Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 5: Auditing and Ethics

Chapter-wise Practice Questions with Answers

For January 2027 attempt · 50 MCQs (5 sets) + 10 case-based descriptive questions with model answers · Original Skillshort questions

50 MCQs with key | 10 descriptive with answers | Provision–Facts–Conclusion format | Solve after each chapter

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part A – Chapter-wise MCQs

Each set is followed by its answer key. Attempt a set in 20 minutes after finishing the related chapters.

Set 1 – Chapters 1–2 (Nature and scope; planning)

1. The auditor's opinion provides

(a) Absolute assurance
(b) Reasonable assurance
(c) Limited assurance
(d) No assurance

2. Which is **not** an inherent limitation of an audit?

(a) Use of judgement in financial reporting
(b) Possibility of collusion and forgery
(c) Testing on a sample basis
(d) Auditor's lack of independence

3. An engagement to examine prospective financial information is governed by

(a) SA 700
(b) SRE 2400
(c) SAE 3400
(d) SRS 4410

4. In an assurance engagement, the three parties are

(a) Auditor, client, bank
(b) Practitioner, responsible party, intended users
(c) Auditor, regulator, Government
(d) Management, TCWG, auditor

5. Planning an audit is

(a) A discrete phase done once
(b) A continual and iterative process
(c) Done after fieldwork
(d) Management's responsibility

6. Which item belongs to the **audit plan** rather than the overall audit strategy?

(a) Reporting deadlines
(b) Nature, timing and extent of further audit procedures at assertion level
(c) Locations to be covered
(d) Resources to be deployed

7. Preliminary engagement activities do **not** include

(a) Continuance procedures
(b) Evaluating ethical requirements including independence
(c) Understanding the terms of engagement
(d) Issuing the auditor's report

8. The **most appropriate** audit evidence for cash in hand is

(a) Management representation
(b) Physical verification (count)
(c) Bank confirmation
(d) Cash book total

9. A disadvantage of an audit programme is

(a) Uniformity of work
(b) It may make work mechanical and stifle initiative
(c) Evidence of work done
(d) Fixing responsibility

10. Factors for deciding direction, supervision and review include all **except**

(a) Size and complexity of the entity
(b) Assessed RMM
(c) Capabilities of team members
(d) Audit fee

Set 1 – Answer key

Q	Ans	Explanation / working
1	(b)	SA 200 – reasonable assurance, a high but not absolute level, because of inherent limitations.
2	(d)	Lack of independence is a failure of ethics, not an inherent limitation. The others are SA 200 limitations.
3	(c)	SAE 3400 – examination of prospective financial information. SRS 4410 covers compilation engagements.
4	(b)	The three-party relationship is an element of every assurance engagement.
5	(b)	SA 300 – planning continues throughout the audit.
6	(b)	The audit plan is detailed: risk assessment procedures and further audit procedures. The others are strategy matters.
7	(d)	SA 300 para 6 lists (a)–(c).
8	(b)	Physical count gives the highest satisfaction about existence of cash in hand.
9	(b)	Rigidity and mechanical work are minimised by periodic review and by encouraging staff to report unusual matters.
10	(d)	SA 300 A16 lists size/complexity, area of audit, assessed RMM, and capabilities and competence.

Set 2 – Chapter 3 (Risk, materiality, internal control)

11. The component of audit risk the auditor can directly control is

(a) Inherent risk
(b) Control risk
(c) Detection risk
(d) Business risk

12. When assessed RMM is high, acceptable detection risk is

(a) High
(b) Low
(c) Unaffected
(d) Zero

13. Performance materiality is set

(a) Above overall materiality
(b) Below overall materiality
(c) Equal to tolerable misstatement for all items
(d) Only for disclosures

14. Which is **not** a component of internal control under SA 315?

(a) Control environment
(b) Risk assessment process
(c) Monitoring of controls
(d) External audit

15. Integrity and ethical values, commitment to competence and HR policies are part of

(a) Control activities
(b) Control environment
(c) Monitoring
(d) Information system

16. Significant deficiencies in internal control must be communicated to TCWG

(a) Orally
(b) In writing, on a timely basis
(c) Only in the audit report
(d) Only if management agrees

17. Reporting on IFC u/s 143(3)(i) is **not** required for a private company with turnover ₹40 crore and maximum borrowings ₹20 crore during the year, if it has no filing defaults. This statement is

(a) True
(b) False – required for all companies
(c) False – the borrowing limit is ₹50 crore
(d) False – the turnover limit is ₹10 crore

18. Testing access security and program change management relates to

(a) Application controls
(b) General IT controls
(c) Substantive analytics
(d) Manual controls only

19. Irrespective of assessed risks, the auditor shall perform

(a) Tests of controls for all assertions
(b) Substantive procedures for each material class of transactions, balance and disclosure
(c) External confirmations for all balances
(d) Inventory counts every quarter

20. The risk that the auditor's conclusion on a sample differs from that on the whole population is

(a) Non-sampling risk
(b) Sampling risk
(c) Inherent risk
(d) Control risk

Set 2 – Answer key

Q	Ans	Explanation / working
11	(c)	By changing the nature, timing and extent of substantive procedures.
12	(b)	They move inversely, so more persuasive evidence is needed.
13	(b)	SA 320 – it reduces the risk that aggregate misstatements exceed materiality.
14	(d)	The five components are control environment, risk assessment process, information system and communication, control activities, and monitoring.
15	(b)	They are elements of the control environment.
16	(b)	SA 265 para 9.
17	(a)	The exemption applies when turnover is below ₹50 crore **and** borrowings are below ₹25 crore at all times.
18	(b)	Access security and program change management are ITGCs.
19	(b)	SA 330 para 18.
20	(b)	Sampling risk is part of detection risk.

Set 3 – Chapters 4 and 6 (Evidence and documentation)

21. Which evidence is generally **most** reliable?

(a) Oral representation of the accountant
(b) Photocopy of an invoice
(c) Confirmation received directly from a third party
(d) Internally prepared schedule

22. Tracing despatch notes to sales invoices tests

(a) Occurrence
(b) Completeness
(c) Valuation
(d) Rights

23. Subsequent realisation of receivables after year-end supports

(a) Completeness only
(b) Existence and valuation
(c) Cut-off only
(d) Classification

24. If management refuses permission to communicate with external legal counsel and no alternative evidence exists, the auditor should

(a) Ignore litigation
(b) Modify the opinion
(c) Issue an EOM
(d) Resign immediately

25. Which selection method is **not** appropriate for statistical sampling?

(a) Random
(b) Systematic
(c) Monetary unit
(d) Haphazard

26. A misstatement proved to be **not representative** of the population is

(a) A projected misstatement
(b) An anomaly
(c) A deviation
(d) Tolerable misstatement

27. An increase in the expected misstatement will

(a) Reduce sample size
(b) Increase sample size
(c) Not affect sample size
(d) Make sampling impossible

28. Audit documentation should enable understanding by

(a) The client's accountant
(b) An experienced auditor having no previous connection with the audit
(c) Any shareholder
(d) The tax authorities

29. Retention period of audit documentation under SQC 1 is at least

(a) 5 years
(b) 7 years
(c) 8 years
(d) 10 years

30. In an initial engagement, if the auditor cannot obtain evidence on opening inventory that materially affects the results, he should

(a) Issue an unmodified opinion
(b) Issue a qualified opinion or disclaimer, as appropriate
(c) Issue only an EOM
(d) Refuse to sign

Set 3 – Answer key

Q	Ans	Explanation / working
21	(c)	External evidence obtained directly by the auditor is the most reliable.
22	(b)	Starting from source documents and moving to the records tests completeness. Vouching in the opposite direction tests occurrence.
23	(b)	Collection proves the debt existed and is recoverable.
24	(b)	SA 501 para 11.
25	(d)	Haphazard selection is used only in non-statistical sampling.
26	(b)	SA 530 – anomalies may be excluded from projection after a high degree of certainty is obtained.
27	(b)	SA 530 Appendix 2.
28	(b)	SA 230 para 8.
29	(b)	7 years from the date of the auditor's report.
30	(b)	SA 510 para 10.

Set 4 – Chapters 5, 7 and 8 (Items, completion, reporting)

31. Research expenditure under AS 26 is

(a) Capitalised
(b) Expensed when incurred
(c) Capitalised if material
(d) Deferred over five years

32. A dividend declared by the board after the balance sheet date is

(a) A liability at year-end
(b) Not a liability; disclosed in notes
(c) Adjusted in reserves
(d) Ignored

33. Insolvency of a major debtor after year-end, arising from conditions existing at year-end, is

(a) A non-adjusting event
(b) An adjusting event
(c) Irrelevant
(d) A KAM always

34. A material uncertainty on going concern that is **not adequately disclosed** leads to

(a) Unmodified opinion
(b) Qualified or adverse opinion
(c) EOM paragraph
(d) Disclaimer always

35. Management refuses to provide a written representation that it has provided all information. The auditor should

(a) Qualify
(b) Disclaim an opinion
(c) Issue an EOM
(d) Ignore

36. The section placed immediately after the Opinion section of the auditor's report is

(a) Key Audit Matters
(b) Basis for Opinion
(c) Other Information
(d) Management's Responsibilities

37. Material and pervasive misstatement leads to

(a) Qualified opinion
(b) Adverse opinion
(c) Disclaimer
(d) EOM

38. An Other Matter paragraph is used to

(a) Draw attention to a matter disclosed in the FS
(b) Communicate a matter not disclosed in the FS relevant to understanding the audit or report
(c) Replace a qualification
(d) Report KAMs

39. Under SA 710, comparative information presented as **corresponding figures** means the opinion refers to

(a) Each period presented
(b) The current period only
(c) The prior period only
(d) No period

40. CARO 2020 clause 3(ii) requires reporting on quarterly returns filed with banks when working capital limits exceed

(a) ₹1 crore
(b) ₹5 crore
(c) ₹10 crore
(d) ₹25 crore

Set 4 – Answer key

Q	Ans	Explanation / working
31	(b)	Research expenditure is always expensed. Only development expenditure that meets the criteria is capitalised.
32	(b)	AS 4 – it is a non-adjusting event.

Q	Ans	Explanation / working
33	(b)	It gives evidence of conditions that existed at the balance sheet date.
34	(b)	SA 570 para 23.
35	(b)	SA 580 para 20.
36	(b)	SA 700 para 28.
37	(b)	SA 705 para 8.
38	(b)	SA 706 para 10.
39	(b)	With comparative financial statements, the opinion refers to each period.
40	(b)	Sanctioned limits above ₹5 crore, in aggregate, on the security of current assets.

Set 5 – Chapters 9–11 (Entities, banks, ethics, terms)

41. A term loan becomes an NPA when interest or instalment is overdue for

(a) More than 30 days
(b) More than 60 days
(c) More than 90 days
(d) More than 180 days

42. A sub-standard asset is one that has remained an NPA for

(a) Up to 6 months
(b) Up to 12 months
(c) More than 12 months
(d) More than 3 years

43. Provision on the secured portion of a D3 asset is

(a) 25%
(b) 40%
(c) 100%
(d) 15%

44. Agricultural advances for short-duration crops become NPAs when overdue for

(a) One crop season
(b) Two crop seasons
(c) 90 days
(d) One year

45. The canon "expenditure should not be more than the occasion demands" relates to

(a) Audit of sanctions
(b) Propriety audit
(c) Performance audit
(d) Audit against provision of funds

46. Long association of a senior partner with an audit client gives rise to

(a) Advocacy threat
(b) Familiarity threat
(c) Self-review threat
(d) Intimidation threat

47. Which is **not** a fundamental principle of the Code of Ethics?

(a) Integrity
(b) Objectivity
(c) Profitability
(d) Confidentiality

48. Under SQC 1, confirmation of compliance with independence policies is obtained from all personnel

(a) Monthly
(b) At least annually
(c) Every 3 years
(d) Only on joining

49. A factor that makes it appropriate to revise audit engagement terms is

(a) Increase in audit fees
(b) A significant change in ownership
(c) Rotation of articled assistants
(d) Change in auditor's office

50. An auditor of a company may **not** provide which service u/s 144?

(a) Tax audit
(b) Internal audit
(c) Certification work
(d) Representation before tax authorities

Set 5 – Answer key

Q	Ans	Explanation / working
41	(c)	RBI IRAC norms.
42	(b)	After 12 months in the sub-standard category, the asset becomes doubtful.
43	(c)	D1 25%, D2 40%, D3 100%.
44	(b)	Long-duration crops become NPAs after one crop season.
45	(b)	It is a canon of financial propriety.
46	(b)	Rotation is the safeguard.
47	(c)	The five are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.
48	(b)	SQC 1 para 24.
49	(b)	SA 210 A28.
50	(b)	Internal audit is a prohibited service. Tax-related services are not in the s. 144 list.

Part B – Descriptive Practice Questions

QUESTION D1 – Most appropriate evidence (4 marks)

State the most appropriate audit evidence for: (i) investments held in demat form; (ii) investments pledged with a bank; (iii) title to freehold land; (iv) existence of a vehicle.

SOLUTION D1

(i) **Demat holding statement** obtained from the depository participant, agreed to the investment register. (ii) **Confirmation from the bank** with which the investments are pledged. (iii) **Title deeds**, verified with the registrar's records or an encumbrance search. (iv) **Physical inspection** plus the **registration certificate** in the company's name.

QUESTION D2 – Materiality revision (4 marks)

CA Joshi set materiality at 5% of forecast profit (₹40 crore). Actual profit turned out to be ₹12 crore. What should he do?

SOLUTION D2

Provision: SA 320 para 12 – the auditor revises materiality for the FS as a whole (and performance materiality) if he becomes aware of information that would have caused a different amount initially. **Facts:** actual profit is far below the forecast, so materiality based on ₹40 crore is too high. **Conclusion:** revise materiality to a lower amount (for example 5% of ₹12 crore). Reconsider whether the nature, timing and extent of further procedures are still appropriate, extend testing where needed, and **document** the revision.

QUESTION D3 – Inventory with third parties and count attendance (5 marks)

Dhara Ltd. keeps 30% of its inventory at a third-party warehouse in another State, and the auditor cannot attend the main count because of floods. Advise.

SOLUTION D3

Third-party inventory (SA 501 para 8): request a **confirmation** from the warehouse keeper of the quantities and condition held on behalf of the entity, and/or perform inspection or other procedures (attend the third party's count, obtain another auditor's report on its controls, inspect warehouse receipts, check pledges).

Unforeseen circumstances: if attendance at the count is impracticable because of unforeseen circumstances, the auditor makes or observes **some physical counts on an alternative date** and performs audit procedures on intervening transactions. If even that is impracticable, he performs **alternative procedures** (for example, inspection of subsequent sales documents of specific items acquired before the count). If evidence still cannot be obtained, he **modifies the opinion** (SA 705).

QUESTION D4 – Management refusal of confirmation (4 marks)

Management of Ketan Ltd. refuses to allow confirmation of a ₹9 crore receivable from a related party, saying the party is in dispute with the company. Advise.

SOLUTION D4

SA 505 para 8 – the auditor (i) **inquires into the reasons** and seeks evidence of their validity and reasonableness (correspondence on the dispute); (ii) evaluates the implications for risk assessment, including **fraud risk**, given the related-party nature; (iii) performs **alternative procedures** (subsequent receipts, sales documents, contracts). If the refusal is **unreasonable** or alternatives fail, the auditor communicates with **TCWG** (SA 260) and determines the implications for the opinion (SA 705). The disputed balance also needs a recoverability assessment and related-party disclosure (SA 550).

QUESTION D5 – Going concern reporting (5 marks)

State the auditor's report in each case: (i) material uncertainty adequately disclosed; (ii) material uncertainty not disclosed; (iii) FS prepared on going concern basis although the company has decided to liquidate; (iv) no material uncertainty, but events were identified and are adequately disclosed.

SOLUTION D5

(i) Unmodified opinion with a separate section **"Material Uncertainty Related to Going Concern"**. (ii) **Qualified or adverse** opinion, with the Basis for Opinion stating that a material uncertainty exists and is not adequately disclosed. (iii) **Adverse** opinion, because the going concern basis is inappropriate. (iv) Unmodified opinion; the auditor evaluates whether the disclosures are adequate given the "close call", and may consider an EOM or KAM (listed entity) where appropriate.

QUESTION D6 – KAM vs EOM (4 marks)

Distinguish between a key audit matter and an emphasis of matter.

SOLUTION D6

Basis	KAM (SA 701)	EOM (SA 706)
Nature	Matters of most significance in the **audit**	A matter **disclosed in the FS** that is fundamental to users' understanding
Applicability	Mandatory for listed entities	Any entity, at the auditor's judgement
Content	Why it is a KAM and how it was addressed	Reference to the note; opinion not modified
Relationship	Matter may also qualify for EOM, but is then reported as a KAM	Used when a matter is not a KAM

QUESTION D7 – Cash audit (5 marks)

State the procedures for verifying cash held at the head office, branches, petty cash and imprest advances.

SOLUTION D7

(1) **Surprise** cash counts, simultaneously at all locations (or with seals), in the presence of the cashier, who signs the count sheet. (2) Count petty cash and imprest balances; vouch **IOUs**, cheques and stamps found in the till, and disallow them as cash. (3) Agree balances with the cash book. Check the **imprest** – that reimbursements equal expenses vouched, and that advances are adjusted on time. (4) Check that cash on hand limits and **insurance** are adequate. (5) Review large or unusual cash payments (s. 40A(3) and s. 269ST compliance). (6) Check year-end **cut-off** and cash in transit. (7) Disclose as per Schedule III (cash and cash equivalents; bank balances other than cash and cash equivalents).

QUESTION D8 – Bank NPA classification (5 marks)

At 31 March 2026: (a) CC limit ₹12 crore, drawing power ₹9 crore, outstanding ₹10.5 crore continuously from 1 December 2025; (b) term loan instalment overdue for 75 days; (c) loan of ₹2 crore, NPA since 1 January 2024 (sub-standard till 31 December 2024), security realisable ₹1.2 crore. Classify and compute the provision for (c).

SOLUTION D8

(a) Outstanding has been **above the drawing power** continuously for more than 90 days (120 days), so the account is "out of order" and an **NPA (sub-standard)**. The limit being ₹12 crore does not matter – drawing power governs. (b) Overdue 75 days → **SMA-2** (61–90 days), standard asset. (c) Doubtful from 1 January 2025, so it has been doubtful for 15 months → **D2**. Provision = unsecured ₹0.8 crore × 100% + secured ₹1.2 crore × 40% = 0.8 + 0.48 = **₹1.28 crore**.

QUESTION D9 – NGO receipts (5 marks)

State the audit procedures for receipts of an NGO: donations, foreign grants, membership fees and subscriptions.

SOLUTION D9

(1) **Donations:** vouch with receipt books (check counterfoils, cancelled receipts and custody of unused books), bank credits, and donors' lists. Check that earmarked donations are used for their purpose and that 80G receipts are issued correctly. (2) **Foreign grants:** check the FCRA registration/prior permission; that receipts are only in the **FCRA account** (SBI New Delhi Main Branch) and used as per the grant agreement; utilisation certificates; and FC-4 returns. (3) **Membership fees and subscriptions:** reconcile with the **register of members** and rates in the bye-laws; check arrears, advance subscriptions and entrance fees (capital vs revenue). (4) Verify interest and rent from investments and property. (5) Check that the system of internal control over cash receipts is adequate (segregation, prompt banking).

QUESTION D10 – Threats and safeguards (5 marks)

Identify the threat and a safeguard: (i) the audit manager is negotiating a job with the client; (ii) the firm values the client's unlisted investments and then audits them; (iii) the client's MD threatens litigation unless the qualification is dropped; (iv) the engagement partner has audited the client for 12 years; (v) the firm promotes the client's shares to investors.

SOLUTION D10

Case	Threat	Safeguard
(i) Employment negotiation	Self-interest	Remove the manager from the team and review his work
(ii) Valuation then audit	Self-review	Do not provide valuation services (s. 144); use a separate team or an independent expert
(iii) Threat of litigation	Intimidation	Discuss with TCWG; EQCR; consider withdrawal; do not change the opinion
(iv) 12-year association	Familiarity	Rotate the partner; apply a cooling-off period; EQCR
(v) Promoting shares	Advocacy	Decline the service