MULTIPLE CHOICE QUESTIONS

Basic Concepts of Auditing

1. \_\_\_\_\_\_\_\_\_\_\_\_\_ is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal structure, where such as examination is conducted with a view to express an opinion. a) Auditing b) Investigation c) Verification d) Checking

2. The main objective of financial audit is\_\_\_\_\_\_\_\_

a) Expression of opinion

b) Detection and prevention of fraud and error

c) Designing internal control system

d) All of these

3. To ensure the financial statements as a whole are free from material misstatements is the

a) Scope of audit

b) Aspects to be covered under the audit

c) Objective of audit

d) All of the above

4. The audit should be organized to cover adequately all aspects of the enterprise relevant to the financial statements being audited, is one of the merit consideration is regard to

a) Scope of audit

b) Aspects to be covered under the audit

c) Objectives of audit

d) None

5. Auditor gives \_\_\_\_\_\_\_\_ regarding the financial statements

a) True and fair view

b) Correct view

c) Fair view

d) Completely true

6. Auditing begins where\_\_\_\_\_\_\_\_\_\_ends.

a) Selling

b) Inventory valuation

c) Accounting

d) Purchase

7. Which type of organizations use auditing services?

a) Non-profit-organizations

b) Business

c) Governments

d) All of the above

8. Auditing should be

a) Independent

b) Compulsory

c) On the request of government

d) None of the above

9. Users of financial statements includes

a) Management, Shareholders, Employees

b) Financial Institution, Suppliers, Customers

c) Government

d) All of the above

10. An audit which is governed by law is called as

a) Government Audit

b) Internal Audit

c) Statutory Audit

d) Cost Audit

11. The scope of work of the audit is specified by the management for

a) External Auditor

b) Branch Auditor

c) Joint Auditor

d) Internal Auditor

12. Who is responsible to express opinion on the true and fair view of the financial statements

a) External Auditor

b) Joint Auditor

c) Internal Auditor

d) Both (a) and (b)

13. State which of the following statement is not true with reference to the scope of audit

a) To form an opinion, the auditor should be satisfied that accounting information is reliable and sufficient as the basis for the preparation of the financial statements

b) All aspects of the enterprise to be covered in audit

c) The professional skill required of an auditor includes that of a technical expert for determining physical condition of certain assets

d) None

14. The principal aspects to be covered in an audit concerning final statements of account are

i. An examination of the system of accounting and internal control

ii. Reviewing the system and procedures

iii. Checking of the arithmetical accuracy of the books of account

iv. The audit should be organized to cover adequately all aspects of the enterprise relevant to the financial statements being audited

a) Only (iv)

b) Both (iii) and (iv)

c) Except (iv)

15. The chief utility of audit lies in reliable financial statements on the basis of which the state of affairs may be easy to understand. Apart from this obvious utility, other advantages of audit are

a) It safeguards the financial interest of persons who are not associated with the management

b) Audit ascertains whether the necessary books of accounts and allied records have been properly kept.

c) Government may require audited and certified statement before it gives assistance or issues a license for a particular trade

d) All of the above

16. It naturally calls on the part of the auditor to have a through and sound knowledge of generally accepted principles of accounting before he can review the financial statements.

Which of the following discipline matches the above statement?

a) Auditing and Financial Management

b) Auditing and Statistics & Mathematics

c) Auditing and Accounting

d) All of the above

17. \_\_\_\_\_\_\_\_\_\_\_\_\_ along with other discipline such as accounting and law, equips you with all knowledge that is required to enter into auditing as a profession.

a) Auditing

b) Taxation

c) Finance

d) Taxation and Finance both

18. Independence comprises

a) Independence by mind

b) Independence in appearance

c) Both (a) and (b)

d) None of these

19. Chartered Accountants have an important role in

a) Entity

b) Society

c) Audit Firm

d) Audit Committee

20. Which of the following categories of people use the work of Chartered Accountnat

a) Investors

b) Government

c) The public at large

d) All of the above

21. The term financial statement shall exclude

a) Notes to accounts

b) Annexure

c) Both (a) and (b)

d) None of the above

22. Which of the following companies will be exempted from complying with Schedule III of the Companies Act, 2013

a) Banking Companies

b) Unlisted Companies

c) Private Limited Companies having turnover less than Rs. 10 Crore

d) All of the above

23. Which of the following requires that the auditor should examine the accounts with a view to verify that all assets, liabilities, income and expenses are stated as amounts which are in accordance with accounting principles and policies which are relevant and no material amount, item or transaction has been omitted

a) Going Concern

b) Consistency

c) The Concept of true and fair

d) Auditor’s Independence

24. What constitute a ‘true and fair’ view is a matter of auditor’s judgement in the particular circumstances of a case. In more specific terms, to ensure true and fair view, an auditor has to see

a) Accounting policies have been followed consistently

b) The charge, if any, on assets are disclosed

c) Material liabilities should not be omitted

d) All of the above

25. Which of the following helps in better understanding of accounting information and meaningful comparison?

a) Accrual

b) Going Concern

c) Assertions

d) Consistency

26. There is no single list of accounting policies which are applicable to all circumstances

a) Correct

b) Incorrect

27. The auditor shall report on the accounts examined by him

a) To the shareholders

b) To the general public

c) To CAG

d) To CG

28. If auditor maintains high degree of independence, it will result in

a) Attention of media

b) Reward by CG

c) Enhanced reliability on financial statements

d) Good relationship with the entity.

29. Which of following is the responsibilities of management

a) Preparation and presentation of the financial statement in accordance with applicable financial reporting

b) Design, implement and maintain of internal control

c) Safeguard of the assets

d) All of the above

30. Which of the following involves detailed examination of some specific areas?

a) Auditing

b) Vouching

c) Investigation

d) Verification

31. Auditor should have knowledge of

a) Accounting

b) Auditing

c) Law applicable on the entity

d) All of these

32. Auditor should have communication skills in following areas:

a) Oral skills

b) Written skills

c) Both (a) and (b)

d) He does not require any communication skills

33. Function of audit is to

a) Detect errors

b) Detect fraud

c) Safeguard the interest of stakeholders

d) All the above

34. Which is NOT the function of an auditor?

a) To give a true and fair view

b) To take care of all the statutory acts applicable

c) To do arithmetic checking

d) To prepare accounts

35. The basic requirement which is absent is auditing is

a) Exact accounts

b) Certainty in financial statements

c) Conclusive evidence

d) All of the above

36. Which of the following statement is not true

a) The auditor shall express an opinion on financial statements

b) Auditor’s opinion is not guarantee to future viability of business

c) Auditor is responsible for prevention and detection of fraud and error in financial statements

d) Auditor should examine whether recognized accounting principles have been followed

37. Auditor should be done by

a) A professional accountant

b) A certified management accountant

c) A competent and independent person

d) A chartered accountant

38. Which of the following is least likely to be required in an audit?

a) Test appropriateness of journal entries and adjustment

b) Review accounting estimates for biases

c) Evaluate the business rationale for significant, unusual transactions

d) Make a legal determination of whether fraud has occurred

39. It is not uncommon in auditing

a) Giving the satisfaction to the owner regarding the profits made

b) Protecting the rights of shareholders

c) Helping to give true and fair profits of the organization

d) All of the above

40. Auditing has all features except

a) Done every financial year

b) Based on conclusive evidence

c) Mandatory for companies

d) None of the above

41. 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 the financial statements

d) He should examine whether recognized accounting principle have been followed consistently

42. The primary objective of the ordinary examination of financial statement by an auditor is the expression of an opinion on

a) The competence of management in accounting matters which is implied by whether the opinion is qualified or not

b) The conformity of the statements with the book of account

c) The conformity of the financial statements with generally accepted auditing standards applied on a basis consistent with that of the prior year

d) The fairness with which the financial statements present cash flows and results of operations

43. The principal objective of an audit is the examination of financial statements of an enterprise with a view for the auditor to form and express an independent opinion on the truth and fairness for the benefit of which one of the following?

a) The members

b) Corporate Governance

c) The Corporate Affairs Commission

d) Government authorities

44. Apart from the technical qualities, the auditor should also possess which of the following personal qualities

a) Confidentiality of client information

b) Reliability and trust

c) Effective communication skills

d) All of the above

45. The factor which distinguishes an error from fraud and other irregularity is

a) Whether it is a dollar amount or a process

b) Intent

c) Materiality

d) Whether it is caused by the auditor or the client

46. Which of the following statement is TRUE?

a) An external auditor is required for all types of entity

b) External auditors are appointed by an entity’s management

c) Staff auditors make a report for the baseline employees

d) Staff auditors work is to identify potential risk areas for a company

47. Pick the odd one

a) Those Charged with Governance

b) Management

c) Employees

d) Auditor

48. Pick the odd one

a) Preparation of financial statements

b) Designing, implementation and maintenance of internal control system

c) Reporting on true and fair view of financial statements

d) Compliance with the applicable law and regulation

49. Pick the odd one

a) Balance Sheet

b) Audit Report

c) Profit & Loss Account

d) Cash Flow Statement

50. When the auditor is an employee of the organization being audited (Auditee), the audit is classified as

a) Internal audit

b) External audit

c) Both (a) and (b)

d) None of these

51. Professional skepticism requires the auditor assume that management is

a) Reasonably honest

b) Neither honest nor dishonest

c) Not necessarily honest

d) Dishonest unless proved otherwise

52. Professional skepticism requires that the auditor should be\_\_\_\_\_\_\_\_\_\_\_\_\_ indicating \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

a) Ignorant, Possible misstatements

b) Alert, Possible misstatements

c) Alert, Management bias

d) Ignorant, Possible misstatements.

53. Professional skepticism includes being alert to, for example

a) Audit evidence that contradicts other audit evidence obtained

b) Overlooking unusual circumstances

c) Conditions that may indicate possible fraud

d) All of above

54. Holding financial interest in a client and close business relationship with him give rise to\_\_\_\_\_\_\_\_\_\_\_\_

a) Self- review threat

b) Advocacy threat

c) Familiarity threat

d) Self-interest threat

55. If the professional becomes a witness where the part to litigation is his client, it will result in \_\_\_\_\_\_\_\_\_

a) Self- review threat

b) Advocacy threat

c) Familiarity threat

d) Self-interest threat

56. If the auditor is having long association with client it will give rise to \_\_\_\_\_\_\_\_\_\_\_\_\_

a) Self- review threat

b) Advocacy threat

c) Familiarity threat

d) Self-interest threat

57. If the professional who is preparing the books of accounts is also auditing the financial statements, it shall give rise to

a) Self-review threat

b) Advocacy threat

c) Familiarity threat

d) Self-interest threat

58. If the auditor is facing threat from the client to be dismissed if he refuses to act as per their wishes, it shall give rise to\_\_\_\_\_\_\_\_\_\_\_

a) Familiarity threat

b) Intimidation threat

c) Advocacy threat

d) Self-review threat

59. Auditor should have communication skills in following areas:

a) Oral Skills

b) Written Skills

c) Both (a) and (b)

d) None of these

60. Pick the odd one

a) Auditing and Accounting

b) Auditing and Law

c) Auditing and Financial Management

d) Auditing and History

61. The auditor shall obtain \_\_\_\_\_\_\_\_\_\_\_\_\_\_assurance in an audit of financial statements whether financial statements are free from material misstatements whether due to fraud or error.

a) Absolute

b) Reasonable

c) (a) or (b)

d) None of these

62. Which of the following is not a limitation of audit

a) Auditor’s Objectivity

b) Test Checking

c) Persuasiveness of audit evidence

d) Inherent limitation of internal control system

63. Standards on Auditing are applicable on

a) Auditing Engagement

b) Review Engagement

c) Assurance Engagement

d) Related Service Engagement

64. Standards on Auditing are issued by

a) Accounting Standard Board

b) Quality Review Board

c) Auditing & Assurance Standard Board

d) Board of Studies

65. In the financial audit, the auditor expresses opinion on

a) True and Fair view of financial statements

b) True and Correct view of financial statements

c) Effective operation of internal control system

d) Business operation of the entity

66. Which of the following is not component of financial statement

a) Profit and Loss Account

b) Balance Sheet

c) Notes to Accounts

d) Board’s Report

67. Pick the odd one

a) Checking the vouchers

b) Preparation of vouchers

c) Evaluation of internal control

d) None of the above

68. The Institute of Chartered Accountants of India constitutes the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to review the existing auditing practices in India to develop Engagement and Quality Control Standards

a) AASB

b) IFAC

c) IAASB

d) None

69. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a member of the IFAC and is committed to work towards the implementation of the guidelines issued by the IFAC

a) The Institute of the Chartered Accountants of India

b) Auditing Practices Committee

c) Auditing and Assurance Standards Board

d) All of the above

70. Auditing Practices Committee has been converted into

a) IFAC

b) ICSI

c) AASB

d) IAASB

71. Which of the following is not type of engagement standard

a) Standards on Auditing

b) Standard on Quality Control

c) Standards on Review Engagement

d) Standards on Assurance Engagement

72. In which of the following engagement opinion is not expressed

a) Related Services Engagement

b) Auditing Engagement

c) Review Engagement

d) Assurance Engagement

73. In which of the following engagement an opinion is expressed on a subject matter other than the historical financial information

a) Auditing Engagement

b) Review Engagement

c) Assurance Engagement

d) Related Services Engagement

74. Which of the following is not code of ethics

a) Objectivity

b) Integrity

c) Communication skills

d) Professional competence and due care

75. Pick the odd one

a) Standards on Auditing

b) Standard on Quality Control

c) Standards on Review Engagement

d) Standards on Assurance Engagement

76. How many Standards on Auditing have been issued

a) 32

b) 34

c) 36

d) 38

77. Standards on Auditing are\_\_\_\_\_\_\_\_\_\_\_\_

a) Mandatory

b) Optional

c) Discretionary

d) All of these

78. General purpose financial statements are prepared as per

a) General purpose financial reporting framework

b) Special purpose financial reporting framework

c) Both (a) and (b)

d) None of these

79. Designing, implementation and maintenance of internal control system are the responsibilities of

a) Management of entity

b) External Auditor of entity

c) Both (a) and (b)

d) Internal Auditor of entity

80. Auditing engagement can be performed w.r.t.

a) Profit making entity

b) Non-profit making entity

c) Corporate entity only

d) Any entity

81. Scope of financial audit is

a) Financial information

b) Non-financial information

c) Both (a) and (b)

d) None of these

82. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ along with other disciplines such as accounting and law equips you with all the knowledge that is required to enter into auditing as a profession.

a) Auditing

b) Taxation

c) Finance

d) Taxation and Finance both

83. No business or institution can effectively carry on its activities without the help of proper\_\_\_\_\_\_\_\_

a) Audit

b) Records and accounts

c) Neither (a) nor (b)

d) Both (a) and (b)

84. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ increases the revenue earning capacity of the business

a) Capital expenditure

b) Revenue expenditure

c) Both (a) and (b)

d) Both (a) and (b) and deferred revenue expenditures

85. The purpose of providing depreciation is

a) Adherence to matching concept

b) Keeping the capital invested in fixed asset intact

c) Compliance with statutory requirement and presenting true and fair view

d) All of these

86. As per SA-200 “Overall Objectives of the Independent Auditor,” in conducting an audit of financial statements, the overall objectives of the auditor are:

a) To obtain reasonable assurance

b) To report on the financial statements

c) Both (a) and (b) above

d) None of the above

87. The auditor cannot obtain an absolute assurance due to\_\_\_\_\_\_\_\_\_

a) Lack of accounting knowledge

b) Lack of auditing knowledge

c) Both (a) and (b)

d) Inherent limitations of auditing

88. Which of the following statement is true with respect of inherent limitation of audit?

a) The auditor cannot reduce the audit risk to zero but can obtain absolute that the financial statements are free from material misstatement.

b) The auditor can reduce the audit risk to zero but cannot obtain absolute assurance that the financial statements are free from material misstatement.

c) The auditor cannot reduce the audit risk to zero and cannot obtain absolute assurance that the financial statements are not free from material misstatement.

d) The auditor cannot reduce the audit risk to zero and cannot obtain absolute assurance that the financial statements are free from material misstatements.

89. The auditor’s \_\_\_\_\_\_\_\_\_\_ safeguard the auditor’s ability to form an audit opinion without being affected by any influences.

a) Objectivity

b) Independence

c) Confidentiality

d) Integrity

90. SA series 300-499 cover the aspect of

a) Risk assessment and responses to assess risk

b) Specialized area

c) Introductory matters

d) General principles and responsibilities

91. SA Series 500-599 cover the aspects of\_\_\_\_\_\_\_

a) Introductory matters

b) General Principles and Responsibilities

c) Audit Evidence

d) Audit Conclusion and Reporting

92. SA Series 700-799 cover the aspects of \_\_\_\_\_\_\_\_

a) Introductory matters

b) General Principles and Responsibilities

c) Audit Evidence

d) Audit Conclusion and Reporting

93. SA Series 200-299 cover the aspects of

a) Introductory matters

b) General Principles and Responsibilities

c) Audit Evidence

d) Audit Conclusion and Reporting

94. SA Series 600-699 cover the aspects of

a) Using the work of others

b) Audit Evidence

c) Risk Assessment and Auditor’s Response

d) Audit Conclusion and Reporting

95. The\_\_\_\_\_\_\_\_\_\_\_\_\_\_ have been issued with a view to securing compliance by members on matters which, in the opinion of the Council, are critical for proper discharging of their functions.

a) Statements

b) Guidance Notes

c) Standards on Audit

d) All of these

96. \_\_\_\_\_\_\_\_\_\_\_\_\_ are designed to provide guidance to members on the matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues that may pose difficulty.

a) Statements

b) Guidance notes

c) Standards on Audit

d) All of these

97. Guidance notes are

a) Mandatory

b) Recommendatory

c) None of these

98. Internal audit may cover the aspects\_\_\_\_\_\_\_\_\_

a) Financial

b) Non-Financial

c) Both (a) and (b)

d) None of these

99. Internal auditor is appointed by

a) Management

b) The shareholders

c) CG

d) External auditor

100. The area of work is determined by management

a) Insurance audit

b) Sole proprietorship audit

c) Internal audit

d) Bank audit

101. \_\_\_\_\_\_\_\_\_ audit assists the management in finding out new ideas for marketing and other business areas.

a) Secretarial audit

b) Insurance audit

c) Internal audit

d) Tax audit

102. Which of the following is not a basic principle governing audit or ethical requirement to be followed by auditor

a) Independence, Integrity, Confidentiality

b) Compliance Framework, Fair Presentation Framework

c) Audit Documentation, Accounting System and Internal Control

d) Reporting Requirements, Skills, Using the work of others.

103. Professional judgement is based on

a) Skills

b) Knowledge

c) Experience

d) All of the above

104. An audit which is compulsory by law is called as

a) Government Audit

b) Internal Audit

c) Cost Audit

d) Statutory Audit

105. For which of the following entities statutory audit of financial statement is not conducted

a) Banking Companies

b) Insurance Companies

c) Partnership Firm

d) One Person Company

106. Accounting and Internal Control system are the responsibilities of:

a) TCWG & Management of entity

b) External Auditor of entity

c) Internal Auditor of the entity

d) All of above

107. Compliance with Laws and Regulations which are applicable of the entity, is the responsibility of \_\_\_\_\_

a) TCWG and Management of entity

b) External Auditor of entity

c) Internal Auditor of entity

d) All of above

108. Which of the following is not basic principle of auditing

a) Integrity, Objectivity and Independency

b) Confidentiality

c) Written Representation

d) Audit Planning

109. Which of the following is basic principle of auditing

a) Audit Documentation

b) Audit Evidence

c) Skills and competence

d) All of above

110. Which of the following is exception of confidentiality by auditor

a) If permitted by client to disclose any information

b) If there is any legal professional duty of auditor to disclose any information

c) Both (a) and (b)

d) None of these

111. Auditor must have sound knowledge of

a) Accountancy

b) Auditing

c) Client’s Nature of Business

d) All of above

112. As per SA 200, which level of assurance the auditor shall obtain that financial statements are free from material misstatements

a) Reasonable Assurance

b) Absolute Assurance

c) Moderate Assurance

d) None of these

113. Reasonable assurance is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ level of assurance but it is not \_\_\_\_\_\_\_\_\_\_\_\_\_\_ assurance.

a) High, Absolute

b) Absolute, Guaranteed

c) Moderate, Absolute

d) None of these

114. The inherent limitations of an audit arise from

a) Involvement of judgement

b) Test Checking

c) Time Limitation

d) All of above

115. In the case of certain assertions or subject matters, the potential effects of the limitations on the auditor’s ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

a) Fraud, particularly fraud involving senior management or collusion

b) The occurrence of non-compliance with laws and regulations

c) The existence and completeness of related part relationship and transaction

d) All of the above

116. Which of the following statement is incorrect

a) Sampling is a major inherent limitation of audit.

b) Auditor is not an insurer

c) Auditor’s primary responsibility is to detect errors and frauds in financial statements

d) Auditor needs to be independent

117. Which of the following is responsibility of auditor

a) To ensure that financial statement comply with applicable financial reporting framework

b) To express an opinion on true and fair view of the financial statements.

c) To ensure compliance with laws and regulations applicable on the entity

d) To design, implement and maintain system of internal control.

118. Advantage of independent examination are

a) Credibility of financial statement is enhanced.

b) It is helpful in settling tax liability

c) It acts as moral check on the employees from committing fraud.

d) All of above

119. Accounting policy refers to

a) Specific accounting principle

b) Method of applying accounting principle

c) Both (a) and (b)

d) None of these

120. Under which of the following circumstances accounting policy can be changed

a) If it is required by law

b) For compliance with accounting standards

c) On the opinion of management for better presentation of financial statement

d) All of above

121. Fundamental accounting assumptions are

a) Going Concern

b) Consistency

c) Accrual

d) All of above