>
3	<ul style="list-style-type: none"> <li><b>Question:</b> What threat from accepting client gifts?</li> <li><b>Rule:</b> “Familiarity threat” from close ties</li> </ul>
4	<ul style="list-style-type: none"> <li><b>Question:</b> What threat from Auditor replacement threat?</li> <li><b>Rule:</b> “Intimidation threat” from coercion.</li> </ul>
<b>Case Scenario 33 (SA’s)</b>	
1	<ul style="list-style-type: none"> <li><b>Question:</b> She intends to check major invoices of expenses to ensure proper recording &amp; classification?</li> <li><b>Rule:</b> “Tests of transactions” (to ensure that individual transactions are correctly recorded and classified)</li> </ul>
2	<ul style="list-style-type: none"> <li><b>Question:</b> Assertion to ensuring ensure genuineness of trade receivables ?</li> <li><b>Crux:</b> Existence (verifies real balances)</li> </ul>
3	<b>SA 520 – analysing advertising expenses of the current and previous years and their relationship with total sales</b> <b>Answer:</b> (d) Substantive Analytical Procedures.
4	<ul style="list-style-type: none"> <li><b>Question:</b> Which audit procedure is being performed by CA Riya by reviewing property documents for the newly acquired showroom?</li> <li><b>Crux:</b> Inspection (to confirms ownership via docs)</li> </ul>
<b>Case Scenario 34 (SA’s)</b>	
1	<ul style="list-style-type: none"> <li><b>Q:</b> Auditor has bought stock in XYZ Pvt. Ltd., and his investment could benefit from issuance of unmodified opinion in his audit report. This indicates existence of:</li> <li><b>Rule:</b> “Self-interest threat” from financial gain.</li> </ul>



2	<ul style="list-style-type: none"> <li>• <b>Question:</b> selecting a sample to verify the trade receivables balances where larger balances have a higher chance of being included</li> <li>• <b>Rule:</b> “Monetary Unit Sampling” weights by value.</li> </ul>
3	<ul style="list-style-type: none"> <li>• <b>Qn:</b> CA Meera is reviewing a method for calculating software development costs that she helped in creating while working at XYZ Pvt. Ltd. This may involve.</li> <li>• <b>Rule:</b> “Self-review threat”</li> </ul>
4	<ul style="list-style-type: none"> <li>• <b>Question:</b> Raj, the CEO, is requesting the CA Meera and CA Amit to modify the FS disclosures in a misleading manner. Which fundamental principles are violated?</li> <li>• <b>Answer:</b> (a) Integrity.</li> </ul>
<b>Case Scenario 35 (SA's)</b>	
1	<p>The <b>engagement partner's social acquaintance with the promoters</b> does <u>not</u> create a <u>familiarity threat mandatorily</u> as it does not influence professional judgment.</p> <p>However, <u>detection risk is high</u> since it is the firm's first audit of the company, and there is a significant increase in turnover and trade receivables, indicating potential misstatements.</p>
2	<p><b>Least relevant PPE procedure:</b></p> <p><b>Answer:</b> No acquisitions in 2023-24; → still Verifying cost of PPE items acquired during the year with purchase bills</p>
3	<p><b>Gross profit ratio variation:</b></p> <ul style="list-style-type: none"> <li>• <b>Question:</b> Why did gross profit ratio change?</li> <li>• <b>Rule:</b> <math>GP = (Profit/Sales) \times 100</math>; 2022-23: 25% (3.75/15), 2023-24: 20% (6/30).</li> <li>• <b>Crux:</b> Decreased (a) due to lower sales prices for more orders.</li> <li>• <b>Calculation:</b> <ul style="list-style-type: none"> <li>○ 2022-23: <math>(3.75/15) \times 100 = 25\%</math></li> <li>○ 2023-24: <math>(6/30) \times 100 = 20\%</math></li> </ul> </li> <li>• <b>Answer:</b> (a) Decreased due to lower prices.</li> <li>• <b>Reason:</b> Sales doubled, profit didn't; price drop fits.</li> </ul>
4	<p><b>SA 520 - Question:</b> What's comparing sales/purchases over years?</p> <ul style="list-style-type: none"> <li>• <b>Answer:</b> (b) Trend analysis.</li> </ul>
6	<p><b>Irrelevant SA combination:</b></p> <ul style="list-style-type: none"> <li>• <b>Question:</b> Which SA set doesn't fit the scenario?</li> <li>• <b>Rule:</b> No related parties (SA 550) or internal audit (SA 610) in scenario.</li> <li>• Furthermore, SA 220 and SA 510 is relevant but does not fit the overall combination when paired with SA 550 and SA 510.</li> <li>• <b>Answer:</b> (b) SA 550, SA 510, SA 220, SA 610.</li> </ul>