



# The Institute of Chartered Accountants of India

Code: IN5AE412263  
Subject: 05 Auditing and Ethics

Total Marks: 70  
Marks Obtained : 59

Subject: Audit  
Number of Answer Books used : Main + ..... additional sheets  
Date Seal: 13 SEP 2025

For use by ICAI only  
412263



Paper Code  
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T  
F  
1

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

MCQ Booklet Serial No.

8741230

Paper No.

5

Level of Exam: Intermediate

Foundation 1 Intermediate 2 Final 3

MCQ Answers

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

**INSTRUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS**

**B. Pencil to Darken the appropriate Circle.**  
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.  
ase darken the complete circle.

4. 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 |   |
|----------------|---|--------------|---|
| A              | ● | C            | D |
|                |   | X            | ● |

| Q. No. | To be ticked <input checked="" type="checkbox"/> by the candidate against the Questions answered ( Descriptive Type ) |
|--------|---|
| 1      | <input type="checkbox"/>  |
| 2      | <input type="checkbox"/>  |
| 3      | <input type="checkbox"/>  |
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| 5      | <input type="checkbox"/>  |
| 6      | <input type="checkbox"/>  |
| 7      | <input type="checkbox"/>  |
| Total  |   |

| Q. No. | To be ticked <input checked="" type="checkbox"/> by the candidate against the Questions answered ( Descriptive Type ) |
|--------|---|
| 8      | <input type="checkbox"/>  |
| 9      | <input type="checkbox"/>  |
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| Total  |   |



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03

Q.6(a)

As per Schedule III (Part I) of Companies Act, 2013

The following are the disclosure requirements for Inventory

Inventory to be classified as

- a Raw Material
- b Work in Progress
- c Finished goods
- d Stock in Trade [in case of Trading Business]
- e Loose tools
- f Spare and spares [if do not meet definition of AS 10]
- g Others

6aStep1 ☒ 3

☒ Goods in transit shall be separately disclosed under each respective sub-head

6aStep2 ☒ 1

6aStep3 ☒ 4

0 6a





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04



Q 6(B)

An conduction Audit of stores & Spares Auditor needs to verit verify the following

1. ☒ whether adequate Policies & procedures & Rules have been esti established for sale, disposal, receipts, issue, etc of the stores & spares.

2. ☒ whether the purchases have been reasonable and after the approval & sanction of appropriate Authority & are as per the Rules & Regulation in this Behalf

3. ☒ whether the Prices Paid were economical for the above purchases and are in agreement with the supplier's invoices.

inventories  
whether the goods have been properly received and Quality and Quantity inspection certificate was issued by the Receiving & inspecting department.

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4. verify & vouch the Account for issue, Receipt and Balance of Inventory and specifically having regard to the general/normal level of consumption.

And any lost or damaged Inventory should be specifically and separately mentioned in Audit Report.

Conduct Physical Examination of inventory at Periodical interval to ensure the genuineness & Balance.

5. Bring to the notice of government any discrepancy in the inventories noted and irregularities, and report to

And any damaged or obsolete Inventory.

6bStep1 5

6b 5



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06



Q. 6 (c) (or)

(i) Self Interest Threat

These threat occurs when Auditor has any direct or indirect interest in the financial interest of the client.



having close Business Relationship shows self interest of Auditor in client's Business

6cStep1



1

(ii) Self Review Threat

These threat occurs when doing a review of own judgement and decisions taken during audit or not audit services.



performing services that are themselves subject matter of Audit leads would lead to Auditor doing Review of his own work.

6cStep2



1

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(iii) Advocacy threat

It occurs when the Auditor promotes or is perceived to promote the interest of client's Business to a point that it may lead to appear that objectivity is being compromised.

DO NOT WRITE ANYTHING HERE

6cStep3 ✓ 1

Dealing in shares & securities of audited company is perceived as Backing & support championing the cause of client's Business.

(iv) Familiarity threats

These threats are self or evident and occurs when Auditor forms close association with specific auditor that they end up being too sympathetic for client's Business own interest.

DO NOT WRITE ANYTHING HERE

6cStep4 ✓ 1

6c ✓ 4

6 ✓ 13





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08



Q.5(a)

As per SA 300 "Audit Planning"

(i) Factors that effect the nature, timing, & extent of Direction & supervision of engagement team members are:

- ☒ a) Size and complexity of entity
- ☒ b) Area of Audit
- ☒ c) Assessed Risk of Material Misstatement
- ☒ d) Competencies and capabilities of the individual engagement team members performing the work

5aStep1



3

~~(ii)~~

~~Auditor shall Revise and update the  
as a result of an unexpected  
circumstances, new information,  
or audit evidence as a result of  
Audit Evidence~~

DO NOT WRITE ANYTHING HERE

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(ii) Auditors should revise and update the overall Audit strategy and Audit Plan as a result of new conditions, unexpected circumstances or Audit evidences obtained as a result of Audit Procedures and the resulting nature, timing & extent of Audit tests Procedures on the Basis of Revised Assessment of ROR Risk of Material Misstatement.

5aStep2



2

Step 1

Thus if during the course of Audit, CA Tomen discovers information that differs significantly from what was available when Audit was planned,

he should Revise the overall Audit Plan and Audit strategy and the Resulting nature, timing & extent of Audit Procedures are Based on Revised Assessment of Risk of Material Misstatement and and the Res and update

He should also Revise his Audit Programme

DO NOT WRITE ANYTHING HERE

5a



5



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Q.5(B)

Audit Procedures for verifying the existence of Borrowing are

And

1. ☒ Reading the Minutes of Board Meeting to ensure that loans and Borrowing have been properly approved by the Board of Directors.
2. ☒ Verifying the loan details recorded in the Books with the underlying loan Agreement for ~~terms~~ like Rate of Interest, Amount of Borrowing, due date of Payment, etc.
3. ☒ Inspecting the ~~Ag~~ loan Agreement & contract for hire purchase and leasing Agreement to ensure their existence & genuineness.
4. ☒ Verifying the ~~debenture~~ debenture trust deed for the debentures issued by the company for vouching the terms of Repayment, Amount of debenture, etc.

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5. Roll out and obtain direct confirmation from Banks and other lenders to ensure that ~~exist~~ they represent valid claims

6. Ensure that ~~once~~ charges on Assets are released ~~so~~ once the debt is settled ~~on~~ paid in full.

5bStep1 5

5b 5



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Q.5 (c)

Auditor's duty Regarding audit of LLP

1. Engagement letter : Auditor should



ensure that engagement letter have been made to define the object and scope of Audit and any limitation on the Auditor



2. Minutes

: Read the Minutes of

the Meeting to ~~know~~ verify whether any ~~of~~ policy decision have been made which might ~~effect~~ the Accounts of LLP

3.

LLP Agreement : Verify and Read the LLP Agreement to know about following matters, like



- a) Borrowing capacity of LLP
- b) capital contributed by each Partner

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DO NOT WRITE ANYTHING HERE





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c) Salaries, Commission, etc Payable to Partners

d) Interest provided on Additional capital contributed by them and Interest charged on Borrowing

e) Profit sharing Ratio, etc.

4.) Report on the following Matters

a) <sup>whether</sup> ~~when~~ the Books and Records are adequate and correct and Reliable,

b) whether he has sought all the Informations and explanations ~~see~~ considered necessary for his Audit

c) whether any restriction or limitation was imposed upon him during the Audit.

5cStep1 4

5c 4

5 14



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Q. 2(a)

As per SA 265 "Communication of significant deficiencies in internal control"

Significant / D.

→ Deficiency in internal control means when the control designed, implemented and maintained by the entity are ☒ not able to prevent, detect and correct a misstatement that might be material on a timely basis exist in the financial statement and or

A control that is required to prevent, detect or correct misstatement on a timely basis is Missing.

2aStep1



Significant Deficiency in internal control

are those deficiencies in internal control that the Auditor believes is of sufficient importance to merit the Attention of those charged with governance (TCWG)





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A deficiency in internal control might exist even if a ~~Material Misstatement~~ has not been ~~occurred or detected~~ but ~~there is~~ risk that ~~Misstatement~~ could occur in the financial statement and that could be material

2aStep2 ✓ 2

2a ✓ 4



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Q. 2(B)

As per SA 701 "Key Audit Matters"  
Purpose of Key Audit Matter

(i) → Key Audit Matters are those matters that in the Auditor's professional judgement were the most significant in the Audit of financial statement of the Entity, and that required significant Auditor's Attention & Judgement

→ These matters are determined from ~~as~~ significant communication with the those charged with governance during the Audit of company.

• The Auditor shall determine the Key Audit Matters from the following

a) Areas which Required significant Auditor's judgement for the Areas where significant Management judgement has been used.

b) where the Assessed Risk of Material Misstatement is high.

c) Significant ~~dist~~ / ~~of~~ / ~~the~~ events and transactions that might effect current year financial Results of entity.

2bStep1

0

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(ii) → Key Audit Matters are not substitute for disclosure in the financial statement that are required by a financial reporting framework to be made in financial statement or that are otherwise necessary for fair representation of financial statement

DO NOT WRITE ANYTHING HERE

→ It is not a substitute for Modified opinion when required by circumstances of Audit

→ It is not a substitute for Reporting as per SA 570 when a Material uncertainty exist relating to entities ability to continue as a going concern

→ It is not a substitute for any separate opinion of any specific Matter.

DO NOT WRITE ANYTHING HERE

2bStep2 3

2b 3



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Q.2 (c)

Aspects coming by the Auditor, to ensure the financial statements would not mislead mislead anybody

1. ☒ All the Accounts have been drawn up on the Basis of Book entries
2. ☒ The Book entries are adequately supported by sufficient & appropriate Audit Evidence
3. ☒ None of the Entries have been omitted in the process of compilation
4. ☒ Information presented in the financial statement are not misleading ~~and~~ & are ~~are~~ correct and unambiguous.
5. ☒ Financial statements are prepared, presented, classified and disclosed as per the relevant Accounting standard and Applicable financial Reporting framework

2cStep1

2c

4

4

2

11



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Q. 3(a)

(i) Auditors are required to Report on the Adequacy of Internal ~~control~~ financial control of the entity,

However the following are exempted companies

However this will not be applicable to a Private Ltd company which is a

- one person company (opc), or
- ☒ → Small company, or
- have turnover of less than ~~50 crore~~ 50 crore in the immediately preceding financial year, and
- ☒ have Borrowing from Bank & financial institution of less than 25 crore

i.e Turnover less than 50 crore and Borrowing less than 25 crore

3aStep1 ☒ 2



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(ii) Companies (Auditor's Report) order, 2020 shall not be applicable to a Private Ltd company (not being a subsidiary of Public company) which is a ,

→ Small company or

→ Section 8 company . or

→ One Person company , or

→ ~~having, paid up share capital and Reserves upto 10 crore , or~~  
having

→ ~~CARO~~ → it is a Private company (which is not a subsidiary of holding of Public company) having



• Paid up share capital and Reserves & surplus upto 21 crore , and



• Borrowing (including Public deposit) upto 21 crore , and

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→ turnover (including turnover from discontinued operation) upto 10 crore

3aStep2 3

3a 5

DO NOT WRITE ANYTHING HERE

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Q.3 (B)

The factors that may make it appropriate to revise the terms of Audit Engagement or Remind entity of existing terms are

1. ☒ If there is any indication that entity ~~has~~ Misunderstands the scope objective of scope of Audit & its responsibility
2. Any revised or special terms
3. ☒ Recent change in the key Management
4. ☒ Significant change in the ownership of entity
5. ☒ Significant change in the nature, size or operation of entity
6. ☒ change in financial Reporting framework applicable on the entity
7. ☒ change in the other Reporting Requirement applicable of on Entity.
8. ☒ change in legal or Regulatory Environment of Entity

3bStep1

5

3b

5



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Q.3(c)

→ A taken out finance is a long term financing facility where the loan taken to later is used to replace the loan taken on earlier occasion.

These are the type of long term finances where the Bank / lender agrees to provide loans loan on completion of a specific period or a specific Activity.

3cStep1



1

These are generally taken for Property Development.

→ Objective of taken take out finance

a) to provide long term sources of finances for Property Development & other purpose developments

b) to extend the availability of finance for long tenure debts

3cStep2



2

c) to reduce the exploitation of borrowers of long term finance.



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## Classification of loan as NPA

- Taken out ~~interest~~ loan should be classified as NPA if there is any uncertainty regarding the payment of interest or or repayment of principal on due date by the Borrower
- on classification as NPA, the Banks should <sup>Reverse</sup> ~~Revised~~ the Interest accrued on such loans or provide for them fully if they are not Realized or or Paid and stop further accretion of income until certainty attaches the regarding collection
- ~~NPA~~ fees and commission on (NPA) account should also be reversed or provided for if they are not Realized
- Income should be recognized only when the above interest are actually received for (NPA) A/c.

3cStep3



1



4

3c



3



14

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25 ☒ 

Q.1 (c)

As per SA 501 "specific less special consideration for specific items"

~~Q.1 (c) → If the Auditor could not attend the Physical Verification on the~~

If the Physical Verification of Inventory was conducted on a date other than the date of Balance sheet the Auditor should perform Physical Verification of Inventory on the said date and shall perform additional procedures on the intervening period transactions, to ensure that Inventories are properly Adjusted.

In case of Hyderabad unit, due to administrative Reasons management had taken up stock verification on 15 March, 2025, the ☒ auditor shall perform additional procedures on intervening transactions to ensure they are properly adjusted in Records i.e. Between 15 March - 31 March or Balance Sheet date.



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The following factors need to be considered

- a) Reliability of entities Perpetual Records
- b) Reason for significant discrepancy in Physical vs verification & Perpetual Records.
- c) whether Perpetual Records are properly adjusted.

1cStep1

2



In case Auditor is unable to attend the Physical verification due to nature or location of inventory, he shall perform following additional audit procedures

Reconciling the subsequent transaction i.e. subsequent sale of inventory items ~~after verification~~ that were acquired prior to the date of Physical (purchase) verification to verify their existence on Balance Sheet.

1cStep2

1

In Thus In Respect of Ahmedabad unit, where Physical verification could not be possible the Auditor shall perform above Additional procedure.

1c

3





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**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
**ADDL. BOOK**

**DO NOT WRITE ROLL NUMBER  
ADDITIONAL ANS**

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Q.1 (a)

(9) Audit Evidence that <sup>are</sup> sufficient & appropriate ~~in~~ <sup>for</sup> verification of Asses Assertion are the ~~more~~ most appropriate evidence

Evidence should be Both Qualitative ~~and~~  
i.e Relevant and Reliable and  
Quantitative.

Carboidr. f. hidrolisis provide

→ What type of Evidence is more appropriate in verification of Assertion is a matter of Professional judgement of an Auditor.

→ Certain Evidences may provide more ~~evidences~~ satisfaction to the Auditor than the other Evidences, therefore Auditor has to place weight of the Evidences which are available & select the Best Evidence, By the word available we



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do not mean the evidence which is available with the client is the only available evidence, but the Auditor should know what evidence should be normally available Ret in context of transaction and circumstances.

(ii) → For Verification of cash in hand the most appropriate evidence would be physically verifying the cash balance

→ For Verification of Inventory Investment pledged with Bank appropriate evidence would be

1aStep2



2

- Inspecting the loan Agreement, or
- obtaining confirmation from Banks.



1a



3



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SA 300 "Audit Planning" Q.1 (B)

The Auditor shall Plan and Perform the Audit to Reduce the Risk of Material Misstatement to an acceptably low level and shall determine the following Matters:

- ☒ Analytical procedures to be performed as Risk Assessment Procedures
- ☒ Performing other Risk Assessment Procedures
- ☒ Obtaining a general understanding of legal & Regulatory environment of the entity
- ☒ Involvement of Experts
- ☒ Determination of Materiality
- ☒ Auditor shall perform
  - a) Preliminary engagement Activities and
  - b) Planning Activities

1bStep1 0

1bStep2 0

1b 0 1 6



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Q.4(a)

(i) As per SA 230 "Audit Documentation"

The Auditor shall document the significant matters that have arisen during the Audit and that were discussed with the Management along with the nature of significant matter.

4aStep1 ✓ 1

If the above communication was not in written the Auditor shall give full particulars of communication like @ @

Thus in the above case the Auditor shall document the above matter in the above mentioned Manner.

(ii) Examples of Audit Documentation

- Program
- Analysis
- Summaries of Significant Matters
- Correspondence (including E-Mails)
- ~~con~~ concerning Significant Matters.
- ~~Discussion~~ Check list

4aStep2 ✓ 2

4a ✓ 3





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ADDL. BOOK No. 2

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DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

Q.4 (B)

The Matters that needs to be considered in verifying the integrity of client are

- ☒ whether the client is engaged in Money laundering Activities including or other criminal Activities
- ☒ The proposed appointment of the Auditor & non reappointment of previous Auditor
- ☒ when whenever the client is placing any inappropriate limitation on the Auditors
- ☒ whenever the client is aggressively concerned with maintaining the firm's fees as low as possible



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5 The Business Reputation of the Client's Business. Principal owners like Management, Those charged with governance, etc.

6. ☒ Attitude Nature and of the entities Business

7. ☒ Attitude of the client Key Principal owners, Key Management towards such matters as aggressive interpretation of Accounting Policies.

4bStep1 ☒ 5

4b ☒ 5

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Q. 4(c)

As per SA 530 "Audit Sampling"

~~Systematic~~ & ~~Statistical~~

Statistical Method of Sampling is more scientific than the Non-statistical Method of sampling

Statistical Method of Sampling means the Random selection of sampling units and use of probability theory to evaluate the sampling Results.

Statistical Method is More Scientific as it involves

→ ☒ Use of Mathematical laws of Probability for determining the sample size

→ ☒ It is more appropriate for large number of Homogeneous population as it provides Better description of large Mass of data

4cStep1



3

→ It involves no personal Biasness as the sample is selection without ☒ any judgement of Auditor Hence it is more objective.



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As in above case ~~scmp~~ there are more than 1 lakh in number transaction, therefore auditor should opt for Scientific Sampling

→ In the above case if the Auditor does not want to follow any structured technique then he should opt for Haphazard Sampling

→ However the most appropriate sampling method in above case ☒ would be Random Sampling

4cStep2



1

4c



4

4



12

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE





## The Institute of Chartered Accountants of India

Code: IN5AE412263  
Subject : 05 Auditing and Ethics

Total Marks: 70  
Marks Obtained : 59

### Result Overview

Awarded Marks: 59

Max Marks:70



Not Attempted



Optional



Marked

Q1\_Compulsory (Score: 6/14 )

| Question No | Awarded Marks | Maximum Marks | Status |
|-------------|---------------|---------------|--------|
| 1           | 6             | 14            | M      |
| 1a          | 3             | 5             | M      |
| 1b          | 0             | 5             | M      |
| 1c          | 3             | 4             | M      |

Q2\_Q6 (Score: 53/56 )

| Question No | Awarded Marks | Maximum Marks | Status |
|-------------|---------------|---------------|--------|
| 2           | 11            | 14            | O      |
| 2a          | 4             | 5             | O      |
| 2b          | 3             | 5             | O      |
| 2c          | 4             | 4             | O      |
| 3           | 14            | 14            | M      |
| 3a          | 5             | 5             | M      |
| 3b          | 5             | 5             | M      |
| 3c          | 4             | 4             | M      |
| 4           | 12            | 14            | M      |
| 4a          | 3             | 5             | M      |
| 4b          | 5             | 5             | M      |
| 4c          | 4             | 4             | M      |
| 5           | 14            | 14            | M      |
| 5a          | 5             | 5             | M      |
| 5b          | 5             | 5             | M      |
| 5c          | 4             | 4             | M      |
| 6           | 13            | 14            | M      |
| 6a          | 4             | 5             | M      |
| 6b          | 5             | 5             | M      |

