

INTER COURSE: GROUP II
PAPER-5: AUDITING AND ETHICS

(MTP 9: Ch. 8 – Audit Report)

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.

Case Scenario [MCQ 1-5]

BetaLab Analytics Ltd. is a company manufacturing automated diagnostic analysers used by pathology labs. The company has a turnover of ₹72 crore, borrowings of ₹5.2 crore (cash credit + term loan), and working capital limits secured by hypothecation of inventory and trade receivables. During FY 2023-24, the company shifted to a new cloud-based testing simulation module to improve precision of machine calibration.

The statutory auditors, M/s R & R Associates, identified that the new simulation module required management to reconfigure production batches, revise standard loss percentages, and estimate recalibration expenses for over 2,800 units. The new estimates increased valuation risk in work-in-progress. Further, during interim audit, the auditors noticed deviation from standard costing in two production months due to excess rejection beyond normal loss. Management attributed this to “learning curve inefficiency.” Since inventory formed 48% of total assets and changes in the estimation process were judgement-heavy, auditors recognised it as an area involving significant risk and potential misstatement.

During testing of intangible assets, the auditors observed that software licences purchased for ₹1.75 crore from a foreign vendor could not be independently validated. The vendor’s legal representative stated that their servers were undergoing migration and historic licence logs were inaccessible. The auditor tried alternative procedures—verifying payment records, testing user logs, and obtaining management representation—but these did not provide sufficient appropriate audit evidence regarding ownership and validity of the licenses.

In compliance review under CARO, 2020, the auditors noted that BetaLab’s outstanding loans of ₹5.2 crore had been continuously in operation during the year, and at no point had the borrowings fallen below ₹1 crore. The bank demanded monthly stock statements, and a comparison of bank stock statements with audited books showed a variance of 9–12% in two months. However, all repayments were timely.

The audit was conducted jointly by M/s R & R Associates and M/s JLN & Co. Management provided a division-of-work plan: R & R to audit borrowings, PPE, and revenue; JLN to audit inventories, payroll, procurement, and payables. While performing audit of purchases, JLN found a recurring pattern of advances to a promoter-controlled consultancy firm. One such advance, amounting to ₹62 lakh, lacked a formal engagement letter and was paid on a handwritten email request. The advance was squared off before year-end through adjustment of consultancy credits. JLN flagged it as a potential related-party transaction with weak documentation.

The auditors assessed applicability of Section 143(12). After review, they concluded that although controls were weak, the transaction did not indicate intent to defraud and the amount was lower than the Rule 13 threshold of ₹1 crore for companies other than listed companies. They communicated this matter to TCWG in the management letter.

Based on the above facts, answer the following:

1. Based on the expanded facts, which matter most appropriately qualifies as a KAM?
 - (a) Frequent estimation revisions in valuing WIP due to new calibration simulation, affecting nearly 2,800 units and representing 48% of total assets.
 - (b) Variance of 9–12% between bank stock statements and books in two months requiring reconciliation.
 - (c) Advances to a promoter-entity squaring off before year-end through consultancy credits.
 - (d) Regular monthly reporting of stock information to banker as part of routine compliance..
2. Which situation most strongly requires a disclaimer of opinion due to inability to obtain sufficient appropriate audit evidence?
 - (a) Estimation differences arising due to excess rejection beyond normal loss.
 - (b) Inability to validate software licences worth ₹1.75 crore because vendor logs were unavailable, and alternative audit procedures failed to provide evidence.
 - (c) Variance between bank stock statements and financial records in months of higher production load.
 - (d) Advances to related parties lacking formal engagement letters but fully recovered..
3. Why does CARO 2020 Para 3(ii)(a) clearly apply to BetaLab Analytics Ltd.?
 - (a) Borrowings remained above ₹1 crore at all times during the year, requiring reporting on utilisation and regularity of repayment.
 - (b) Variances of up to 12% in bank stock statements triggered mandatory CARO reporting.
 - (c) The entity imported software and machinery from a foreign vendor requiring special disclosure.
 - (d) The company maintained WIP valuation using revised production standards.

4. Which statement best reflects the correct duty of joint auditors in this practical situation?
- (a) Each auditor can rely solely on the division of work given by management without the need for cross-review.
 - (b) Joint auditors' responsibility is restricted to the areas they individually verify unless fraud is suspected.
 - (c) A joint auditor is not required to examine significant estimates handled by the other joint auditor.
 - (d) Joint auditors must mutually discuss and agree on conclusions relating to major judgement areas such as inventory valuation, regardless of work division.
5. Why did the auditors correctly conclude that no reporting to the Central Government was required for the ₹62 lakh related-party advance?
- (a) Because the advance was adjusted through consultancy services and therefore considered business-as-usual.
 - (b) Because the amount was below the ₹1 crore threshold specified in Rule 13 for companies other than listed companies.
 - (c) Because the transaction involved a promoter entity, and such transactions are exempt from fraud reporting.
 - (d) Because absence of intent to defraud and lower amount both indicated the matter should be reported only to TCWG and not the Government.

CA Inter – Auditing and Ethics

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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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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