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INTRODUCTION TO AUDITING

1. THE MAIN OBJECT OF AN AUDIT IS ____

- A) EXPRESSION OF OPINION
- B) DETECTION AND PREVENTION OF FRAUD AND ERROR
- C) BOTH (A) AND (B)
- D) DEPENDS ON THE TYPE OF AUDIT.

2. 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

3. 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 RECOGNIZED ACCOUNTING PRINCIPLE HAVE BEEN CONSISTENTLY

4. A SALE OF RS. 50,000 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

5. „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

6. 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.

7. 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)

8. 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.

9. HOW MANY PRINCIPLES ARE LISTED IN AAS1, WHICH GOVERN AUDITOR'S PROFESSIONAL OBLIGATION?

- A) NINE
- B) FOURTEEN
- C) SEVEN
- D) EIGHT

10. BOTH AUDITING AND ACCOUNTING ARE CONCERNED WITH FINANCIAL STATEMENTS. WHICH OF THE FOLLOWING

- A) AUDITING USES THE THEORY OF EVIDENCE TO VERIFY THE FINANCIAL INFORMATION MADE AVAILABLE BY ACCOUNTANCY
- B) AUDITING LENDS CREDIBILITY DIMENSION AND QUALITY DIMENSION TO THE FINANCIAL STATEMENTS PREPARED BY THE ACCOUNTANT.
- C) AUDITOR SHOULD HAVE THROUGH KNOWLEDGE OF ACCOUNTING CONCEPTS AND CONVENTION TO ENABLE HIM TO EXPRESS AN OPINION ON FINANCIAL STATEMENTS
- D) ALL OF THE ABOVE.

11. THE RISK OF MANAGEMENT FRAUD INCREASES IN THE PRESENCE OF:

- A) FREQUENT CHANGES IN SUPPLIES
- B) IMPROVED INTERNAL CONTROL SYSTEM
- C) SUBSTANTIAL INCREASES IN SALES
- D) MANAGEMENT INCENTIVE SYSTEM BASED ON SALES DONE IN A QUARTER

12. AUDITING STANDARDS DIFFER FROM AUDIT PROCEDURES IN THAT PROCEDURES RELATE TO

- A) AUDIT ASSUMPTIONS
- B) ACTS TO BE PERFORMED
- C) QUALITY CRITERION
- D) METHODS OF WORK

13. WHICH OF THE FOLLOWING FACTORS LIKELY TO BE IDENTIFIED AS A FRAUD FACTOR BY THE AUDITOR?

- A) THE COMPANY IS PLANNING AN INITIAL PUBLIC OFFER OF QUALITY SHARES TO RAISE ADDITIONAL CAPITAL FOR EXPANSION.
- B) BANK RECONCILIATION STATEMENT INCLUDES DEPOSITS IN TRANSIT.
- C) PLANT AND MACHINERY IS SOLD AT A LOSS.
- D) THE COMPANY HAS MADE POLITICAL CONTRIBUTIONS.

14. THE MOST DIFFICULT TYPE OF MISSTATEMENT TO DETECT FRAUD IS BASED ON:

- A) RELATED PARTY PURCHASES B) RELATED PARTY SALES
- C) THE RESTATEMENT OF SALES D) OMISSION OF A SALES TRANSACTION FROM BEING RECORDED.

15. WHICH OF THE FOLLOWING STATEMENTS IS CORRECT CONCERNING THE REQUIRED DOCUMENTATION IN?

WORKING PAPERS OF FRAUD RISK ASSESSMENT UNDERTAKEN BY THE AUDITOR.

- A) ALL RISK FACTORS AS MENTIONED IN AAS4, SHOULD BE CONSIDERED AND DOCUMENTED ALONG WITH RESPONSE TO THEM.
- B) DOCUMENT THE IDENTIFICATION OF FRAUD RISK FACTORS ALONG WITH RESPONSE TO THEM.
- C) DOCUMENT MATERIAL FRAUD, RISK FACTORS AND RESPONSE TO THEM.
- D) NO DOCUMENTATION IS REQUIRED.

16. WHICH OF THE FOLLOWING IS THE MOST APPROPRIATE POTENTIAL REACTION OF THE AUDITOR TO HIS?

ASSESSMENT THAT THE RISK OF MATERIAL MISSTATEMENT DUE TO FRAUD IS HIGH IN RELATION TO EXISTENCE OF INVENTORY?

- A) VISIT LOCATION ON SURPRISE BASIS TO OBSERVE TEST COUNTS
- B) REQUEST INVENTORY COUNT AT A DATE CLOSE TO YEAREND
- C) VOUCH GOODS SENT ON APPROVAL VERY CAREFUL Y
- D) PERFORM ANALYTICAL PROCEDURES.

17. WHICH OF THE FOLLOWING IS NOT LIKELY TO BE A FRAUD RISK FACTOR RELATING TO MANAGEMENT'S? CHARACTERISTICS

- A) TAX EVASION B) FAILURE TO CORRECT KNOWN WEAKNESS IN INTERNAL CONTROL SYSTEM
- C) ADOPTION OF CONSERVATIVE ACCOUNTING PRINCIPLES
- D) HIGH MANAGEMENT TURNOVER

18. PROFESSIONAL SKEPTICISM REQUIRES THAT THE AUDITOR ASSUME THAT MANAGEMENT IS

- A) REASONABLY HONEST
- B) NEITHER HONEST NOR DISHONEST
- C) NOT NECESSARILY HONEST
- D) DISHONEST UNLESS PROVED OTHERWISE

19. WHICH OF THE FOLLOWING INFORMATION SHOULD A SUCCESSOR AUDITOR OBTAIN DURING THE INQUIRY OF?

THE PREDECESSOR AUDITOR BEFORE ACCEPTING ENGAGEMENT?

- I) INFORMATION ABOUT INTEGRITY OF MANAGEMENT
- II) DISAGREEMENT WITH MANAGEMENT CONCERNING AUDITING PROCEDURES II) REVIEW OF INTERNAL CONTROL SYSTEM.
- IV) ORGANIZATION STRUCTURE
- A) (I) AND (II) B) (I) AND (III) C) (I), (II) AND (III) D) I) AND (II)

20. THE AUDIT ENGAGEMENT LETTER, GENERAL Y, SHOULD INCLUDE A REFERENCE TO EACH OF THE FOLLOWING EXCEPT

- A) LIMITATIONS OF AUDITING
- B) RESPONSIBILITIES OF MANAGEMENT WITH RESPECT TO AUDIT WORK
- C) EXPECTATION OF RECEIVING A WRITTEN MANAGEMENT REPRESENTATION LETTER.
- D) A DESCRIPTION OF THE AUDITOR'S METHOD OF SAMPLE SELECTION.

21. THE USE OF AN AUDIT ENGAGEMENT LETTER IS THE BEST METHOD OF ASSURING THE AUDITOR WILL HAVE WHICH OF THE FOLLOWING?

- A) AUDITOR WILL OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE.
- B) MANAGEMENT REPRESENTATION LETTER
- C) ACCESS TO ALL BOOKS, ACCOUNTS AND VOUCHERS REQUIRED FOR AUDIT PURPOSE
- D) COOPERATION FROM OTHER AUDITORS

22. THE USE OF AN AUDIT ENGAGEMENT LETTER IS THE BEST METHOD OF DOCUMENTING

- I) THE REQUIRED COMMUNICATION OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL II) SIGNIFICANTLY HIGHER CONTROL RISK THAN THAT ASSESSED IN PRIOR AUDIT.
- II) OBJECTIVE AND SCOPE OF AUDITOR'S WORK
- IV) NOTIFICATION OF ANY CHANGES IN THE ORIGINAL ARRANGEMENTS OF THE AUDIT. A) (I) AND (II) B) (I) AND (III) C) I AND (IV) D) (I) AND (IV)

23. AN AUDITOR WHO ACCEPTS AN AUDIT BUT DOES NOT POSSESS THE INDUSTRY EXPERTISE OF THE BUSINESS ENTITY SHOULD

- A) ENGAGE EXPERTS
- B) OBTAIN KNOWLEDGE OF MATTERS THAT RELATE TO THE NATURE OF ENTITY'S BUSINESS
- C) INFORM MANAGEMENT ABOUT IT
- D) TAKE HELP OF OTHER AUDITORS

24. THE LEAST IMPORTANT ELEMENT IN THE EVALUATION OF AN AUDIT FIRM'S SYSTEM OF QUALITY CONTROL WOULD RELATE TO

- A) ASSIGNMENT OF AUDIT ASSISTANTS
- B) SYSTEM OF DETERMINING AUDIT FEES
- C) CONSULTATION WITH EXPERTS
- D) CONFIDENTIALITY OF CLIENT'S INFORMATION

25. THE PRIMARY PURPOSE OF ESTABLISHING QUALITY CONTROL POLICIES AND PROCEDURES FOR DECIDING ON CLIENT EVALUATION IS TO

- A) ENSURE ADHERENCE TO GENERALLY ACCEPTED AUDITING STANDARDS
- B) ACCEPTANCE OR RETENTION OF CLIENTS WHOSE MANAGEMENT DOES NOT LACK INTEGRITY
- C) ENSURE AUDIT FEES IS CHARGED ACCORDING TO THE TYPE OF AUDIT WORK ASSIGNED
- D) ALL OF THE ABOVE

26. WHICH OF THE FOLLOWING IS NOT A QUALITY CONTROL CONSIDERATION ON ACCEPTING A NEW CLIENT?

- A) AVAILABILITY OF AUDIT ASSISTANTS WITH NECESSARY SKILL AND COMPETENCE.
- B) PROVISION OF OTHER SERVICES TO THE CLIENT WHICH MAY IMPAIR INDEPENDENCE
- C) PREDECESSOR AUDITOR'S ADVICE AS TO WHETHER AUDIT FEES WERE PAID PROMPTLY
- D) REVIEW OF AUDIT WORK DONE BY ONE PARTNER BY THE OTHER

27. AN AUDITOR OBTAINS KNOWLEDGE ABOUT A NEW CLIENT'S BUSINESS AND ITS INDUSTRY TO

- A) MAKE CONSTRUCTIVE SUGGESTIONS CONCERNING IMPROVEMENTS TO THE CLIENT'S INTERNAL CONTROL SYSTEM
- B) EVALUATE THE APPROPRIATENESS OF AUDIT EVIDENCE OBTAINED
- C) UNDERSTAND THE EVENTS AND TRANSACTIONS THAT MAY HAVE AN EFFECT ON CLIENT'S FINANCIAL STATEMENTS.
- D) ALL OF THE ABOVE

INTRODUCTION TO AUDITING

1. D 2. B 3. C 4. B 5. A 6. B 7. D 8. A 9. A 10. B 11. D 12. B 13. A 14. D 15. b
16. A 17. C 18. B 19. A 20. D 21. C 22. D 23. B 24. B 25. B 26. C 27. c

CONCEPTS OF AUDITING

1. Audit of banks is an example of

- a) Statutory audit
- b) Balance sheet audit
- c) Concurrent audit
- d) Both (a) and (b)
- e) All of the above

2. Concurrent audit is a part of

- a) Internal check system
- b) Continuous audit
- c) Internal audit system
- d) None

3. In Pakistan, balance sheet audit is synonymous to

- a) Annual audit
- b) Continuous audit
- c) Detailed audit
- d) Statutory audit

4. Audit in depth is synonymous for

- a) Complete audit
- b) Completed audit
- c) Final audit
- d) Detailed audit

5. Balance sheet audit includes verification of_

- a) Assets
- b) Liabilities
- c) Income and expense accounts where appropriate
- d) All of the above

6. 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

7. Which of the following is not a fact of EPA?



- a) Economic audit
- b) Efficiency audit
- c) Expenditure audit
- d) Effectiveness audit

8. The Delhi Government had constructed six bungalows for its ministers. They are lying unoccupied for last three years. This would be a matter of concern for

- a) Propriety Auditor
- b) Performance Auditor
- c) Financial Auditor
- d) None of the above

9. Financial auditor is not concerned with propriety of business transactions. However, the exceptions to this rule are contained for audit of limited companies in_

- a) Section 227 (IA) of the Companies Act, 1956
- b) Section 227 (IA) and section 227(4A) of the Act
- c) CARO, 2003
- d) Section 227 (IA) and CARO, 2003

10. Balance Sheet does not include ---

- a) Verification of assets and liabilities
- b) Vouching of income and expense accounts related to assets and liabilities
- c) Examination of adjusting and closing entries
- d) Routine checks

11. 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

12.....the audit risk, the materiality and ...the audit effort

- a) Lower, Higher, Lower
- b) Lower, Lower, Higher
- c) Higher, Lower, Lower
- d) Lower, Higher, Higher

13. 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 materiality level
- d) Estimates of the total likely misstatement cannot be made

14. 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

15. 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

16. 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

17. For all audits of financial statements made in accordance with AAS14, the use of analytical procedures are at the discretion of the auditor in which stage?

- a) Substantive testing
- b) Planning stage
- c) Overall review stage
- d) All of the above

18. The basic assumption underlying the use of analytical procedures is:

- a) It helps the auditor to study relationship among elements of financial information
- b) Relationship among data exist and continue in the absence of known condition to the contrary
- c) Analytical procedures will not be able to detect unusual relationships
- d) None of the above.

19. What are analytical procedures?

- a) Substantive tests designed to assess control risk
- b) Substantive tests designed to evaluate the validity of management's representation letter
- c) Substantive tests designed to study relationships between financial and nonfinancial
- d) All of the above

20. Which of the following is not an analytical procedure?

- a) Tracing of purchases recurred in the purchase book to purchase invoices.
- b) Comparing aggregate wages paid to number of employees
- c) Comparing the actual costs with standard costs
- d) All of them are analytical procedure

21. When applying analytical procedures, an auditor could develop independent estimate of an account balance to compare it to

- a) client's unedited account balance
- b) client's unedited account balance adjusted for trends in the industry
- c) Prior year audited balance
- d) Prior year audited balance adjusted for trends in the industry

22. What is the primary objective of analytical procedures used in the overall review stage of an Audit?

- a) To help to corroborate the conclusions drawn from individual components of financial statements
- b) To reduce specific detection risk
- c) To direct attention to potential risk areas
- d) To satisfy doubts when questions arise about a client's ability to continue

CONCEPTS OF AUDITING

1. E 2. C 3. A 4. D 5. D 6. C 7. C 8. D 9. D 10. d

AUDIT EVIDENCE

1. 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

2. WHICH OF THE FOLLOWING STATEMENTS IS, GENERAL Y, 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.

3. 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

4. THE NATURE, TIMING AND EXTENT OF SUBSTANTIVE PROCEDURES IS RELATED TO ASSESSED LEVEL OF CONTROL RISK

- A) RANDOMLY
- B) DISPROPORTIONATELY
- C) DIRECTLY
- D) INVERSELY

5. WHICH OF THE FOLLOWING FACTORS IS MOST IMPORTANT IN DETERMINING THE APPROPRIATIONS 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

6. 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 COL ACTS AND EVALUATES IT INDEPENDENTLY

7. 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

8. 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

9. WHAT WOULD MOST APPROPRIATELY DESCRIBE THE RISK OF INCORRECT REJECTION IN TERMS OF SUBSTANTIVE TESTING?

- A) THE AUDITOR CONCLUDES BALANCE IS MATERIAL Y CORRECT WHEN IN ACTUAL FACT IT IS NOT
- B) THE AUDITOR CONCLUDES THAT THE BALANCE IS MATERIALLY MISSTATED WHEN IN ACTUAL FACT IT NOT
- C) THE AUDITOR HAS REJECTED AN ITEM FOR SAMPLE WHICH WAS MATERIAL
- D) NONE OF THE ABOVE

10. 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)

11. 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 MATERIAL Y CORRECT WHEN IN ACTUAL FACT IT IS NOT
- B) THE AUDITOR CONCLUDES THE BALANCE IS MATERIAL Y MISSTATED WHEN IN ACTUAL FACT 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

AUDIT EVIDENCE

1. C 2. B 3. D 4. C 5. A 6. B 7. D 8. B 9. B 10. D 11. A

AUDIT OF CASH TRANSACTION

1. 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

2. 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) RECOMPUTE ACCRUED INCOME ON THE DATA OF BALANCE SHEET
- D) ANY OF THESE

3. TO TEST WHETHER SALES HAVE BEEN RECORDED, THE AUDITOR SHOULD DRAW A SAMPLE FROM A FILE OF

- A) PURCHASE ORDERS
- B) SALES ORDERS
- C) SALES INVOICES
- D) BILL OF LADING

4. FOR VOUCHING OF WHICH ITEM, THE AUDITOR IS MOST LIKELY TO EXAMINE COST RECORDS?

- A) COMMISSION EARNED
- B) BAD DEBTS RECORDED
- C) CREDIT SALES
- D) SALE OF SCRAP

5. 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

6. 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 PROCEDURES 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

7. 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

8. 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

9. 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

10. IN ORDER TO VOUCH, WHICH OF THE EXPENSES, THE AUDITOR WILL EXAMINE BILL OF ENTRY?

- A) CUSTOM
- B) EXCISE DUTIES
- C) SALES TAX
- D) INCOME TAX

11. WHILE VOUCHING, HOW WILL THE AUDITOR ENSURE HIMSELF THAT ALL CREDIT SALES TRANSACTIONS HAVE BEEN RECORDED BY THE ENTITY?

- A) EXAMINING CUTOFF 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)

12. 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

13. 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

14. 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

15. THE AUDITOR IS MOST LIKELY TO EXAMINE RELATED PARTY TRANSACTIONS VERY CAREFULLY WHILE VOUCHING

- A) CREDIT SALES
- B) SALES RETURNS
- C) CREDIT PURCHASES
- D) CASH PURCHASES

16. 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

17. THE CREDITORS 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

18. 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

19. 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 VICE-PRESIDENT PURCHASES
- D) ANY OF THESE

AUDIT OF CASH TRANSACTION

1. C 2. A 3. C 4. D 5. C 6. C 7. A 8. A 9. B 10. A 11. D 12. D 13. 14. C 15. C 16. B 17. D 18. D 19. D

VERIFICATION & VALUATION OF ASSETS

1. 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

2. 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

3. 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

4. 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

5. 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

6. 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

7. 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

8. 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)

9. WHILE VERIFYING INTANGIBLE ASSETS, AN AUDITOR WOULD RECOMPUTE AMORTIZATION CHARGES AND DETERMINE WHETHER AMORTIZATION PERIOD IS REASONABLE. THE AUDITOR TRIES TO ESTABLISHBY DOING IT

- A) VALUATION
- B) EXISTENCE
- C) DISCLOSURE
- D) POSSESSION

10. 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

11. EQUITY SHARES OF XY LTD. HELD BY ABC LTD. ARE IN THE CUSTODY OF STOCK HOLDING CORPORATION OF INDIA LIMITED. THE AUDITOR MAY VERIFY THIS INVESTMENT BY A)

- A) REVIEWING LAST YEAR'S WORKING PAPERS.
- B) OBTAINING A CERTIFICATE FROM A RESPONSIBLE OFFICIAL OF THE ABC LTD.
- C) OBTAINING A CERTIFICATE FROM SHCIL
- D) OBTAINING A CERTIFICATE FROM XY LTD.

12. 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

13. WHICH OF THE FOLLOWING IS NOT A PROPER THIRD PARTY TO HOLD INVESTMENTS ON BEHALF OF THE CLIENT?

- A) REGIONAL LEVEL CUSTODIAN
- B) NATIONAL LEVEL CUSTODIAN
- C) INDIA TRILLS – NATIONAL LEVEL STOCK BROKING FIRM

D) AEZ SECURITIES LTD. A STOCK BROKING FIRM

- A) SENDING DEBTOR'S CONFIRMATION LETTERS
- B) REVIEWING SUBSEQUENT COLLECTION
- C) VERIFY DEBTORS AGAINST SALES DOCUMENT
- D) BOTH (A) AND (B)

15. ANALYTICAL PROCEDURES ARE LEAST LIKELY TO BE USE IN THE AUDIT OF –

- A) CASH BALANCE
- B) INVESTMENTS
- C) BILLS RECEIVABLES
- D) DEBTORS

16. 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.

17. 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 IS 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

18. 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

19. 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 PROPERTY COUNTED

20. 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



21. 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

VERIFICATION AND VALUATION OF ASSETS

1. A 2. C 3. B 4. C 5. D 6. A 7. D 8. D 9. A 10. B 11. C 12. D 13. C 14. D 15. A

16. C 17. A 18. C 19. C 20. B 21. B

AUDIT PREPARATION

1. WHICH OF THE FOLLOWING AUDITING ASSURANCE STANDARD DEALS WITH AUDIT PLANNING?

A) AAS7 B) AAS8 C) AAS9 D) AAS3

2. AUDIT PROGRAMME IS PREPARED BY

- A) THE AUDITOR
- B) THE CLIENT
- C) THE AUDIT ASSISTANTS
- D) THE AUDITOR AND HIS AUDIT ASSISTANTS

3. 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

4. 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

5. 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

6. 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

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 - C) TO ENSURE AUDIT WORK IS BEING CARRIED OUT AS PER PROGRAMME
 - D) TO PROVIDE A GUIDE FOR ADVISING ANOTHER CLIENT ON SIMILAR ISSUES
8. 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.
9. 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

10. 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

11. 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.

12. THE CURRENT FILE OF THE AUDITOR'S WORKING PAPERS, GENERAL Y, SHOULD INCLUDE
- A) A FLOWCHART OF THE INTERNAL CONTROLS
 - B) ORGANIZATION CHARTS
 - C) A COPY OF FINANCIAL STATEMENTS
 - D) COPIES OF BOND AND DEBENTURES

13. 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 APPROPRIATES OF GAAP.

14. THE MAIN ADVANTAGE OF USING STATISTICAL SAMPLING TECHNIQUES IS THAT SUCH TECHNIQUES:

- A) MATHEMATICALLY MEASURE RISK
- B) ELIMINATE THE NEED FOR JUDGMENTAL SAMPLING
- C) DEFINES THE VALUES OF TOLERABLE ERROR
- D) ALL OF THE THEM.

15. WHICH OF THE FOLLOWING METHODS OF SAMPLE SELECTION IS LEAST SUITABLE FOR EXTRAPOLATING RESULTS TO THE POPULATION?

- A) SYSTEMATIC SAMPLING
- B) RANDOM SAMPLING
- C) HAPHAZARD SAMPLING
- D) NONE

16. WHICH OF THE FOLLOWING STATEMENTS IS CORRECT?

- A) LOWER THE SAMPLING RISK GREATER THE SAMPLE SIZE
- B) SMALLER THE TOLERABLE ERROR, GREATER THE SAMPLE SIZE
- C) LOWER THE EXPECTED ERROR, SMALLER THE SAMPLE SIZE
- D) ALL ARE CORRECT

17. WHICH OF THE FOLLOWING FEATURES IS MOST IMPORTANT FOR RANDOM BASED SELECTION?

- A) SAMPLE SHOULD BE DRAWN FROM POPULATION
- B) EVERY STRATA OF POPULATION SHOULD BE REPRESENTED IN THE SAMPLE
- C) EVERY ITEM IN THE POPULATION HAS AN EQUAL CHANCE OF BEING SELECTED IN THE SAMPLE
- D) ITEMS SHOULD BE SELECTED AT „N“ THE INTERVAL

18. RISK OF UNDER RELIANCE IS THE RISK THAT THE SAMPLE SELECTED TO TEST CONTROLS

- A) DOES NOT SUPPORT THE AUDITOR'S PLANNED ASSESSED LEVEL OF CONTROL RISK WHEN THE TRUE

OPERATING EFFECTIVENESS OF THE CONTROL STRUCTURE JUSTIFIES SUCH AN ASSESSMENT

- B) SUPPORTS THE AUDITOR'S PLANNED ASSESSED LEVEL OF CONTROL RISK WHEN THE ACTUAL POSITION

DOES NOT WARRANT SUCH RELIANCE

- C) IS NOT SUPPORTED BY ADEQUATE DOCUMENTS

D) BOTH (A) & (C)

19. WHICH OF THE FOLLOWING FACTORS IS (ARE) CONSIDERED IN DETERMINING THE SAMPLE SIZE FOR TESTS OF CONTROL?

A) PROJECTED ERROR

B) TOLERABLE ERROR

C) EXPECTED ERROR

D BOTH (B) AND (C)

20.TOLERABLE ERROR, IS THE MAXIMUM MONETARY ERROR THAT THE AUDITOR IS PREPARED TO ACCEPT IN THE POPULATION AND STILL CONCLUDE THAT AUDIT OBJECTIVE HAS BEEN ACHIEVED, IS DIRECTLY RELATED TO

A) SAMPLE SIZE B) AUDIT RISK C) MATERIALITY D) EXPECTED ERROR

AUDIT PREPARATION



1. B 2. D 3. C 4. B 5. C 6. D 7. A 8. C 9. D 10. B

11. A 12. C 13. A 14. A 15. C 16. D 17. C 18. A 19. D 20. C

CAPTIAL AND REVENUE EXPENDITURE

1. 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.

2. 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

3. DEPRECIATION DOES NOT ARISE FROM _____

- A) EFFLUXION OF TIME
- B) USE
- C) OBSOLESCENCE THROUGH TECHNOLOGY OR MARKET CHANGES
- D) REMARKET EXPECTATION

4. WHICH OF THE FOLLOWING SCHEDULES OF THE COMPANIES ACT, 1956 DEALS WITH DEPRECIATIONS?

- A) SCHEDULE XIV
- B) SCHEDULE V
- C) SCHEDULE XIII
- D) SCHEDULE X

5. 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

6. IF THE BOOK VALUE OF AN ASSET STANDS ATPER CENT OF THE ORIGINAL COST, A COMPANY NEED NOT PROVIDE DEPRECIATION ON IT.

- A) TWO
- B) FIFTEEN
- C) FIVE
- D) TEN

7. 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

8. WHICH OF THE FOLLOWING IS A REVENUE RESERVE?

- A) CAPITAL REDEMPTION RESERVE
- B) SECURITY PREMIUM ACCOUNT
- C) DEBENTURE REDEMPTION RESERVE
- D) CAPITAL RESERVE

9. 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 ACTUAL
Y REQUIRED

CAPTIAL AND REVENUE EXPENDITURE

1. B 2. D 3. C 4. B 5. C 6. D 7. A 8. C 9. D 10. B

