

**INTER COURSE: GROUP II**  
**PAPER-5: AUDITING AND ETHICS**  
**(MTP 5: Ch. 4 – Audit Evidence)**

**Time Allowed- 20 Minutes**

**Maximum Marks-10**

*Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All MCQs are compulsory and carry 2 Marks each.*

1. Which of the following statements best reflects the principles of reliability of audit evidence under SA 500?
- (a) Audit evidence obtained directly by the auditor through inspection or observation is generally more reliable than evidence obtained indirectly.
  - (b) Internal audit evidence is inherently more reliable than external evidence because it originates within the organisation.
  - (c) Photocopies of documents are considered more reliable than original documents since they are easier to store and retrieve.
  - (d) Oral explanations provided by management are sufficient evidence when supported only by management's integrity.

**Case Scenario [MCQ 2-5]**

Falcon Appliances Pvt. Ltd., a rapidly growing manufacturer of premium air-purifiers, saw its turnover increase from ₹ 42 crores to ₹ 65 crores in FY 2024–25. It sells via retail chains and its online platform. During the audit, MDS & Co. used **analytical procedures (SA 520)** and noted a 35% spike in sales during Jan–Mar 2025, while sales returns remained stable. However, gross profit dropped sharply from 32% to 24%. Management attributed the rise in sales to a promotional online campaign.

The auditor also noted unusually high closing stock of newly launched "Limited Edition Smart Filters," despite erratic purchase patterns earlier in the year. For trade receivables of ₹ 11.5 crores, comprising 2,700 customers, the audit senior decided to perform **audit sampling (SA 530)**. The receivables were stratified as:

- 18 corporate clients with balances of ₹7.2 crores
- 2,682 retail customers with balances of ₹4.3 crores

The auditor tested all 18 corporate accounts (100% examination) and applied systematic sampling to 70 online customers. While testing, the auditor failed to receive email confirmations from 5 corporate accounts, prompting additional verification. Analytical procedures also revealed deterioration in average collection cycle from 45 days to 74 days, but management had made no provision for doubtful debts.

Sampling evaluation showed immaterial projected misstatement for retail customers, but corporate accounts indicated potential unrecorded credit notes that could materially affect financial statements. Accordingly, the testing of high-value receivables was expanded for sufficient appropriate evidence.

**Based on the above facts, answer the following:**

2. The auditor observed an unusual 35% surge in sales in Jan–Mar 2025 but stable sales returns. Which analytical conclusion is MOST appropriate based on SA 520 principles?
  - (a) The stable sales returns indicate that promotional sales are genuine, but the auditor should still corroborate gross profit drop with pricing or cost changes.
  - (b) The auditor should ignore the trend because analytical procedures are optional unless required for fraud review.
  - (c) No further procedures are required as the monthly analytical review itself provides sufficient evidence.
  - (d) The sudden sales surge automatically proves management manipulation and requires an immediate qualification.
3. The auditor tested all 18 corporate receivable accounts (covering 62% of the balance) and statistically sampled retail customers. Which reasoning best aligns with SA 530?
  - (a) Corporate accounts should have been randomly selected to avoid sampling risk, irrespective of their value.
  - (b) Retail customers must be tested 100% because their volume is large.
  - (c) 100% testing is justified for corporate accounts because they are high-value and cover a major portion of the population, increasing reliability of conclusions.
  - (d) Testing only a few corporate accounts would have been adequate as internal audit had reviewed them.
4. Which statement correctly reflects a requirement under SA 520?
  - (a) Analytical procedures can be used only on financial data, not operational data.
  - (b) Analytical procedures must be performed only using monthly trend analysis.
  - (c) Analytical procedures fully replace tests of details when results appear consistent.
  - (d) Analytical procedures are mandatory at the planning stage and also required as an overall review at the conclusion stage.
5. Which statement is TRUE as per SA 530?
  - (a) Non-sampling risk arises from inappropriate audit procedures or misinterpretation of audit evidence.
  - (b) Statistical sampling is mandatory for all tests of details.
  - (c) Sampling risk can be eliminated entirely by selecting a larger sample size.
  - (d) Audit sampling means selecting items randomly without defining the population.

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## MCQ – Mock Test Series 1: Nov. 2025

### Detailed Schedule of MCQ Test Series – Nov. 2025

Date	Day	Topic	MCQ Style	Marks
6 Nov.	Wed.	Ch. 1 - Nature, Objective and Scope of Audit	1 Case Study with 4 MCQ + 1 General MCQ	10
7 Nov.	Thu.	Ch. 11 - Ethics and Terms of Audit Engagements		10
8 Nov.	Fri.	Ch. 2 - Audit Strategy, Planning & Programme		10
10 Nov.	Mon.	Ch. 3 - Risk Assessment and Internal Control		10
12 Nov.	Wed	Ch. 4 - Audit Evidence		10
14 Nov.	Fri.	Ch. 6 - Audit Documentation		10
17 Nov.	Mon.	Ch. 5 - Audit of Items of Financial Statements		10
19 Nov.	Wed	Ch. 7 - Completion and Review		10
24 Nov.	Mon.	Ch. 8 - Reporting		10
26 Nov.	Wed	Ch. 9 - Audit of Different Types of Entities		10
28 Nov.	Fri.	Ch. 10 - Audit of Banks		10

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1	Ch. 1 - Nature, Objective and Scope of Audit	26 Nov. 2025
	Ch. 11 - Ethics and Terms of Audit Engagements	
2	Ch. 2 - Audit strategy, Planning and Programme	29 Nov. 2025
	Ch. 3 - Risk Assessment and Internal Control	
3	Ch. 4 - Audit evidence	03 Dec. 2025
	Ch. 6 - Audit Documentation	
4	Ch. 5 - Audit of Items of Financial Statements	06 Dec. 2025
5	Ch. 7 - Completion and Review	10 Dec. 2025
	Ch. 8 - Audit Report	
6	Ch. 9 - Sp. features of Audit of Different Entities	13 Dec. 2025
	Ch. 10 - Audit of Banks	
7	Full Syllabus Test	17 Dec. 2025
8	Full Syllabus Test	24 Dec. 2025

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