

MULTIPLE CHOICE QUESTIONS

1. The representations by management explicit or otherwise that are embodied in the financial statements as used by the auditor to consider the different types of potential misstatements that may occur.
(a) Assertions (b) Captions
(c) Management Representation (d) Disclosure Requirements
2. Which of the following is are not the assertions used by management in preparation of financial statements:-
(a) Presentation and disclosure (b) Completeness
(c) Measurement (d) Audit evidence
3. If company X's balance sheet shows a building with a carrying amount of ₹ 100 lacs, management has asserted that "Company X owns and control search building". Which type of assertion is claimed by management?
(a) Existence (b) Rights and obligations
(c) Valuation (d) Completeness
4. Transactions for correct accounting have been recorded in the books. Which assertion is present?
(a) Occurrence (b) Completeness
(c) Cut off (d) Valuation
5. Employee benefit expenses in respect of all personnel have been fully accounted for, represents which assertion?
(a) Occurrence (b) Completeness
(c) Cut off (d) Valuation
6. Recorded sales represent goods which were ordered by valid customers and were dispatched and invoiced in the period, represents which assertion?
(a) Occurrence (b) Completeness
(c) Cut off (d) Valuation

7. Any adjustment, such as text deduction at source has been correctly reconciled and accounted for employee benefit expenses, represents which assertion?
- (a) Measurement (b) Completeness
(c) Cut off (d) Valuation
8. Which of the following represents presentation and disclosure assertions?
- (1) Transactions and events are appropriately segregated or disaggregated
(2) Transactions has been classified and presented fairly in the financial statements
(3) Audit team access the completeness and accuracy of disclosures by determining that the disclosures provide information in a manner that does not materially omit destroyed or mislead the user.
(4) The description and disclosure of transactions are relevant for users.
- (a) (1),(2) (b) (2),(3)
(c) (1),(3),(4) (d) (1),(2),(3),(4)
9. Inventory balance as at the year-end does not include any element of next financial year. Which assertion is followed by management?
- (a) Measurement (b) Completeness
(c) Cut off (d) Valuation
10. Any calls that could not be reasonably allocated to the cost of protection and any abnormal waste has been excluded from the cost of inventory has to be valued as per AS 2 at period end
- (a) Measurement (b) Completeness
(c) Cut off (d) Valuation
11. whether the entity has ownership and legal title to assets and the liabilities recognized in the financial statements represent all the entity's obligation to the payment as at a given date.
- (a) Measurement (b) Completeness
(c) Cut off (d) Rights & Obligations
12. Which document defines the conditions on which allotment will be made? The project on which the amount raised shall be spent and to specify limits on certain expenses initial to raising of capital.
- (a) Memorandum of association (b) Prospectus
(c) Abridged Form (d) Statement of Allotment
13. What is not to be checked in case of fresh issues made in the current year?
- (a) Compliance of the Companies Act 2013, with regard to return of allotment
(b) Minimum subscription
(c) Maintenance of separate bank account
(d) Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled
14. Which document has to be checked by an auditor in case of any change in authorized capital?
- (a) Article of association (b) Memorandum of association
(c) Prospectus (d) Financial statements

- 15.** Which form is to be filed with the MCA, in case of notice to the registrar of any alteration of share capital?
- | | |
|-----------|-----------|
| (a) SH-7 | (b) SH-6 |
| (c) PAS-2 | (d) PAS-3 |
- 16.** The securities premium account may not be applied by the company:-
- | | |
|-----------------------|--|
| (a) Bonus shares | (b) Premium on redemption of preference shares |
| (c) Buyback of shares | (d) Writing off all expenses |
- 17.** The securities premium account may be applied by such classes of companies as may be prescribed and whose financial statement complied with the accounting standards prescribed for such class of companies under section
- | | |
|---------|--------|
| (a) 52 | (b) 68 |
| (c) 133 | (d) 8 |
- 18.** The penalty in case of non compliance u/s 52 of the Companies Act 2013.
- | |
|---|
| (a) Refund all money |
| (b) Interest @ 6% p.a |
| (c) Rs. 5,00,000 |
| (d) Amount raised by issuing shares at discount |
- 19.** According to Sub-section (1) and (2) of Section 53(2A) of the Companies Act 2013, A company may issue shares at a discount to its creditors. When its debt is converted into shares in pursuance of any in accordance with any guidelines or directions or regulations specified by the RBI under RBI act, 1934 or the Banking (Regulation) Act 1949.
- | | |
|-------------------------------|---------------------|
| (a) Statutory resolution plan | (b) Debt Plan |
| (c) Restructuring Plan | (d) Commercial Plan |
- 20.** means equity shares issued by the company to employees or the directors at a discount or for consideration other than cash for making know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called
- | | |
|-------------------------|-------------------------------|
| (a) Equity Shares | (b) Shares issued at discount |
| (c) Sweat Equity shares | (d) Preference Shares |
- 21.** Which of the following is not true about compliances under section 66 reduction of capital?
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|--|
| (a) Revaluation of assets are properly disclosed |
| (b) No default in repayment of deposits |
| (c) No default in repayment of payment of interest on deposits |
| (d) Special resolution passed in meeting of BOD |
- 22.** What is the exemption for compliances of section 66 of the Company Act, 2013?
- | | |
|------------------------------|-------------------------------|
| (a) Sweat Equity Shares | (b) Buyback of shares |
| (c) Shares issued at premium | (d) Shares issued at discount |

23. As per the disclosure requirement of share capital percentage change with respect to shall be computed as under:-
- (1) Number at the beginning of the year
 - (2) Shares issued during the year for the first time then with respect to the date of issue.
- | | |
|----------------|----------------------|
| (a) (1) | (b) (2) |
| (c) (1) or (2) | (d) Both (1) and (2) |
24. In case of additional regulatory information disclosure requirement for utilisation of borrowed funds and share premium; Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries; the company shall disclose the following:-
- (a) Date and amount of fund advanced or loan or invested in intermediaries with complete detail of each intermediary.
 - (b) Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries.
 - (c) Declaration that relevant provisions of FEMA Act, 1999 and Companies act has been complied with for such transactions and transactions are not violated of the Prevention of Money Laundering Act, 2002.
 - (d) Date and amount of fund further advance or loaned by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries.
25. In accordance with requirements of Schedule III of Companies Act, 2013, the company shall explain the terms included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio as compared to the preceding year.
- | | |
|----------------------|----------------------|
| (a) by more than 25% | (b) by more than 15% |
| (c) by less than 25% | (d) by less than 15% |
26. Reserves are the amount appropriated out of profits that are not indented to
- (a) Meet any liability
 - (b) Contingency
 - (c) Commitment
 - (d) Expansion in the value of assets known to exist at as the date of the balance sheet
27. A reserve specifically represented by earmarked investment shall be termed as a
- | | |
|---------------------|---------------------|
| (a) Capital reserve | (b) Revenue reserve |
| (c) Surplus | (d) Fund |
28. If dividends to shareholders of equity instruments are proposed or declared after the balanced date, an entity should not recognize those dividends as a as at the balance sheet date.
- | | |
|-------------|---------------|
| (a) Asset | (b) Liability |
| (c) Capital | (d) Surplus |
29. The existence of borrowing should not follow audit procedures:-
- (a) Review board minutes for approval
 - (b) Verify loan agreement details
 - (c) Balance confirmation as per SA 505
 - (d) Not obtain written representation

- 30.** Which document is the core document during the audit procedure of debentures?
- | | |
|---------------------------|-------------------------|
| (a) Debenture Certificate | (b) Trust Deed |
| (c) Bank Account | (d) Debenture agreement |
- 31.** An auditor should carefully review the borrowings from related parties and ensure compliance with AS 18 or IND AS
- | | |
|--------|--------|
| (a) 21 | (b) 22 |
| (c) 23 | (d) 24 |
- 32.** The company has not contravened the restrictions laid down by, related to restrictions on power of board of the Companies Act in respect of the borrowings of the company.
- | | |
|-----------------|-----------------|
| (a) Section 180 | (b) Section 185 |
| (c) Section 186 | (d) Section 181 |
- 33.** As per schedule III (Part I) of the Companies Act long term borrowings shall be classified as:-
- | | |
|----------------------------------|-------------------------------|
| (a) Bonds | (b) Term Loans |
| (c) Deferred payment liabilities | (d) Current Maturities of LTB |
- 34.** As per the additional regulatory disclosure requirement of the borrowings taken from the banks or financial institutions, if they are not in the agreement with the books, what is to be a check during the audit procedure from auditor:-
- | | |
|-----------------------|---|
| (a) Quarterly Return | (b) Bank statements |
| (c) Summary of return | (d) Summary of Reconciliation Statement |
- 35.** If any wilful defaulter is declared by bank financial institutional, other lender than both nature and amount of details of default is to be disclosed with which date details:-
- | | |
|---|--|
| (a) Date of declaration as wilful default | (b) Date of declaration as balance sheet |
| (c) Date of declaration as per RBI | (d) Date of declaration as per lender |
- 36.** What are the regulatory disclosure requirements under trade receivables?
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|-----------------|----------------|
| (a) AS 11 | (b) AS 18 |
| (c) Section 188 | (d) CARO, 2020 |
- 37.** Following are the audit procedures for Valuation of trade receivables:-
- | |
|---|
| (a) Open ageing report |
| (b) List of debtors under litigation |
| (c) Schedule of movement of bad debts |
| (d) Check the right of a receivable balances has been approved by shareholders in case of a company |
- 38.** Additional procedures to be followed, if no reply received on 100% bank account balance confirmation
- | |
|--|
| (a) Agree with the balance of bank statement |
| (b) Check with online statement |

- (c) Checking with bank branch in personnel
 - (d) Relying on management
- 39.** For all cases where cheque has become stale, the same should appear in
- (a) Bank Reconciliation Statement
 - (b) Liabilities
 - (c) Assets
 - (d) Bank balance
- 40.** Following analytical processor is to be performed during audit procedure of completeness of inventories:-
- (a) Inventory turnover ratio
 - (b) Vertical analysis
 - (c) Checking of budgetary expectations with actuals
 - (d) Ensuring proper tags
- 41.** Test counts of inventory by auditor should include:-
- (a) Ensuring that all items are properly tagged
 - (b) Observing employees are adhering to the agreed plan
 - (c) Reconciliation of test counts
 - (d) Ensuring the accounting of raw stock sheets only
- 42.** Inventories does not include following:-
- (a) Raw materials
 - (b) Finished goods
 - (c) Stock in trade
 - (d) Tools
- 43.** Example of cost that are not cost of an item of PPE are:-
- (a) Cost of opening a new facility
 - (b) Inauguration cost
 - (c) Cost of promotional activities of new product
 - (d) Cost of site preparation
- 44.** Under additional regulatory information aging schedule of intangible assets are as follows:-
- (a) 1-2 years
 - (b) 2-3 years
 - (c) Less than 3 years
 - (d) Less than 1 year
- 45.** The amount of following heads will be disclosed under other current liabilities:-
- (a) Current the maturities of finance lease obligations
 - (b) Interest accrued but not due on borrowings
 - (c) Interest accrued but due on borrowings
 - (d) Income received in unpaid dividends
- 46.** Foreign currency loans will be valued as per
- (a) AS 8
 - (b) AS 9
 - (c) AS 10
 - (d) AS 11

- 47.** The disclosure requirement for benami property held
 (a) Details of property (b) Year of sell
 (c) Status of proceedings (d) Details of beneficiaries
- 48.** A liability that can be measured only by using a substantial degree of estimation.
 (a) Loans and advances (b) Contingent Liabilities
 (c) Provision (d) Current Liabilities
- 49.** Commitment shall be classified as
 (a) Estimated amount of contracts remaining to be executed on capital account and not provided for
 (b) Uncalled liability on shares and other investments partly paid
 (c) Guarantees
 (d) Other commitments
- 50.** As per SA 315, the risk of material misstatement in case of revenue items is generally
 (a) High (b) Low
 (c) Moderate (d) Optimistic
- 51.** Any deficiencies in the internal control of the sales cycle shall be communicated as per
 (a) SA 265 (b) SA 266
 (c) SA 267 (d) SA 268
- 52.** Ensure revenue is not overstated by performing following procedures:
 (a) Test check few invoices with their relevant entries in sales journal
 (b) Obtain confirmation from few customers to ensure the genuineness of sales transaction
 (c) Whether any shipments were done without the concern and agreement of the customer
 (d) Whether any substantial certainty exists about collectively
- 53.** Disclosure requirement under section 135:-
 (a) Expenditure incurred (b) Shortfall at the end
 (c) Previous year shortfall (d) No requirement
- 54.** The amount of cryptocurrency details are required to be shown as per
 (a) Investing date (b) Reporting date
 (c) Transaction date (d) Trading date

Answer Key

1. (a)	2. (d)	3. (b)	4. (c)	5. (b)	6. (a)	7. (a)	8. (d)	9. (c)	10. (d)
11. (d)	12. (b)	13. (d)	14. (b)	15. (a)	16. (d)	17. (c)	18. (b)	19. (a)	20. (c)
21. (d)	22. (b)	23. (c)	24. (d)	25. (a)	26. (d)	27. (d)	28. (b)	29. (d)	30. (b)
31. (d)	32. (a)	33. (d)	34. (d)	35. (a)	36. (c)	37. (d)	38. (d)	39. (b)	40. (d)
41. (d)	42. (d)	43. (d)	44. (c)	45. (d)	46. (d)	47. (b)	48. (c)	49. (c)	50. (a)
51. (a)	52. (d)	53. (d)	54. (b)						

SOLUTION

1. (a) **Assertions:** Assertions are the representations by management, explicit or otherwise, that are embodied in the financial statements as used by the auditor to consider the different types of potential misstatements that may occur.
2. (d) **Audit evidence:** In preparing financial statements, company's management makes various implicit or explicit claims i.e. assertions regarding:-
 - Completeness
 - Cut off
 - Existence or occurrence
 - Valuation or measurement
 - Rights and obligations
 - Presentations and disclosuresof assets liabilities equity income expenses and disclosures in accordance with the applicable accounting standards.
3. (b) **Rights and obligations:** If company X balance sheet shows building with carrying amount of ₹100 Lacs the auditor shall assume that the management has asserted that:-
 - The building recognized in the balance sheet exists as at the period end (Existence assertion)
 - Company X owns and control such building (Right and obligations assertion)
 - The building has been valued accurately in occurrence with the management principles (Valuation assertions)
 - All building owned and controlled by the company X included within the carrying amount of ₹ 100 lacs (Completeness assertion)
4. (c) **Cut off:** Whether all income and expenses are reported in the correct accounting. Cut off is a separate assertion because the substantive procedures to verify it are typically different from those applied to other components of completeness.
5. (b) **Completeness:** All transactions that were supposed to be recorded have been recognized in the financial statement. Transactions have not been omitted.
6. (a) **Occurrence:** Transactions recognized in the financial statements have occurred and relate to the entity.
7. (a) **Measurement:** Transactions have been recorded accurately at their appropriate amounts in the financial statements. There has been no error in preparing documents or in posting transactions to the ledger. The figures and explanations are not misstated.
8. (d) (1),(2),(3),(4):
9. (c) **Cut off:** Whether all assets and abilities are reported in the appropriate period is determined in cut off assertion.
10. (d) **Valuation:** Assets liabilities and equity balances have been valued appropriately ie there has been no overstatement or under the statement.

11. (d) Rights & Obligations:

- 12. (b) Prospectus:** The Prospectus defines the conditions on which allotment will be made. The project on which the amount raised shall be spent and to specify limits on certain expenses initial to raising of capital.
- 13. (d) Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled:** Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled in case of shares issued at premium.
- 14. (b) Memorandum of association:** In case there is any change in share capital, verify whether the paid up capital as at the year end is within the limits of authorized capital and authorized capital should be verified by examining memorandum of association.
- 15. (a) SH-7:** Form SH-7, Notice to registrar of any alteration of share capital is to be filed with the MCA.
- 16. (d) Writing off all expenses:** The securities premium account may be applied by the company as per section 52 of the Companies Act 2013.
- 17. (c) Section 133:** The securities premium account may be applied by such classes of companies as may be prescribed and whose financial statement complied with the accounting standards prescribed for such class of companies under Section 133.
- 18. (b) Interest @ 6% p.a:** Where any company fails to comply with the provisions of section 52, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or 5 lacs rupees, whichever is less and the company shall also be liable to refund all monies received with interest @ 12% per annum, from the date of issue of such shares to the persons to whom such shares has been issued.
- 19. (a) Statutory resolution plan:** According to Sub-section (1) and (2) of Section 53(2A) of the Companies Act 2013, A company may issue shares at a discount to its creditors. When its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the RBI under RBI act, 1934 or the Banking (Regulation) Act 1949.
- 20. (c) Sweat Equity shares:** Sweat equity shares means equity shares issued by the company to employees or the directors at a discount or for consideration other than cash for making know-how or making available rights in the nature of intellectual property rights or value additions by whatever name is called.
- 21. (d) Special resolution passed in meeting of BOD:** For verifying the reduction of capital, the auditor needs to examine whether the company has followed the specific requirements as required by section 66 of the Company Act, 2013.
- 22. (b) Buy back of shares:** According to section 66(6), nothing in this section shall apply to buy back of its own security by a company under section 68.
- 23. (c) (1) or (2):** As per the disclosure requirement of share capital percentage change with respect to shall be computed as number at the beginning of the year or issued during the year for the first time then with respect to the date of issue.

24. **(d) Date and amount of fund further advance or loaned by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries:** Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries; the company shall disclose the following:-
- Date and amount of fund advanced or loan or invested in intermediaries with complete detail of each intermediary.
 - Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries
 - Declaration that relevant provisions of FEMA Act, 1999 and Companies act has been complied with for such transactions and transactions are not violated of the Prevention of Money Laundering Act, 2002
 - Date and amount of fund further advance or loaned or invested by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries
25. **(a) by more than 25%:** In accordance with requirements of Schedule III of Companies Act, 2013, the company shall explain the terms included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.
26. **(d) Expansion in the value of assets known to exist at as the date of the balance sheet:** Reserves are the amount appropriated out of profits that are not indented to
- Meet any liability,
 - Contingency,
 - Commitment or
 - Diminution in the value of assets known to exist at as the date of the balance sheet.
27. **(d) Fund:** A reserve specifically represented by earmarked investment shall be termed as a fund.
28. **(b) Liability:** If dividends to shareholders of equity instruments are proposed or declared after the balanced date, an entity should not recognize those dividends as a liability as at the balance sheet date.
29. **(d) Not obtain written representation:** The existence of borrowing should follow audit procedures:-
- Review board minutes for approval
 - Verify loan agreement details
 - Balance confirmation as per SA 505
 - Obtain written representation
30. **(b) Trust Deed:** In case of debentures examine trust deed for various terms and dates of redemption, borrowing restrictions and compliance with covenants.
31. **(d) 24:** An auditor should carefully review the borrowings from related parties and ensure compliance with AS 18 or IND AS 24.
32. **(a) Section 180:** The company has not contravened the restrictions laid down by Section 180, related to restrictions on power of board of the Companies Act in respect of the borrowings of the company.

33. **(d) Current Maturities of LTB:** As per schedule III (Part I) of the Companies Act long term borrowings shall be classified as:-
- Bonds
 - Term Loans
 - Deferred payment liabilities
34. **(d) Summary of Reconciliation Statement:**
35. **(a) Date of declaration as wilful default:** If any wilful defaulter is declared by a bank financial institution, other lender than both nature and amount of details of default is to be disclosed with Date of declaration as wilful default.
36. **(c) Section 188:** The regulatory disclosure requirements under trade receivables:-
- AS 11
 - AS 18
 - Section 189
 - CARO, 2020
37. **(d) Check the right of a receivable balances has been approved by shareholders in case of a company:** Check the right of receivable balances has been approved by an appropriate authority ie the BOD in case of a company.
38. **(d) Relying on management:** Additional procedures to be followed, if no reply received on 100% bank account balance confirmation
- Agree with the balance of bank statement
 - Check with online statement
 - Checking with bank branch in personnel
39. **(b) Liabilities:** For all cases where cheque has become stale, the same should appear in liabilities.
40. **(d) Ensuring proper tags**
41. **(d) Ensuring the accounting of raw stock sheets only:** Test counts of inventory by auditor should include:-
- Ensuring that all items are properly tagged
 - Observing employees are adhering to the agreed plan
 - Reconciliation of test counts
 - Ensuring the accounting of all stock sheets.
42. **(d) Tools:** Inventory should be classified as
- Raw materials
 - Finished goods
 - Stock in trade
 - Loose Tools

43. (d) Cost of site preparation

44. (c) Less than 3 years: Under additional regulatory information aging schedule of intangible assets are as follows:-

- Less than 1 year
- 1-2 years
- 2-3 years
- More than 3 years

45. (d) Income received in unpaid dividends: The amount of following heads will be disclosed under other current liabilities:-

- Current the maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued but due on borrowings
- Income received in advance unpaid dividends

46. (d) AS 11: Foreign currency loans will be valued as per AS 11.

47. (b) Year of sell: The disclosure requirement for benami property held

- Details of property
- Year of acquisition
- Status of proceedings
- Details of beneficiaries

48. (c) Provision: A provision is a liability that can be measured only by using a substantial degree of estimation.

49. (c) Guarantees: Commitment shall be classified as

- Estimated amount of contracts remaining to be executed on capital account and not provided for
- Uncalled liability on shares and other investments partly paid
- Other commitments (specific nature)

50. (a) High: As per SA 315, the risk of material misstatement in case of revenue items is generally high.

51. (a) SA 265: Any deficiencies in the internal control of sales cycle shall be communicated as per SA 265.

52. (d) Whether any substantial certainty exists about collectively

53. (d) No requirement

54. (b) Reporting date: The amount of cryptocurrency details are required to be shown as per reporting date.