UNIVERSITY OF CALICUT
SCHOOL OF DISTANCE EDUCATION
(2011 Admin. onwards)

VI Semester

B.Com
Core Course
AUDITING

QUESTION BANK & ANSWER KEY
Choose the correct Answer from the bracket.

1. An auditor is like a
   a) Blood haunt
   b) Watch dog
   c) May both according to situation
   d) None of these

2. The term ‘Audit’ is derived from a Latin word “audire” which means;
   a) To inspect
   b) To examine
   c) To hear
   d) To investigate

3. Process of verifying the documentary evidences of transactions are known as:
   a) Auditing
   b) Testing
   c) Vouching
   d) Verification

4. Auditing is compulsory for
   a) Small scale business
   b) Partnership firms
   c) Joint stock Companies
   d) Proprietary Concerns

5. The main object of an audit is ___
   a) Expression of expert opinion
   b) Detection and Prevention of fraud and error
   c) Both (a) and (b)
   d) Depends on the type of audit.

6. Concealment of shortage by delaying the recording of cash receipts is known as
   a) Embezzlement
   b) Misappropriation
   c) Lapping
   d) None of these

7. The title of AAS2 issued by Council of ICAI is ___
a) Objective and Scope of the Financial Statements  
b) Objective and Scope of the Audit of Financial Statements  
c) Objective and Scope of Business of an Entity  
d) Objective and Scope of Financial Statements Audit

8. Lapping is also known as:  
a) Teeming and lading  
b) Embezzlement  
c) Looping  
d) Hacking

9. Which of the following is not true about opinion on financial statements?  
a) The auditor should express an opinion on financial statements.  
b) His opinion is no guarantee to future viability of business  
c) He is responsible for detection and prevention of frauds and errors in financial statements  
d) He should examine whether recognised accounting principle have been consistently

10. A sale of Rs. 25,000 to A was entered as a sale to B. This is an example of _  
a) Error of omission  
b) Error of commission  
c) Compensating error  
d) Error of principle

11. ‘Goods sent on approval basis’ have been recorded as ‘Credit sales’. This is an example of _  
a) Error of principle  
b) Error of commission  
c) Error of omission  
d) Error of duplication

12. Which of the following statements is not true?  
a) Management fraud is more difficult to detect than employee fraud  
b) Internal control system reduces the possibility of occurrence of employee fraud and management fraud  
c) The auditor’s responsibility for detection and prevention of errors and frauds is similar.  
d) All statements are correct.

13. As per AAS4, if auditor detects an error then –  
a) He should inform the management.  
b) He should communicate it to the management if it is material  
c) The auditor should ensure financial statements are adjusted for detected errors.  
d) Both (b) and (c)

14. Which of the following is not a limitation of audit as per AAS4?  
a) Objectivity of auditor’s judgment  
b) Selective testing  
c) Persuasiveness of evidence  
d) Limitations of internal control system.

15. Internal audit is undertaken  
a) By independent auditor  
b) Statutorily appointed auditor  
c) By a person appointed by the management  
d) By a government auditor

16. The scope of internal audit is decided by the:  
a) Shareholders  
b) Management
17. Audit of banks is an example of –
   a) Statutory audit
   b) Balance sheet audit
   c) Concurrent audit
   d) All of the above

18. Concurrent audit is a part of
   a) Internal check system
   b) Continuous audit
   c) Internal audit system
   d) None

19. In India, balance sheet audit is synonymous to
   a) Annual audit
   b) Continuous audit
   c) Detailed audit
   d) Statutory audit

20. Audit in depth is synonymous for
   a) Complete audit
   b) Completed audit
   c) Final audit
   d) Detailed audit

21. Institute of Chartered Accountants of India was established
   a) 1956
   b) 1949
   c) 1956
   d) 1948

22. Which of the following statements is not true about continuous audit?
   a) It is conducted at regular interval
   b) It may be carried out on daily basis
   c) It is needed when the organization has a good internal control system
   d) It is expensive

23. Internal check is carried on by
   a) Staff specially appointed for the purpose
   b) Internal auditor
   c) Supervisor of the staff
   d) Members of the staff

24. Errors of Omission are
   a) Technical errors
   b) Errors of principle
   c) Compensating errors
   d) None of the above

25. Window dressing implies:
   a) Curtailment of expenses
   b) Checking of Wastages
   c) Under valuation of assets
   d) Over valuation of assets

26. Test Checking refers to
   a) Testing of accounts and records
   b) Checking of selected number of transactions
   c) Examination of adjusting and closing entries
   d) Checking of all transactions recorded

27. Which of the following statements is not correct about materiality?
   a) Materiality is a relative concept
   b) Materiality judgments involve both quantitative and qualitative judgments
   c) Auditor’s consideration of materiality is influenced by the auditor’s perception of the needs of an informed decision maker who will rely on the financial statements
   d) At the planning state, the auditor considers materiality at the financial statement level only

28. …..the audit risks… the materiality and …..the audit effort
   a) Lower, Higher, Lower
   b) Lower, Lower, Higher
29. When issuing unqualified opinion, the auditor who evaluates the audit findings should be satisfied that the,
   a) Amount of known misstatement is documented in working papers
   b) Estimates of the total likely misstatement is less than materiality level
   c) Estimate of the total likely misstatement is more than materially level
   d) Estimates of the total likely misstatement cannot be made

30. In determining the level of materiality for an audit, what should not be considered?
   a) Prior year’s errors
   b) The auditor’s remuneration
   c) Adjusted interim financial statements
   d) Prior year’s financial statements

31. Analytical procedures issued in the planning stage of an audit, generally
   a) Helps to determine the nature, timing and extent of other audit procedures
   b) Directs attention to potential risk areas
   c) Indicates important aspects of business
   d) All of the above

32. Which of the following statements is most closely associated with analytical procedure applied at substantive stage?
   a) It helps to study relationship among balance sheet accounts
   b) It helps to discover material misstatements in the financial statements
   c) It helps to identify possible oversights
   d) It helps to accumulate evidence supporting the validity of a specific account balance

33. For all audits of financial statements made in accordance with AAS14, the use of analytical procedures is at the discretion of the auditor in which stage?
   a) Substantive testing
   b) Planning stage
   c) Overall review stage
   d) All of the above

34. Verification refers to:
   a) Examining the physical existence and valuation of assets.
   b) Examining the journal and ledger
   c) Examination of vouchers related to assets.
   d) None of the above.

35. Stock should be valued at
   a) Cost
   b) Market price
   c) Cost or market price whichever is lower.
   d) Cost less depreciation.

36. ‘Auditor is not a valuer’, was stated in
   a) Kingston Cotton Mills case
   b) London Oil Storage Co. Case
   c) London and General Bank case
   d) None of the above

37. Floating assets are valued at
   a) cost
   b) Market price
   c) Cost or market price whichever is lower.
   d) Cost less depreciation

38. Goods sold on the basis of ‘sales or return’ should
   a) Be included in the stock
   b) Not be included in the stock
39. Of the following, which is the least persuasive type of audit evidence?
   a) Bank statements obtained from the client
   b) Documents obtained by auditor from third parties directly.
   c) Carbon copies of sales invoices inspected by the auditor
   d) Computations made by the auditor

40. Which of the following statements is, generally, correct about the reliability of audit evidence?
   a) To be reliable, evidence should conclusive rather than persuasive
   b) Effective internal control system provides reliable audit evidence
   c) Evidence obtained from outside sources routed through the client
   d) All are correct.

41. In an audit of financial statements, substantive tests are audit procedures that __
   a) May be eliminated for an account balance under certain conditions
   b) Are designed to discover significant subsequent events
   c) Will increase proportionately when the auditor decreases the assessed level of control risk
   d) May be test of transactions, test of balance and analytical procedures

42. The nature, timing and extent of substantive procedures is related to assessed level of control risk
   a) Randomly
   b) Disproportionately
   c) Directly
   d) Inversely

43. Which of the following factors is most important in determining the appropriateness of audit evidence?
   a) The reliability of audit evidence and its relevance in meeting the audit objective
   b) The objectivity and integrity of the auditor
   c) The quantity of audit evidence
   d) The independence of the source of evidence

44. When is evidential matter, generally, considered sufficient?
   a) When it constitutes entire population
   b) When it is enough to provide a basis for giving reasonable assurance regarding truthfulness
   c) When it is objective and relevant
   d) When auditor collects and evaluates it independently

45. Which of the following is not corroborative evidence?
   a) Minutes of meetings
   b) Confirmations from debtors
   c) Information gathered by auditor through observation
   d) Worksheet supporting consolidated financial statements

46. Which of the following statements is not true with respect to management representations obtained as per AAS11?
   a) Authenticated copy of relevant minutes of meetings may be regarded as management representation
   b) It should always be in working
   c) It may be dated prior to the report date
   d) It should be addressed to the auditor
47. What would most appropriately describe the risk of incorrect rejection in terms of substantive testing?
   a) The auditor concludes balance is materially correct when in actual fact it is not
   b) The auditor concludes that the balance is materially misstated when in actual fact it is not
   c) The auditor has rejected an item for sample which was material
   d) None of the above

48. Which of the following affects audit effectiveness?
   a) Risk of over reliance
   b) Risk of incorrect rejection
   c) Risk of incorrect acceptance
   d) Both (a) and (c)

49. What would most effectively describe the risk of incorrect acceptance in terms of substantive audit testing?
   a) The auditor has ascertained that the balance is materially correct when in actual fact it is not
   b) The auditor concludes the balance is materially misstated when in actual fact it is not
   c) The auditor has rejected an item from sample which was not supported by documentary evidence
   d) He applies random sampling on data which is inaccurate and inconsistent

50. Which of the following Auditing Assurance Standard deals with Audit Planning?
   a) AAS7
   b) AAS8
   c) AAS9
   d) AAS3

51. Audit programme is prepared by
   a) The auditor
   b) The client
   c) The audit assistants
   d) The auditor and his audit assistants

52. The working papers which auditor prepares for financial statements audit are:
   a) Evidence for audit conclusions
   b) Owned by the client
   c) Owned by the auditor
   d) Retained in auditor’s office until a change in auditors

53. The quantity of audit working papers complied on engagement would most be affected by
   a) Management’s integrity
   b) Auditor’s experience and professional judgment
   c) Auditor’s qualification
   d) Control risk

54. Which of the following best describes the primary purpose of audit programme preparation?
   a) To detect errors or fraud
   b) To comply with GAAP
   c) To gather sufficient appropriate evidence
   d) To assess audit risk

55. Which of the following is not an advantage of the preparation of working paper?
   a) To provide a basis for review of audit work
   b) To provide a basis for subsequent audits
c) To ensure audit work is being carried out as per programme
d) To provide a guide for advising another client on similar issues

56. The auditor’s permanent working paper file should not normally, include:
   a) Extracts from client’s bank statements
   b) Past year’s financial statements
   c) Attorney’s letters
   d) Debt agreements

57. For what minimum period should audit working papers be retained by audit firm?
   a) For the time period the entity remains a client of the audit firm.
   b) For a period of ten years
   c) For a period auditor opines them to be useful in servicing the client
   d) For the period the audit firm is in existence.

58. Which of the following factors would least likely affect the quantity and content of an
    auditor’s working papers
   a) The assessed level of control risk
   b) The possibility of peer review
   c) The nature of auditor’s report
   d) The content of management representation letter

59. Which of the following statement is true regarding an auditor’s working papers?
   a) They document the level of independence maintained by the auditor
   b) They should be considered as the principle support for the auditor’s report
   c) They should not contain details regarding weaknesses in the internal control
      system
   d) They help the auditor to monitor the effectiveness of the audit firm’s quality
      control

60. Which of the following statement best describes the understanding with respect to
    ownership and custody of working papers prepared by an auditor?
   a) The working papers may be obtained by third parties when they appear to be
      relevant to issues raised in litigation
   b) The safe custody of working papers is the responsibility of client, if kept at his
      premises
   c) The working papers must be retained by an audit firm for a period of 10 years
   d) Successor auditors may have access to working papers of the predecessor
      auditors. The approval of client is not required.

61. The current file of the auditor’s working papers, generally, should include
    a) A flowchart of the internal controls
    b) Organisation charts
    c) A copy of financial statements
    d) Copies of bond and debentures

62. Knowledge of the entity’s business does not help the auditor to
    a) Reduce inherent risk
    b) Identify problem areas
    c) Evaluate reasonableness of estimates
    d) Evaluate appropriateness of GAAP.
63. Payment for wage should be vouched with the help of
   a) Piece Work Statement.  
   b) Wage sheets  
   c) Minutes book  
   d) Bank pass book.

64. Payment for building purchased should be vouched with the help of
   a) Title Deed  
   b) Correspondence with the brokers  
   c) Building Account  
   d) Cash book

65. Purchase returns should be vouched with the help of
   a) Bought notes  
   b) Credit notes  
   c) Goods inward book  
   d) Cash book

66. Receipts from sale of investments should be vouched with the help of
   a) Brokers bought notes  
   b) Brokers Sold notes  
   c) Minutes book  
   d) Inventory of investment

67. Which of the following expenses should not be treated as capital expenditure?
   a) Expenses paid on installation of a plant.
   b) Cost of dismantling a building in case a new building is to be constructed on the land.
   c) Legal expenses incurred to defend a suit related to title of patent. The suit has been lost.
   d) The fees paid to engineer who constructed the plant.

68. Which of the following is not a revenue expense?
   a) Cost of raising a loan
   b) Cost of accessories of motor vehicles spent at the time of purchase
   c) Expenses incurred for laying of sewers on land purchased
   d) Insurance premium paid at the time of registration of the ship

69. Depreciation does not arise from _______
   a) Effluxion of time
   b) Use
   c) Obsolescence through technology be market changes
   d) Remarket expectation

70. Which of the following Schedule of the Companies Act, 1956 deals with depreciations?
   a) Schedule XIV
   b) Schedule V
   c) Schedule XIII
   d) Schedule X

71. Schedule XIV has prescribed rates of depreciation for double shift and triple shift working for which one of the following assets?
   a) Building
   b) Plant and Machinery
   c) Furniture and fittings
   d) Ships

72. If the book value of an asset stands at ……..per cent of the original cost, a company need not provide depreciation on it.
   a) two
   b) Fifteen
   c) five

73. A company has bought patents. Which of the following methods is most suitable for providing depreciation on them?
   a) SLM
   b) WDV
   c) Sum of year digits
   d) Any of the above

74. Which of the following is a revenue reserve?
   a) Capital redemption reserve
b) Security premium account
c) Debenture redemption reserve
d) Capital reserve

75. Which of the following will not lead to creation of secret reserve?
   a) Undervaluation of closing stock
   b) Charging capital expenditure to revenue
   c) Goods sent on consignment being shown as actual sales
   d) Charging higher rates of depreciation on fixed assets than actually required

76. Who is responsible for the appointment of statutory auditor of a limited company?
   a) Directors of the company
   b) Members of the company
   c) The Central Government
   d) All of the above

77. Which of the following sections deal with qualifications of the auditor?
   a) Section 226 (1) and section 226(2)
   b) Section 224 (1) and section 224 (2)
   c) Section 226 (3) and section 226(4)
   d) Section 224(3) & Sec.224

78. Which of the following statement is not true?
   a) A partnership firm can be appointed as a statutory auditor of limited company
   b) Appointment can be made in the name of the firm
   c) Majority of the partners should be practicing in India
   d) All partners should be chartered accountants

79. As per the requirements of section 226(3) and 226(4) a person is disqualified from being appointed as a statutory auditor if he holds
   a) Equity shares or debentures of the company
   b) Equity shares carrying voting of the company
   c) Shares carrying voting rights of the company
   d) Security carrying voting rights of the company

80. The board of directors shall appoint first auditor of a company
   a) Within one month of completion of capital subscription state of the company
   b) Within one month of the promotion of the company
   c) Within one month of the commencement of the business of the company
   d) Within one month of incorporation of the company

81. The term of the auditor ship of first auditor would be from the date of appointment till
   a) the conclusion of statutory meeting
   b) the conclusion of first annual general meeting
   c) the conclusion of next annual general meeting
   d) the date of removal

82. In case the directions fail to appoint first auditor (s), the shareholders shall appoint them at…..by passing a resolution
   a) a general meeting
   b) first annual general meeting
   c) statutory meeting
   d) annual general meeting

83. Which of the following statement is not true regarding appointment of statutory auditor by the Central Government?
   a) Such powers have been conferred upon it by section 224(3)
   b) If a company fails to appoint an auditor at a general meeting
   c) If an auditor refuses to accept appointment, the powers of the Central Government can be exercised.
84. If a casual vacancy in the office of auditor arises by his resignation it should only be filled by the company in a........
   a) Board meeting
   b) Extraordinary general meeting
   c) General meeting
   d) Annual general meeting

85. For the purposes of section 224(1B) the number of partners of a firm which shall be taken into account would be as on the date of ______
   a) Completion of audit
   b) Auditor’s report
   c) Acceptance of audit
   d) Starting of audit work

86. Which of the following is counted for the purposes of section 224(1B) the number of partners of a firm which shall be taken into account would be as on the date of ___
   a) Joint audit
   b) Audit to non-profit companies
   c) Audit of unlimited companies
   d) All of the above

87. Mr. A, a Charted Accountant, has nineteen audits. Out of following audits which audits should he accept to ensure he doesn’t violate provisions of section 224(1B) __
   a) Audit of a private company
   b) Audit of branch of a foreign company
   c) Audit of two branches of an Indian company
   d) All of them

88. Which audit out of the following would not be regarded as one audit for the purposes of section 224(1B)?
   a) Audit of one branch each of two different companies
   b) Joint audit
   c) Audit head office & branches
   d) Audit of one or more branches of a company

89. The auditor of a Government company is appointed by the C & AG. His remuneration is fixed by____
   a) The C & AG
   b) The shareholders
   c) The shareholders at an annual general meeting
   d) The board of directors

90. The section which contains provisions regarding remuneration of the auditor is____
   a) Section 224(9)
   b) Section 224(7)
   c) Section 224(8)
   d) Section 224(6)

91. The authority to remove the first auditor before the expiry of term is with____
   a) The shareholders in a general meeting
   b) The shareholders in the first annual General meeting
   c) The board of directors
   d) the Central Government

92. Which of the following statements is not correct regarding removal of first auditor before expiry of the term?
   a) He is removed at a general meeting
   b) The shareholders are authorized to do so
c) The approval of the Central Government is required for such removal
d) The provisions for such removal are contained in section 224(7)

93. The retiring auditor does not have a right to____
   a) make written representations
   b) get his representations circulated.
   c) be heard at the meeting
   d) speak as a member of the company

94. Who out of the following cannot be appointed as a statutory auditor of the company?
   a) Erstwhile director
   b) Internal auditor
   c) Relative of a director
   d) Only (b) and (c)

95. A statutory auditor has a right of access at all times to
   a) Books and accounts of a company
   b) Books, accounts and documents of the company
   c) Books, accounts and vouchers of the company
   d) Notices and documents of the company

96. The auditor has a right to
   a) Obtain information and explanation
   b) Obtain information and explanation from the employees and officers
   c) Obtain information and explanation necessary for the purpose of audit
   d) Both (b) and (c)

97. The principal auditor, as per clarification issued by the ICAI, does not have any right to
   a) Inspect working papers of the branch auditor
   b) Visit branches
   c) Seek information necessary for audit purposes
   d) Incorporate the branch audit report in his audit report

98. Under which of the following section auditor has a duty to enquire into six specified
    matters and report by exception?
   a) Section 227(4A)
   b) Section 227 (IA)
   c) Section 227 (2)
   d) Section 227(3)

99. The auditor has to enquire, under section 227 (IA) into different aspects, related to
    shares allotted for cash for the purpose of auditor include
   a) Shares against whose allotment cash has actually been received
   b) Shares allotted for consideration other than cash
   c) Shares allotted against a debt payable
   d) All of them

100. Right to visit branches has been given to the auditor under which section?
    a) Section 222(3)
    b) Section 228(2)
    c) Section 228(4)
    d) Section 228(3)

101. Which of the following statements with regard to rules regarding exemption from branch audit is not true?
    a) A branch office of a company can be granted exemption on the basis of quantum of activity criterion
    b) If a satisfactory arrangement of scrutiny check of the books of account of a branch office of a manufacturing company has been made, it can be exempted from branch audit
c) Cost consideration should be considered as an important factor/ground for exemption from branch audit
d) The auditor should state in his audit report that branch office is exempted by virtue of quantum of activity or any other basis

102. The branch auditor is appointed by –
   a) Shareholders in an annual general meeting
   b) Shareholders in general meeting
   c) Board of directors in board meeting
   d) Any of the above

103. Special audit is conducted at the order of the Central Government. Which section gives such powers?
   a) Section 233(A)
   b) Section 233A
   c) Section 242(A)
   d) Section 242A

104. Who among the following can be appointed as special auditor by the Central Government?
   a) The statutory auditor
   b) chartered accountant in practice
   c) Any chartered accountant who is not in practice
   d) Both (a) and (b)

105. The scope of the audit including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the ____
   i) auditor’s report ii) engagement letter iii) representation letter
   a) i) only
   b) Both (i) and (ii)
   c) Both (i) and (iii)
   d) All the above

106. If any director is disqualified from being appointed under section 274(1) (g), the auditor should mention this fact in his audit report. For this purpose, how does he determine their eligibility:
   a) He obtains a representation from each director
   b) He obtains a management representation
   c) He enquires from Registrar of Companies
   d) Any one of the above

107. As per the ‘Statement on Qualification in Auditor’s Report’s issued by the ICAI, the auditor, Under section 227(3) has to gave a statement of fact on_
   a) Proper books of account
   b) Accounting standards
   c) Cess payable under section 441A
   d) None of the above

108. The date on auditor’s report should not be__
   a) The data of AGM
   b) Later than the date on which the accounts are approved in board’s meeting
   c) Earlier than the date on which the accounts are approved by the management
   d) Both (a) and (b)

109. Section 227(2) of the Companies Act, requires the auditor to give his report to the members of the company on certain matters. Which of the following is not included in the above?
   a) Accounts examined by him
   b) Every balance sheet and profit and loss account laid before a general meeting during his tenure
   c) Every document that is a part of or ‘annexed to’ the balance sheet
d) Every document which is attached to the profit and loss account

110. When restrictions that significantly affect the scope of the audit are imposed by the client, the auditor generally should issue which of the following opinion?
   a) Qualified opinion
   b) Disclaimer of opinion
   c) Adverse opinion
   d) Unqualified report with ‘an emphasis of matter’ paragraph

111. Which of the following report not result in qualification of the auditor’s opinion due to a scope limitation?
   a) Restrictions the client imposed
   b) Reliance on the report of other auditor
   c) Inability to obtain sufficient appropriate evidential matter
   d) Inadequacy of accounting records

112. The inventory consists of about one per cent of all assets. The client has imposed restriction on auditor to prohibit observation of stock take. The auditor cannot apply alternate audit procedures.
   a) Unqualified opinion
   b) Qualified opinion
   c) Disclaimer of opinion
   d) Adverse opinion

113. The auditor has serious concern about the going concern of the company. It is dependent on company’s obtaining a working capital loan from a bank which has been applied for. Then management of the company has made full disclosure of these facts in the notes to the balance sheet. The auditor is satisfied with the level of disclosure. He should issue
   a) Unqualified opinion
   b) Unqualified opinion with reference to notes to the accounts
   c) Qualified opinion
   d) Disclaimer of opinion

114. Which of the following is true about explanatory notes?
   a) These are given by the directors of the company
   b) These are given to adhere to requirements of section 211.
   c) These are given by auditors of the company in auditor’s report
   d) All of the above

115. The client changed method of depreciation from straight line to written down value method. This has been disclosed as a note to the financial statements. It has an immaterial effect on the current financial statements. It is expected, however, that the change will have a significant effect on future periods. Which of the following option should the auditor express?
   a) Unqualified opinion
   b) Qualified opinion
   c) Disclaimer of opinion
   d) Adverse opinion

116. Which of the following is not true regarding requirements under section 227(3) (f) of the Companies Act, 1956?
   a) The auditor has to satisfy himself whether any of the directors of the company, whether public or private, are disqualified from being appointed as directors as per section 274(1) (g).
b) Section 274(1) (g) is applicable to appointment of directors both in public and private companies but reporting is limited to only those directors of a company who are also directors of a public company.

c) The auditor requires every director to submit a written representation in respect of each Public company, of which he is a director, as to whether such company has defaulted in terms of provisions of sections 274(1) (g).

d) The disqualification should be considered on the date of audit report.

117. The management of a company, to which AS3 is not applicable, does not include statement of cash flows in its annual report. The auditor should express:

a) Unqualified opinion
b) Qualified opinion

c) Adverse opinion

d) Any of these depending upon materiality and pervasiveness and adequacy of disclosure.

118. In case the auditor gives a disclaimer of opinion in the audit report which of the following paragraph(s) of a standard unqualified audit report are modified?

a) Scope paragraph
b) Opinion paragraph

c) Scope and opinion paragraphs

d) Introductory, scope and opinion paragraph

119. A departure from recognized accounting principle is disclosed in a note to the financial statements. The auditor should:

a) Issue a standard unqualified audit report
b) Issue a qualified report

c) Issue an unqualified report with ‘emphasis of matter’ paragraph

d) Disclaim opinion.

120. The auditor should state the reasons for his reservations in audit report and should try to quantify the effect on them. This should be done in case he has expressed:

i) A qualified opinion

ii) An unqualified opinion with emphasis of matter paragraph

iii) An adverse opinion

IV) A disclaimer of opinion

a) i) only

b) i) and (iv) only

c) i), iii) and (iv) only

d) All of the above

121. Which of the following documents is not relevant for vouching cash sales?

a) Daily cash sales summary
b) Salesmen’s summary

c) Monthly statements sent to customers

d) Bank statement

122. The auditor should examine subsequent realization of revenue such as dividends, interest, commission, etc to:

a) Identify cases of unrecorded revenue
b) Ensure proper disclosure in the balance sheet

c) Recomputed accrued income on the data of balance sheet

d) Any of these
123. To test whether sales have been recorded, the auditor should draw a sample from a file of
   a) Purchase orders     c) Sales invoices
   b) Sales orders         d) Bill of loading

124. For vouching of which item, the auditor is most likely to examine cost records?
   a) Commission earned    c) Credit sales
   b) Bad debts recorded   d) Sale of scrap

125. The “Guidance Note on Revenue” issued by the ICAI does not deal with
   a) Sales revenue
   b) Revenue rendering service
   c) Revenue from sale of fixed assets
   d) Income from interest, dividend

126. An auditor conducts a surprise check on the pay day (i.e) the day wages and salaries are paid. The primary purpose of this audit procedure is
   a) To ensure that there are no ghost workers
   b) To ensure the casual workers employed are authorized by the supervisor
   c) To test procedures for distributing pay cheques
   d) To obtain understanding of internal control system

127. Which of the following would prevent double payment of the same voucher?
   a) The person signing the cheque should cancel the supporting documents
   b) Cheques should be signed by at best two persons
   c) The data of payment of vouchers of similar nature should be the same or close to each other
   d) All of the above

128. In case of unclaimed wages, the auditor should examine whether
   a) The amount has been deposited in a separate bank account
   b) Deposited with the cashier
   c) Held in a safe deposit box
   d) All of these

129. While vouching wages, auditor should examine whether there is proper segregation of duties. Which of the following activities should not be done by same department?
   a) Maintaining personnel records and approving changing in wages rates
   b) Proposing pay roll summary and disbursement of wages
   c) Making salary statements and filing tax returns
   d) Comparing time clock records with time reports prepared by supervisors and preparing list of workers employed along with the units of production for each one of them

130. In order to vouch, which of the expenses, the auditor will examine Bill of Entry?
   a) Custom                c) Sales tax
   b) Excise duties         d) Income tax

131. While vouching, how will the auditor ensure himself that all credit sales transactions have been recorded by the entity?
   a) Examining cut-off points
   b) Matching entries in the sales book against renumbered sales invoices and goods outward notes
c) Counting the number of invoices and matching the number with entries on sales book
d) Both (a) and (b)

132. In case of sales return, the auditor should examine which documents?
a) Credit notes, advice notes and inward return notes
b) Debit notes, advice notes and inward return notes
c) Purchase invoices, advice notes and inward return notes
d) Credit notes, inspection report and inward return notes

133. An internal auditor discovered that fictitious purchases have been recorded by the purchase clerk. This indicates absence of which control?
a) Purchase invoices are independently matched with purchase orders and goods received notes
b) Goods received notes requires the signature of individual who authorized the purchase
c) Routine checks are performed by internal auditor fortnightly.
d) Purchase function and production function are clubbed in one department

134. Which of the following is most crucial to a purchase department?
a) Reducing the cost of acquisition
b) Selecting supplies
c) Authorizing the acquisition of goods
d) Assuring the quality of goods

135. The auditor is most likely to examine related party transactions very carefully while vouching
   a) Credit sales
d) Cash purchases
   b) Sales returns
   c) Credit purchases

136. In order to vouch bought ledger, the auditor obtain confirmations from creditors. The principal reason for the auditor to examine suppliers statements at balance sheet date is to obtain evidence that
   a) The supplier exist
   b) There are no unrecorded liabilities
   c) Recorded purchases actually occurred
   d) To link creditors with cash book entries

137. The creditor’s accounts, generally, have credit balance. Debit balance may be due to
   a) Advance paid against an order
   b) Goods returned
   c) Wrong debit to supplier account
   d) Any of these

138. In case of vouching, the auditor is least likely to examine authorization by appropriate authority in case of –
   a) Bad debts written off
   b) Sales return
   c) Purchase return
   d) Discount allowed to customers as per organizational policy

139. Vendors should be approved by Management before purchase department executes an order. If this is not done, then which of the following situations may arise?
   a) Purchases could be made from vendors whose product quality may not be good
   b) Purchases may be made from related parties without management’s knowledge
c) Purchases could be made from vendors who may have offered price to manager purchases
d) Any of these

140. Which of the following is not true with regard to verification of assets?
a) It invoices substantiation of occurrence of transactions
b) Its objective is to establish existence, ownership, possession, valuation and disclosure of assets
c) The auditor has to form an opinion on different aspects
d) All are true

141. Which of the following statements is not true?
a) Valuation of assets is the responsibility of management
b) The auditor can rely on a certificate issued by an authorized valuationer as to the valuation of assets in the balance sheet
c) The auditor should value the asset as per generally accepted accounting principle
d) Valuation is no part of auditor’s duty

142. An auditor is verifying valuation of building which has been self constructed by the client. Which of the following documents is least relevant to the auditor for verification purposes?
a) Bills of contractor
b) Minutes of meeting of board of directors
c) Certificates of engineer and architect
d) Loan agreement

143. Which of the following assets is least likely to be subjected to lien?
a) Freehold land
b) Plant and machinery
c) Leasehold property
d) Motor vehicles

144. An analysis of fixed assets account has revealed possibility of unrecorded sale of plant and machinery. Which of the following audit procedures may be adopted to discover it?
a) Examination of property tax files
b) Inquiry of plant manager
c) Examination of debits to accumulated depreciation
d) All of the above

145. The auditor has noticed existence of recurring losses sale of fixed assets this indicates
a) Depreciation charges are insufficient
b) Policy of sale or disposal of fixed assets needs to be reviewed
c) The sale of assets have not been properly authorized
d) Accounting errors

146. Which of the following financial statements assertions are addressed by testing the cut off for plant asset addition?
a) Existence and ownership
b) Valuation and disclosure
c) Possession and ownership
d) Completeness and valuation

147. The auditor while verifying prepaid insurance has concluded that there is inadequate insurance of building, He should__
a) Modify his audit report
b) Insist it should be disclosed in the notes to financial statements
c) Write it in letter of weakness  
d) Both (b) and (c)

148. While verifying intangible assets, an auditor would recomputed amortization charges and determines whether amortization period is reasonable. The auditor tries to establish ….by doing it  
   a) Valuation  
   b) Existence  
   c) Disclosure  
   d) Possession  

149. When auditing prepaid insurance, an auditor discovers that the insurance policy bond on building is not available for inspection. This may indicate__  
   a) No insurance has been undertaken for building  
   b) Lien on building  
   c) Insurance premium has not been paid  
   d) Insurance premium paid but not recorded  

150. Which of the following controls would ensure that securities are not lost, stolen or diverted?  
   a) Establish physical barriers over investment securities  
   b) Maintain files of authorized signatures  
   c) Segregate investment approval from accounting and from custody of securities  
   d) All of the above  

151. Which of the following would give the assurance that debtors mentioned on the date of balance sheet actually exist?  
   a) Sending debtor’s confirmation letters  
   b) Reviewing subsequent collection  
   c) Verify debtors against sales document  
   d) Both (a) and (b)  

152. Tests of control are not concerned with_  
   a) Existence of controls  
   b) Effectiveness of controls  
   c) Continuity of controls  
   d) Designing of controls  

153. The sequence of steps in the auditor’s consideration of internal control is as follows  
   a) Obtain an understanding, design substantive test, perform tests of control, and make a preliminary assessment of control risk  
   b) Design substantive tests, obtain an understanding, perform tests of control, and make a preliminary assessment of control risk  
   c) Obtain an understanding, make a preliminary assessment of control risk, perform tests of control, design substantive procedures.  
   d) Perform tests of control, obtain and understanding, make a preliminary assessment of control risk, design  

154. Which of the following is not an inherent limitation of internal control system?  
   a) Management override  
   b) Collusion among employees  
   c) Inefficiency of internal auditor  
   d) Abuse of authority  

155. An auditor should study and evaluate internal controls to  
   a) Determine whether assets are safeguarded
b) Suggest improvements in internal control  
c) Plan audit procedures  
d) Express and opinion  

156. The primary purpose of performing tests of control is to provide reasonable assurance that:

a) There are no material misstatements due to fraud or error in financial statement  
b) Accounting system is well documented  
c) Written evidence is there to support transactions  
d) if internal control is effective  

157. If the auditor assesses control risk as high....

a) Document the conclusions  
b) Documents the reasons along with conclusions  
c) Perform tests of control  
d) Perform walk through tests  

158. The overall attitude and awareness of an entity’s board of directors concerning the importance of internal control is reflected in

a) Accounting controls  
b) Control environment  
c) Control procedures  
d) Supervision  

159. Which of the following are included in test of control?

a) Reperformance and observation  
b) Inquiry and analytical procedures  
c) Comparison and conformation  
d) Inspection and verification  

160. Control risk is assessed at

a) Overall financial statements level  
b) Fraud risk factor level  
c) Financial statement assertion level  
d) Control environment level  

161. An auditor assesses control risk because it

a) Affects the audit risk  
b) Affects the level of detection risk that auditor may accept  
c) Helps him to fix materiality level for each financial assertion  
d) Is directly related to inherent risk  

162. A flow chart, made by the auditor, of an entity’s internal control system is a graphic representation that depicts the auditor’s.

a) Understanding of the system  
b) Understanding of fraud risk factors  
c) Documentation of assessment of control risk  
d) Both (a) and (c)  

163. The performance of tests of control is documented in

a) Audit programme  
b) Flow charts  
c) Working papers  
d) Any of the above
164. The independence of an internal auditor will most likely be assured if he reports to the
a) President Finance  c) Managing Director
b) President System  d) CEO

165. In comparison to the independent auditor, an internal auditor is more likely to be concerned with
a) Cost accounting system  
b) Internal control system  
c) Legal compliance  
d) Accounting system

166. When an independent auditor relies on the work of an internal auditor, he or she should
a) Examine the scope of internal auditor’s work  
b) Examine the system of supervising review and documentation of internal auditor’s work  
c) Adequacy of related audit programme  
d) all of the above

167. Proper segregation of duties reduces the opportunities in which a person would both
a) Establish controls and executes them  
b) Records cash receipts and cash payments  
c) Perpetuate errors and frauds and conceals them  
d) Record the transaction in journal and ledger

168. Analytical procedures are least likely to be use in the audit of –
a) Cash balance  c) Bills receivables
b) Investments  d) Debtors

169. Which of the following statements is not true with regard to teeming and lading?
 a) It results in the deliberate misappropriation of cash receipts  
b) It is associated with cash receipts  
c) If same individual maintains cash receipts and cash payments teeming and lading is likely to exist  
d) To conceal the shortage, the defraud, usually, tries to keep bank and book amounts in daily agreement so that a bank reconciliation will not detect the irregularity.

170. The balance of cash in often between one to five percent of total assets. Tick the most appropriate statement with regard to verification of cash in context of this
a) Cash in always material as materiality is qualitative concept  
b) No audit of cash is needed when, in auditor’s opinion, cash is immaterial. Materiality is a relative concept  
c) The cash balance need only be audited if the balance is in overdraft  
d) Cash is to be verified if control risk is assessed as high

171. When counting cash on hand the auditor should ___
a) Ensure presence of somebody from management  
b) Obtain a receipt from custodian as to its return
c) Ensure postage and revenue stamps are not counted in physical count
d) Temporary advances to employees are counted to calculate balance of cash in hand

172. Which of the following statement is not true regard to auditor’s attendance at stock taking?
   a) Auditor should attend physical stock taking only if inventory is material
   b) Auditor may not attend physical verification of stock by management, if he does not find it appropriate to rely on it
   c) If inventory is material, even when the auditor is not placing reliance on the physical verification by the management, he should attend it
   d) The primary objective of an auditor’s observation of an entity’s observation of an entity’s stock take is to obtain direct knowledge that the stock and has been properly counted

173. While observing a client’s annual physical inventory, an auditor conducted test counts for certain test counts were higher than the recorded quantities in the client’s perpetual records. This situation could be the result of the client’s failure to record –
   a) Purchase returns
   b) Sales returns
   c) Goods with consignor
   d) Purchase discounts

174. Inspection report/receiving report supports entries in
   a) Sales book and sales return book
   b) Purchase book and sales return book
   c) Cash book and purchase book
   d) Sales book and purchase return book
   a) Existence, cutoff, and presentation
   b) Accuracy, cutoff, and presentation & disclosure
   c) Completeness, realizable value, and cutoff

175. ........................ Starts where ................... Ends
   a) Accounting, auditing
   b) Auditing, accounting
   c) Vouching, auditing
   d) Accounting, vouching

176........... means “proving the truth or confirmation”
   a) Vouching
   b) Verification
   c) Inspection
   d) Auditing

177. Civil liability of an auditor implies liability for
   a) misappropriation of cash
   b) misappropriation of goods
   c) fraud
   d) misfeasance

178. An auditor is held criminally liable for
   a) Loss to his client
   b) Neglect of his duty
   c) Offence against statutory provisions
   d) Frauds

179. An auditor is held liable under C.A Act 1949 for
   a) negligence
   b) misfeasance
c) Professional misconduct
d) breach of contract.
e) contractual liability

180. __________ is a systematic examination of the books and records or a business.
A. Auditing
B. Vouching
C. Verification
D. Checking

181. An audit which is compulsory by the law is __________.
A. Government Audit
B. Internal Audit
C. Cost Audit
D. Statutory Audit

182. Instruction of audit issued by controller and auditor general of India ________.
A. Statutory Audit
B. Final Audit.
C. Management audit
D. Government audit

183. Audit done by the employees of the business undertaking is called ________.
A. Final audit
B. Management Audit
C. Government Audit
D. Internal Audit

184. This kind of audit is conducted generally between two annual audit ______.
A. Internal Audit
B. Interim audit
C. Final Audit
D. Continuous Audit

185. Management audit otherwise called as ________.
A. Final audit
B. Efficiency Audit
C. Cost Audit
D. Cash audit

186. Before the work of audit is commenced, the auditor plans out the whole of audit work is called
__________.
A. Audit Plan
B. Audit Note
C. Audit Programme
D. Audit Control

187. A number of checks and controls exercised in a business to ensure its efficient working are known as
__________.
A. Internal Check
B. Internal Control
188. A Voucher is a ________.
A. Document is support of an entry made in books of accounts
B. Invoice received from suppliers
C. Receipt issued to a customer for cash
D. Dispatch Receipt

189. Voucher relates to __________.
A. Cash receipt & payments, credit transactions
B. Cash payment only
C. Credit transactions only
D. Cash receipt only

190. Internal check is meant for ___________.
A. Prevention of frauds
B. Detection of frauds
C. Helping audit is depth
D. Detection of errors

191. Purchase of machinery is a _____________.
A. revenue receipt
B. capital receipt
C. capital expenditure
D. revenue expenditure

192. Sale of land is a _____________.
A. revenue receipt
B. capital receipt
C. capital expenditure
D. revenue expenditure

193. When a transaction has not been recorded in the books of account either wholly or partially such errors are called as _____________.
A. errors of commission
B. errors of omission
C. compensating error
D. error of principle

194. Verification of the value of assets, liabilities, the balance of reserves, provision and the amount of profit earned or loss suffered a firm is called _____________.
A. continuous audit
B. balance sheet audit.
C. interim audit
D. partial audit

195. A sale of Rs. 50000 to Mr. A was entered as a sale to Mr. B. This is an example of what?
A. Error of omission
B. Error of commission
C. Compensating error
D. Error of principle

196. Recording a transaction twice in the books of original entry is an error of __________.
A. principle
B. commission
C. duplication
D. omission

197. Errors and frauds already committed can be discovered under the system of ________.
A. internal audit, internal check, internal control
B. external check
C. statutory audit
D. interim audit

198. Treating revenue expenditure as capital expenditure is a case of __________.
A. fraud
B. misappropriation of cash
C. misappropriation of goods
D. manipulation of accounts

199/. Special audit is necessary for ________.
A. inefficient concern
B. processing concern
C. trading concern
D. manufacturing concern

200. The first auditors appointed by head office __________.
A. for a period of one year
B. for a period of two years
C. for a period of three years
D. till the conclusion of the first annual general meeting
## Answer key

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