

**S .Y. B.Com. – Sem IV- Auditing–Academic Year 19-20.**

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### **Introduction to audit**

1. Auditing refers to
  - A. Preparation and checking of account
  - B. Examination of accounts of business units only
  - C. Examination of accounts of professional accountants
  - D. Checking of vouchers
  
2. Main object of auditing is
  - A. Detection of errors
  - B. To find out whether P&L a/c & B/S show true and fair status
  - C. Detection of frauds
  - D. Detection and prevention of frauds and errors.
  
3. Auditing is compulsory for
  - A. Small scale business enterprises
  - B. All partnership firms
  - C. All joint stock companies
  - D. All proprietary concerns
  
4. Interim audit refers to
  - A. Examination of accounts continuously
  - B. Examination of accounts intermittently
  - C. Audit work to find out and check interim profits of a company
  - D. Carrying on audit for bonus purposes at the end of the year

5. Final audit implies
  - A. Audit of accounts at the end of the year
  - B. Finally checking of accounts to reveal frauds
  - C. Audit for submitting report immediately at the end of the year
  - D. Audit of banking companies
  
6. A continuous audit is specially needed for
  - A. Any trading concern
  - B. Smaller concerns
  - C. Banking companies
  - D. Any manufacturing companies
  
7. Internal audit is
  - A. Compulsory for a company with paid-up capital of Rs. 25 lakh and above
  - B. Voluntary for a company
  - C. Not necessary for a company
  - D. Necessary for a company
  
8. Detection of errors and fraud in audit is
  - A. Primary object
  - B. Secondary object
  - C. Specific object
  - D. Main Object
  
9. Errors of omission are
  - A. Technical errors
  - B. Error of principle
  - C. Compensating errors
  - D. Error of Commission

10. Normally, a company auditor is appointed by the
- A. Central Government
  - B. Shareholders
  - C. Board of Directors
  - D. Company Law board
11. Which of the following persons is qualified to be a company auditor?
- A. An employee of the company
  - B. A body corporate
  - C. A person who is indebted to the company for an amount exceeding Rs. 1000
  - D. A practicing chartered accountant
12. Books of Accounts are prepared and audited as per the provisions of the:
- A. Income Tax Act,1961
  - B. Companies Act 2013
  - C. Chartered Accountants Act 1949
  - D. Company Act, 1956
13. \_\_\_\_\_ refers to the evaluation of company's performance against planned goals in the areas of social responsibility.
- A. Cost audit
  - B. Social audit
  - C. Management audit
  - D. Community audit
14. \_\_\_\_\_ begins where accounting ends
- A. Bookkeeping
  - B. Auditing
  - C. Internal check
  - D. Accounting
15. \_\_\_\_\_ audit is compulsory for joint stock companies
- A. Statutory

- B. Final
- C. Continuous
- D. Voluntary

16. Working papers are the property of the

- a) Client
- b) Client & the auditor
- c) Auditor
- d) banker

17. A Purchase of RS 1,870 by cheque has been wrongly posted in the cash & Bank book as Rs 1,780. Then the effect will be

- a) Increasing the bank balance by Rs90
- b) Decreasing the bank balance by Rs 90
- c) Increasing the bank balance by Rs 180
- d) Decreasing the bank balance by Rs180

18. The statutory auditor is primarily concerned with the objective of

- Efficiency of operations
- Reliability of financial report
- Ensure future viability
- compliance with applicable laws & regulations

19. Error means \_\_\_\_\_mistake in financial statement

- a) intentional
- b) non intentional
- a) expected
- b) irreparable

20. Calculating the gross profit as a percent of sales & comparing it with previous period is what type of audit method ?

- a) Inspection
- b) Analytics procedure
- c) Observation
- d) Inquiry

21. Audit notebook is part of

- a) audit working papers
- b) Memorandum of Association
- c) Articles of Association
- d) prospectus

22. Sales book was overcast by Rs 500. This is

- a) Error of Omission
- b) Error of Commission
- c) Error of Principle
- d) None of the above

23. Sales to Reena Rs 143 posted to Reenu as Rs 143. This is

- a) Error of Omission
- b) Error of Commission
- c) Error of Principle
- d) None of the above

24. Stock is valued at.

- a) Cost
- b) Market price.
- c) Cost or market price whichever is less
- d) Reliable value

25. After preparing the trial balance the accountant finds that the total of the credit side is short by Rs 1,500. This difference will be

- a) Credited to suspense account
- b) Debited to suspense account
- c) Adjusted to any of the debit balance a/c
- d) Adjusted to any of the credit balance a/c

26. Determine the known and likely misstatements

- a) Auditor is responsible
- b) Management is responsible
- c) Both are responsible
- d) Neither are responsible

27. Which one of the following statements best defines a fraud.

- a) Fraud is an unintentional misstatement of the financial statements
- b) Fraud is an intentional misstatement of the financial statement
- c) Fraud is either an intentional or misstatement of the financial statement

depending on materiality

d) Fraud is either an intentional or unintentional misstatement of the financial statement depending on consistency

28. Companies may intentionally understate earnings when income is high to create may be used in future years to increase earnings.

- a) Statutory reserves
- b) Secret reserves
- c) Cash
- d) Sales

### **Audit Planning ,procedure & Documentation**

29. The audit programme must be prepared

- e) Before commencement of the audit
- f) During the conduct of the audit
- g) After completion of the audit
- h) After submission of the audit report

30. Companies may intentionally understate earnings when income is high to create

- e) Statutory reserves
- f) Secret reserves
- g) Cash
- h) Sales

31. Audit Programme prepared by

- a) The client
- b) The client & the accountant
- c) The auditor and his assistance
- d) The chief accountant

32. Audit plan should be based on knowledge of the clients

- a) Profit
- b) Net worth
- c) Business

d) Reputation

33. Review of Internal check is inevitable part of following

- a) Tax audit
- b) Statutory audit
- c) Internal audit
- d) Non of the above.

34. Tolerable error in the population that the auditor would be willing to accept, & still conclude that the result from the sample has achieved the auditor's objective.

- a) Minimum
- b) Reasonable
- c) Maximum
- d) Insignificant

35. Audit programme should be

- a) Oral
- b) Flexible
- c) Rigid
- d) Oral & rigid

36. Current file & permanent file are together known as

- a) Audit plan
- b) Audit Programme
- c) Audit Procedure
- d) Audit working paper

37. An Audit Programme may be

- a) Statutory
- b) Permanent
- c) Fixed & Flexible
- d) Standard

38. Which of the following SA deals with Audit planning

- a) SA 610
- b) SA 300
- c) SA 620

d) SA 230

### **Audit techniques and internal audit**

39. SA which deals with audit sampling is

- a) 530
- b) 400
- c) 610
- d) None of the above

40. The responsibility for adopting sound accounting policies & maintaining adequate internal control lies with the

- a) Chief accountant
- b) Company management
- c) Auditor

d) Audit assistant

41. Internal control does not aim to achieve

- a) Reliability of financial reporting
- b) Efficiency & effectiveness of operations
- c) Compliance with laws & regulation
- d) Zero business risk

42. The risk of under reliance and the risk of incorrect rejection by an auditor will

- a) Affect accountants work
- b) Lead to additional work to the auditor or the entity
- c) Will not affect audit efficiency
- d) Will not Lead to additional work to the auditor or the entity

43. New bank loans will be taken under the authority of

- a) Board of director
- b) Purchasing department
- c) Accounting department
- d) Accounts payable department

44. Internal controls

- a) Are implemented by & are the responsibility of auditors
- b) Consist of policies & procedures designed to provide reasonable assurance that the company achieves its objectives & goals.
- c) Only ensures compliance with all laws & regulations.
- d) Only apply to public limited companies.

45. The audit technique of confirmation is a formal inquiry from outsiders but not from

- a) Bank
- b) Suppliers
- c) Debtors
- d) Management

46. To select sample for audit, the auditor should consider

- a) the size of the sample
- b) the volume of transactions
- c) the reliability of internal controls
- d) Size of sample, volume of transactions, reliability of internal controls

47. Audit sampling enables the auditor to .....audit evidence about some characteristics of the items selected.

- a) Ignore
- b) Obtain & evaluate
- c) Manipulate
- d) None of the above

48. The responsibility for adopting sound accounting policies & maintaining adequate internal control lies with the

- a) Chief accountant
- b) Company management
- c) Financial statement auditor
- d) Company's internal audit department

49. Obtain & understanding of internal controls .....
- a) Auditor is responsible
  - 1. Management is responsible
  - b) Both are responsible
  - c) Neither are responsible
50. Internal control does not aim to achieve .....
- a) Reliability of financial reporting
  - b) Efficiency & effectiveness of operations
  - c) Compliance with laws & regulation
  - d) Zero business risk
51. The risk of over reliance & the risk of incorrect acceptance .....
- a) Affect audit effectiveness
  - b) May not lead to an erroneous opinion on the financial statements
  - c) Does not affect audit effectiveness
  - d) gives true & air view
52. The risk of under reliance and the risk of incorrect rejection .....
- a) Affect audit efficiency
  - b) Lead to additional work being formed by the auditor or the entity
  - c) Does not affect audit efficiency
  - d) gives true & air view
53. Letter of weakness deals with weaknesses in
- a) Statutory audit
  - b) Internal control
  - c) Financial position
  - d) None of the above
54. The statutory auditor is primarily concerned with the objective of internal control relating to.....
- a) Efficiency of operations
  - b) Reliability of financial report
  - c) Effectiveness of operations
  - d) Compliance with applicable laws & regulations
55. Which of the following is responsible for establishing a private company's internal control? .....
- a) Senior management

- b) Internal auditors
- c) ICAI
- d) Audit committee

56. New bank loans will be taken under the authority of

- a) Board of director
- b) Purchasing department
- c) Accounting department
- d) Accounts payable department

57. The following is suitable for test checking .....

- a) Opening & closing entries
- b) Bank reconciliation statements
- c) Transaction on which auditor must report under the company's act
- d) Payment made by a bank, during audit of a bank

58. Internal controls .....

- a) Are implemented by & are the responsibility of auditors
- b) Consist of policies & procedures designed to provide reasonable assurance that the company achieves its objectives & goals.
- c) Guarantee that the company complies with all laws & regulations.
- d) Only apply to public limited company's

59. New bank loans will be taken under the authority of

- a) Board of director
- b) Purchasing department
- c) Accounting department
- d) Accounts payable department

60. Routine checking involves checking of \_\_\_\_\_

- A Castings            B Ledger
- C Trial Balance      D Preparation of Journal

61. Random sampling includes the following type \_\_\_\_\_

- A Lottery method            B Sequential sampling
- C Convenience sampling      D Quota sampling

62. Scope of internal audit is decided by \_\_\_\_\_

- A Management            B auditor

- C shareholder                      D client
63. Test checks are generally applied by \_\_\_\_\_  
A Internal auditor                      B Statutory auditor  
C Sub- auditor                      D Cost – auditor
64. Internal control is subject to \_\_\_\_\_  
A Test checking                      B Human Error  
C Dynamic conditions                      D Clerical errors in accounting
65. Good internal control system requires \_\_\_\_\_  
A Effective managerial review                      B Inefficient control  
C Incompetent people                      D Competent Auditor
66. Internal Auditor is appointed by \_\_\_\_\_  
A Management                      B Chief auditor  
C CEO                      D Shareholders
67. Scope of internal audit is decided by the \_\_\_\_\_  
A Shareholders                      B Management  
C Employees                      D Chief Auditor
68. Statutory auditor has a right to attend \_\_\_\_\_  
A Shareholders meetings                      B Board meetings  
C Creditors meetings                      D Union meetings
69. Independent auditor may apply \_\_\_\_\_  
A Test check                      B Internal Check  
C Routine check                      D Cross check
70. Routine checking is \_\_\_\_\_  
A Verification of books of original entry                      B Verification of sample transactions  
C Examination of trial balance                      D Examination of balance Sheet
71. Independent auditor is a watch dog for \_\_\_\_\_

- A Outsiders      B Shareholders  
C Employees      D Directors
72. The size of sample depends on \_\_\_\_\_  
A Internal control system      B Test checking  
C Routine checking      D Balance sheet audit
73. Routine checking can ensure \_\_\_\_\_  
A Arithmetical accuracy      B Agreement of balance sheet  
C Recording of transactions      D Fraud free accounts
74. Internal check is instituted by \_\_\_\_\_  
A Management      B auditor  
C employees      d.creditors

c

### **Vouching & verification**

75. An example of an external document is  
a) Employee's time report  
b) Bank Statement  
c) Purchase order for company's purchases  
d) Carbon copies of company's cheques
76. Physical examination is the inspection or count by the auditor of item such as  
a) Cash ,Inventory & Payroll  
b) Cash ,Inventory Sales document  
c) Cash ,Inventory & Intangible fixed assets  
d) Cash , Inventory & tangible fixed assets
77. Which of the following assets cannot be subjected to physical verifications?  
a) Debtors

- b) Land
- c) Building
- d) Machinery

78. Goods received notes support entries mainly in .....

- a) Sales book
- b) Purchase book
- c) Cash book
- d) Sales book & purchase return book

79. The following points should be noted or checked by the auditor in verification of an asset

- a) Only checking the voucher
- b) Only checking the transaction
- c) Only checking the entry in the book
- d) Checking existence, ownership, non- omission & disclosure

80. Telephone charges should be examined on the basis of

- a) Cash memo
- b) Telephone Bill
- c) Agreement with telephone Department
- d) Cash memo, Telephone Bill, Agreement with telephone company

81. Comparing entries in the books of accounts with documentary evidences in support thereof is

- a) Accounting
- b) Vouching
- c) Verification
- d) investigation

82. Which of the following external forms of evidence is most reliable

- a) General ledger account balance
- b) confirmation of accounts receivable balance received from a customer
- c) Internal memo from sales manager explaining why credit note is to be issued
- d) Copy of month end journal entries

83. An example of an external document is

- a) Employee's time report

- b) Bank Statement
- c) Purchase order for company purchases

84. Which of the following's assets cannot be subjected to physical verifications?
- a) Debtors
  - b) Land
  - c) Building
  - d) Machinery

2.

85. Which of the following is most reliable for verifying the correct balance of Debtors ?
- a) Sales invoice
  - b) Customer's statement
  - c) Confirmation
  - d) Bills of lading

86. Goods received notes support entries in .....

- a) Sales book & sales return book
- b) Purchase book & sales return book
- c) Cash book & purchase book
- d) Sales book & purchase return book

87. The overall objective in the audit of creditors is to determine whether balance of creditors .....

- a) Is fairly stated & properly disclosed
- b) Is overstated
- c) Is understated
- d) Is accurately stated

88. The following points should be noted or checked by the auditor in verification of an asset

- a) Checking the voucher
- b) Checking the transaction
- c) Checking the entry in the book
- d) Checking existence, ownership, non- omission & disclosure

89. Closing stock with consignee is to be shown as the asset of .....

- a) The consignor
- b) The consignee

- c) neither of consignee nor of consigner
- d) either of consignee nor of consigner

90. Which of the following documents is best for verifying the correct balance of creditor

- a) Bills of lading
- b) Confirmation
- c) Suppliers invoice
- d) Supplier statement

91. In order to verify the inventory valuation is proper auditor will.....

- a) Check the stock register
- b) Check supplier invoice for prices
- c) Obtain confirmation of inventory held by outside party
- d) Conduct physical examination of the inventory

92. When designing an audit sample, the auditor should consider .....

- a) The specific audit objectives
- b) The population from which the auditor wishes to sample
- c) The sample size
- d) All of the above

93. Checking cut off transaction helps to find out whether goods include in the physical count at the year end were not recorded as

- a) Sale in the current period
- b) Sales in the subsequent period
- c) Purchase in the current period
- d) Purchase return in the subsequent period

94. The auditor needs to check that the no item is omitted in the machinery account for this purpose auditor should examine .....

- a) Depreciation expense
- b) Repairs & maintenance expense
- c) Profit/ loss on sales
- d) Cash

95. An example of document originating from & held by the entity being audited is

- a) Confirmation
- b) Sales invoice

- c) vendor invoice
- d) bank reconciliation

96. The audit technique of confirmation is a formal inquiry from outsiders but not from

- a) Bank
- b) Suppliers
- c) Management
- d) Staff

97 The audit technique of confirmation is a formal inquiry from

- a) Bank
- b) Suppliers
- c) Debtors
- d) from Bank, Suppliers, Debtors

98 An example of document originating from & held by the entity being audited is

- a) sales invoice
- b) Purchase invoice
- c) Delivery challan
- d) Proforma invoice

99. The overall objective in the audit of creditors is to determine whether balance of Debtors .....

- a) Is fairly stated & properly disclosed
- b) Is overstated
- c) Is understated
- d) Is accurately stated

100 When auditor examine supplier's statements or receive confirmation, there must be a reconciliation of statement with a creditors list

- b. Suppliers invoice
- c. Goods receipt note
- d. purchase order