

Chapter – 1 NATURE, OBJECTIVE AND SCOPE OF AUDIT

SET-1

- Which of the following is not an advantage of audit?
(a) It provides high quality financial information.
(b) It acts as a moral check on employees.
(c) It enhances risk of management bias.
(d) It helps in safeguarding interests of shareholders.
- Which of the following is NOT TRUE about an assurance engagement?
(a) It relates to providing assurance about historical financial information only.
(b) The practitioner obtains sufficient appropriate evidence.
(c) There is some information to be examined by practitioner.
(d) A written assurance report in appropriate form is issued by practitioner.
- Which of the following is TRUE about Engagement Standards?
(a) Engagement standards ensure proper rights to practitioners in course of performance of their duties.
(b) Engagement standards ensure preparation and presentation of financial statements in a standardized manner.
(c) Engagement standards ensure uniformity by practitioners in course of performance of their duties.
(d) Engagement standards ensure savings in resources of clients.
- Consider following statements in relation to "Limited assurance engagement":-
Statement I - It involves obtaining sufficient appropriate evidence to draw reasonable conclusions.
Statement II - Review of interim financial information of a company is an example of limited assurance engagement.
(a) Statement I is correct. Statement II is incorrect.
(b) Both Statements I and II are correct.
(c) Both Statements I and II are incorrect.
(d) Statement I is incorrect. Statement II is correct.
- Which of the following is TRUE about Standards on auditing?
(a) These deal mainly with voluntary responsibilities of auditors.
(b) These deal mainly with mandatory responsibilities of auditors.
(c) Their sole purpose is to help government authorities in augmenting revenues.
(d) These deal mainly in carrying out audit according to legal provisions.

SET-2 (Case Base)

CASE STUDY-1

Rohit, Gurpreet, Ali and Goreti are friends since their school days based in Mumbai. They have cleared CA foundation exams in the same attempt and now plan to appear for CA Intermediate exams. All of them are avid news listeners and regularly keep track of business news even on social media.

They are trying to understand new subjects including auditing. Rohit, Gurpreet and Ali have also started attending Live Coaching Classes (LCC) being conducted by Board of studies of ICAI. Goreti has not been able to join Live Coaching Classes yet as she was away on a holiday with her parents. However, she plans to catch it up with her friends very soon. Ali had also joined the classes but he had skipped some lectures.

During one informal get together, their discussions centred around new subject of auditing. They discussed many things regarding its nature, scope, benefits and other general practical issues. Goreti was regular in keeping track of audited results of

companies being published in leading newspapers. Her view was that audited financial statements of companies give 100% guarantee to different stake holders.

It is the main reason behind so much reliance upon auditing. But she could not understand why wrong doings in financial matters are being discovered after many years have gone by.

Ali also concurred with her view and added that when financial statements are audited, each and every transaction appearing in books of accounts is verified.

However, he could not give clarity to Goreti.

Gurpreet was of the opinion that audit was conducted on the basis of sample checking. He was also of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of the companies.

Not to be left behind, Rohit also jumped in the fray. He supported Gurpreet and also added something of his own.

Based on above, answer the following questions: -

6. Gurpreet was of the view that audited financial statements are not a guarantee against probable wrong doings in financial matters of companies. What kind of assurance does audit of financial statements provide?
 - (a) It provides reasonable assurance meaning a moderate level of assurance.
 - (b) It provides reasonable assurance meaning a low level of assurance.
 - (c) It provides reasonable assurance meaning a high level of assurance.**
 - (d) It provides reasonable assurance meaning an absolute level of assurance.
7. Rohit added that auditor can force an employee of the company to provide him required information and documents. Can he do so?
 - (a) Yes, he can do so. It is necessary to obtain audit evidence.
 - (b) Yes, he can do so. There are express rights given to him in this respect.
 - (c) No, he cannot do so. He can only request for providing him with necessary information and documents. But it cannot be forced by him.**
 - (d) No, he cannot do so. He has no right of seeking information and documents. Therefore, question of forcing does not arise.
8. Ali had listened in one of the classes that audit covers all aspects of an entity and concluded that each and every transaction of entity is verified by auditor. Goreti also seemed to be in agreement with him but she was of the view that besides this, it also meant that audit should be so organized to cover all areas of an entity. Which of following statements is appropriate in this regard?
 - (a) Only view of Ali is correct.
 - (b) Only view of Goreti is correct.
 - (c) Views of both Ali and Goreti are correct.
 - (d) Views of both Ali and Goreti are incorrect.**
9. All of them also discussed about benefits of auditing. Which of the following is not a likely benefit of auditing?
 - (a) Since auditing is connected to future events, audited information can be easily relied upon by users.**
 - (b) Errors or frauds may be discovered during audit.
 - (c) Government authorities can make use of audited accounts for different purposes.
 - (d) It can help in bringing out deficiencies in maintenance of financial records.
10. Goreti told her friends that she had read a news report about how a company had misled its auditors by producing some fabricated documents. Which of following statements seems to be appropriate in this regard?
 - (a) It was wrong on the part of auditor to rely upon fabricated documents. He must have discovered it as the same falls within the scope of his duties.
 - (b) Although it was wrong on the part of auditor to rely upon fabricated documents, he cannot do anything in the matter. He has to report on the basis of documents provided

to him. He has no duty in this regard.

(c) Auditor has to conduct audit by exercising professional skill. But he is not an expert in discovering genuineness of documents. Hence, management consisting of dishonest persons may have led him to rely upon fabricated documents deliberately.

(d) Management cannot mislead auditor due to high level of knowledge and expertise possessed by him. The above is an outlier case-one of the rare odd cases.

CASE STUDY-2

Me and You Private Limited has been newly incorporated. The plant of the company has recently started production with the help of funds provided by a bank for purchase and installation of machinery. Further, the company is also utilizing working capital credit facilities from the same bank for meeting its day to day working capital requirements like for purchase of raw materials, labour payment etc. However, just within six months of its operations, the management feels that working capital funds are inadequate and situation is creating liquidity issues in the company.

The management of the company has approached its bankers and requested for enhancement in working capital credit facilities. The bank manager is insisting upon financial statements of the company for half year along with report providing assurance in this respect duly signed by Chartered Accountant as audit is far away.

It also requires projected financial statements for coming years along with a report from CA providing assurance regarding these projections to consider request of management.

The management approaches CA P, who has qualified recently and started practising. Reports providing assurance for half yearly results and projected financial statements are sought from CA P. The Management provides necessary information and records to him in this regard.

Assume, in above case, the company only provides trial balance, financial statements in draft/preliminary form along with accompanying records for the relevant half year to CA P and requests him to provide duly signed financial statements with a report for mutually agreed professional fees.

Based on above, answer the following questions: -

11. The management of company has engaged CA P to issue a duly signed report for half year. Which of the following standards, if any, issued by ICAI are relevant for CA P?

- (a) Standards on Review Engagements
- (b) Standards on Auditing

(c) Standards on Related Services

- (d) There are no standards for issuing report in such situation.

12. Which of the following statements is MOST APPROPRIATE in given case situation?

- (a) CA P can assist management in preparation of financial statements of the company. However, issue of a report in such a case is outside the scope of work.

- (b) CA P can assist management in preparation of financial statements of the company and he can issue an audit report.

(c) CA P can assist management in preparation of financial statements of the company and he can issue a compilation report in this respect.

- (d) The responsibility of preparation of financial statement is of company's management. CA P cannot assist management in preparation of financial statements of the company. However, he can issue a review report.

13. In the above said scenario for issuance of signed financial statements for half year by CA P, as discussed in last para of Case Study, identify the MOST APPROPRIATE statement: -

- (a) Standard on Quality control (SQC 1) is not applicable as CA P cannot issue audit report.

- (b) Standard on Quality Control (SQC 1) is not applicable as CA P cannot issue review report.

(c) Standard on Quality Control (SQC 1) is applicable in such type of

engagement.

(d) Standard on Quality Control (SQC 1) is not applicable as CA P is barred from issuing any report in such type of engagement.

14. The banker of company has also requested for projected financial statements for coming years along with a report from CA regarding these projections to consider request of management. Which of the following standards issued by ICAI are relevant for CA P in such a situation, if any?

(a) Standards on Review Engagements

(b) There are no standards for issuing such type of reports.

(c) Standards on Related Services

(d) Standards on Assurance Engagements

15. Suppose CA P also accepts work of issuing projected financial statements with a report to be signed by him. The management has projected turnover of `100 crore for the next year, `150 crore & `200 crore for following years respectively as compared to present turnover of `25 crore in current half year. Identify the MOST APPROPRIATE statement in this situation: -

(a) CA P has to satisfy himself regarding arithmetical accuracy of projected data.

(b) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover and its consistency with actuals.

(c) CA P has to satisfy himself regarding arithmetical accuracy of data along with its proper presentation to banker.

(d) CA P has to satisfy himself regarding reasonableness of assumptions underlying projected turnover, its consistency with actuals, disclosure and presentation.

Estd.: 2007

SET-3

16. 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) Law

17. No business or institution can effectively carry on its activities without the help of proper -----:

a) Audit

b) Record and accounts

c) Neither (a) nor (b)

d) both (a) and (b)

18. 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) to obtain absolute assurance.

19. (IESBA Code) related to an audit of financial statements establishes which of the following as the fundamental principle of professional ethics relevant to the auditor when conducting an audit of financial statements:

a) professional judgement;

b) professional skepticism;

c) professional intelligence;

d) Professional competence and due care.

20. The auditor's _____ safeguards the auditor's ability to form an audit opinion without being affected by any influences.

a) Objectivity

b) independence

c) Confidentiality

d) Integrity

21. Which of the following is the responsibility of the auditor:
- a) Preparation and presentation of the financial statements in accordance with applicable financial reporting
 - b) Design, implementation and maintenance of internal controls
 - c) Express an opinion on the Financial Statements**
 - d) To obtain limited assurance.
22. An employee of Fruits and Vegetables Limited was of the opinion that auditor of a company is required to express an opinion. On which one of the following the auditor of a company is required to express an opinion:
- a) Only Balance Sheet of the Company.
 - b) Financial Statements of the Company.**
 - c) Only Profit and Loss Account of the Company
 - d) Only Cash Flow Statement of the Company
23. The auditor of Delicious Sweets Limited was of the opinion that objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from misstatements. Which type of misstatements are mentioned by auditor of Delicious Sweets Limited:
- a) Simple
 - b) Material**
 - c) Easy
 - d) Competent
24. If the auditor concludes that there is reasonable justification to change the engagement and if the audit work performed complied with the SAs applicable to the changed engagement, the report issued would be appropriate for the revised terms of engagement. In order to avoid confusion, the report would not include reference to:
- a) The original engagement; or any procedures that may have been performed in the original engagement**
 - b) The original engagement
 - c) Any procedures that may have been performed in the original engagement
 - d) The original engagement and any procedures that may have been performed in the original engagement
25. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
- a) Withdraw from the audit engagement where possible under applicable law or regulation;
 - b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators
 - c) Withdraw from the audit engagement where possible under applicable law or regulation and determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators**
 - d) Withdraw from the audit engagement where possible under applicable law or regulation or determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators
26. A request from the client for the auditor to change the engagement may result from-
- i) a change in circumstances affecting the need for the service,
 - ii) a misunderstanding as to the nature of an audit or related service originally requested
 - iii) a restriction on the scope of the engagement, whether imposed by management or caused by circumstances.
- a) (1) only
 - b) (1) and (2)
 - c) (1), (2) and (3)**
 - d) (1) or (2) or (3)
27. As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct

of an Audit in Accordance with Standards on Auditing", _____ is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (i.e., the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

- a) Absolute assurance
- b) limited assurance
- c) Reasonable assurance**
- d) reasonable or absolute assurance

28. Complete the following extract:

As per SA 200 -The overall objective of the independent auditor includes obtaining assurance, that whether financial statement as a whole are free from material misstatement, whether due to

- a) absolute; fraud
- b) reasonable; fraud or error**
- c) reasonable; error
- d) absolute; fraud or error

29. Identify the correct one:

Following is the principal objective of the auditor:

- a) Whether the financial statement show true & fair view or not.**
- b) Whether the financial statement show true & correct view or not.
- c) Detection of error & fraud.
- d) Making recommendation to prevent frauds from occurring.

30. Identify the incorrect one:

Following is not the incidental and secondary objective to the principal objective of the auditor:

- a) Whether the financial statement show true & fair view or not.
- b) Whether the financial statement show full & fair view or not.
- c) Whether material misstatement is due to error or fraud.**
- d) Making recommendation to prevent frauds from occurring

31. Identify the incorrect one:

SA 200 deals with overall objectives of the auditor hence

- a) SA 200 will override all the other specific SA's.**
- b) Other specific SA's will override SA 200.
- c) Both of the above
- d) None of the above

32. During the course of audit, auditor is not able to obtain _____ assurance due to _____ of audit. Hence the auditor is required to obtain _____ assurance to form an opinion as it subjective as specified under SA 200.

- a) absolute; Inherent limitations; reasonable**

- b) Reasonable; Inherent limitations; absolute
- c) Absolute; external limitations; reasonable
- d) Absolute; external limitations; reasonable

33. Identify the incorrect one:

Inherent limitation of audit may arise from:

- a) Nature of financial reporting.
- b) Nature of audit procedures.
- c) Time & cost constraints
- d) None of the above**

34. Inherent limitation due to Nature of Financial Reporting does not includes:

- a) Judgement by management.
- b) Subjectivity
- c) Incomplete information provided by the management whether intentionally or unintentionally**
- d) Range of Interpretations

35. Inherent limitation due to nature of audit procedures does not includes:

- a) Judgement by management**

- b)Sophisticatedly designed frauds
c)Misinformation from management
d)No powers of investigation
- 36.Inherent limitation due to Time & Cost v/s benefit does not includes:
a) Expectations of Users to get information in time
b)Sophisticatedly Designed Frauds are difficult to detect
c)limited audit fees of assignment
d)none of the above
- 37.The auditor shall exercise professional judgment in the audit of financial statements.
a)planning. b)performing.
c)planning and performing. d)Tallying Financial statements
- 38.Professional judgment is required but is not essential for the proper conduct of an audit.
a)True, audit can be conducted without professional judgment, it is not essential for the proper conduct of an audit
b)False, audit cannot be conducted without professional judgment, as it helps the auditor in forming an opinion regarding the evidence obtained, existence of risk and nature timing and extend of audit procedures to be applied.
c)True, interpretation of relevant ethical requirements and the SAs and the informed decisions required throughout the audit do not need professional judgment
d)False, audit cannot be conducted without professional judgment, as it is one of the threats to independence.
- 39.It is _____ that auditor complies with relevant ethical requirements, relating to financial statement audit engagements.
a)recommendatory. **b)mandatory.** c)optional d)supplementary
- 40.It is that auditor complies with relevant Independence requirements, relating to financial statement audit engagements.
a)recommendatory. **b)mandatory.** c)optional. d)Supplementary
- 41.Identify the incorrect one:
The Code establishes the following as the fundamental principles of professional ethics relevant to the auditor when conducting an audit of financial statements:
a) Objectivity
b)Confidentiality
c)Professional competence and due care
d)Professional Judgement of Management
- 42.The Code describes independence as comprising:
a) Independence of mind.
b)Independence in appearance.
c)Both, independence of mind & appearance.
d)Independence of mind, appearance & attitude.
- 43.An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud.
a) Professional Judgement. **b)Professional Skepticism.**
c)Inherent Skepticism. d)Integrity
- 44.For Maintaining professional skepticism, the auditor is necessarily required to disregard past experience of the honesty and integrity of the entity's management and those charged with governance.
a) True, as if the auditor takes into consideration past experience of the honesty and integrity of management and those charged with governance, it will become lenient and soft while applying the audit procedures due to the confidence over the entity's management and those charged with governance
b) False, the auditor! cannot be expected to disregard past experience of the honesty and integrity of management and those charged with governance.

However, it does not relieve the auditor of the need to maintain professional skepticism.

c) True, as if the reliance is placed on the entity on the basis of past experience then it would be inappropriate and unethical to accept same fees as work of the auditor has reduced.

d) False, as if the auditor does not take into consideration past experience of the honesty and integrity of management and those charged with governance, it will be against the principles laid down by SA 200

45. Identify the odd one out:

Maintaining professional scepticism throughout the audit reduces the risks of:

a) Overlooking the unusual circumstances

b) Over generalizing when drawing conclusions from audit observations.

c) Using inappropriate assumptions in determining the nature, timing and extend of the audit procedures.

d) Inherent nature.

46. Identify the correct one:

a) The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary.

b) The auditor should consider records and documents as incorrect unless the auditor has reason to believe the contrary.

c) The auditor should consider records and documents as incorrect unless management gives a written representation of records and documents being correct

d) None of the above

47. Before thinking about acceptance & continuance of audit, auditor is not required to Check _____

a) pre -conditions of audit

b) post-conditions of audit

c) limitation imposed by management prior to acceptance

d) all of the above

48. Before thinking about acceptance & continuance of audit, auditor is required to check whether any limitations are imposed by management, which will result in the auditor disclaiming an opinion on the financial statements. If yes, the auditor shall accept only if:

a) Written representation is given by management.

b) Management agrees that auditor will give modified opinion.

c) Required by law

d) None of the above

49. Before thinking about acceptance & continuance of audit, auditor is required to check whether Limitation are imposed by management, if not imposed, the auditor shall accept only if:

a) Written representation is given by management.

b) Pre - condition exists

c) Post - conditions exists.

d) None of the above

50. Who should take responsibility to maintain quality in the assignment?

a. Engagement partner

b. Senior Manager

c. Head of the firm

d. In-charge of the firm

51. A partner working on an assignment due to some reasons left, and a new partner takes off his work. What should be done by the new partner?

a) If the assignment was well planned, no need to do anything.

b) He should re plan and re perform the assignments.

c) He should do proper review of the documents regarding audit performed then decide what to do.

d) He should not accept such assignment

52. To whom from the following quality control review is mandatory.

- a. Public Companies
b. Government Companies.
c. Listed Companies
d. All of the above
53. When the assignment shall be signed?
a) after completing review.
b) before completing review.
c) after completion of engagement quality control review
d) before completion of engagement quality control review
54. In an engagement quality control review what does the reviewer write in the end?
a) Financial statements give true and fair view
b) Audit records give true and fair view
c) Work was done properly
d) He did not come across any instance that shows any no issue was not resolved
55. Is SA 220 being applicable in compilation of financial statements?
1. Yes, SA 220 is applicable in compilation of financial statements
2. No, SA 220 is not applicable in compilation of financial statements
3. Yes, SA 220 is applicable in compilation of financial statements with certain restrictions
4. No, SA 220 is applicable only in case of audit of historic financial statement
Options:
a) 1 & 3 **b) 2 & 4** c) 1 & 4 d) 2 & 3
56. _____ are key features of financial statements expressed directly or indirectly by the management.
a) Assertions. b) Estimates c) Valuation d) Projection
57. Identify the assertion affected in the following statements:
Auditor is required to check whether the assets or liability are at appropriate amounts.
a) Valuation b) Existence c) Occurrence d) Completeness
58. Identify the assertion affected in the following statements:
Auditor is required to check whether the assets or liability as included in the financial statement actually exists.
a) Valuation **b) Existence** c) Occurrence d) Completeness
59. Identify the assertion affected in the following statements:
Auditor is required to check whether all the assets or liability that actually exists are included in the financial statement.
a) Valuation b) Existence c) Occurrence **d) Completeness**
60. As per the initial consideration by the statutory auditor, he shall undertake the following activities prior to starting an initial audit:
a) Performing procedures required by SA 220, "Quality Control for Audit Work"
b) Communication with the predecessor auditor
c) Both a and b
d) None of the above
61. Which of the following circumstances may not create Familiarity threats?
a) A member of the engagement team having a close or immediate family relationship with a director or officer of the client
b) Accepting gifts or preferential treatment from a client, of significant value.
c) Long association of senior personnel with the assurance client.
d) None of the above
62. Which of the following circumstances may not create intimidation threats?
a) Being threatened with dismissal or replacement in relation to a client engagement.
b) Being threatened with litigation.
c) Being pressured to reduce inappropriately the extent of work performed in order to reduce fees
d) Acting as an advocate on behalf of an assurance client in litigation or

disputes with third parties

- 63.A _____ is independent examination of financial information of any entity, when such an examination is conducted with a view to expressing an opinion thereon.
a) audit b) investigation c) vouching d) verification
64. Which of the following documentary evidence are considered to be of value while checking the validity of a transaction?
a) Minutes of the proceedings of a meeting b) Copy of an agreement
c) Both a & b d) None of above
65. The object of audit ultimately is that the statements of account prepared from books of account which have been checked should present a _____ picture of the financial position of the entity.
a) true and correct **b) true and fair**
c) correct d) true and not misleading
66. The audit of ledgers is an important step in the process of verification of the _____ of Final Accounts.
a) correctness b) adequacy c) availability d) none of the above
67. The composition of the balance of each account should be scrutinized and, if a doubt arises, the transaction or the set of transactions, which have given rise to the doubt should
a) be examined in depth
b) be left
c) not be examined in depth
d) none of above
68. Entries in the General Ledger are not posted in a summary form, from the Cash Book, Journal, and from other subsidiary books.
a) True **b) False**
69. Audit evidence is more reliable when it is obtained from independent sources outside the entity.
a) True b) False

SET-4

70. SA 230 stands for .
(A) Quality control for an audit of financial Statements
(B) Agreeing the terms of Audit engagements
(C) Audit Documentation
(D) Responsibility of Joint Auditor
71. Objective of an Audit is to formulate an overall opinion on
(A) Cost Statement
(B) Financial Statement
(C) Books of Accounts
(D) None of these
72. While conducting audit of financial statement audit or need to comply with
(A) Cost Audit Standards
(B) Secretarial standards
(C) Auditing Standards
(D) None of the above
73. SA 210 stands for-
(A) Quality control for an audit of financial Statements
(B) Agreeing the terms of Audit engagements.
(C) Audit Documentation

(d) Responsibility of Joint Auditor

SET-5

74. Financial Statements are usually referred as :
a) Special Purpose Financial Statements
b) General Purpose Financial statements
c) Specific Statements
d) Annual Reports
75. Financial Statements includes:
a) Profit and loss Account
b) Balance sheet including Notes on Accounts
c) Cash Flow statement
d) All of the above
76. Financial Statements are to be prepared by the :
a) Management b) Shareholders c) Accountants d) None of the above
77. Financial Statements are used :
a) Shareholders b) Creditors c) Government **d) All of the above**
78. The word "Auditing" has been derived from Latin word "audiere" which means
a) To Hear b) TO Verify c) To Examine d) To Identify 1
79. Definition of Audit is:
a) Audit is an independent examination of financial information of Government entity, with profit motive, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.
b) Audit is an independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.
c) Audit is an special Investingtion of financial information of Government entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to expressing an opinion thereon.
d) Audit is an independent examination of finacial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such an examination is conducted with a view to comment and make recommendations on the financial status.
80. Generally an audit is not concerned with the propriety of business conduct. The given statement is
a) True b) False
81. Independence of the Auditor should not only exist in fact, but should also appear to so exist to all reasonable persons. The given statement is
a) True b) False
82. Management is interested in the financial Statements for :
a) For day-to-day decision-making
b) For collection of Taxes
c) For research purpose
d) None of the above
83. Government is interested in the Financial statements for :
a) For day-to-day decision-making
b) For collection of Taxes
c) For research purpose
d) None of the above
84. Accounting is a necessity but Auditing is a luxury. The given Statement is
a) True b) False
85. The Auditor compares entries in Books of Accounts with Vouchers and if the two agrees,

his work is done. The given statement is

- a) True b) False
86. "Auditor is not an Insurer". The given Statement is
a) True b) False
87. Research Scholars are Interested in the Financial Statements for:
a) For day-to-day decision-making
b) For collection of Taxes
c) For Effective control of the Company
d) None of the above
88. Basis on which the Financial Statements are prepared, are called as:
a) Financial Statements standards
b) Statutory Framework
c) Management Framework
d) Financial Reporting Framework
89. "Audit of Financial statements relieves management of its responsibilities". The given statement is
a) True b) False
90. The main object of a financial statement 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.
91. 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
92. True & Fair Report of the Auditor on the financial statements ensures the future viability of the enterprise. The given statement is
a) True b) False
93. A Credit sale of Rs 1,50,000 to Mr. Ramu was entered as a sale made to Mr. Bbu. This is an example of
a) Error of omission
b) Error of commission
c) Compensating error
d) Error of principle
94. 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
95. Errors of commission ' is where a transaction has been omitted either wholly or partially. The given statement is
a) True b) False
96. 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)
97. Management Fraud and Employee fraud are one and the same as both are intentional activity. The given statement is

- a) True **b) False**
98. Management fraud increases if :
a) Changes in suppliers
b) Effective control system
c) Substantial increases in sales
d) Management incentive system based on sales made
99. 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.
100. Defalcation cash is to be considered as fraud. The given statement is
a) True b) False
101. When the Auditor encounters circumstances that may indicate that there is a material mis-statement in the financial statements due to fraud or Error, then he should
a) Perform procedures to determine whether the financial statements are individually mis-stated.
b) Perform procedures to determine whether the financial statements are materially mis-stated.
c) perform procedures to get managements representation
d) resign from the engagement
102. An Auditor is considered to lack independence, if the partner of the Audit firm owns the building in which the client's Business is situated. The given statement is
a) True **b) False**
103. Procedural Error arises as a result of transactions having been recorded in a fundamentally incorrect manner. The given statement is
a) True **b) False**
104. Principle of confidentiality precludes the Auditor to disclose information about the client to a third party at all circumstance without any exception. The given statement is
a) True **b) False**
105. There is no difference between the terms "External Audit". And "Statutory Audit". The given statement is
a) True **b) False**
106. How many principles are listed as Basic Principles governing an Audit ?
a) Nine Fourteen b) Seven c) Eight
107. Principles of Auditing & Techniques of Auditing are different. The given statement is
a) True b) False
108. Concurrent Audit provides a supplementary management tool. The given statement is
a) True b) False
109. _____ is an Independent examination of the books and records.
a) Auditing b) Vouching c) Verification d) Checking
110. _____ kind of audit is conducted generally between two annual audit
a) Internal Audit **b) Interim Audit**
c) Final Audit d) Continuous Audit
111. The audit that is made compulsory under statute is called _____
a) Statutory audit b) Partial audit c) Complete audit d) Continuous audit
112. Audit means _____
a) Recording business transactions.
b) Preparing the final accounts
c) Examination of Financial statements
d) Preparing final accounts

113. When a transaction has not been recorded in the books of account either wholly or partially such errors are called as _____
a) Error of commission
b) Error of omission
c) Compensating error
d) Error of principle
114. Verification of the value of assets, liabilities, and the balance of reserves, provision and the amount of profit earned or loss suffered by an entity is called as _____
a) Continuous audit **b) Balance sheet audit** c) Interim audit d) Partial audit
115. The owners of the company are called _____
a) Debenture holders b) Debtors **c) Shareholders** d) None of the above
116. The Main object of investigation is _____
a) To discover errors and frauds
b) To prevent errors and frauds
c) To verify statements
d) all the above
117. In India, generally the term balance sheet audit refers to _____
a) Annual audit b) Continuous audit c) Detailed audit d) Statutory audit
118. A standard on Auditing differs from audit procedures. Procedures are relating to
a) Audit assumptions made by the auditor
b) Acts to be performed by the auditor
c) Quality criterion
d) Methods of work
119. Concurrent audit is a part of _____
a) Internal check system
b) Continuous audit
c) Internal audit system
d) None of the above
120. Which of the following statements is 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 huge volume of transactions
d) All of the above
121. 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
122. Following is not the duty of the Statutory Auditor:
a) Ascertain the profit and disclosure of P/L Account, Balance sheet.
b) Verification of Internal controls
c) Give an opinion on truth and fairness of financial statements
d) To submit the accounts to government of India.
123. Audit of Company's Financial Statements is _____
a) Compulsory b) Unnecessary c) Avoidable d) Depends upon directors.
124. The Companies Auditor is expected to express _____
a) His opinion about the Financial statements
b) Factual position about the Financial statements
c) Critical review of the Financial statements
d) Ideas to Improve Financial statements
125. An auditor is a _____
a) watchman **b) Watchdog** c) Detective Agent d) Government Audit

126. Management audit is _____
a) An independent appraisal of the total a management process
b) A statutory requirement
c) An investigation into the conduct of director
d) An independent appraisal of competitiveness of business.
127. Management audit is ordered by the _____
a) Workers of a company b) Government **c) Board of directors** d) SEBI
128. An audit which is compulsory by the law is _____
a) Government audit b) Internal audit c) Cost audit **d) Statutory audit**
129. Management audit otherwise called as _____
a) Final audit **b) Efficiency audit** c) Cost audit d) Cash audit
130. Which of the following is an example of inflating cash payments ?
a) Making payments against purchase vouchers
b) Teeming and lading
c) Not accounting for cash sales fully
d) Making payments against inflated vouchers
131. The type of errors, existence of which becomes apparent in the process of compilation of accounts is known as :
a) Self- revealing errors
b) Intentional errors
c) Concealed errors
d) Unconcealed errors.
132. Which of the following is Incorrect:
a) An auditor conduction an audit in accordance with Sas is responsible for obtaining absolute assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
b) As described in SA 200, owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements will not be detected, even though the audit is properly planned and performed in accordance with the SAs.
c) The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error.
d) The risk of the auditor not detecting a material misstatement resulting from management fraud is greater than for employee fraud
133. The factor which distinguishes an error from fraud and other irregularity is
a) Whether it is caused by officer of the entity or employee of the entity
b) Intention
c) Materiality
d) Whether it is caused by the auditor or the client
134. The Firm R K & Associates has an extensive understanding of code of Ethics that underlies the fundamental principles relevant to the Auditor when conducting an Audit of Financial Statements and provides a conceptual framework for applying these principles. Which of the following does not form part of the fundamental principle ?
a) Integrity
b) Professional Competence and due care
c) Professional skepticism
d) Professional behavior

Chapter – 2

AUDIT STRATEGY, AUDIT PLANNING AND AUDIT PROGRAMME

SET-1

1. Which of the following is not considered in planning an audit generally?
 - (a) Understanding of legal and regulatory framework of an entity
 - (b) Need to consider determination of materiality
 - (c) Evaluating audit evidence**
 - (d) Need to consider involvement of expert
2. Which of the following is true about audit plan?
 - (a) Once an audit plan has been finalized for an engagement, changes cannot be made to it.
 - (b) Audit plan includes scope, timing and direction of planned risk assessment procedures.
 - (c) Changes in audit plan cannot lead to change in audit strategy.
 - (d) Audit plan has to be documented by auditor.**
3. Which of the following is not included in an audit programme normally?
 - (a) Extent of checking
 - (b) Date of checking
 - (c) Nature or type of procedure
 - (d) Planning of risk assessment procedures**
4. Which of the following is not an advantage of an audit programme?
 - (a) It acts as a guide for audit of coming years.
 - (b) It fixes responsibility of assistants.
 - (c) It serves as a shelter for assistants.**
 - (d) It serves a proof of work done by auditor.
5. Which of the following is most important principle for formulating an audit plan?
 - (a) Gaining knowledge of client's workforce
 - (b) Gaining knowledge of client's business**
 - (c) Gaining knowledge of client's vendors
 - (d) Gaining knowledge of tax laws applicable to client

SET-2

CASE STUDY-1

RoKaur & Associates, a sole proprietor firm of Simran Kaur, is offered appointment as auditor of a company engaged in manufacturing of automobile components for the first time. She is fact checking about the integrity of promoters of the company and key managerial persons. Matters such as competence of staff to perform the engagement are also considered by her. The appointment is subsequently accepted by her.

She is also taking into account number and location of branches of the company, requirements of Schedule III of Companies Act, 2013 and expected time by which audit has to be completed keeping in view statutory requirements. Initially, she has thought it proper to inquire key employees of the company in procurement and marketing departments and planned for the same. She has also planned to visit three plants of the company. The purpose of planned inquiry and visit is to identify and assess risk of material misstatements.

A detailed set of instructions has been prepared by her office and it has been handed over to assistants in engagement team. These set of instructions include details of extent of checking and nature of audit procedures to be performed regarding purchases, sales, items of income, items of expenditure etc. During the course of execution of above set of instructions, it has been brought to her notice that company is also producing substantial

quantities of scrap generated during manufacturing process. However, no instructions have been given to engagement team in this regard.

Based on above, answer the following questions: -

6. Auditor is fact checking about promoters and key managerial persons. She is also considering competence of staff to perform engagement. What is she trying to do?
- (a) She is establishing audit strategy.
(b) She is conducting preliminary engagement activities.
(c) She is designing audit plan.
(d) She is checking her compliance of ethical requirements.
7. Consideration of number and location of branches, requirements of financial reporting framework and expected time of completion are relevant factors primarily for which of the following -
- (a) Developing audit plan
(b) Establishing overall audit strategy
(c) Designing audit programme
(d) Designing risk assessment procedures
8. Taking into account description of planned inquiry and visit, which of the following statements is TRUE?
- (a) Planned inquiry and visit fall in area of audit strategy.
(b) Planned inquiry and visit are planned risk assessment procedures and fall in field of audit plan.
(c) The said description is not related to audit planning.
(d) Planned inquiry and visit fall in scope of audit programme.
9. What is detailed set of instructions given to assistants in engagement team known as?
- (a) Audit guidelines
(b) Audit plan
(c) Audit Programme
(d) Audit Procedures
10. The issue of generation of scrap has been overlooked in detailed set of instructions given to engagement team. What should be proper course of action by CA Simran Kaur?
- (a) She should ignore this information as audit has already begun.
(b) She should modify earlier set of instructions.
(c) She should leave the matter to wisdom of engagement team.
(d) She should put the ball in court of management as she was not provided with complete information earlier.

SET-3

11. sets the scope, timing & direction of the audit and guides the development of the more detailed plan.
- a) Audit Programme
b) **Overall Audit Strategy**
c) Completion Memorandum
d) Audit Plan
12. Planning is _____ process of an audit that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement:
- a) **continuous**
b) discrete
c) neither continuous nor discrete
d) strategic
13. Statement 1: The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential process but are closely inter-related.
Statement 2: The auditor shall establish an overall audit strategy that guides the

- development of audit plan.
- a) Only Statement 1 is correct
 - b) Only Statement 2 is correct
 - c) Both Statements 1&2 are correct**
 - d) Both Statements 1&2 are incorrect
14. which of the following is not addressed by the overall audit strategy :
- a) scope of the audit
 - b) timing of the audit
 - c) direction of the audit
 - d) monitoring of the audit**
15. The overall audit strategy and the audit plan remain the _____ responsibility.
- a) auditor's**
 - b) management's
 - c) Those charged with governance
 - d) Both management and those charged with governance
16. Determining a percentage to be applied to a chosen benchmark (in relation to materiality) involves the exercise of _____
- a) Independence
 - b) Professional judgement**
 - c) Professional skepticism
 - d) Professional behaviour
17. Which of the following is not an example of benchmarks in determining materiality for the Financial Statements as whole:
- a) Profit before tax
 - b) total revenue
 - c) Audit program me**
 - d) total equity
18. Which of the following is correct :
- a) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that guides the development of the overall audit strategy.
 - b) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and there is no need to guide the development of the audit plan.
 - c) The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.**
 - d) The auditor shall establish an audit plan that sets the scope, timing and direction of the audit, and that there is no need to guide the development of the overall audit strategy.
19. Planning an audit involves
- a) establishing the overall audit strategy for the engagement and developing an audit plan.**
 - b) establishing the overall audit plan for the engagement and developing an audit strategy.
 - c) establishing the overall audit plan for the engagement
 - d) developing an audit strategy.
20. When planning the audit,
- a) the auditor considers what would make the financial information materially misstated.**
 - b) the auditor need not consider what would make the financial information materially misstated.
 - c) the auditor need not consider what would make the financial information materially misstated at planning stage
 - d) the auditor needs to consider what would make the financial information materially misstated while conducting audit only
21. Once the overall audit strategy has been established, _____ can be developed to address the various matters identified in the overall audit strategy, taking into account the need to achieve the audit objectives through the efficient use of the auditor's resources.

- a) audit strategy
b) audit plan
 c) audit plan and audit strategy
 d) audit note book
22. The auditor shall develop an audit plan that shall include a description of:
 a) The nature, timing and extent of planned risk assessment procedures
 b) The nature, timing and extent of planned further audit procedures at the assertion level.
 c) Other planned audit procedures that are required to be carried out so that the engagement complies with SAs.
d) All of the above
23. If the auditor finds that there has been an extraordinary increase in the amount of book debts or that in the value of stocks as compared to that in the previous year which of the following has to be suitably altered and in which order:
 a) Audit program me and overall audit plan.
b) Overall audit plan and audit program me.
 c) Audit plan and audit program me.
 d) Audit program me only
24. The auditor may not need to modify the overall audit strategy and audit plan due to:
 a) result of unexpected events.
 b) changes in conditions.
 c) Evidence obtained from results of audit procedures.
d) None of the above
25. Determination of Characteristics of Audit falls under:
a) Overall Audit Strategy
 b) Audit Plan
 c) Both of the above
 d) None of the above
26. With the proper overall audit _____ quantity of resources can be effectively allocated.
a) strategy b) plan c) masters d) blue print
27. Which of the following shall not be considered in establishing the overall audit plan?
 a) The entity's timetable for reporting.
 b) Significant industry developments.
 c) Engagement budgeting.
d) Which person should do physical verification
28. The documentation of the is a record of the key decisions considered necessary for making a proper _____ for audit.
a) overall audit strategy; plan. b) plan; overall audit strategy.
 c) blue print; game plan d) game plan / blue print
29. Checklists is a part of audit
a) plan b) strategy c) blue print d) game plan
30. Record of nature, timing and extent of risk assessment procedures is a part of audit
a) plan b) strategy c) blue print d) game plan
31. Choose the incorrect one:
 a) The audit strategy is prepared before the audit plan.
b) The audit plan is prepared before the audit strategy.
 c) Audit strategy is a broader term than audit plan.
 d) None of the above"
32. Choose the correct one:
 a) Change in audit strategy would bring about a change in audit plan but change in audit plan would not bring a change in audit strategy.
 b) Change in audit plan would bring about a change in audit strategy but change in audit strategy would not bring a change in audit plan
c) Change in audit plan would bring about a change in audit strategy and change in audit strategy would bring a change in audit plan. Both are

- interrelated.**
- d) None of the above
33. Following is not a feature of an audit program me:
- a) Is Prepared to allocate work to team members
- b) Includes the list of audit procedures and instructions to be followed
- c) Estimates the duration for completing an audit task**
- d) Tells us about what to do if management does not co-operate"
34. To ensure a systematic approach to the work overall plan for the audit program me should be drawn up. If any divergence from the audit program me becomes necessary:
- a) the audit program me may be modified.
- b) First the overall plan should be modified thereafter the audit program me.**
- c) First the audit program me should be modified thereafter audit strategy.
- d) None of the above
35. State whether true or false:
The framework provided by the overall plan should be strictly adhered to while drawing the audit programme.
- a) True.**
- b) False
36. Nature and extent of planning is ___ proportional to size and complexity of the Auditee
- a) directly**
- b) Inversely
- c) not
- d) none of the above
37. Nature and extent of planning is ___ proportional to past experience and expertise of the auditor.
- a) directly
- b) inversely**
- c) not
- d) none of the above
38. Nature and extent of planning is ___ proportional to change in circumstances.
- a) directly**
- b) inversely
- c) not
- d) none of the above
39. Identify the correct one:
Planning is not a _____ phase of an audit
- a) continuous
- b) discrete**
- c) iterative
- d) None of the above
40. planning activities would be required in entity whose size and complexity are more as compared to an entity whose size and complexity is less.
- a) More.**
- b) Less.
41. Identify the correct option:
- a) Audit strategy means overall audit plan.**
- b) Audit strategy involves overall audit plan.
- c) Overall audit plan and Audit strategy are not related to each other
42. Planning does not need to consider:
- a) The analytical procedures to be applied as risk assessment procedures.
- b) Obtaining a general understanding of the entity.
- c) The determination of materiality
- d) None of the above**
43. The auditor discusses elements of planning with the management to facilitate the conduct and management of the audit engagement. Thus, the overall audit strategy and the audit plan is the responsibility of:
- a) Auditor**
- b) Both Auditor & Management.
- c) Both Auditor & Management (only if written consent given)
- d) Any of the above
44. Identify the correct one:
- a) Establishing an overall audit strategy guides in the development of the audit plan.**
- b) Establishing an audit plan guides in the development of the overall audit strategy.

- c) Establishing an overall audit strategy is same as developing of an audit plan.
d) None of the above is correct.
45. Select the correct option:
a) **The auditor need not include in audit documentation superseded drafts of working papers.**
b) The auditor should also include in audit documentation superseded drafts of working papers.
c) Both of the above.
d) None of the above.

SET-4

46. "Audit Procedures and Audit Techniques are not one and the same thing. The given statement is
a) **True** b) False
47. Vouching constitutes the backbone of auditing, or vouching is the essence of auditing. The given statement is
a) **True** b) False
48. Voucher once used in audit should be destroyed to avoid risk of being used in more than one entry. The given statement is
a) True b) **False**
49. Test Checks refers to the out-of-routine checks that are carried out in the normal course of audit. The given Statement is
a) True b) **False**
50. Voucher relates to _____
a) Cash receipt b) Cash payment c) Credit transactions d) **All the above**
51. Sale of land is a _____
a) Revenue receipt b) **Capital receipt**
c) Capital expenditure d) Revenue expenditure
52. Share may be issued _____
a) At par b) At premium c) At discount d) **Option (a) and (9b)**
53. In determining the level of materiality for an audit, what should not be considered?
a) Errors identified in prior years
b) **Remuneration of the auditor**
c) Adjustments in the Interim Financial statements
d) Volume of the transactions
54. 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**
55. 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
56. Which of the following is not a revenue expense ?
a) Cost of raising a loan

- b) Cost of important components 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 vehicle
57. Depreciation does not arise from _____
a) Effluxion of time
b) Use
c) obsolescence through technology be market changes
d) Market expectation
58. Which of the following Schedule of the companies Act, 2013 deals with depreciations ?
a) Schedule IV **b) Schedule II** c) Schedule III d) Schedule VII
59. Which of the following is a revenue reserve ?
a) Capital Redemption Reserve
b) Securities premium Account
c) Debenture redemption reserve
d) Capital reserve
60. An audit programme is _____
a) Prepared by the Management
b) Prepared by the Auditor
c) Prepared by the Share Holders
d) Prepared by the Internal Auditor
61. Secret Reserve strengthens the financial position of a company, hence they are allowed. The given statement is
a) True **b) False**
62. Analytical Procedure refers to the procedure adopted by the management to ensure that transactions of one period are separated from those at the commencement of the following year. The given statement is
a) True **b) False**
63. Cut-Off Procedures are generally applied to trading transactions. The given statement is
a) True b) False
64. Auditor is responsible for proper preparation and presentation of the Bank Reconciliation Statement. The given statement is
a) True **b) False**
65. Specific disclosure is required of the Fundamental Accounting Assumptions followed in the Financial Statements. The given Statement is _____
a) True **b) False**
66. CA R illustrated to his team that the utility of the Audit Programme can be retained and enhanced only by keeping the programme as also the client's operations and internal control under recurrent assessment. Which attribute of the Audit Programme is highlighted here ?
a) Static Review b) Mechanical Review
c) Periodic Review d) Obsolete Review
67. Wages paid to workers would qualify as :
a) Revenue expenditure b) Capital expenditure
c) Revenue or capital expenditure depending upon facts and circumstances.
d) None of the above
68. Cut-off testing is performed during audit of sales to address the following assertion:
a) Occurrence b) Measurement **c) Cut-off** d) All of the above
69. Which of the following is not an example of revenue expenditure -
a) Salaries and wages of employees engaged directly or in-directly in production
b) Repairs, maintenance and renewals of fixed assets
c) Legal and professional expenses
d) development expenditure on land

70. Which of the following is not correct:

- a) AS 18 - Related Party Disclosures
- b) AS 10 - Property, Plant & Equipment
- c) AS 28 - Impairment of Assets

d) AS 16 - Intangible Assets

71. statement I- A capital reserve can never be utilised for writing down fictitious assets or losses.

Statement II : The amount of securities premium or capital redemption reserve account can be utilized only for the purposes specified in sections 52 and 55 of the companies Act, 2013, respectively.

a) only Statement I is correct

b) only Statement II is correct

c) both the statements are correct

d) both the statements are incorrect.



Chapter – 3 RISK ASSESSMENT AND INTERNAL CONTROL

Set-1

- Which of the following is true regarding materiality?
(a) It is unaffected by nature of an item.
(b) It is unaffected by requirements of law or regulations.
(c) It is not a matter of professional judgment.
(d) It is not always a matter of relative size.
- The operations of a company are automated substantially. Which of the following statements is most appropriate in this respect?
(a) It results in complex business environment.
(b) It results in simple business environment and easier audit.
(c) Automation has no relationship with complexity of business environment.
(d) It results in simple business environment. However, it increases complexity of audit.
- Who is responsible for maintaining effective internal financial controls?
(a) Statutory auditor
(b) Audit Committee
(c) Management
(d) Shareholders
- Which of the following is not a risk to a company's internal control due to its IT environment?
(a) Potential loss of data
(b) Inability to access data when required
(c) Unauthorized access to data
(d) Processing of large volumes of data
- Which of the following is not an example of "General IT controls"?
(a) Controls pertaining to Disaster recovery plan
(b) Controls pertaining to batch preparation
(c) Controls pertaining to data security
(d) Controls pertaining to validation of input data in an application

Set-2

CASE STUDY-1

CA Paritosh is auditor of a company. The financial statements of the company have just been received for audit. Following issues have been flagged pertaining to the financial statements of the company for purpose of risk assessment: -

- The revenue of company has fallen from ` 50 crore in last year to ` 5 crore in current year (for which financial statements have been received for audit) due to lack of demand in the market for company's products.
 - Due to advent of new products in the market, company's products are fast becoming outdated.
 - A large customer having an outstanding balance of ` 5 crore has failed to pay to the company despite efforts made by the company.
 - Inventory holding period has increased from 30 days in last year to 90 days.
 - The company also gets carried out job operations from third parties.
- Therefore, parts of inventories are lying with third parties.

Based on above, answer the following questions: -

- Regarding drastic fall in revenue of the company, which of the following is an audit risk?
(a) Fall in revenue would result in fall of profits for the company.
(b) Drastic fall in revenue may imply that company is not able to carry out its

operations in foreseeable future due to lack of demand in the market for company's products. There is a risk that going concern disclosure is omitted to be made in financial statements.

- (c) The company can explore some new line of activity, if demand of its products is falling.
- (d) Fall in revenue would mean lower tax liabilities for the company.
7. The company's products are getting outdated in the market. Which of the following is an audit risk?
- (a) The company should devise strategies to sell products in the market.
- (b) Inventories may be understated in such a scenario.
- (c) Inventories may be overstated in such a scenario.**
- (d) The company should launch a 1+1 free offer for its customers.
8. A large customer has failed to pay to the company. Identify audit risk from below:
- (a) Receivables may be misstated if irrecoverable debt is not written off.
- (b) Receivables may be overstated if irrecoverable debt is not written off.**
- (c) Writing off irrecoverable debt would impact profits of company adversely.
- (d) Failure to recover outstanding debt would impact cash flows of company adversely.
9. Identify audit risk involved when inventory holding period has increased from 30 days to 90 days.
- (a) There is a risk of overstatement of inventories.**
- (b) There is a risk relating to existence of inventories.
- (c) There is a risk that slow movement of stocks would increase tax liability when GST rates are increased.
- (d) There is a risk relating to holding and storage cost of inventories.
10. Part of inventories are lying with third parties. Identify audit risk involved.
- (a) There is a risk that third parties do not manufacture according to specifications of the company.
- (b) There is a risk that by getting job work done from third parties, company is increasing its costs.
- (c) There is a risk that sufficient and appropriate evidence would not be available in respect of quantity and condition of inventories lying with third parties.**
- (d) There is a risk that sufficient and appropriate evidence would not be available for quality control in respect of inventories lying with third parties.

CASE STUDY-2

CA Piyush is understanding internal controls as part of audit exercise of a company. It is a new client. He has studied controls in place in various operational areas of the company. After studying and gaining an understanding of such controls, he has decided to test few controls to actually see whether these are operating as intended by the management.

Till now, he has studied controls over inventories and bank. Few of such controls are listed below: -

Nature of Control	Control description
Control over inventories	Inventories of the company lying at each location should be insured.
Control over inventories	There should be inventory counts on a regular basis for each location of the company.
Control over Bank operations	Bank reconciliations are to be performed at regular intervals.

Based on above, answer the following questions: -

11. Which of the following most appropriately describes test of control regarding insurance of inventories?
- (a) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. The sum insured and period of validity of policy are not relevant.

- (b) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure adequacy of sum insured by comparing it with value of inventories. Also ensure policy period has not expired.**
- (c) Inspect insurance policies to verify that inventories at each location are comprehensively insured. Ensure policy period has not expired.
- (d) Inspect insurance policies to verify that inventories at each location are insured for fire and burglary. Ensure policy period has not expired.
12. Which of the following most appropriately describes test of control regarding inventory counts?
- (a) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure.
- (b) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count.
- (c) Obtain detail of inventory counting procedure and ensure that inventory count is carried out according to laid down procedure. Attend inventory count and perform test count.**
- (d) Attend inventory count and perform test count.
13. While testing control over bank reconciliations, it has been noticed that bank reconciliations are not being performed at regular intervals. Identify the most appropriate description of "control deficiency" in this regard: -
- (a) Bank reconciliations are not being performed regularly as concerned staff is overburdened.
- (b) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors.
- (c) Bank reconciliations are not being performed regularly as concerned staff is overburdened. It could result in errors. It may result in misstatement of cash and bank balance in financial statements.**
- (d) Bank reconciliations are not being performed regularly as concerned staff is overburdened. These should be performed monthly and reviewed by senior accountant.
14. Since the company is a new client, which of the following statements is most appropriate?
- (a) There is reduced detection risk.
- (b) There is increased detection risk.**
- (c) There is no effect on detection risk.
- (d) Detection risk should be increased to lower audit risk.
15. Which of the following statements is most appropriate regarding auditor's response to assessed risk of a new client?
- (a) More substantive procedures would require to be performed.**
- (b) Less substantive procedures would require to be performed.
- (c) There is no effect on substantive procedures.
- (d) There is no effect on substantive procedures as audit risk is low.

Set-3

16. SA 320 on "Materiality in Planning and Performing an Audit" requires that an auditor
- a) should not consider materiality and its relationship with audit risk while conducting an audit.
- b) should consider materiality and its relationship with audit risk while conducting an audit.**
- c) should not consider materiality but should consider its relationship with audit risk while conducting an audit.
- d) should consider materiality but need not consider its relationship with audit risk while conducting an audit.

17. Increase in nature, timing and extent of audit procedure is recommended
- a) in case-materiality level is high
 - b) in case materiality level is low**
 - c) at the judgement of management.
 - d) experienced Audit Staff
18. Decrease in nature, timing and extent of audit procedure is recommended_.
- a) in case materiality level is high**
 - b) in case materiality level is low
 - c) at the judgement of management.
 - d) Inexperienced Audit Staff
19. An auditor determines lower level of materiality for a particular area, however the article assistant instead of being informed about the lower level of materiality did not perform the procedures carefully and did only test check on important areas. What will be its effect on detection risk?
- a) Detection risk will decrease
 - b) Detection risk will increase**
 - c) No impact on detection risk
 - d) None of the above
20. An auditor determines higher level of materiality for a particular area, however the article assistant instead of being informed about the higher level of materiality performed detailed audit procedures. What will be its effect on detection risk?
- a) Detection risk will be decrease**
 - b) Detection risk will be increase
 - c) No impact on detection risk
 - d) None of the above
21. Identify the incorrect one:
- a) Misstatement are considered to be material if they are expected to influence the decision of the user.
 - b) Misstatement are not considered to be immaterial if they are expected to influence the decision of the user.
 - c) Misstatement are considered to be immaterial if they are expected to influence the decision of the user.**
 - d) Misstatement are considered to be immaterial if they are not expected to influence the decision of the user.
22. Materiality is a matter of:
- a) Professional judgement
 - b) Financial reporting framework may specify it
 - c) Either of the above**
 - d) None of the above
23. Identify the incorrect one Judgement of the auditor regarding materiality depends on:
- a) Circumstances prevailing
 - b) Common financial needs of the user as the group
 - c) Individual financial needs of the user.**
24. Identify the correct one:
- While making judgement regarding materiality level:
- a) Individual needs are not given much importance as common financial needs of the user as a group.**
 - b) Common financial needs of the user as a group are not given much importance as individual needs.
 - c) Individual needs are given equal importance as common financial needs of the user as a group.
 - d) None of the above
25. Identify the incorrect statement:
- Materiality is used in:
- a) Planning and performing the audit.
 - b) Evaluating effect of identified misstatement on audit.
 - c) Evaluating effect of uncorrected misstatement on financial statement.

- d) None of the above is incorrect.**
26. A starting point which is chosen as a base and on which a percentage is applied to determine materiality for financial statement as a whole is known as ____
a) audit Plan **b) benchmark** c) volatility d) regression
27. To determine materiality for financial statement as a whole a benchmark is selected, and a percentage is applied on that benchmark. There is ____ relationship between such benchmark and the percentage applied on it.
a) direct **b) inverse** c) straight d) absolute
28. Identify the correct one:
a) It is mandatory that only Items of the financial statement should be considered for deciding the benchmark.
b) It is recommendatory that only Items of the financial statement should be considered for deciding the benchmark.
c) It is not mandatory that only Items of the financial statement should be considered for deciding the benchmark.
d) It is not recommendatory that only Items of the financial statement should be considered for deciding the benchmark.
29. Identify the correct one:
a) It is important that Items of the financial statement having low volatility should be considered for deciding the benchmark.
b) It is important that Items of the financial statement having high volatility should be considered for deciding the benchmark.
c) It is not mandatory to consider volatility at the time of selecting a benchmark
d) None of the above
30. Profit of the company - Rs 10 crore
Net Asset - Rs 50 crore,
Turnover - Rs 100 crore
- Auditor is considering selecting one of the options from above as benchmark to decide the materiality level for financial statement as a whole.
Percentage that can be applied on benchmark is 5 %, 10 % and 2 %. Considering the relationship between benchmark and the percentage applied on it as per SA 320, determine the appropriate order of percentage to be applied for the above respective sequence of benchmark.
a) 10%, 2%, 5%. **b) 10%, 5%, 2%.**
c) 5%, 10%, 2%. d) 5%, 2%, 10%
31. Identify the correct one:
a) For specific area auditor can determine a lower level of materiality, if those area influence the user even at small level of misstatement.
b) For specific area auditor can determine a higher level of materiality if those area influence the user even at small level of misstatement.
c) For specific area auditor can determine a lower level of materiality if those area does not influence the user even at small level of misstatement.
d) For specific area auditor can determine a higher level of materiality if those area impact the user even at lower level of misstatement.
32. Materiality level set by the auditor, which is less than materiality for financial statement as a whole or specific area level materiality to reduce the risk that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
a) Materiality for particular classes of transactions.
b) Materiality for account balances or disclosures
c) Performance materiality.
d) None of the above.

33. Identify the incorrect one:
- a) SA 320-permits revision of materiality.
 - b) SA 320 does not permit revision of materiality**
 - c) As per SA 320 materiality once decided can be reviser
 - d) None of the above
34. Statement 1: A response that indicates a difference between information requested to be confirmed and information provided by confirming party is Negative Confirmation.
Statement 2: A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered is exception.
- a) Statement 1 is correct
 - b) Statement 2 is correct
 - c) Both 1 & 2 are incorrect**
 - d) Both 1 & 2 are correct
35. CA Vijay is the statutory auditor of XYZ Ltd. for the FY 2020-21. During the process of assembling the audit file, CA Vijay briefed his team as to what all changes can be made to the audit documentation at that stage. Which of the following changes cannot be made to the audit documentation during the final assembly process?
- a) Sorting, collating & cross referencing of working papers.
 - b) Signing off completion checklists relating to the file assembly process.
 - c) Deleting or discarding superseded documents.
 - d) Recalculation of Depreciation.**
36. Which of the following is not correct?
- a) SA 230- Audit Documentation
 - b) SA 500- Audit Evidence
 - c) SA 505- Written Representation**
 - d) SA 560- Subsequent Events
37.refers to the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control to identify and assess the risk of material misstatement.
- a) Risk Assessment procedures**
 - b) Test of controls
 - c) Substantive Analytical Procedures
 - d) Observation
38. The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including:
- a) Inquiry of management and, where applicable, others within the entity, including in-house legal counsel.
 - b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel.
 - c) Reviewing legal expense accounts.
 - d) All of the above**
39. Auditor's judgment as to sufficiency may be affected by the factors such as:
- a) Materiality
 - b) Risk of material misstatement
 - c) Size and characteristics of the population.
 - d) All of the above**
40. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, when, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
- a) Discuss the matter with management and, where appropriate, those charged with governance.

- b) Determine whether the financial statements need amendment.
c) Inquire how management intends to address the matter in the financial statements.
d) All of the above
41. _____ may be defined as one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
a) Audit File b) Audit evidence
c) Completion Memorandum d) Audit Folder
42. As per SQC-1 "An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than _____ days after the date of the auditor's report".
a) 30 **b) 60** c) 90 d) 45
43. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
a) Positive conurbation request b) Non Response
c) Negative Conurbation request d) Exception
44. Auditor's judgment as to sufficiency may be affected by which factor:
a) Materiality
b) Risk of material misstatement
c) Size and characteristics of the population.
d) All of the above
45. Standard on Quality Control (SQC) 1 provides that,
a) unless otherwise specified by law or regulation, audit documentation is the property of the management.
b) unless otherwise specified by law or regulation, audit documentation is the property of those charged with governance.
c) unless otherwise specified by law or regulation, audit documentation is the property of the management or those charged with governance.
d) unless otherwise specified by law or regulation, audit documentation is the property of the auditor.
46. The auditor shall comply with each requirement of a SA unless:
a) the entire SA is not relevant
b) application of SA is subject to condition, and the condition does not exist.
c) either of the above.
d) none, as compliance with SA is mandatory without any exceptions.
47. Identify the most suitable option:
The auditor may judge it necessary to depart from a relevant requirement in a SA. In such circumstances, the auditor shall perform _____ to achieve the aim of that requirement.
a) alternative audit procedures
b) risk assessment procedures
c) substantive procedures
d) test of controls
48. Which shall not be involved in discussing the nature and timing of detailed audit procedures?
a) The engagement partners b) other key members of engagement team
c) Audit Staff **d) Key management personnel of the entity**
49. Identify the correct one:
With respect to audit of historic financial statement, the auditor shall develop an audit plan that shall include audit procedures as per:
a) SRE 2400. **b) SA330** c) SA701. d) SAE 3400.

50. Identify the correct one
a) The audit plan is more detailed than the overall audit strategy.
b) The overall audit strategy is more detailed than the audit plan.
c) The overall audit plan is more detailed than the overall audit strategy.
d) The overall audit strategy is more detailed than the overall audit plan.
51. Audit evidence obtained through the performance of substantive ____ procedures the audit evidence obtained through tests of controls
a) may contradict b) will contradict. c) will never contradict.
52. State whether true or false:
Planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures.
a) True b) False.
53. State whether true or false:
The auditor cannot begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.
a) True **b) False**
54. Choose the correct one:
As per SA 570:
a) Assessment of entities going concern is responsibility of management.
b) Assessment of entities going concern is responsibility of auditor.
c) Assessment of entities going concern is responsibility of management and auditor.
d) None of the above
55. Choose the correct one:
As per SA 570:
b) Auditor is only required to evaluate whether entities assessment of going concern is correct or not.
c) Auditor is required to assess going concern assumption of the entity and is also required to evaluate whether entities assessment of going concern is correct or not.
d) None of the above
56. As per SA 570, Adverse financial ratio's is a:
a) Financial Indicator. b) Operating Indicator.
c) Other Indicator. d) None of the above.
57. As per SA 570, Non-compliance with loan Agreement is a:
a) Financial Indicator. b) Operating Indicator.
c) Other Indicator. d) None of the above.
58. Loss of major market or loss of key customer is a:
a) Financial Indicator. **b) Operating Indicator.**
c) Other Indicator. d) None of the above.
59. As per SA 570, Loss of licenses or labour unrest is a:
a) Financial Indicator. **b) Operating Indicator.**
c) Other Indicator. d) None of the above.
60. As per SA 570, Change in law is a:
a) Financial Indicator. b) Operating Indicator.
c) Other Indicator, d) None of the above.
61. As per SA 570, Legal proceeding is an example of:
a) Financial Indicator. b) Operating Indicator.
c) Other Indicator. d) None of the above.
62. If the assessment of going concern is made by management but the period covered for assessment is less than 12 months the auditor shall:

- a) Cover such period as covered by management even though its less than 12 months
 - b) Request management to extend its period of assessment to at least 12 months.
 - c) Not make evaluation of management assessment of going concern assumption.**
 - d) None of the above
63. Identify the incorrect one:
With respect to facts Which Become Known to the Auditor After the Financial Statements have been Issued the auditor shall:
- a) Discuss the matter with management and, where appropriate, those charged with governance.
 - b) Read the entity's latest subsequent interim financial statements.**
 - c) Inquire how management intends to address the matter in the financial statements.
 - d) Check whether FST issued are called back and steps are taken to inform those who are in receipt of such statement about the situation.
64. SA 560 covers:
- a) Events occurring between the date of the financial statements and the date of the auditor's report.
 - b) Facts which become known to the auditor after the date of the auditor's report but before the date the financial statements are issued
 - c) Facts which become known to the auditor after the financial statements have been Issued
 - d) All of the above**
65. Identify the incorrect one:
When, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:
- a) Discuss the matter with management and, where appropriate, those charged with governance.
 - b) Determine whether the financial statements need amendment.
 - c) Inquire how management intends to address the matter in the financial statements.
 - d) Read the entity's latest subsequent interim financial statements.**
66. When, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall discuss with management and ask management to revise financial statement and shall issue new audit report, if the management agrees by :
- a) Dual Dating
 - b) Emphasis of matter para
 - c) Other matter para
 - d) Any of the above, as appropriate**
67. When, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall discuss with management and ask management to revise FST and , if the management disagrees :
- a) Shall issue new audit report by Dual Dating
 - b) Shall issue new audit report by using Emphasis of Matter Para
 - c) Shall issue new audit report by using Other Matter Para
 - d) Shall take appropriate action so that no one can rely on earlier auditor's report.**

68. Identify the incorrect one:
- a) Dual dated audit report is restricted to only the amended matter.
 - b) Dual dated audit report is not restricted to only the amended matter, but to the entire financial statement.**
 - c) Dual dated audit report covers only matters that were not earlier present in financial statement.
 - d) None of the above
69. For identified significant related party transactions outside the entity's normal course of business, the auditor shall evaluate whether:
- a) the business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets
 - b) the terms of the transactions are consistent with management's explanations
 - c) the transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework
 - d) all of the above**
70. As an auditor, what shall you do for identified significant related party transactions that are outside the entity's normal course of business?
- a) Inspect the underlying contracts or agreements, if any.
 - b) Obtain audit evidence that the transactions have been appropriately authorized and approved.
 - c) Both of the above**
 - d) None of the above
71. As per the Chartered Accountant Act 1949, and the Regulations there under, which from the following shall be used as the definition of the "Related Party"?
- a) As per AS 18**
 - b) As per SA 550
 - c) As per the Companies Act 2013
 - d) As per the Income Tax Act 1961
72. As per SA 550, the definition of related party includes:
- a) Any party controlling or having significant influence
 - b) Any party who is under significant influence or control
 - c) Parties which are under common control
 - d) All of the above**
73. If the term "related party" is defined by the Financial Reporting Framework,
- a) we should use the definition as defined by the FRF.**
 - b) we should use the definition as per SA 550.
 - c) we should use the definition as per Income Tax Act, 1961.
 - d) any of the above
74. If the term "related party" is not defined by the Financial Reporting Framework,
- a) we should use the definition as defined by the FRF.
 - b) we should use the definition as per SA 550.**
 - c) we should use the definition as per Income Tax Act, 1961.
 - d) any of the above
75. A Ltd. last year's audit was conducted by a CA Firm having A, B, C as three partners. A did the audit last year. This year audit will be conducted by B. Will this be considered as initial audit engagement for Audit firm.
- a) Yes, as the auditing partner has changed.
 - b) No, as the auditing firm has not changed.**
 - c) Yes, as it falls under definition of initial audit engagement
 - d) None of the above
76. Identify the incorrect one:
- Factors affecting nature and extend of audit procedures regarding opening balance?
- a) Significance of the opening balances

- b) Accounting policies
c) Nature of the account balances, classes of transactions
d) Judgement of the auditor
77. A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.
a) deviation **b) exception** c) misstatement d) error
78. Initial audit engagement- An engagement in which either:
1. The financial statements for the prior period were not audited
2. The financial statements for the prior period that were audited by a joint auditor.
3. The financial statements for the prior period were not audited properly.
4. The financial statements for the prior period were audited by a predecessor auditor.
Options:
a) 1 & 2 b) 3&4 **c) 1 & 4** d) 2&3
79. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a _____.
a) qualified opinion or adverse opinion
b) disclaimer of opinion or adverse opinion
c) adverse opinion or unmodified opinion
d) qualified opinion or disclaimer of opinion
80. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not properly accounted for or not adequately presented or disclosed, the auditor shall express a _____.
a) qualified opinion or adverse opinion
b) disclaimer of opinion or adverse opinion
c) adverse opinion or unmodified opinion
d) qualified opinion or disclaimer of opinion
81. If the auditor concludes that there has been inconsistency in following accounting policy or required disclosures with respect to the change in accounting policy is not adequately presented the auditor shall express a _____.
a) qualified opinion or adverse opinion
b) disclaimer of opinion or adverse opinion
c) adverse opinion or unmodified opinion
d) qualified opinion or disclaimer of opinion
82. If no audit is performed in last year or if audit is by someone else in last year than the fact of the same shall be disclosed in audit report in _____.
a) emphasis of matter para **b) other matter para**
c) opinion para d) none of the above
83. A Ltd. last year's audit was conducted by a CA Firm having A, B, C as three partners. A did the audit last year. This year audit will be conducted by B. Will this be considered as initial audit engagement for A Ltd.
a) Yes, as the auditing partner has changed.
b) No, as the auditing firm has not changed.
c) Yes, as it falls under definition of initial audit engagement
d) None of the above
84. Factors affecting sufficiency and appropriateness includes experience gained during previous audits. We can say that there is _____ relationship between factors affecting sufficiency, appropriateness and experience gained during previous audits.
a) direct **b) inverse** c) reverse d) converse
85. Factors affecting sufficiency and appropriateness includes risk of material misstatement. We can say that there does not exist _____ relationship between factors affecting sufficiency and appropriateness and experience gained during previous audits.

- a) direct **b) inverse** c) straight d) immediate
86. Factors affecting sufficiency and appropriateness includes materiality. We can say that there exists _____ relationship between factors affecting sufficiency and appropriateness and materiality.
a) direct b) inverse c) reverse d) converse
87. Identify the incorrect one:
Types of audit evidence may differ as per different categories:
a) Depending upon NATURE. **b) Depending upon SIZE.**
c) Depending upon IMPACT. d) Depending upon SOURCE.
88. Identify the odd one out:
Depending upon NATURE there can be different type of evidence:
a) Visual Evidence b) Oral Evidence
c) Persuasive Evidence d) Documentary Evidence
89. Physical verification is an example of:
a) Visual Evidence
b) Oral Evidence
c) Documentary Evidence
d) None of the above
90. Inquiry is an example of:
a) Visual Evidence **b) Oral Evidence**
c) Documentary Evidence d) None of the above
91. Purchase Invoice is an example of:
a) Visual Evidence b) Oral Evidence
c) Documentary Evidence d) None of the above
92. Identify the odd one out:
Depending upon IMPACT there can be different type of evidence:
a) Documentary Evidence. b) Conclusive Evidence.
c) Persuasive Evidence. d) none of the above.
93. Identify the correct one:
a) Persuasive means confirm evidence
b) Persuasive means not a confirm evidence
c) Persuasive means corroborate evidence
d) None of the above
94. Identify the correct one:
a) Conclusive means not confirm evidence.
b) Conclusive means confirm evidence.
c) Conclusive means uncorroborated evidence
d) None of the above
95. Just by seeing a purchase invoice we conclude that there is a purchase, but purchase invoice may be fake:
a) Audit evidence is persuasive. b) Audit evidence is conclusive.
c) Audit evidence is corroborated. d) Audit evidence is substantiated
96. Choose the incorrect one
Physical Verification of Machine-
a) Audit evidence is persuasive. **b) Audit evidence is conclusive.**
c) Audit evidence is substandard. d) Audit evidence is not adequate
97. Identify the correct one:
Depending upon SOURCE there can be different type of evidence:
a) Documentary Evidence. b) Conclusive Evidence.
c) Persuasive Evidence. **d) Internal- External**

98. Identify the correct one:

- a) Purchase invoice is made by entity and held by third party.
- b) Sales invoice, delivery challan is made by third party and held by entity.
- c) Goods received note is made by entity and held by Entity**
- d) None of the above is correct.

99. Methods of obtaining audit evidence includes:

- a) Observation b) Inquiry c) Recalculation **d) All the above**

100. Methods of obtaining audit evidence does not includes:

- a) Re-performance b) Analytical Procedures
- c) Letter of Engagement.** d) External Confirmation

101. State whether true or false:

When designing and performing audit procedures, the auditor shall consider the reliability and relevance of the information to be used as audit evidence.

- a) True** b) False

102. Identify the correct one:

As per SA 330 - For risk identified as per SA 315 at financial statement level is required to be done.

- a) overall response** b) test of controls
- c) test of details. d) any of the above

103. Identify the correct option:

a) Test of detail or substantive procedures are designed to detect deviation in internal control.

b) Test of detail or substantive procedures are designed to detect misstatement in internal control.

- c) Both of the above
- d) None of the above

104. Identify the correct one:

a) Substantive procedures are mandatory in case of material transactions.

- b) Substantive procedures are recommendatory in case of material transactions.
- c) Both of the above
- d) None of the above

105. Substantive procedures are designed to detect material misstatement at assertion level.

- a) True** b) False

106. Design of test of detail depends on _____ and _____ involved.

a) Nature of risk; Judgement of auditor

b) Nature of risk; Assertions

- c) Judgement of auditor; Assertions
- d) None of the above

107. Design of test of detail is assertion specific.

- a) True** b) False

108. How to obtain audit evidence for performing test of control or test of detail?

- a) Inquiry b) observation c) Inspection **d) All of the above**

109. How to obtain audit evidence for performing test of control or test of detail?

- a) Inquiry b) Re perform a nee c) Computation **d) All of the above**

110. Analytical procedures are designed for large volume of transactions that tend to be predictable over the period of time.

- a) True** b) False

111. Auditor cannot in any case rely on the test of controls on the basis of audit evidence obtained in previous year.

- a) True **b) False**

112. Identify the factors that must be taken into consideration before relying on the test of controls on the basis audit evidence obtained in previous year.
- a) Control environment
 - b) Risk of material misstatement
 - c) Change in circumstances
 - d) All of the above**
113. Identify factors that must be taken into consideration before relying on the test of controls on the basis audit evidence obtained in previous year.
- a) Personnel Change
 - b) Process/operations-manual or automated
 - c) General IT control effectiveness
 - d) All of the above**
114. A Ltd. entered into an agreement to sale its immovable property to company B. Agreement date: 31st January. Consideration for sale and possession has been transferred. Date of Sale deed: 30 April
Date of approval of accounts: 15 May
Choose the correct option:
- a) Adjustment in financial statement is required.**
 - b) No adjustment in financial statement is required.
 - c) Mere disclosure in directors report required
115. Adjustment in financial statement is required in case of:
- a) Adjusting events
 - b) Non-adjusting events which effects going concern assumption
 - c) Items related to law
 - d) All the above**
116. As per AS 4, material not adjusting event shall be disclosed in-
- a) Approving authority report.**
 - b) financial statements.
 - c) No disclosure required as condition didn't exist on the date of balance sheet.
 - d) None of the above.
117. Which of the following is not a non-adjusting event?
- a) Decline in market value of investment.
 - b) Strikes and labour disputes.
 - c) Amalgamation effected after balance sheet date.
 - d) Receipt of information concerning clarification of tax law.**
118. Which of the following is not an adjusting event?
- a) Initial disclosure event regarding discontinuing operation which occurs after the balance sheet date.**
 - b) Discovery of fraud and error that show financial statement were incorrect.
 - c) Any order given by court.
 - d) Receipt of information concerning clarification of tax law.
119. Which of the following is true:
- a) The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit.
 - b) The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organization.
 - c) In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement.
 - d) All the above**
120. Audit risk is a function of the risks of material misstatement and _____
- a) detection risk.**
 - b) inherent risk
 - c) control risk
 - d) business risk
121. For a given level of audit risk, the acceptable level of detection risk bears

- _____ relationship to the assessed risks of material misstatement at the assertion level.
- a) direct. **b) Inverse** c) no relationship d) either (a) or (c)
122. Risk of material misstatement has _____ components
- a) one **b) two** c) three d) four
123. Controls can be _____ related to an assertion.
- a) directly
b) indirectly
c) directly or indirectly
d) no relationship between controls and assertion.
124. Which of the following is incorrect-
For the purpose of Identifying and assessing the risks of material misstatement, the auditor shall:
- a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and disclosures in the financial statements;
b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and
d) Not consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement is of a magnitude that could result in a material misstatement.
125. _____ refers to a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.
- a) Misstatement** b) Fraud c) Error d) Fraudulent financial reporting.
126. Latest and Vibrant Limited is an unlisted public limited company. For the above mentioned company, it will be required to appoint an internal auditor according to the provisions of Companies Act, 2013 only when during the preceding financial year, the paid up share capital of the company would be:
- a) Less than or equal to Rs. 50 crore.
b) More than or equal to Rs. 50 crore.
c) Less than or equal to Rs. 100 crore.
d) More than or equal to Rs. 100 crore.
127. Bright and Smart Private Limited will be required, according to the provisions of Companies Act, 2013 to appoint an internal auditor only if the turnover during the preceding financial year would be:
- a) Less than or equal to Rs. 200 crore.
b) More than or equal to Rs. 200 crore.
c) Less than or equal to Rs. 150 crore.
d) More than or equal to Rs. 150 crore.
128. Components of risk of material misstatement at the assertion level are:
- a) Inherent risk and detection risk
b) inherent risk and control risk
c) control risk and detection risk
d) inherent risk, control risk and detection risk
129. When deviations from controls upon which the auditor intends to rely are detected,
- a) the auditor shall not make any inquiries to understand these matters and their potential consequences

- b) the auditor shall make specific inquiries to understand these matters and their potential consequences**
- c) the auditor shall make general inquiries to understand these matters and their potential consequences
- d) the auditor shall make both general as well as specific inquiries to understand these matters and their potential consequences
130. Because the assessment of the risk of material misstatement takes account of internal control,
- (a) the extent of substantive procedures may need to be increased irrespective of the results from tests of controls.
- (b) the extent of substantive procedures may need to be increased when the results from tests of controls are satisfactory.
- (c) the extent of substantive procedures may need to be decreased when the results from tests of controls are unsatisfactory.
- (d) the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory.**
131. Risk of material misstatement may be defined as the risk
- (a) that the financial statements are materially misstated after audit.
- (b) that the financial statements are materially misstated during audit.
- (c) that the financial statements are materially misstated prior to audit.**
- (d) All of the above
132. The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls is-
- a) Control Risk **b) Inherent Risk** c) Detection Risk d) Audit Risk
133. The assessment of risks is a
- (a) matter capable of precise measurement rather than matter of professional judgment
- (b) matter of professional judgment, rather than a matter capable of precise measurement.**
- (c) matter of professional judgement as well as capable of precise measurement sometimes.
- (d) None of the above
134. The assessment of the risks of material misstatement may be expressed in
- (a) quantitative terms, such as in percentages, or in non-quantitative terms.**
- (b) quantitative terms, such as in percentages,
- (c) non-quantitative terms.
- (d) None of the above
135. SA 315 establishes requirements and provides guidance on identifying and assessing the risks of material misstatement -
- (a) at the financial statement levels only.
- (b) at the assertion levels only.
- (c) at the financial statement and assertion levels.**
- (d) at the financial statement or assertion levels.
136. Which of the following is true:
- (a) The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit.
- (b) The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation.
- (c) In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the

terms of the engagement.

(d) All the above

137. _____ Risk is a risk that auditor will form an inappropriate opinion when the financial statements are materially misstated.
a) **Audit** b) Sampling c) Inherent d) Detection
138. Identify the Risk: Susceptibility of account balance or class of transactions to material misstatement assuming no internal control.
a) Audit Risk. **b) Inherent Risk.**
c) Detection Risk. d) Control Risk
139. Identify the Risk:
Risk that Internal control system will not be able to prevent, .detect or correct material misstatement.
a) Audit Risk. b) Inherent Risk.
c) Detection Risk. **d) Control Risk**
140. Identify the Risk:
_____ that auditor procedures will not be able to detect material misstatement.
a) Audit Risk. b) Inherent Risk.
c) Detection Risk. d) Control Risk
141. The _____ risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.
a) sampling risk **b) audit risk**
c) inherent risk d) detection risk
142. Audit risk is a function of the _____ and _____.
a) risk of material misstatement; detection risk.
b) inherent risk; control risk
c) material misstatement; control risk
d) material misstatement; detection risk
143. Identify the type of risk:
Chances that financial statements presented before audit to the auditor is misstated.
a) Sampling Risk
b) Risk of material misstatement
c) Inherent Risk
d) Detection Risk
144. Identify the type of risk:
Risk that auditor's procedure will not be able to identify material misstatement
a) Sampling Risk b) Risk of material misstatement
c) Inherent Risk d) **Detection Risk**
145. Identify the type of risk:
Circumstances that account balance and transactions are materially misstated, assuming no internal control. Hands for Excellence
a) Sampling risk b) Control risk **c) Inherent risk** d) Detection risk
146. Identify the type of risk:
Risk that internal control will not be able to prevent, detect and correct material misstatement
a) Sampling risk **b) Control risk** c) Inherent risk d) Detection risk
147. Identify, which from the following risk is the component of the Detection Risk:
a) Non-Sampling risk b) Control risk
c) Inherent risk **d) None of the above.**
148. Identify, which from the following risk is not the component of risk of material misstatement:
a) Sampling Risk b) Control Risk c) Inherent Risk d) None of the above

149. Identify the incorrect one:

- a) **If the internal controls are designed and operated perfectly, risk can not only be reduced, but also can be eliminated.**
- b) If the internal controls are designed and operated perfectly, risk can be reduced, but cannot be eliminated.
- c) Good internal control can result into reduction of risk.
- d) None of the above

150. Identify the correct one:

- a) Business risk is a kind of risk that arises due to internal circumstances.
- b) **Business risk is a kind of risk that may arises due to external or internal circumstances**
- c) Business risk is a kind of risk that arises due to in-house circumstances
- d) Business risk is a kind of risk that arises due to intrinsic circumstances

151. Inherent limitations of internal control do not include:

- a) Cost effectiveness
- b) Collusion among employees
- c) Abuse of Authority
- d) **Narrative Records**

152. Identify the correct one:

- a) **Inherent and control risks differ from detection risk in that they exist independently of an audit of financial information.**
- b) Inherent, control risks are dependent on each other.
- c) Inherent and control risks differ from detection risk in that they are assessed by management.
- d) Detection risk differ from Inherent and control risks in that it is variable.

153. Identify the correct one:

- a) There is an inverse relationship between combined level of detection risk + inherent risk and the control risk.
- b) There is a direct relationship between combined level of inherent risk + control risk and the detection Risk.
- c) **There is an inverse relationship between combined level of inherent risk + control risk and the detection Risk.**
- d) There is a direct relationship between combined level of detection Risk + Inherent risk and the control risk.

154. Inherent risk and control risk are not the functions of

- a) management
- b) **auditor**
- c) TCWG
- d) all of the above

155. Which from the following is not the component of internal control?

- a) Control environment
- b) Control activity
- c) Risk Assessment Process
- d) **None of the above**

156. Which from the following is not the component of internal control?

- a) Monitoring
- b) Control Activity
- c) Information System & Information Technology.
- d) **None of the Above**

157. State whether true or false:

Control environment act as a platform for other components of internal control and a good control environment will act as a base to develop other components of Internal control system.

- a) **True**
- b) False

158. Risk of material misstatement at financial statement level will depend on:

- a) Timing of transaction
- b) Complexity of Transaction
- c) **Nature of Entity business**
- d) Unusual Transaction.

159. Risk of material misstatement at transaction and account balance level will not depend on:

- a) **Judgement in valuation**
- b) Complexity of Transaction
- c) Nature of Entity business
- d) Unusual Transaction.

160. Risk of material misstatement at transaction and account balance level will depends on:
a) Complexity of transaction b) Integrity of management.
c) **Nature of Entity business.** d) Unusual pressure on management.
161. "The acceptable level of detection risk bears an _____ relationship to the assessed risks of material misstatement at the assertion level
a) direct **b) inverse** c) straight d) absolute
162. Identify the incorrect option:
The _____ the risks of material misstatement the auditor believes exists, _____ the detection risk that can be accepted.
1. greater; less 2. greater; greater
3. less; greater 4. Less; less Options:
a) 1/3 b) 1/4 c) 2/3 d) 3/4
163. Risk at financial statement level means that misstatement:
a) may exist pervasively in financial statement as a whole and may affect many assertions.
b) may exist for particular class of transaction, account balance level or at disclosure level.
c) may not exist pervasively in financial statement as a whole and may affect many assertions.
d) may exist for particular class of transaction, account balance level or at disclosure level.
164. Risk at assertion level means that misstatement:
a) may exist pervasively in financial statement as a whole and may affect many assertions.
b) may exist for particular class of transaction, account balance level or at disclosure level.
c) may not exist pervasively in financial statement as a whole and may affect many assertions.
d) may not exist for particular class of transaction, account balance level or at disclosure level.
165. Identify the correct option:
Assessment of risk at assertion level for class of transactions, account balance and disclosure need to be considered as:
1. It directly assists in determining the nature timing and extent of further audit procedures at assertion level.
2. It indirectly assists in determining the nature timing-and extent of further audit procedures at assertion level.
3. In determining risk at assertion level auditor may conclude that identified risk relate more pervasively to financial statement as a whole and may affect many assertions.
4. Determining risk at assertion level will not help auditor in concluding that identified risk relate more pervasively to financial statement as a whole and may affect many assertions.
Options:
a) 1 & 4 b) 2&3 **c) 1 & 3** d) 2&4
166. When the identified risk relates to the fraud or related party transaction special consideration is required by the auditor over such risk.
a) True b) False
167. Risk related to which of the following requires special consideration:
a) Complex transaction b) Fraud
c) Significant Unusual transaction **d) All the above**

168. Is it mandatory to perform test of controls for all relevant controls of the company each year?
 a) Yes, test of control is fundamental audit procedure.
b) No, it should be done once in three years.
 c) Yes, it is mandatory as per SAs.
 d) No, it can be done every alternate year.
169. If Inherent Risk is 40%, Control Risk is 50% and Acceptable Audit Risk is 5%, What should be Detection Risk?
 a) 20% **b) 25%** c) 2% d) 10%
170. Identify the correct option:
a) Test of control or compliance procedures are designed to detect deviation in internal control.
 b) Test of control or compliance procedures are designed to detect misstatement in internal control.
 c) Both of the above
 d) None of the above
171. Internal auditor means:
a) person who reviews operating activities, evaluates internal control system and helps TCWG and management in governance.
 b) person who checks that whether financial statements are prepared as per applicable financial reporting framework and expresses opinion on them.
 c) Key management Person d) Director
172. One of the differences between internal auditor and external auditor is that external auditor is of management and internal auditor is of management.
 1. independent 2. Advisor 3. under influence 4. Not a part Options:
 a) 1 and 4 **b) 1 and 3** c) 2 and 3 d) 3 and 4
173. Internal auditor is appointed:
a) by board of directors b) by shareholders
 c) by Managing director d) None of the above
174. Internal audit is, however compulsory to some companies as specified under section of Companies Act, 2013.
 a) Voluntary, 143 **b) Voluntary, 138** c) Voluntary, 141 d) None of the above
175. Internal audit report is required to be submitted to the shareholders of the company.
 a) True, as it tells the shareholders about the working of the company.
b) False, internal audit report is for the management of the company.
 c) True, as SA 610 mentions to submit the report to shareholders.
 d) False, internal audit report is not only for the shareholders but also for management of the company.
176. Identify the incorrect option as per SA 610 Statutory auditor shall determine, can he rely on Internal Auditor for using his work. It depends on following:
 a) Level of Competence b) Objectivity of Internal Auditor
 c) Systematic & Disciplined Approach **d) Prohibition by law**
177. Identify the incorrect option as per SA 610 Statutory auditor shall determine, can he take direct assistance from Internal Auditor. It depends on following:
 a) Level of Competence b) Objectivity of Internal Auditor
c) Systematic & Disciplined Approach d) Prohibition by law
178. Statutory auditor can use the work of the internal audit of which is:
 a) Complex in nature b) Requires significant judgements
 c) Risk of material misstatement is low. **d) None of the above**
179. Statutory auditor can use direct assistance from internal auditor with respect to work which is:
 a) Complex in nature b) Requires significant judgements

- c) Risk of material misstatement is low. **d) None of the above**
180. State the incorrect one:
a) If direct assistance is taken from internal auditor, it will reduce the liability of statutory auditor in case of negligence on part of internal auditor,
b) Even if direct assistance is taken from internal auditor, it will not reduce the liability of statutory auditor in case of negligence on part of internal auditor.
181. Can statutory auditor Take Direct Assistance in external confirmation procedure from Internal Auditor?
a) Yes, its common work for both auditors.
b) No, internal auditor is not concerned with such audit procedure.
c) Yes, it makes audit efficient and effective.
d) No, we cannot, as external auditor should have control over external confirmation process.
182. A person appointed by management, who is annex part in a field other than accounting and auditing, for the purpose of assisting the entity in preparation of financial statements.
a) Financial Expert
c) Auditor's Expert
b) Management's Expert
d) Accounting Expert
183. A person who has an expertise in a field other than accounting and auditing and is appointed by the auditor to assist in obtaining sufficient and appropriate audit evidence.
a) Financial Expert
c) Auditor's Expert
b) Management's Expert
d) Accounting Expert
184. Identify the correct option:
Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:
a) The actuarial calculation of liabilities associated with insurance contracts or employee benefit plans.
b) The estimation of oil and gas reserves.
c) The valuation of environmental liabilities, and site clean-up costs
d) All of the above
185. Which from the following shall not be considered for determining the need of auditor's expert?
a) Materiality
b) Complexity
c) Independence of auditor
d) Risk of Material Misstatement
186. Identify the incorrect option:
As per SA 620, how to determine whether the auditor's expert is competent or not?
a) Competence-Level & Nature of expertise
b) Capability -Ability to exercise the expertise
c) Objectivity-Independence or un biasness.
d) Performance Management
187. The auditor took help of auditor's expert however later it was found that auditor's expert did not performed his duties diligently. Responsibility of work lies with whom?
a) Auditor
b) Auditor's expert
c) Auditor and 'Auditor's expert jointly
d) Management
188. Reference to auditor's expert report shall be given in the report of the auditor always.
a) Yes, reference to auditor's expert report shall be given if work was performed by auditor's expert
b) No, reference to auditor's expert report shall be not be given even if work was

- performed by auditor's expert
- c) Yes, reference to auditor's expert report shall be given, however only if the report of auditor is unmodified.
- d) No, reference to auditor's expert report shall not be given always, however only if the report of auditor is modified, and helps in understanding.**
189. How the auditor shall evaluate the adequacy of the work performed by the auditor's expert?
- a) By evaluating the source of data
- b) By evaluating the assumptions and methods are relevant and reasonable
- c) By evaluating the conclusion derived
- d) All of the above**
190. Does reference to auditor's expert report, in the auditor's report reduces the liability of the auditor?
- a) Yes, if reference is given to the auditor's expert report then it reduces the liability of the auditor
- b) Yes, if reference is given to the auditor's expert report then it reduces the liability of the auditor, however only in case of unmodified auditor's report
- c) No, even if reference is given to the auditor's expert report, it does not reduce the liability of the auditor**
- d) No, even if reference is given to the auditor's expert report, it does not reduce the liability of the auditor, however in case of modified auditor's report, auditor expert can be held liable
191. Identify the incorrect option:
As per SA 620, why obtaining understanding of field of expertise of Auditor's expert is required?
- a) to evaluate adequacy of the work performed
- b) to determine nature and timing of expert's work
- c) to determine objectives of expert's work
- d) to determine remuneration for experts**
192. To facilitate the accumulation of the information necessary for the proper review and evaluation of internal controls, the auditor can use which of the following to help him to know and assimilate the system and evaluate the
- a) Narrative record
- b) Flow chart
- c) Check List
- d) All of the above**
193. Identify to which of the following option the respective statements belong to?
1. Complete and exhaustive description of the system as found in operation by the auditor
2. Recommended in cases where no formal control system is in operation and would be more suited to small business
3. Disadvantage is comprehending the system in operation is quite difficult
- Options-
- a) Narrative record**
- b) Flow chart
- c) Check List
- d) Questionnaire
194. Identify to which of the following option the respective statements belong to?
1. It is a graphic presentation of each part of the company's system of internal control
2. It gives bird's eye view of the system and the flow of transactions
- Options-
- a) Narrative record
- b) Flow chart**
- c) Check List
- d) Questionnaire
195. Identify to which of the following option the respective statements belong to?
1. Series of instructions and/or questions which a member of the auditing staff must follow and/or answer

2. Answers to the instructions are usually Yes, No or Not Applicable.
Options-
a) Narrative record b) Flow chart
c) Check List d) Questionnaire
196. Identify to which of the following option the respective statements belong to?
1. Usually issued to the client and the client is requested to get it filled by the concerned executives and employees
2. Generally, questions are so framed that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness.
3. Comprehensive series of questions.
4. In respect of questions not relevant to the business, 'Not Applicable' reply is given
Options-
a) Narrative record b) Flow chart
c) Check List **d) Questionnaire**
197. Identify the incorrect one:
1. The auditor needs to obtain the same degree of assurance in order to give an unqualified opinion on the financial statements of both small and large entities.
2. The auditor needs to obtain the different degree of assurance in order to give an unqualified opinion on the financial statements of both small and large entities.
3. Controls in small and large are not same, many controls which would be relevant to large entities are not practical in the small business
4. Controls in small and large are same, controls which are relevant to large entities are also relevant in the small business
Options-
a) 2 & 3 **b) 2&4** c) 1 & 3 d) 1 & 4
198. Identify the correct one:
1. Segregation of Duty is more found in small business
2. Segregation of Duty is less in small business
3. Segregation of Duty is less in large business
4. Segregation of Duty is more found in large business
Options-
a) 1 & 3 **b) 2&4** c) 2&3 d) 1 & 4
199. Identify the incorrect one:
a) In circumstances where segregation of duties is not limited, or evidence of supervisory controls is lacking, the evidence necessary to support the auditor's opinion on the financial information may have to be obtained largely through the performance of substantive procedures.
b) In circumstances where segregation of duties is limited, or evidence of supervisory controls is lacking, the evidence necessary to support the auditor's opinion on the financial information may have to be obtained largely through the performance of substantive procedures.
200. Identify the correct one:
a) An entity's system of internal control contains manual elements and often contains automated elements.
b) An entity's system of internal control contains only manual elements.
c) An entity's system of internal control contains only automated elements.
d) None of the above
201. Identify the incorrect one:
a) The use of manual or automated elements internal control affects the manner in which transactions are initiated, recorded, processed, and reported
b) The use of manual or automated elements in internal control does not affects the manner in which transactions are initiated, recorded, processed, and

circumvented by the collusion of two or more people or inappropriate management override of internal control"

Options-

- a) **Collusion among Employees** b) Judgement by Management
c) Ineffective Operation of Control d) Role of Human Judgement& Error

214. Identify the correct option as what type of inherent Limitations of Internal controls is referred, taking into consideration the respective statement " In designing and implementing controls, management may make judgements on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume"

Options-

- a) Collusion among Employees b) **Judgement by Management**
c) Ineffective Operation of Control d) Role of Human Judgement& Error

215. Identify the correct option as what type of inherent Limitations of Internal Controls is referred, taking into consideration the respective statement " The operation of a control may not be effective, such as where information produced for the purposes of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action"

Options-

- a) collusion among Employees b) Judgement by Management
c) **Ineffective Operation of control** d) Role of Human Judgement& Error.

216. Identify the correct option as what type o inherent Limitations of Internal Control is referred, taking into consideration the respective statement " Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable"

Options-

- a) collusion among Employees b) Judgement by Management
c) Ineffective Operation of control
d) **Considerations specific to Smaller Entities**

217. Fill in the blanks with the suitable option To verify cash transactions, it is necessary that the system of _____ and _____ operating in the organisation should be reviewed.

- a) **accounting; internal control** b)inspection; internal control
c) inquiry; internal control d)accounting; asset safeguarding

218. Internal Control System is a combination of several procedures adopted by an entity designed to give protection against losses through fraud, mistakes & to ensure that the transactions entered into shall be correctly recorded.

Is the above statement true or false?

- a) **True** b) False

219. In order to verify payment made on account of salaries and wages, the auditor should examine the internal control procedure as regards the following-

- a)Appointment, promotion, transfer and discharge of employees
b)Arrangement for disbursement of wages and salaries for "workers and employees not present on the pay day
c)Custody of the wage's records. d)**All of above**

Set-4

220. The purpose of internal audit is to protect the
(A) Assets
(B) Audit staff
(C) Accountant
(D) Management
221. When the auditor is an employee of the organization being audited (auditee), the audit is classified as a _____ Quality audit.
(A) Internal
(B) External
(C) Compliance
(D) Both A & B
222. CAAT stands for-
(A) Cornwall Air Ambulance Trust
(B) Children Air Ambulance Trust
(C) Center for alternatives to Animal Testing
(D) Computer Assisted Auditing Technique
223. Which of the following is not an audit risk?
(A) Inherent Risk
(B) Detection Risk
(C) Control Risk
(D) Omission Risk
224. Review of internal control system is very important for the auditor as the effectiveness of internal control system will determine the extent of checking to be done by the:
(A) Management
(B) Auditor
(C) Accountant
(D) None of the above
225. Internal Auditor is appointed by
(A) Audit Committee
(B) Shareholders in General Meeting
(C) Extraordinary General Meeting
(D) Board of Directors

Set-5

226. The Investments made by the company in Government Securities like NSC, Government Bonds, etc., should be kept in personal custody of Financial controller of the company. The given Statement is
a) TRUE **b) FALSE**
227. Internal Audit and Internal Check are one and the same. The given statement is
a) TRUE **b) FALSE**
228. Auditor is primarily responsible for establishing, maintaining and reviewing the Internal control system. The given statement is
a) TRUE **b) FALSE**
229. Written Representation and External confirmations are tools available for review of Internal controls. The given statement is
a) TRUE **b) FALSE**
230. Owner - Manager may override controls in smaller Entities, since the system of Internal control is less structured. The given statement is
a) TRUE b) FALSE

231. Internal check is part of Internal control system. The given statement is
a) **TRUE** b) FALSE
232. An auditor should study and evaluate internal controls to
a) determine whether assets are safeguarded
b) Suggest improvements in internal control
c) **Plan audit procedures**
d) Express and opinion on Internal controls
233. Tests of control are not concerned with
a) Existence & Effectiveness of controls
b) Continuity of controls
c) **All of the above**
d) None of the above
234. The sequence of steps in the auditor's consideration of internal control is as follows-
a) **Obtain an understanding, make a preliminary assessment of control risk, perform tests of control, design substantive procedures.**
b) Obtain an understanding, design substantive test, perform tests of control, make a preliminary assessment of control risk
c) Design substantive tests, obtain an understanding, perform tests of control, make a preliminary assessment of control risk
d) Perform tests of control, obtain and understanding, make a preliminary assessment of control risk, design
235. Which of the following is not an inherent limitation of internal control system ?
a) Management override
b) Collusion among employees
c) **Inefficiency of internal auditor**
d) None of the above
236. XYZ Ltd. Conducts quarterly review of operations. It discovers that unrest in a particular geographical area may affect the supply of raw materials to it the next quarter. This is an example of :
a) Control procedure
b) Supervision
c) **Risk Assessment**
d) Control environment
237. Attitude of board of directors concerning the importance of internal control; is reflected in
a) Accounting controls b) **Control environment**
c) Control procedures d) Supervision
238. Which of the following are included in test of control ?
a) **Re-performance and observation**
b) Inquiry and analytical procedures
c) Comparison and conformation
d) Inspection and verification
239. Control risk is assessed at
a) Overall financial statements level
b) Fraud risk factor level
c) **Financial statement assertion level**
d) Control environment level
240. Which of the following is not an example of a circumstance, in which additional tests of control will not be performed after obtaining an understanding to plan the audit ?
a) Controls are known to be cost ineffective
b) Controls are effective but auditor opines that performing tests of control and reduced substantive tests would not be cost effective

- c) Controls are effective and evidence already obtained level of control risk which is less than high**
d) Performing extensive substantive testing would not lead to efficiency
241. An auditor assesses control risk because it
a) affects the audit risk
b) affects the level of detection risk that auditor may accept
c) helps him to fix materiality level for each financial assertion
d) is directly related to inherent risk
242. A flow chart, made by the auditor, of an entity's internal control system is a graphic representation that depicts the auditor's
a) understanding of the system
b) understanding of fraud risk factors
c) documentation of assessment of control risk
d) Both (a) and (c)
243. The performance of tests of control is documented in
a) audit programme
b) flow charts
c) working papers
d) any of the above
244. Which of the following statements is not correct ?
a) Intern risk and control risk cannot be controlled by the management i.e are uncontrollable
b) Detection risk is related directly to the effectiveness of the auditor prosecutor
c) Detection risk related inversely to control risk
d) Internet risk and control risk are highly interrelated
245. The independence of an internal auditor will most likely be assured if he reports to the
a) General manager
b) President system
c) Audit committee
d) CEO
246. In comparison to the independent auditor, an internal auditor is more likely to be concerned with
a) Cost Accounting system
b) Internal control system
c) Legal compliance
d) Accounting system
247. As per SA 610, when an independent auditor relies on the work of an internal auditor, he or she should
a) examine the scope of internal auditor's work
b) examine the system of supervising review and ddocumentation of internal auditor's work
c) adequacy of related audit programmed
d) all of the above
248. Internal auditor is appointed by _____
a) The management
b) The Shareholders
c) The Government
d) The statutory Body
249. The work of one clerk is automatically check by another clerk is called _____
a) Internal control
b) Internal check
c) Internal audit

- d) None of the above
250. Internal auditor of a company may be _____
 a) Cost accountants holding COP b) Chartered accountants holding COP
 c) Chartered Accountant not holding COP **d) all of the above**
251. This Audit can be done by the employees of the entity _____
 a) Tax audit b) Internal Audit **c) Cost Audit** d) Statutory Audit
252. Checks and controls exercised in a business to ensure its efficient working is known as _____
 a) Internal check **b) Internal control system** c) Internal audit d) Interim check
253. An internal control includes _____
 a) Internal Audit b) Internal Check **c) Both (a) and (b)** d) None of the above
254. The most important objective of internal audit is _____
a) Early detection of errors and fraud
 b) Facilitating final audit
 c) Early finalization of annual account
 d) Ensuring systematic accounting
255. Internal check is meant for _____
a) Prevention of frauds
 b) Detection of frauds
 c) Helping audit is depth
 d) Detection of errors.
256. Which of the following is true :
 a) The internal audit plan should be comprehensive enough to ensure that it helps in achieving of the above overall objectives of an internal audit.
 b) The internal audit plan should, generally be consistent with the goals and objectives of the internal audit function as listed out in the internal audit charter as well as the goals and objectives of the organisation
 c) In case the entire internal audit or the particular internal audit engagement has been outsourced, the internal auditor should also ensure that the plan is consistent with the terms of the engagement
d) All the above
257. Bright and smart private limited will be required, according to the provisions of companies Act, 2013 to appoint an internal auditor only if the turnover during the preceding financial year would be :
 a) Less than or equal to Rs 200 crore
b) More than or equal to Rs 200 crore
 c) Less than or equal Rs 150 crore
 d) More than or equal to Rs 150 crore
258. Tallied Trial Balance in an Automated environment always simplifies the audit function. The given statement is...
 a) True **b) False**
259. Use of CAAT and Audit Software increases the probability of detecting fraud. The given statement is
 a) True **b) False**
260. Which of the following will not affect audit in an automated environment ?
a) The objective of expression of opinion on financial statements
 b) Compliance procedures adopted by the auditor
 c) Performance of substantive procedures
 d) Evaluation of inherent risk and control risk
261. _____ refers to a Business Environment where the processes, operations, accounting and sometimes even decisions are carried out by using computer systems
 a) Strategic Environment b) business Environment

- c) Automated Environment** d) Global Environment
262. In Automated Environment, Computers may be operated through
a) Entity b) Third party c) Data entry operator **d) both (a) and (b)**
263. Areas of Automation includes
a) Accounting entries b) Computation and calculation
c) Business policies and procedures **d) all of the above**
264. Business policies cannot be made into automation. The given statement is
a) True b) False
265. In Automated Environment, Computers may be operated through
a) The system cannot identify user and does not permit transactions
b) the system itself identifies the user and permits authorized transactions
c) the system itself identifies the user but does not permits authorized transactions
d) the system cannot itself identify the user but, permits authorized transactions
266. It Automation is relevant for
a) Audit Assignments b) Non Audit Assignments
c) both (a) and (b) d) None of the above
267. Transactions are recorded from source in
a) Conventional Accounting b) Computerized Accounting
c) Batch processing d) None of the above
268. Conventional systems are
a) Easy to design b) Difficult to design
c) Rare to design d) Competitive to design
269. Audit trail shall be fully visible in computerized Accounting. The given statement is
a) True **b) False**
270. Accounting and book-keeping functions are centralized in the finance department, in
a) Conventional Accounting b) Computerized Accounting
c) Batch processing d) None of the above
271. IT systems enable Business to perform their operations
a) faster, but with less efficiency
b) faster, and with more efficiency
c) Slower but with more efficiency
d) slower with less efficiency
272. If all transaction types and conditions are anticipated and incorporated into the system, IT system shall be
a) less reliable **b) more reliable** c) both (a) and (b) d) not reliable
273. Single point Input is a feature of
a) Conventional Accounting **b) Computerized Accounting**
c) Batch processing d) None of the above
274. Benefits of Automated Environment for Auditors includes
a) effectiveness of auditing procedures b) efficiency of auditing procedures
c) better application of review procedures **d) all of the above**
275. In Automated Environment, following report is possible
a) simple and complex reports b) General & special reports
c) Investigation Reports **d) Both (a) and (b)**
276. There are no Challenges in Automated Environment The given statement is
a) True **b) False**
277. Lack of Audit Trail is a challenge in
a) Conventional Accounting **b) Computerised Accounting**
c) Batch processing d) None of the above
278. Tallied Trial Balance in an Automated environment
a) Simplifies the Audit work
b) Complicates the Audit work

- c) need not necessarily simplify the audit function**
d) None of the above
279. In Automated Environment, Evaluation of authorization procedures becomes, as they are embedded within the system.
a) Difficult b) easy c) comparatively simpler d) Most complex
280. The risk of loss of records can be solved through
a) Proper documentation b) proper physical verification
c) proper designing **d) proper backup control**
281. Internal Accounting controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
282. Administrative controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
283. Operations controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
284. Preventive controls is an example of control based on
a) Functional Nature **b) Objective Nature**
c) IS Resource Nature d) Audit Function
285. Detective controls is an Example of control based on
a) Functional Nature **b) Objective Nature**
c) IS Resource Nature d) Audit Function
286. Corrective controls is an Example of control based on
a) Functional Nature **b) Objective Nature**
c) IS Resource Nature d) Audit Function
287. Compensatory controls is an Example of control based on
a) Functional Nature **b) Objective Nature**
c) IS Resource Nature d) Audit Function
288. Environmental controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
289. Physical Access controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
290. Logical controls is an Example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature d) Audit Function
291. Managerial controls is an Example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature **d) Audit Function**
292. Application Controls is an example of control based on
a) Functional Nature b) Objective Nature
c) IS Resource Nature **d) Audit Function**
293. The purpose of Data center and network operations controls is to
a) Ensure that production systems are processed quickly
b) Ensure that production systems are processed effectively
c) Ensure that production systems are processed immediately
d) None of the above
294. Documents that enables an Auditor to trace the transactions from the source is called as
a) Financial statements b) Audit Documentation

- c) **Audit Trail** d) Working papers
295. Auditing through the computer is called as
a) **White Box Approach** b) Black Box Approach
c) Grey Approach d) Functional Approach
296. Auditing around the computer is called as
a) White Box Approach b) **Black Box Approach**
c) Grey Approach d) Functional Approach
297. In Automated Environment, Absence of Input Documents is Risk associated with
a) **Input** b) Processing c) Authorisation d) all of the above
298. In Automated Environment, Lack of system log for system- authorized transactions is Risk associated with
a) **Input** b) Processing c) Authorisation d) all of the above
299. In Automated Environment, processing of inaccurate data is risk associated with
a) Input b) **Processing** c) Authorisation d) all of the above
300. In Automated Environment, lack of adequate segregation of duties is risk associated with
a) Input b) Processing c) **Authorisation** d) all of the above
301. In Automated Environment, Excessive Access is Risk associated with
a) Input b) Processing c) **Authorisation** d) all of the above
302. In Automated Environment, Failure to make necessary changes to systems or programs is Risk associated with
a) Input b) Processing c) Authorisation d) **Maintenance**
303. In Automated Environment Impact of Risk may have effect on
a) Control Evaluation b) Substantive Procedure
c) Reposting d) **all of the above**
304. Even if companies use a less complex IT systems (e.g. off-the-shelf Accounting software, spreadsheets, etc.), the Auditor is
a) not required to obtain an understanding of the company's IT environment but document the same
b) required to obtain an understanding of the company's IT environment but need not document the same
c) not required to obtain an understanding of the company's IT environment but document the same
d) **required to obtain an understanding of the company's IT environment and document the same**
305. Objective to obtain sufficient appropriate audit evidence in an Automated Environment, can be achieved through
a) Analysis b) Walk Through c) Evaluation d) **all of the above**
306. Data Analytics refers to
a) to qualitative techniques and processes used to identify and analyze data and patterns, to obtain meaningful information
b) to quantitative techniques and processes used to identify and analyse data and patterns, to obtain meaningful information
c) **to qualitative and quantitative techniques and processes used to identify and analyze data and patterns, to obtain meaningful information**
d) to qualitative and quantitative techniques and processes used to identify and analyze programs
307. Data Analytics tools and techniques
a) does not vary b) **vary as per organizational requirements**
c) vary as per Auditors objectives d) vary as per government regulations
308. Data Analytics tools and techniques are oriented towards
a) enhancing productivity b) business gain

- c) gaining competitive advantage **d) all of the above**
309. Computer Audit software may be used to
a) help the Auditor to gain access to computer processes and controls
 b) help the Auditor to gain understanding on financial statements
 c) help the Auditor to gain access to fixed Asset register
 d) help the Auditor to review audit work
310. Audit package may contain interactive enquiry facility to
 a) to documents b) to keep audit evidence
 c) to evaluate controls **d) interrogate files**
311. _____ are computer programs and data, that the Auditor uses as part of the audit procedures to process data of audit significance, contained in an Entity's information systems
a) CAAT b) BAAT c) ITS d) ITES
312. CAATs use the computer as _____ for enhancing the effectiveness and efficiency of audit procedures.
a) Audit Tool b) System Tool c) Accounting Tool d) Control Tool
313. CAATs are an efficient means of testing a large number of transactions or controls over large populations by
 a) analyzing and selecting samples from a large volume of transactions
 b) applying analytical procedures
 c) performing substantive procedures
d) all of the above
314. Purpose-written programs perform audit tasks in
 a) Audit circumstances **b) specific circumstances**
 c) control circumstances d) general circumstances
315. Utility programs are used by
 a) Auditors **b) Entity** c) Experts d) Management
316. Risk Assessment procedures includes
 a) Identify significant Accounts and Disclosures
 b) Evaluate the risk arising from use of IT systems
c) both (a) and (b)
 d) None of the above
317. Testing procedures includes
 a) Understand the design of controls
b) Assess the Nature, Timing and extent of controls testing
 c) Evaluate the risk arising from use of IT systems
 d) None of the above
318. Issue of Internal controls Memo (ICM) is a
 a) Testing Procedure b) Risk Assessment Procedure
 c) Control procedure **d) Reporting Procedure**
319. Preparing Risk and control Matrices (RCM) to establish
 a) Evidence Impact **b) Risk Impact** c) IT Impact d) Audit Impact
320. Flowcharts / Narratives helps the auditor to
 a) Understand the risk impact b) Internal controls
c) Both (a) and (b) d) Identify frauds
321. Which of the following is a General IT control ?
 a) IT Environment b) Application control
c) Access security d) IT dependent control
322. Which of the following is an automated control ?
 a) Program change b) System generated report
 c) Application control **d) Configurations**
323. The Guidance Note on Audit of Internal Financial controls over Financial Reporting has

been issued by ?

- a) **ICAI** b) SEBI c) MCA d) RBI

324. In WH Limited every business activity was being carried out manually. The top management of WH Limited decided to change the business environment of WH Limited by using computer systems and computer systems related technology to carry out all the major business activities of WH Limited. This business environment of WH Limited, where all the major business activities are done using computer systems and computers related technology is an example of :

- a) Operational Environment b) Computational Environment
c) Control environment **d) Automated Environment**

325. _____ are also known as pervasive or indirect controls :

- a) **General IT controls** b) Application Controls
c) IT dependent controls d) None of the above

326. _____ is the combination of processes, tools and techniques that are used to tap vast amounts of electronic data to obtain meaningful information :

- a) Computer Assisted Audit Techniques b) Automated Controls
c) Data Analytics d) Combination controls

327. _____ are manual or automated procedures that typically operate at a business process level and apply to the processing of individual applications.

- a) **Application controls** b) General IT controls
c) Process controls d) all of the above

328. _____ are the manual controls that make use of some form of data or information or report produced from the IT systems and applications.

- a) Application controls **b) IT dependent controls**
c) Automated Controls d) General IT controls

329. _____ is a logical subsystem within a larger information system where electronic data is stored in a predefined form and retrieved for use.

- a) Data Mining b) Data warehouse **c) Database** d) Data Analytics

330. _____ are needed to support the functioning of _____

- a) General IT controls ; Application controls**
b) Application Controls; General IT controls
c) IT Dependent controls; General IT controls
d) Application controls; IT dependent controls

331. Regulating body in case of banks is :

- a) SEBI b) IRDA **c) RBI** d) ICAI

332. The term Internal Financial Controls (IFC) basically refers to the policies and procedures put in place by companies for ensuring :

- a) reliability of financial reporting
b) effectiveness and efficiency of operations
c) compliance with applicable laws and regulations
d) all of the above

333. The tools and techniques that auditors use in applying the principles of data analytics are known as :

- a) Data analytics tools
b) Computer Assisted Auditing Techniques or CAATs in short
c) Analytics tools and techniques
d) system generated tools

334. _____ Exists when an internal control is either missing or not operating effectively to prevent or detect a misstatement in a timely manner by management

- a) Significant Deficiency b) Operating Deficiency
c) Management Control Deficiency **d) Control Deficiency**

Chapter – 4 AUDIT EVIDENCE

Set-1

1. Which of the following is not one of functions of internal auditor of an organization?
(a) Performing assurance activities
(b) Performing consulting activities to improve governance of organization
(c) Performing risk management activities
(d) Expressing independent opinion on financial statements of organization
2. An auditor finds during course of an audit that the entity has entered into many related party transactions. Which of the following statements is true?
(a) The risk that management may override controls in respect of related party transactions is lower.
(b) The risk that management may override controls in respect of related party transactions is higher.
(c) There is no effect on the risk that management may override controls in respect of related party transactions.
(d) Risk of overriding of controls by management has no relationship at all with related party transactions.
3. Which of the following is not an objective of a company's policies for ensuring "internal financial controls"?
(a) Efficient conduct of business
(b) Safeguarding of assets
(c) Prevention and detection of frauds and errors
(d) Assessing audit risk
4. Which of the following is not an advantage of statistical sampling?
(a) Sample size does not increase in proportion to size of area tested.
(b) Sample selection is more objective.
(c) It provides a means of deriving a calculated risk and corresponding precision.
(d) In case of verifying compliance with specific legal requirements, it is suitable.
5. A company auditor receives external confirmation from an entity to whom company has sold goods. The said amount is properly classified in financial statements of company. Which of the following statements is not true in this regard?
(a) It shows that said trade receivable exists.
(b) It shows that said trade receivable is properly valued.
(c) It shows that company has a right to said trade receivable.
(d) It shows that amount of said trade receivable has been recorded in proper account.

Set-2

CASE STUDY-1

CA Drishti Khandelwal is conducting audit of a company engaged in manufacturing of towels and bedspreads. The company is having its own manufacturing set-up. However, it also gets some manufacturing processes outsourced from third parties. The company has three locations having substantial quantities of inventories in the same city. Besides, due to outsourcing of some processes, inventories are also held in premises of third parties in the same city. As part of audit procedures, she is performing many audit procedures required by different Standards on Auditing.

In particular, she is attending physical inventory count process of the company at year end in accordance with requirements of SA 501. The inventory of the company includes raw materials

consisting mainly of natural and dyed yarns, work in process in different stages of manufacturing and finished stocks of towels and bedspreads.

She is also planning sending confirmations to parties to whom the company has sold goods. On reviewing trade receivables list, she finds that the list also contains large number of parties having small balances. She further finds that these receivables have arisen due to sale of bedspreads to small time retailers and possibility of difference in balances as per company's records and as per records of these small-time retailers is low. Risk of misstatements in relation to trade receivables has been assessed as low. Besides, there is nothing to suggest that small-time retailers would disregard such requests.

While conducting audit, she is testing controls operating in the company. She is also conducting tests of various items of income and expenditure as well as balances appearing in balance sheet. She intends to rely upon sampling extensively.

Based on above, answer the following questions: -

6. R Which of the following statements is most appropriate regarding inventory count by auditor in accordance with SA 501?

(a) She should inspect the inventory to ascertain its existence and condition at all locations, observe how company personnel are carrying out count procedures and perform test counting.

(b) She should inspect the inventory to ascertain its existence at all locations, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.

(c) She should inspect the inventory to ascertain its existence at selected location, observe how company personnel are carrying out count procedures and perform test counting. The matter of condition of inventories falls in domain of expert.

(d) She should inspect the inventory to ascertain its existence and condition at all locations and perform counting of each and every item.

7. As regards inventories lying with third parties, which of following statements meets requirements of SA 501?

(a) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company as well as request third parties to allow her to inspect inventories held by them. Both requirements are necessary to be complied with.

(b) She should request confirmation from third parties regarding quantity and condition of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these or both is required for purposes of SA 501.

(c) There is no obligation cast upon an auditor in respect of inventories lying with third parties.

(d) She should request confirmation from third parties regarding quantity, condition and value of inventories held on behalf of the company or request third parties to allow her to inspect inventories held by them. Compliance of any one of these is sufficient for purposes of SA 501.

8. Keeping in view description regarding trade receivables, identify the most appropriate statement in context of SA 505?

(a) She should not plan and design confirmation requests for large number of parties having small balances.

(b) She should plan and design positive confirmation requests for large number of parties having small balances.

(c) She should plan and design positive confirmation requests for large number of parties having small balances and meticulously analyse exception rate

(d) She should plan and design negative confirmation requests for large number of parties having small balances.

9. As regards sampling, which of the following statements is most appropriate in terms of requirements of SA 530?
- (a) Sampling is used in tests of transactions as well as tests of controls.
 - (b) Sampling is used in tests of balances as well as tests of controls.
 - (c) Sampling is used in tests of details.
 - (d) Sampling is used in tests of details as well as tests of controls.**
10. Since she intends to rely upon sampling extensively, which of the following statements is true about sampling risk?
- (a) Sampling risk can be eliminated.
 - (b) Increase in sampling risk would lead to decrease in detection risk.
 - (c) Decrease in sampling risk would lead to increase in detection risk.
 - (d) Sampling risk will always be in existence.**

CASE STUDY-2

Financial statements of a firm have been put up for audit before CA Manushi. On going through financial statements, she wants to verify assertions contained in financial statements and has planned certain procedures for carrying out detailed checking.

(A) She plans to verify some major bills debited in "Machinery repair" account. The purpose of it is to ensure that bills are entered correctly and their classification is proper.

(B) She plans to verify that all balances appearing under trade payables are genuine and not fake.

(C) She plans to compare amount of wages paid in current year and last year. It is also planned to verify relationship between the number of employees and wages paid in both years.

(D) She is of the view that it is necessary to examine title deeds of "land" appearing in financial statements of the firm.

(E) The firm is engaged in export of goods to Europe. The sales invoices raised in Euros are converted into Indian rupees as per applicable norms.

Based on above, answer the following questions: -

11. As regards description given regarding verification of bills debited in "Machinery repair" account, identify what she intends to perform?
- (a) Tests of Controls
 - (b) Tests of transactions**
 - (c) Tests of balances
 - (d) Risk assessment procedures
12. Identify which type of assertion she intends to focus when she wants to ensure genuineness of trade payables.
- (a) Occurrence
 - (b) Cut-off
 - (c) Existence**
 - (d) Accuracy
13. As regards comparison of wages of current year and last year and comparison of relationship between the number of employees and wages paid in both years, identify what she is trying to do?
- (a) She is intending to perform tests of details.
 - (b) She is intending to perform tests of transactions.
 - (c) She is intending to perform tests of balances.
 - (d) She is intending to perform substantive analytical procedures.**
14. In case of examination of title deeds of "land", which of the following fits into most appropriate description of such an audit procedure?
- (a) Observation
 - (b) Inspection**

- (c) External confirmation
 - (d) Enquiry
15. She wants to verify whether conversion of foreign currency into Indian rupees is proper or not. Identify what she is trying to do?
- (a) Re performance
 - (b) Recalculation**
 - (c) Observation
 - (d) Inspection

Set-3

16. External confirmation should always be in paper form and not in any other medium due to its importance.
- a) True, as per SA 505 external confirmation is reliable only if it is in paper form.
 - b) False, as per SA 505 external confirmation can be in paper, electronic form or any other medium.**
 - d) True, as per SA 505 external confirmation other than in paper form is prohibited.
 - c) False, as per SA 505 external confirmation can be in paper or electronic form, other than this no another medium shall be used.
17. External Confirmation can be by paper, electronic or other medium.
- a) True, SA 505 permits that external confirmation can be in paper, electronic or other medium.**
 - b) False, as per SA 505 external confirmation is reliable only if it is in paper form.
 - c) True, as per SA 505 external confirmation can be by paper, electronic or other medium but it depends on the internal control system of the organisation.
 - d) False, as per SA 505 external confirmation can be in paper or electronic form, other than this no another medium shall be used.
18. Audit evidence is less reliable when it is obtained from independent sources outside the entity.
- a) True, as per SA 505 audit evidence obtained internally is more reliable.
 - b) False, as per SA 505 audit evidence obtained from an independent source is more reliable.**
 - c) True, as per SA 510 audit evidence obtained from dependent sources is more reliable.
 - d) False, as per SA 510 audit evidence obtained from an independent source is more reliable.
19. State the incorrect one:
- a) Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
 - b) Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium
 - c) Audit evidence in the form of external confirmations received directly by the auditor is less reliable than evidence generated internally by the entity.**
 - d) External Confirmation can be by paper, electronic or other medium.
20. A request that the confirming party respond directly to the auditor, indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
- a) Negative Confirmation request.
 - b) Positive Confirmation request**
 - c) Follow up confirmation request
 - d) Affirmative confirmation request
21. A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.
- a) Negative Confirmation request.**

- b) Positive Confirmation request
c) Follow up confirmation request
d) Affirmative confirmation request
22. Positive confirmation is _____ persuasive than negative confirmation.
a) More
b) Less
c) equally
d) None of the above
23. Negative confirmation is used where risk of material misstatement is _____.
a) More
b) less
c) greater
d) supplementary
24. In case if the internal control system of the organisation is good the _____ will be a better option.
a) Negative Confirmation
b) Positive Confirmation
c) interior Confirmation
d) exterior confirmation
25. A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.
a) deviation **b) exception** c) misstatement d) error
26. Identify the incorrect one:
Factors affecting reliability:
a) Evidence from independent source outside entity is more reliable
b) Evidence provided from client is more reliable
c) Evidence provided by original documents is more reliable
d) If internal controls are strong, internal evidence is more reliable
27. Identify the incorrect one:
a) If internal controls are strong, internal evidence is more reliable than external evidence.
b) Even though If internal controls are strong, internal evidence is less reliable.
c) If internal controls are weak, external evidence is more reliable than internal evidence.
d) None of the above
28. Before relying on work done by managements expert, check following things
a) Competence/ Capability/ Objectivity of the expert.
b) Understanding of the field & experts work
c) Appropriateness of expert's work
d) All the above
29. Select the correct one:
a) An auditor can bring about a modifications or additions to audit procedures if audit evidence is inconsistent or has doubts over its reliability.
b) An auditor can bring about a modifications or additions to audit procedures if audit evidence is inconsistent or has doubts over the its reliability however management approval is required.
c) An auditor cannot bring about a modifications or additions to audit procedures once determined even if audit evidence is inconsistent or has doubts over its reliability.
d) None of the above are correct.
30. Identify the correct one:
Audit evidence should be sufficient and appropriate:
1. Sufficiency refers to the quantum of audit evidence obtained.

2. Appropriateness refers the quantity of audit evidence obtained.
3. Sufficiency refers to the quality of audit evidence obtained.
4. Appropriateness refers the reliability & relevance of the evidence.
Options:
a) **1 & 4.** b) 1 & 2. c) 1&3. d) 4&3
31. Anything which gives information to form an opinion.
a) Audit report b) Management representation
c) **Audit evidence** c) External confirmation
32. Audit evidence includes-
1. The accounting records-Which are prepared specifically for accounting process or output of accounting process.
2. Other Information - Which are prepared specifically for accounting process or output of accounting process.
3. Other Information - Which are prepared for various purposes, but which can be used to verify accounting records.
4. The accounting records-Which are prepared for various purposes, but which can be used to verify accounting records. Identify the correct one:
Options:
a) 1 & 4 b) 1 & 2 **c) 1 & 3** d) 2 & 3
33. Auditor should also consider _____ when he has obtained confirmation from third parties.
a) SA 510, "External Confirmation b) SA 500, "External Confirmation
c) **SA 505, "External Confirmation** d) SA 520, "External Confirmation
34. Which of the following statements is not true regarding confirmations from third parties:
a) Where significant inventories of the entity are held by third parties, the auditor should examine that the third parties are not such with whom it is not proper that the inventories of the entity are held.
b) The auditor should also directly obtain from the third parties' written confirmation of the inventories held
c) Arrangements should be made with the entity for sending requests for confirmation to such third parties
d) **Auditor should also consider SA 504, "External Confirmation" when he has obtained confirmation from third parties.**
35. 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.
36. 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)**
37. 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
38. Which of the following is source of Non Sampling risk :
a) Human Mistakes
b) Applying audit procedures not appropriate to the objectives of audit
c) Misinterpreting the sample results
d) **All of the above**
39. Which of the following is more scientific :
a) **Statistical** b) Non- statistical c) both (a) and (b) d) none of the above

40. As the number of transactions of WY Limited for the financial year 2018-19 were in very large number, the auditor of WY Limited decided to use the technique of Audit Sampling. Before selecting the sample from Repair and Maintenance Expenses, the auditor of WY Limited wished that entire data of Repair and Maintenance Expenses of WY Limited for financial year 2018-19 should have three characteristics. These three characteristics are:
- a) Simple, Completeness, Relevant.
 - b) Appropriateness, Simple, Relevant.
 - c) Reliable, Simple, Relevant.
 - d) Appropriateness, Completeness, Reliable.**
41. In random Sample, each item of population has
- a) equal chance of selection**
 - b) has varying chance of selection depending upon placing of items.
 - c) may have a chance of selection based on auditors professional judgement
 - d) All of these
42. The relationship between tolerable error and sample size is
- a) Inverse**
 - b) Direct
 - c) Close
 - d) There is no relationship.
43. Statistical sampling has the following characteristics
- a) Random selection
 - b) Use of Probability theory
 - c) both (a) and (b)**
 - d) Judgmental approach
44. Identify the type of risk:
Chances that conclusion obtained from auditing the selected part of the population will differ from the conclusion obtained from auditing the entire population due to incorrect selections from population.
- a) Sampling risk**
 - b) Control risk
 - c) Inherent risk
 - d) Detection risk
45. Identify the type of risk:
Chances that conclusion obtained from auditing the selected part of the population will be incorrect due to inappropriate audit procedure.
- a) Non-sampling risk**
 - b) Sampling risk
 - c) Inherent risk
 - d) Detection risk
46. State whether true or false:
Factual misstatements are differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies that the auditor considers inappropriate
- a) True, the above statement is correct
 - b) False, factual misstatements are misstatements about which there is no doubt.**
 - c) False, factual misstatement are the auditor's best estimate of misstatements in population on the basis of misstatement found in sample.
 - d) False, factual misstatement are the management judgement of misstatements in financial statement
47. State whether true or false:
Projected misstatements are misstatements about which there is no doubt.
- a) True, the above statement is correct
 - b) False, projected misstatement are the auditor's best estimate of misstatements in population on the basis of misstatement found in sample**
 - c) False, projected misstatement are differences arising from the judgments of management, concerning estimates that auditor considers reasonable.
 - d) False, projected misstatement are the management judgement of misstatements in financial statement
48. State whether true or false:
Judgmental misstatements are the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn.

- a) True, the above statement is correct.
b) False, judgmental misstatement are differences arising from the judgments of management concerning estimates that auditor considers reasonable.
 c) False, Judgmental misstatements are misstatements about which there is no doubt
 d) False, projected misstatement are the management judgement of misstatements in financial statement.
49. The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure
 a) Audit Risk b) Inherent Risk c) Detection Risk **d) Sampling Risk**
50. The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling process
 a) Audit Risk b) Inherent Risk c) Detection Risk **d) Non-Sampling Risk**
51. Examples of non-sampling risk include:
 a) Inappropriate audit procedure
 b) Misinterpretation of audit evidence
 c) Failure to recognize a misstatement or deviation
d) All of the above
52. Only cost of fixed assets was checked by tracing bills and agreements with fixed asset register, no checking for depreciation, revaluation, AS compliance, physical verification.
a) Inappropriate audit procedure
 b) Misinterpretation of audit evidence
 c) Failure to recognize a misstatement or deviation
 d) None of the above
53. Compared ratios of Cement Industry with Textile Industry and termed differences as increased Risk of Material Misstatement.
 a) Inappropriate Audit Procedure
b) Misinterpretation of Audit Evidence
 c) Failure to recognize a misstatement or deviation
 d) None of the above
54. Company policy changed from 1 director signature to 2 director signatures for Cheques above 10,00,000 but bank was not informed, and many cheques were still signed by 1 director, but auditor could not detect it
 a) Inappropriate Audit Procedure
 b) Misinterpretation of Audit Evidence
c) Failure to recognize a misstatement or deviation
 d) None of the above
55. The auditor shall determine a sample size sufficient to-
a) reduce sampling risk to an acceptably low level
 b) increase sampling risk to an acceptably low level
 c) reduce sampling risk to an acceptably high level
 d) increase sampling risk to an acceptably high level
56. The higher the auditor's assessment of the risk of material misstatement, the _____ sample size needs to be.
 a) smaller **b) larger** c) compact d) minor
57. The auditor's assessment of the risk of material misstatement is affected by _____ and _____.
 a) inherent risk; detection risk. b) control risk; detection risk.
c) inherent risk; control risk. d) None of the above
58. The less the auditor is relying on other substantive procedures to reduce to an acceptable level the detection risk regarding a particular population, the assurance the _____ auditor will require from sampling. Hence sample size will be _____.
 a) less, less b) more, less c) less, more **d) more, large**

59. The greater the amount of misstatement the auditor expects to find in the population, the _____ sample size needs to be in order to make a reasonable estimate of the actual amount of misstatement in the population.
a) smaller **b) larger** c) compact d) minor
60. When a population cannot be appropriately stratified, the sample size from the population generally will be _____.
a) lower **b) higher** c) compact d) minor
61. State the incorrect one from the options:
a) The lower the tolerable misstatement, the smaller the sample size needs to be.
b) The lower the tolerable misstatement, the larger the sample size needs to be.
c) The higher the tolerable misstatement, the smaller the sample size needs to be.
d) None of the above
62. Sample size is a valid criterion to distinguish between statistical and non-statistical approaches.
a) True **b) False**
63. Following is an example of Statistical sampling method:
a) Haphazard sampling b) Block selection
c) Judgmental sampling **d) Simple random sampling**
64. Following is a not an example of Non -Statistical Sampling method:
a) Haphazard Sampling b) Block Selection
c) Judgmental Sampling **d) Interval Based Sampling**
65. Following is an example of Non-statistical Sampling method:
a) Random Sampling b) Cluster Sampling
c) Haphazard Sampling d) Interval Sampling
66. Following is a not an example of- Statistical Sampling method:
a) Random Sampling b) Cluster Sampling
c) Block Sampling d) Interval Sampling
67. Whatever may be the approach non-statistical or statistical sampling, the sample must be representative of the entire population. This means that it must be:
a) closely similar to the whole population although not necessarily exactly the same.
b) entirely similar to the whole population, necessarily exactly the same.
68. In _____ sampling, sample items are selected in a way that each sampling unit has a known probability of being selected.
a) statistical b) non - Statistical c) non -steady d) non -stative
69. With _____ sampling, judgment is used to select sample items.
a) statistical **b) non - statistical** c) numerical d) integrated
70. Audit testing done through _____ approach is more scientific than testing based entirely on the auditor's own judgment
a) statistical b) non - statistical c) non -steady d) non -stative
71. _____ sampling has reasonably wide application where a population to be tested consists of a large number of similar items.
a) statistical b) non - statistical c) non -steady d) non -stative
72. Identify the methods of selecting the sample. Stratified sampling means -
a) The mechanics of selection of items may be by choosing numbers from table of random numbers by computers or picking up numbers randomly from a drum.
b) This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
c) It involves selecting items using a constant interval between selections, the first interval having a random start.

- d) None of the above.
73. Identify the methods of selecting the sample. Interval sampling means –
- The mechanics of selection of items may be by choosing numbers from table of random numbers by computers or picking up numbers randomly from a drum.
 - This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
 - It involves selecting items using a constant interval between selections, the first interval having a random start.**
 - None of the above.
74. Identify the methods of selecting the sample. Simple random sampling means –
- The mechanics of selection of items may be by choosing numbers from table of random numbers by computers or picking up numbers randomly from a drum.**
 - This method involves dividing the whole population to be tested in a few separate groups called strata and taking a sample from each of them.
 - It involves selecting items using a constant interval between selections, the first interval having a random start.
 - None of the above.
75. The cluster is _____ effective for a given sample size than unrestricted random and stratified samples as items are not individually selected. However, the time saved can be utilized to have a _____ sample to make the sample results more reliable.
- less, smaller
 - more, larger
 - less, larger**
 - more, smaller
76. Monetary Unit Sampling is a type of value weighted selection.
- True**
 - False
77. Under the sample size and its composition are determined on the basis of the personal experience and knowledge of the auditor.
- Statistical
 - Non – Statistical**
 - Numerical
 - integrated
78. State whether true or false:
The non-statistical sampling is criticized on the grounds that it is neither objective nor scientific.
- True**
 - False
79. This method involves the selection of a defined block of consecutive items.
- Random Sampling
 - Cluster Sampling
 - Block Sampling**
 - Interval Sampling
80. Identify the incorrect one:
- Haphazard selection is not appropriate when using statistical sampling.
 - Haphazard selection is appropriate when using statistical sampling.**
 - Haphazard selection is appropriate when using non-statistical sampling.
 - None of the above
81. State whether true or false:
If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item.
- True,**
 - False,
82. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a _____ from the prescribed control, in the case of tests of controls, or a _____, in the case of tests of details.
- misstatement, deviation
 - fraud, error
 - deviation, misstatement**
 - error, fraud
83. If risk increases sample size increases. What will happen if population size increases?
- Sample Size Increases
 - Sample Size Decreases

- c) Negligible Effect on Sample Size** d) Both are unrelated
84. While sampling auditor detected anomalous misstatement. Whether such misstatement should be included while projecting misstatement of population?
- a) Yes, every misstatement should be considered
b) SA is silent about it
c) Yes, it is part of sampling
d) No, it should not be considered as per SA 530
85. If the system of internal control on application of procedural tests is found to be effective, it would be necessary for the auditor to extend the programme of verification of balances of the accounts in the ledgers.
- a) True **b) False**
86. It is practice for an auditor to verify that every item of goods purchased has been entered in inventory
- a) True **b) False**
87. When significant risk had been identified by the auditor, then:
- a. Audit evidence obtained solely from substantive analytical procedures is sufficient.
b. Audit evidence obtained solely from substantive analytical procedures is unlikely to be sufficient.
c. Auditor will perform test of details also.
d. Both b and c
88. Substantive Analytical Procedures are generally more applicable to:
- a) Large volumes of transactions. b) Transactions predictable over time.
c) Both a and b d) None of a and b
89. is the comparison of current data with the prior period balance.
- a) Ratio Analysis **b) Trend analysis**
c) Reasonableness test d) Structural Modelling
90. Statement 1: Analytical procedures are more useful while conducting the audit and at the completion phase and are of no use at the planning stage.
Statement 2 : In the planning stage, audit procedures assist the auditor in understanding the client's business and identifying the areas of potential risks.
- a) Statement 1 & 2 are correct b) Statement 1 & 2 are incorrect
c) Only Statement 1 is correct **d) Only Statement 2 is correct**
91. 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 non-financial data
d) All of the above
92. 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 procedures
93. Analytical procedures issued in the planning stage of an audit, generally:
- a. help to determine the nature, timing and extent of other audit procedures
b. direct attention to potential risk areas
c. indicate important aspects of business
d. All of the above
94. 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
95. 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.
96. Auditor Compares Gross Profit Ratio with that of previous year and it is discovered that there has been a fall in the ratio. This is an example of:
a) Analytical Procedure b) Test of Controls
c) Walk through Test d) Audit Sampling
97. It is _____ to perform analytical procedure on _____ accounts to identify unusual or unexpected relationships.
a) compulsory; revenue **b) recommendatory; revenue**
c) compulsory; capital d) recommendatory; capital
98. _____ means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data.
a) Risk assessment procedure b) Comparison
c) Analytical procedure d) Test checking
99. Analytical procedures do not encompass investigation within it to identify the fluctuations identified.
a) True **b) False**
100. Analytical procedures are used as a substantive test:
a) to determine the nature, timing and extent of other auditing procedures.
b) to obtain evidential matter about particular assertions related to account balances or classes of transactions.
c) to form opinion d) None of the above.
101. Analytical procedures are used in planning stage:
a) to determine the nature, timing and extent of other auditing procedures.
b) to obtain evidential matter about particular assertions related to account balances or classes of transactions.
c) to form opinion
d) None of the above.
102. Factors that do not determine suitability of particular substantive analytical procedures:
a) Volume of transactions b) Predictable relationship
c) Level of assurance **d) None of the above**
103. Analytical procedures" means evaluations of financial information through analysis of plausible relationships among _____.
a) financial data b) various quarters
c) non-financial data **d) both financial and non-financial data.**
104. Analytical procedures are used to obtain relevant and reliable audit evidence when using
a) substantive analytical procedures b) compliance procedures
c) none of the above
105. Is it possible to verify the correctness of cost of importing goods from the amount of import duty paid?
a) Yes b) No
106. Which of the following are not relevant when determining whether data is reliable for purposes of designing substantive analytical procedures?

- a) Source of the information available
- b) Comparability of the information available
- c) Nature and relevance of the information available
- d) None of the above**

Set-4

107. Which of the following is not external audit evidence?

- (A) Quotations
- (B) Confirmation from debtors
- (C) Goods Received Note**
- (D) Confirmation from bankers

108. Audit Procedures to obtain audit evidences include

- (A) Compliance Procedure
- (B) Substantive Procedure
- (C) Both (A) and (B)**
- (D) Neither (A) nor (B)

109. SA 530 stands for

- (A) Audit Documentation
- (B) Audit Sampling**
- (C) Responsibility of Joint Auditor
- (D) Agreeing the terms of Audit Engagements

Estd.: 2007

Set-5

110. "One of the methods of gathering Evidence is "Substantial Review". The given statement is

- a) True
- b) False**

111. Confirmations received by the Auditor directly from third parties are conclusive evidence in support of transaction. The given statement is

- a) True
- b) False**

112. If Internal control is satisfactory, External Evidence is more reliable than Internal Evidence. The given statement is

- a) True
- b) False**

113. Compliance procedures are test designed to obtain audit evidence as to completeness, accuracy and validity of the data produced by accounting system. The given statement is

- a) True
- b) False**

114. Auditing in Depth implies that the Auditor vouches almost all transactions in a manner that the chances of not checking any transaction are left in minimum. The given statement is

- a) True
- b) False**

115. While auditing the accounts of a company, it is obligatory that the Auditor must adapt sampling Technique. The given statement is

- a) True
- b) False**

116. Audit sample need not be selected on random basis for application of statistical techniques. The given statement is

- a) True
- b) False**

117. Least persuasive audit evidence is

- a) Bank statements obtained from the client
- b) Documents obtained by auditor from third parties directly.
- c) Carbon copies of sales invoices**
- d) Computations made by the auditor.

118. Audit in depth is synonymous for
a) Examination in Depth
 b) Completed audit
 c) Final audit
 d) Internal Audit
119. Which of the following statements is, generally, correct about the reliability of audit evidence?
b) Effective internal control system provides reliable audit evidence
 c) Evidence obtained from outside sources routed through the client
 d) All are correct
120. 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
121. 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
 c) When it is objective and relevant
 d) When auditor collects and evaluates it independently
122. Corroborative evidence adds value to the
a) Available audit evidence
 b) Intention of the Management
 c) Intention of the Auditor
 d) None of the above
123. Voucher relates to _____
 a) Cash receipt.
 b) Cash payment
 c) Credit transactions
d) All the above
124. Test Checking reduces the _____
 a) Power of an auditor
 b) Expenses of auditor
c) Work of an auditor
 d) Liability of an auditor
125. Test checking implies _____
 a) Checking only a few items in detail
 b) Checking each and every item
c) Checking a representative sample of items
 d) Checking a part of books
126. A voucher is a document _____
a) To support an entry made in the books of accounts
 b) To record Fixed Assets
 c) To record the decision of the Managing Director
 d) None of the above
127. Voucher relates to _____
 a) Cash receipt.
 b) Cash payment
 c) Credit transactions
d) All the above
128. Test Checking reduces the _____
 a) Power of an auditor
 b) Expenses of auditor
c) Work of an auditor
 d) Liability of an auditor

Chapter – 5 AUDIT OF ITEMS OF FINANCIAL STATEMENTS

SET-1

1. An auditor is verifying purchases to ensure their genuineness. Consequently, he is also trying to verify that no fake "trade payables" are present in financial statements. Which assertions concerning purchase transactions and trade payables respectively are being verified by auditor?
(a) Occurrence; Existence
(b) Occurrence; Completeness
(c) Existence; Occurrence
(d) Completeness; Occurrence
2. Which of the following statement is most appropriate as regards to disclosure of goods in transit in financial statements of a company?
(a) No separate disclosure of goods in transit is required.
(b) Disclosure of total goods in transit under head of inventories is required.
(c) Disclosure of goods in transit under each sub-head of inventories is required.
(d) Disclosure of goods in transit for raw material and finished goods is required.
3. Sweat Equity shares are issued by a company at a discount or for consideration other than cash to its:-
(a) Directors only
(b) Clients only
(c) Directors or employees
(d) Auditors only
4. Which of the following is not an element of cost of an item of machinery included under head "Property, Plant and Equipment"?
(a) Installation costs
(b) Freight cost of bringing the item to its location
(c) Inaugural costs
(d) Employee benefit cost for making such an item suitable for production
5. Which of the classification is not required by a company in respect of its "Cash and cash equivalents?"
(a) Balance with Banks
(b) Balance with scheduled banks
(c) Cash on hand
(d) Cheques on hand

SET-2

CASE STUDY-1

Sunsteel Ltd. is a company engaged in the manufacture of variety of stainless steel household items ranging from hot pot, pressure cooker, cutlery set, bottles, to serving trays. The company has its corporate office in Delhi and its plant in Raigarh, a city in the state of Chhattisgarh. The company is planning to expand its manufacturing activities by setting up two new plants in the Raipur district of the state. For this purpose, the company also raised funds by making a follow-on public offer during the financial year 2022-23. R K Maheshwari & Associates are the statutory auditors of the company since the year 2020-21.

The engagement team consisted of 5 members, with CA Raman as the engagement partner, CA Madhu as the senior associate and three articled trainees namely, Aman, Chetanya and Depesh.

The company raised fresh capital of Rs. 5 Cr during the FY 2022-23. The shares with the nominal value of Rs. 10 per share were issued at a premium of Rs. 5 per share. The company has the Reserves and Surplus totaling to Rs. 2 Cr, comprising of securities premium and general reserve.

CA Raman directed CA Madhu to verify the issue of the share capital in detail giving special consideration to the utilization of the securities premium amount. The audit engagement team discussed with the management about the performance of the company during the year under consideration. To this, the management told the engagement team that the company is performing very well and the company has doubled its revenue during the year as compared to the last year. The management of the company also told the auditors that during the year the company has made majority of its sales on credit basis to its customers.

CA Raman directed Mr. Aman to send balance confirmation requests to debtors having balance in excess of Rs. 1 lakh.

During the course of audit, CA Raman, Chetanya and Depesh also visited the power plants in Raigarh to get a detailed understanding of the manufacturing process.

The team performed analytical procedures to obtain audit evidence with respect to the overall reasonableness of purchase quantity and price of inventory. More specifically, Chetanya collected the reports from the management for composition of stock i.e. raw materials as a percentage of total stock and compared the same with the data of the previous year. CA Raman and Chetanya thereafter, discussed the reasons for the variations with the management.

Also, while considering the presentation and disclosure requirements as per Schedule III to the Companies Act, CA Madhu discussed with CA Raman the disclosure with respect to the following account balances:

- Current maturities to long term borrowings
- Long term maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings

Based on above, answer the following questions: -

6. Which of the following is not correct with respect to shares issued at premium and securities premium account in terms of Section 52 of the Companies Act, 2013?
- (a) Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a securities premium account.
- (b) The securities premium account can be applied by the company in paying up unissued equity shares of the company to be issued to members of the company as fully paid bonus shares.
- (c) The securities premium account cannot be applied by the company in writing off the expenses of or the commission paid or discount allowed on any issue of equity shares of the company.**
- (d) The securities premium account can be applied by the company for the purchase of its own shares or securities under section 68.
7. Which of the following is not an example of capital reserve?
- (a) Revaluation reserve arising from revaluation of fixed assets
- (b) Securities Premium
- (c) Capital redemption reserve
- (d) General reserve**
8. Statement 1: Confirmations as well as undelivered letters should be given/ returned to the auditor and not to the client.
- Statement 2: When no reply is received, the auditor should perform alternate procedures regarding the balances.
- (a) Only statement 1 is correct

- (b) Only statement 2 is correct
(c) Both statements 1 & 2 are correct
(d) Both statements 1 & 2 are incorrect
9. Mr. Chetanya performed which of the following analytical procedures to obtain the audit evidence with respect to the overall reasonableness of purchase quantity and price of raw material?
(a) Consumption Analysis
(b) Stock Composition Analysis
(c) Reasonableness test
(d) Ratio analysis
10. Which of the following is not correct with respect to the disclosure requirements of Schedule III to the Companies Act 2013?
(a) Current maturities of long term borrowings is to be disclosed under the head long term borrowings
(b) Long term maturities of finance lease obligations is to be disclosed under the head long term borrowings
(c) Interest accrued but not due on borrowings is to be disclosed under the head Other Current Liabilities
(d) Interest accrued and due on borrowings is to be disclosed under the head Other Current Liabilities

SET-3

11. Which assertion is common among the statement of profit and loss and balance sheet captions:
a) Existence b) Valuation **c) Completeness** d) Measurement
12. Direct confirmation procedures are performed during audit of accounts receivable balances to address the following balance sheet assertion:
a) Rights and obligations **b) Existence** c) Valuation d) Completeness
13. Where no reply is received during the performance of direct confirmation procedures as part of audit of accounts receivable balances, the auditor should perform:
a) No additional testing
b) Additional testing including subsequent collections testing and agreeing the detail of the respective balance to the customer's remittance advice.
c) Additional testing including preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these revenue transactions actually occurred.
d) Both (b) and (c)
14. Obtaining trade receivables ageing report and analysis and identification of doubtful debts is performed during audit of accounts receivable balances to address the following balance sheet assertion:
a) Valuation b) Rights and obligations
c) Existence d) Completeness
15. Observing inventory being counted and personally performing test counts to verify counts is performed during audit of inventory balances to address the following balance sheet assertion:
a) Rights and obligations b) Valuation
c) Completeness **d) Existence**
16. Wages paid to workers would qualify as:
a) Revenue expenditure
b) Capital expenditure
c) Revenue or capital expenditure depending upon facts and circumstances.
d) None of the above

- 17.During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised:
a) Development phase
c) None of the above
- b) Research phase
d) Both (a) and (b)
- 18.Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion:
a) Valuation
c) Existence
- b) Rights and obligations
d) Completeness
- 19.Cut-off testing is performed during audit of sales to address the following assertion:
a) Occurrence b) Measurement c) Cut-off d) All of the above
- 20.All inventory units held by the audit entity and that should have been recorded, have been recognized in the financial statements. The assertion involved is :
a) Existence b) Completeness c) Rights and Obligations d) Valuation
- 21.Which of the following is not an example of revenue expenditure -
a) Salaries and wages of employees engaged directly or in-directly in production
b) Repairs, maintenance and renewals of fixed assets
c) Legal and professional expenses
d) development expenditure on land
- 22._____are charges against profits to provide for known liabilities for which amounts cannot be determined with accuracy
a) Contingent Liabilities
c) Securities Premium Reserve.
- b) Provision
d) Liabilities
- 23.Which of the following is not correct:-
a) AS 18 – Related Party Disclosures b) AS 10 – Property, Plant & Equipment
c) AS 28 – Impairment of Assets d) AS 16 – Intangible Assets
- 24.Which of the following item should not be treated as an asset, as per provisions of Accounting Standard 26 :
a) Computer software
c) Fishing License
- b) Internally generated goodwill
d) Brand Names
- 25.As per section 2(8) of the Companies Act, 2013 "_____" means such capital as is authorized by the memorandum of a company to be the maximum amount of share capital of the company in terms of Face Value.
a)Authorized capital b)Nominal capital
c)Either of the above d)None of the above
- 26.As per Section 2(50) of the Companies Act, 2013,"_____" means that part of authorized capital which is offered by the company for subscription and includes the shares allotted for consideration other than cash.
a)issued capital b)subscribed capital c)nominal capital d)none of the above
- 27.A company has issued shares at a, that is, at amount in excess of the nominal value of the shares.
a)discount b)par c)premium d)none of the above
- 28.As per which section of Companies Act, 2013,application of premiums received on issue of shares deals with?
a)Section 52 b)Section 51 c)Section 54 d)Section 53
- 29.As per Sec 52 of Companies Act, 2013, The securities premium account may be applied by the company
1.in writing off the preliminary expenses of the Company
2.in writing off the expenses of, or the commission paid, or discount allowed on, any issue of shares or debentures of the company
3.in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company
4.for the purchase of its own shares or other securities under sec 68

5. Towards issue of unissued shares of the company to the members of the company as fully paid bonus shares.
Choose the correct option:
a) 1, 2, 3 and 4 b) 2, 3, 4 and 5 c) 2, 3 and 4 **d) 1, 2, 3, 4 and 5**
30. As per Sec 52 of Companies Act, 2013, The securities premium account may be applied by the company
a) for the purchase of company's own shares or other securities under section 68
b) towards the issue of unissued shares of the company as fully paid bonus shares
c) either of the above
d) none of the above
31. As per Sec 52 of Companies Act, 2013, the securities premium account may be applied by the company towards the issue of unissued shares of the company to the _____ of the company as fully paid bonus shares.
a) members b) employees c) board d) all of the above
32. According to section _ of the Companies Act, 2013, a company shall not issue shares at a discount, except in the case of an issue of sweat equity shares given under section _ of the Companies Act, 2013.
a) 51; 52 **b) 53; 54** c) 54; 55 d) 52; 53
33. Where a company contravenes the provisions of section 53 of the Companies Act, 2013, punishment for non-compliance shall be-
a) on company which shall not be less than 1,00,000 rupees but which may extend to 5,00,000 rupees
b) every officer who is in default shall be punishable with imprisonment for a term which may extend to 6 months or with fine which shall not be less than 1,00,000 rupees but which may extend to 5,00,000 rupees, or with both
c) either of the above **d) both of the above**
34. Which of the following statement is not true regarding audit procedures generally required to be undertaken while auditing share capital?
a) Verify year-end balance from MOA / AOA
b) Check whether shares are shown at Face Value if fully paid, otherwise at partly paid amount.
c) Verify whether the paid-up capital as at the period-end is within the limits of authorized capital
d) Asking confirmation from brokers who deal in company shares
35. means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.
a) Sweat equity shares b) Employee stock option shares
c) Bonus shares d) Right share
36. The auditor needs to verify that the Sweat Equity Shares issued by the company are of a class of shares and already issued. In respect of the above statement, which of the following conditions need not to be complied with?
a) not less than 1 year has, at the date of such issue, elapsed since the date on which the company had commenced business
b) the issue is authorized by a special resolution passed by the company
c) where the equity shares of the company are listed on a recognized stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board of India
d) all of the above
37. For verifying reduction of capital, the auditor needs to undertake which of the following procedures?
a) Verify that the Articles of Association authorize reduction of capital

- b) Verify that the meeting of the shareholder held to pass the special resolution was properly convened and that the proposal was circularized in advance among all the shareholders
- c) Verify the adjustment made in the members' accounts in the Register of Members and confirm that either the paid-up amount shown on the old share certificates have been altered or new certificates have been issued in lieu of the old, and the old ones have been cancelled
- d) all of the above**
38. are amounts appropriated out of profits that are not intended to meet any liability, contingency, Commitment or diminution in the value of assets known to exist as at the date of the Balance Sheet.
- a) **Reserves** b) Provisions c) Surplus d) All of the above
39. are normally charged to the Statement of Profit and Loss before arriving at the amount of profit and _____ are appropriations out of profits.
- a) **Provisions, Reserve** b) Reserve, Provisions
c) Expenses, Provisions d) Reserves, Expenses
40. Concurrent audit is a part of-
- a) Internal check system b) Continuous audit
c) Internal audit system d) None of the above
41. Represents a reserve which does not include any amount regarded as free for distribution.
- a) General reserve **b) Capital reserve**
c) Revenue reserves d) Excess in Profit and loss appropriation A/c
42. To augment the working capital of the business or to generally strengthen the company's financial position is objective of-
- a) Revaluation Reserve **b) Revenue reserves**
c) Capital Reserve d) None of the above
43. Which of the following is not an example of capital reserve?
- a) Share premium account b) Capital redemption reserve
d) Dividend Equalization reserve
44. State whether true or false:
As per Ind AS 10 and AS-4 (revised), if dividends to holders of equity instruments are proposed or declared after the balance sheet date, an entity should not recognize those dividends as a liability as at the balance sheet date.
- a) True. It should disclose the amount of dividends that were proposed or declared after the balance sheet date, but before the financial statements were approved for issue.**
b) False. It should recognize as liability and disclose the amount of dividends that were proposed or declared after the balance sheet date, but before the financial statements were approved for issue.
45. Which of the following audit procedures are generally required to be undertaken while auditing reserves and surplus/ other equity?
- a) Tally the opening balance of reserves and surplus to the previous year audited financial statements
b) trace the movement as disclosed in Statement of changes in Equity to Surplus/Deficit as per Income Statement for the year under audit
c) For adjustment related to dividend payment and the tax related thereto i.e. dividend distribution tax, verify the resolution passed by the board of directors regarding declaration of dividend
d) All of the above
46. The auditor should obtain and verify the resolution passed by the _____, in case company has issued shares in excess of the nominal value of the shares.

- a) board of directors
b) shareholders
c) debenture holders
d) None of the above
47. While auditing borrowings, the auditor should review _____ for approval of new lending agreements and ensure that significant debt commitments should be approved by the _____.
- a) agenda, shareholders
b) board minutes, board of directors
c) agenda, board of directors
d) board minutes, shareholders
48. While auditing borrowings through debentures, examine _____ for terms and dates of redemption, borrowing restrictions and compliance with covenants.
- a) trust deed
b) registers
c) letter
d) all of the above
49. In case of verification of bank borrowings, auditor can consider evidence of additional debt obtained through examination of-
- a) minutes of the board
b) significant contracts
c) confirmations of bank accounts
d) any of the above
50. For valuation of foreign current loans, auditor agree the _____ used and test the _____.
- a) Closing exchange rate (s), translation calculations.
b) Average exchange rate(s), summary calculation.
c) Opening exchange rate(s), transcription calculations.
d) none of the above
51. State whether true or false:
In case the value of the security falls below the amount of the loan outstanding, the loan is classified as secured only to the extent of the market value of the security.
- a) False. Loan is classified as secured and unsecured on the basis of guarantee provided.
b) true. Loan is classified as secured to the extent of market value of security and balance classified as unsecured loan
52. Auditor shall verify the correctness of the amount of installments of long-term loans falling due within the next _____ months have been separately disclosed in the financial statements.
- a) six
b) eight
c) twelve
d) eighteen
53. In case of presentation and disclosure of borrowing, which types of liabilities towards banks should be verified carefully?
- a) bills discounted
b) bills negotiated
c) cheque discounted
d) all of the above
54. Which of the following disclosures as required under Ind AS compliant to Schedule III to Companies Act, 2013 made regarding each amount disclosed under the heading long term borrowings' is not true?
- a) Sub-classification as secured and unsecured
b) For secured borrowings, nature of security separately in each case
c) Terms of repayment for each loan respectively even though the repayment terms of individual loans within a category are similar, in which case, they may be aggregated.
d) Where loans are guaranteed by directors or others, the company must disclose the aggregate amount of such loans under each head.
55. Auditor shall verify that the company has not contravened the restrictions laid down by section of the Companies Act, 2013 on the borrowings of the company
- a) 180
b) 179
c) 181
d) 182
56. In case where the entity has accepted deposits, examine the directives issued by the _____ have been complied with.
- a) Reserve Bank of India
b) other appropriate authority
c) either a or b
d) Banking regulation act
57. Which of the following criteria required to be fulfilled in order to classify liability as

- current liability?
- a) It is expected to be settled in the entity's normal operating cycle
 - b) It is held primarily for the purpose of being traded
 - c) It is due to be settled within twelve months after the reporting period
 - d) any of the above**
58. While auditing trade payables, the trade creditors may be requested to confirm the balances
- a) as at the date of the balance sheet
 - b) as at any other selected date which is reasonably close to the date of the balance sheet
 - c) either of the above**
 - d) both of the above
59. The form of requesting confirmation from the trade creditor may be the '_____' form of request, wherein the trade creditor is requested to respond whether or not he is in agreement with the balance shown
- a) positive**
 - b) negative
 - c) either of the above
 - d) none of the above
60. The form of requesting confirmation from the trade creditor may be the '_____' form of request wherein the trade creditor is requested to respond only if he disagrees with the balance shown.
- a) positive
 - b) negative**
 - c) either of the above
 - d) none of the above
61. In case auditor employs direct confirmation procedure for auditing trade payables and where no reply is received, the auditor should perform additional testing regarding the balances. This testing could include:
- a) Agreeing the detail of the respective balance to the underlying vendor invoices
 - b) Preparing a detailed analysis of the balance, ensuring it consists of identifiable transactions and confirming that these purchases/ expense transactions actually occurred
 - c) Agreeing the balance to subsequent cash paid
 - d) All of the above**
62. Which from the following condition is required to be fulfilled for recognition of provision?
- 1. when an entity has a present obligation (legal or constructive) as a result of a past event;
 - 2. when it is probable that an Inflow of resources embodying economic benefits will be required to settle the obligation;
 - 3. when a reliable estimate can be made of the amount of the obligation
- Choose the correct option:
- a) 1 and 2
 - b) 2 and 3
 - c) all of the above**
 - d) none of the above
63. As per Provisions, Contingent Liabilities and Contingent Assets, the term 'contingent' is used for liabilities and assets that are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- a) IndAS8
 - b) IndAS18
 - c) IndAS37**
 - d) IndAS38
64. While auditing provisions and contingent liabilities auditor obtain the underlying working and the basis for each of the provisions made, from the _____ and verify whether the same is complete and accurate.
- a) management**
 - b) directors
 - c) internal auditor
 - d) all of the above
65. For calculation and underlying working for employee defined benefit provision, the auditor may request the management to share the
- a) provident fund report
 - b) actuarial valuation report**
 - c) legal expert report
 - d) either of the above
66. Which of the following disclosures, the auditors should check as required under Ind AS compliant Schedule III to Companies Act, 2013 whether have been made for each class of provision or not?

- a) the carrying amount for the beginning and end of the period
b) additional provisions made in the period, including increases to existing provisions
c) amounts used & unused amounts reversed during the period
d) all of the above
67. Which of the following is not an example of revenue expenditure?
a) Repairs, maintenance and renewals of fixed assets
b) Legal and professional expenses
c) Premium paid for the lease of a building
d) Advertisement and sales promotion
68. Expenses which are essentially of a _____ nature, if incurred for creating an asset or adding to its value for achieving productivity, are also regarded as expenditure of a _____ nature.
a) capital, lower, revenue
c) capital, higher, revenue
b) revenue, higher, capital
d) revenue, lower, capital
69. By whom physical verification of property, plant and equipment can be performed?
a) own staff of client
b) third party of client
c) either of the above
d) auditor of client
70. Which of the following audit procedure need to be performed by auditor after obtaining property, plant and equipment (PPE) physical verification report backed by the working sheets from the client?
a) Assess if all items of PPE are properly tagged and carry identification marks.
b) Physical verification work papers do capture the asset identification mark for assets physically verified.
c) Reconciliation of items of PPE as physically verified with the fixed asset register maintained by the entity as at the date of undertaking physical verification.
d) All of the above
71. Any identified shortages or assets not in working condition may lead to _____ noted based on physical verification of property, plant and equipment
a) discrepancies b) alikeness c) synchronism d) any of the above
72. The movement in the property, plant and equipment schedule compiled by the management can be expressed as-
a) Opening - Additions + Deletions = Closing
b) Opening + Additions - Deletions = Closing
c) Closing + Deletions - Additions = Opening
d) None of the above
73. While verifying property, plant and equipment, auditor check the _____ accuracy of the movement in PPE schedule and tally the _____ to the previous year audited financial statements.
a) declining, closing balances b) attrition, opening balances
c) arithmetical, opening balances d) minimum, closing balances
74. The cost of an item of property, plant and equipment shall be recognized as an asset only if:
a) it is probable that future economic benefits associated with the item will flow to the entity
b) the cost of the item can be measured reliably
c) both of the above
d) none of the above
75. Auditor needs to verify whether the additions to property, plant and equipment have been approved by appropriate entity's personnel and is as per the _____ budget approved by the. _____ at the start of the financial year.
a) revenue expenditure; management
b) capital expenditure; board of directors

- c)financial; board of directors d)operational; management
- 76.The value of fixed assets/PPE depreciates due to:
a)efflux of time b)use c)obsolescence **d)all of the above**
- 77.Which of the following statement is not true regard to auditor's verification of depreciation charged on fixed assets/PPE?
a)The auditor should verify that the entity has charged depreciation on all items of PPE unless any item of PPE is non- depreciating
b)The auditor should verify that the depreciation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity
c)A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life
d)None of the above
- 78.A depreciation method which results in a constant charge over the useful life, if the asset's residual value does not change is known as-
a)Straight line method b)diminishing balance method
c)units of production method d) none of the above
- 79.A depreciation method which results in a decreasing charge over the useful life of an asset is known as-
a)Straight line method b)diminishing balance method
c)units of production method d)none of the above
- 80.A depreciation method which results in a charge based on the expected use or output is known as-
a)Straight line method **b)diminishing balance method**
c)units of production method d)none of the above
- 81.The auditor needs to verify whether the entity has applied _____-Impairment of Assets for determining the manner of reviewing the carrying amount of its PPE, determining the recoverable amount of the PPE to determine impairment loss, if any.
a)Ind AS 8 b)Ind AS 18 **c)Ind AS 36** d)Ind AS 38
- 82.All Property, Plant & Equipment purchase invoices are in the name of the entity that entitles legal title of ownership to the respective entity. The assertion involved is:
a)Existence b)Completeness c)Valuation **d)Rights and Obligations**
- 83.Which of the following disclosures as required under Ind AS compliant Schedule III to Companies Act, 2013 is not required by an entity for each class of property, plant and equipment?
a)Opening accumulated depreciation b)Charge for the year
c)Depreciation formula used d)Closing accumulated depreciation
- 84.Which of the following disclosures as required under Ind AS compliant Schedule III to Companies Act, 2013 are not required by an entity for each class of property, plant and equipment?
a)Opening accumulated impairment losses b)Impairment losses and reversals
c)Closing accumulated impairment losses **d)None of the above**
- 85.Under presentation and disclosure of property, plant and equipment, entity has to disclose assets" under lease" separately under each class of asset. The term "under lease" means:
a)assets given on operating lease and assets taken on finance lease
b)assets given on finance lease and assets taken on operating lease
c)assets taken on operating lease and finance lease
d)assets given on operating lease and finance lease
- 86.An asset which is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes is known as-
a)Tangible asset **b)Intangible asset**

- c) Non-current asset d) Current asset
87. Verifying an intangible asset is in active use in the production or supply of goods or services, for rental to others, or for administrative purposes to address the following balance sheet assertion:
a) Rights and obligations b) Valuation c) Completeness **d) Existence**
88. In order to recognize an intangible asset, which of the following condition needs to be fulfilled?
1. asset is identifiable
2. entity controls the asset
3. probable that future economic benefits associated with the asset will flow to the entity
4. cost of the item can be measured reliably
Options.
a) 1 & 2 b) 1 & 4 c) 2 & 3 **d) 1,2,3 & 4**
89. While auditing intangible fixed assets, which of the following statement is incorrect?
a) check the arithmetical accuracy of the movement in intangible asset schedule
b) In relation to Intangible asset addition, verify if the additions have been approved by the capital expenditure budget approved by the board of directors at the start of the financial year
c) In relation to deletions to intangible assets, understand for the management the reason and rationale for deletion and the manner of disposal
d) None of the above
90. _____ is an item of intangible nature which either arises on acquisition or is internally generated.
a) Telecom Rights **b) goodwill** c) Mining Rights d) Import Quotes
91. During the course of audit of intangible assets, expenditure incurred during following phase is generally not capitalized:
a) Development phase **b) Research phase**
c) None of the above d) Both a and b
92. Identify the correct one:
a) goodwill recognized in a business combination is an asset representing the future economic benefits arising from same assets acquired in a business combination that are individually identified and separately recognized.
b) goodwill recognized in a business combination is an asset representing the future economic benefits arising from same assets acquired in a business combination that are not individually identified but separately recognized.
c) Good will recognized in a business combination is an asset representing the present economic benefits arising from other assets acquired in a business combination that are not individually identified or separately recognized.
d) good will recognized in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.
93. In case any intangible asset is not in _____ use, deletion should have been recorded in the books of account post approvals by the entity's management and _____ charge should have ceased to be charged beyond the date of deletion.
a) temporary, amortization b) idle, depreciation
c) active, amortization d) idle, amortization
94. For presentation and disclosures, classification for items of intangible assets can be done under following head-
a) Brands or trademarks b) copyrights and patents
c) Licenses and franchise **d) all of the above**
95. As per generally accepted accounting principle under AS 2 - 'Valuation of Inventories' and IND AS 2- 'Inventories', inventory is valued at

- a) lower of cost or net realizable value, whichever is lower**
b) Lower of cost or net realizable value, whichever is higher
96. While reviewing client's plan for performing inventory count, auditor should ensure that _____ goods have been segregated and not included in balance sheet.
a) obsolete **b) consigned** c) damaged d) inter department
97. State whether true or false:
While observing inventory being counted, auditor should not perform any test counts to verify counts.
a) True. As auditor is not responsible for performing test count it is the management's duty to verify counts.
b) False. Auditor should personally perform test counts to verify counts.
98. Auditor at the time of observing counting of inventory should personally perform test counts to verify counts. However, test counts by auditor would not include:
a) Ensuring exclusion of third-party stocks
b) assuring that all items are properly tagged, and proper amounts are shown on tags
c) Staying alert at all times and specifically being cautious about empty boxes, etc. and obsolete items
d) None of the above
99. Under which circumstances inventory count should be undertaken at end of period by an auditor?
a) client uses periodic system b) control risk is high
c) either of the above d) none of the above
100. If client uses _____ with proper and adequate records, inventory may be counted at interim dates by an auditor while auditing inventories.
a) perpetual system b) periodic system
c) double entry system d) none of the above
101. While auditing inventories, trace shipping documents to accounting records immediately before and after year-end. The assertion involved is:
a) Existence **b) Cut off** c) Valuation d) Rights and Obligations
102. Auditor examine _____ information related to inventory, such as weights and measures.
a) analytical b) arithmetical **c) non-financial** d) financial
103. Which of the following is not an example of analytical procedures involved during the audit of inventories?
a) compute inventory turnover ratio
b) compare budgetary expectations vis-à-vis actual
c) Verify the clerical and arithmetical accuracy of inventory listings
d) Perform vertical analysis
104. Which of the following indicate that the entity has valid legal ownership rights over the inventories?
a) Examine invoices for evidence of ownership
b) Review consignment agreements
c) Vouch recorded purchases to underlying documentation
d) All of the above
105. In case of inventory held by third party, the auditor should insist on obtaining declaration from the third party on its business letterhead and signed by authorized personnel of that third party confirming that-
a) the items of inventory belong to the third party and are being held by such entity on behalf of and for the benefit of the third party under audit
b) the items of inventory are in safe custody of third party and only rights has transferred to the entity under audit
c) the items of inventory belong to the entity and are being held by such third

party on behalf of and for the benefit of the entity under audit

d) The items of inventory are in safe custody of third party but still rights and ownership has transferred to the entity under audit

106. First-in first -out, called FIFO, values inventory at close to its _____cost ad last-in first-out, called LIFO, values inventory at close to its _____cost.

a) original purchase , current replacement

b) current replacement, original purchase

c) Opening purchase, closing purchase

d) any of the above

107. As per IND AS, depending on how the business operates of an entity, the management may value inventory using:

a) First-in first -out method

b) last -in first-out method

c) weighted average method

d) all of the above

108. Auditor must ensure that inventories are valued at _____ if they are likely to fetch a value lower than their cost.

a) market value

b) book value

c) net realizable value

d) none of the above

109. Identify the incorrect statement regarding valuation of inventory-

a) Follow up valuation of all damaged or obsolete inventories noted during observance of physical counting with a view to establishing a realistic net realizable value.

b) Ascertain how the various stages of production/value add are measured and in case estimates are made, understand the basis for such estimates.

c) Test check cost prices used with purchase invoices received in the month(s) prior to counting.

d) Ensure that material costs include any abnormal wastage factors.

110. Under presentation and disclosure of inventory which of the following disclosures as required under Ind AS compliant Schedule III to Companies Act, 2013 -

a) Whether mode of valuation has been stated separately for each class of inventory

b) Whether inventory has been properly classified

c) Whether goods-in-transit have been disclosed separately under each sub-head of inventory

d) All of the above

111. State whether true or false:

Debts once recorded in the balance sheet cannot be eliminated.

a) False. Once recorded, the debts can only be eliminated by receipt of cash or on the authority of a responsible official

b) True. Debts once recorded cannot be eliminated except writing of bad debts

112. In case of realization from trade debtors is not recorded invoice, wise auditor needs to check that money received from debtors is adjusted chronologically invoice wise and on

a) LIFO basis i.e. latest bill is adjusted first

b) FIFO basis i.e. previous bill is adjusted first

c) Both of the above

d)None of the above

113. The auditor employs direct confirmation procedure with the consent of the entity during audit of trade receivable address the following assertion-

a) Existence b) Completeness c) Valuation d) Rights and Obligations

114. When the positive form of requesting confirmation from the trade receivables is preferable?

a) individual account balances are relatively large

b) internal controls are weak

c) auditor has reasons to believe that there may be a substantial number of accounts in

dispute

d)all of the above

115. While auditing any related party receivables auditor needs to verify:

a)authorization of transaction b)value of transaction must be reasonable

c)value of transaction at arm's length

d)all of the above

116. A situation where the Company is billing customers for sales despite still retaining the goods on-site known as

a)goods hold for approval

b)bill and hold

c)both of the above

d)none of the above

117. During the course of audit of trade receivable, auditor review the _____ to see if the Company has recorded an inordinately large amount of customer returns after the audit period, which would suggest that the Company may have shipped more goods near the end of the audit period, than the customers had authorized.

a)test invoices

b)ageing report

c)receiving log

d)dispatch log

118. State whether true or false:

Under system of giving discounts auditor should check the cash discount is given on the basis of date of realization of cheque or on the basis of date of receipt of cheque.

a)True

b)False

119. During the audit of trade receivable auditor review the process followed by the Company to derive an allowance for doubtful accounts address the following assertion -

a)Existence

b)Completeness

c)Valuation

d)Rights and Obligations

120. Identify the correct one:

a)Auditor verify that the split between more than 6 months and less than 6 months has been done from the due date instead of sales invoice date.

b)Auditor verify that the split between more than 8 months and less than 8 months has been done from the sales invoice date and not due date.

c)Auditor verify that the split between more than 12 months and less than 12 months has been done from the due date instead of sales invoice date.

d)both a and c

121. At the time of disclosure requirement for trade receivable auditor check classification of amount due is properly disclosed as:

a)Secured, considered good

b)Unsecured, considered good

c)Doubtful

d)All of the above

122. Which of the following does not fall under category of cash and cash equivalent?

a)cash in hand

b)stamps in hand

c)fixed deposits

d)IOU

123. The cash should be checked not only on the last day of the year, but also checked again sometime after the close of the year without giving notice of the auditor's visit either to the client or to his staff known as

a)Precautions while Cash Counting

b)Surprise check

c)Subsequent checking...

d)All of the above

124. While auditing cash and cash equivalents, the auditor should also perform a _____ analysis by compiling a summary of total cash receipts and payments each month and analyses the _____ to see if there have been variations in any specific month and request explanations from the management.

a)cash sensitivity, trends

b)vertical, difference

c)profit and loss, graphics

d)horizontal, ratio

125. Which of the following is not true in respect of verification of Bank Reconciliation Statement?

a)Tallying the balance as per books to the Company's books of account and trial balance

b)Tallying the balance as per bank to the bank confirmation/statement

c)The auditor should request for bank statement of previous period and should verify if the cheque issued have subsequently been cleared by inter bank

- d)Checking of all material reconciling items included under cheque issued but not presented 'for payment' to the underlying bank book forming part of books of account
126. In case of verification of Bank Reconciliation Statement, where cheque issued have become stale i.e. 3 months or more has lapsed since the issue date, the same should not appear in the Bank Reconciliation Statement and should have instead been clubbed under _____.
a)reserve and surplus
c)assets
b)liabilities
d)cash and cash equivalents
127. During audit of cash and cash equivalents, the auditor should emphasize for confirmation of 100% of bank account balances and in case no reply is received, the auditor should perform _____ testing regarding the balances
a)Supplementary b)additional c)supplementary
d)both of the above e) none of the above
128. The auditor should ensure that all bank account holding foreign currency have been restated at the closing exchange rates. The assertion involved is:
a)Existence b)Completeness c)Valuation d)Rights and Obligations
129. Under disclosure requirements, Cash and cash equivalents shall be classified as:
a)Balances with banks b) Cheque, drafts on hand
c)Cash on hand d)All of the above
130. A prepaid taxes and insurance paid can be classify as:
a)loans b)liability c)advances d)All of the above
131. _____ could be understood in normal parlance to mean money advanced to related or other parties, with or without interest clause, _____ include amounts recoverable either in cash or in kind or for value to be received.
a)Loans, advances b)Current asset, loans
c)Borrowings-advances d)Other current asset, cash and cash equivalent
132. In the case of company, a loan or an advance, if material, can be granted only if authorized by the-
a)Memorandum of Association b)Articles of Association
c)Both a and b d)only b
133. Auditor inspect the of board of directors to confirm if all material loans and advances were approved by the board of directors.
a)loan agreements b)minutes of meeting
c)acknowledgements of parties d)agenda
134. Select the correct option _____ is the primary practice followed in an audit with the objective of establishing the authenticity of the transactions recorded in the primary books of account.
a)Verification b)Vouching c)Inspection d)Inquiry
135. Which among the following are the essential while examining a voucher?
a) date of the voucher falls within the accounting period
b) voucher is duly authorized
c)Both a & b
d) voucher comprised documents which was not expected to be received
136. Which among the following are not the principles of accounting?
a) The expenses or cost should be matched to the income or benefit
b) No distinction being drawn between capital expenditure and revenue expenditure
c)That book debts should be valued only at realizable amounts
d)Outstanding assets and liabilities have been properly adjusted
137. Fill in the blanks with the suitable option The process of _____ of entries in the books of account with the documentary evidence is referred to as
a)vouching, verification b)verification, vouching

- c)Recording, vouching d)None of above
138. Payments made against credit sales should be vouched with the receipts issued by the suppliers and the credit to their accounts on the basis of invoices entered in the Purchases Day book. Is the above statement true or false?
- a) True **b)False**
139. In the case of goods purchased at the end of year, it should be further verified that even though not received or entered in inventory before the close of the year, they have been included in the _____.
- a)opening inventory **b)closing inventory**
c)average inventory d)none of above
140. "All invoices for purchases made for one week preceding the close of the year should be traced into the _____ maintained by the Receiving Section.
- a)Goods Approval Book **b)Goods Received Book**
c)Goods Sent Book d)Goods Maintenance Book
141. What points need to be kept in mind while verifying movable property?
- a)verify that registration has been made in favour of the purchaser
b)verify in regard to existence, value and title of the assets acquired
c)verify that the assets were purchased only by a person who had the authority to do so
d)All of above
142. An entity has an account of an employee in the books. However even though salary was credited to his account was never paid in cash or by bank Each and every time account was adjusted against a new loan taken by such employee. What kind of doubt should arise to the auditor?
- a)Such employee might be a dummy employee**
b)Employee takes lots of loans
c)Company helps the employee in need
d)None of the above
143. While vouching Advertising expenses what points should be kept in mind?
- a)Ensure that advertisement expenses relate to the third party of client's business
b)Check the receipts for amounts paid for the advertising expenses incurred
c)See that outstanding advertising expenses have been properly disclosed on the liabilities side of the balance sheet.
d)Both b & c
144. The auditor before starting the audit of cash receipts should examine the _____ in operation and bring to the attention of the management any weakness therein, as well as to the possible consequence that might follow if it is not removed.
- a) internal check** b)internal environment
c) control environment d)control activities
145. On disposal of an investment, the difference between the _____ and the disposal proceeds, net of expenses, is recognized in the Statement of Profit and Loss
- a)carrying amount** b)market value
c)net realizable value d)assessable value
146. If the bills have been discounted, the _____ in respect of the discounted bill is disclosed in the balance sheet.
- a)contingent liability** b)contingent assets
c)liability d)basic value
147. Where a large number of cheques have been issued/deposited in the last few days of the year, and a sizeable proportion of such cheques have subsequent remained unpaid/un cleared, this may indicate an intention of understating account payables.
- a)True** b)False
148. The auditor should carry out physical verification of cash at the date of the _____.
- a)balance sheet** b)statement of profit and loss

- c) cash flow statement
d) statement of changes in equity
149. If, during the course of the audit, it comes to the attention of the auditor that the entity is consistently maintaining an unduly large balance of cash-on-hand, he should carry out _____ of cash more frequently to ascertain whether the actual cash-on-hand agrees with the balances as shown by the books
- a) **surprise verification**
b) internal check
c) surprise visit
d) None of above
150. Buying should be a function dependent of receiving, storage and dispatching.
- a) True
b) **False**
151. The purchase order forms should be _____ and the internal reference number should be given to identify the purchase indent sent by the Inventory
- a) numbered serially
b) **pre-numbered**
c) pre-filled
d) None of above
152. These are not the responsibilities of the Receiving Department:
- a) Entering the goods immediately on receipt in the Goods Inward or Goods Received Book
b) Drawing up in quadruplicate a Goods Received Note for each consignment
c) Both a & b
d) **None of above**
153. Where credit is to be allowed to the account receivable, the Sales Department should obtain the prior approval of the
- a) Advertisement Department
b) **Accounts Department**
c) Purchase Department
d) Stores Department
154. The goods on release from the sale god own should be sent to the _____.
- a) **Dispatch Department**
b) Requisition Department
c) Sales Department
d) Stores Department
155. While vouching entries for purchases with the invoices, the following points should not be observed:
- a) that the invoice is made out in the name of the client
b) that the cost of purchases has been debited to an appropriate nominal account or accounts
c) that the manager or some other official, competent to sanction payment, has authorized its payment
d) **None of the above**
156. Factors which increase the gross profit:
- a) Undervaluation of opening inventory
b) Overvaluation of closing inventory
c) **Both of the above**
d) none of the above
157. Factors which decrease the gross profit:
- a) Over valuation of the opening inventory
b) Excessive provisions have been made for wages or direct expenses
c) Failure to account for goods sold or destroyed or given away as samples.
d) **All of above**
158. The _____ must take steps to verify that the amount of profit has not been overstated.
- a) **auditor**
b) Management
c) Government
d) Employees
159. When a trade discount is allowed, the amount there of should be deducted from the sale price
- a) **True**
b) False
160. The additional charges recovered along with the sale price should be credited to the Sales Account.
- a) True
b) **False**
161. When credit sales are _____ in the accounts at the time they are made but at _____

- the time the sale proceeds are collected, there can be no guarantee that any amount collected in such sales has not been misappropriated
- a)not adjusted b)adjusted c)added d)none of the above
162. The auditor should verify that credits (credit notes) for goods returned have been allowed in account receivable, on the basis of the record maintained in the stores in respect of good received back in the _____ .
- a)Goods Returned Book b)Goods Inward Book
c)Goods Outward Book d)None of the above
163. To verify credits in respect of goods returned, the auditor must check entries in the kept at the factory gate.
- a)Goods Inward Book b)Goods Outward Book
c)Goods Sent Book d)All of the above
164. Accounting is a continuous process because the business never comes to halt. It is, therefore, necessary that transactions of one period would be separate from those in the ensuing period so that the results of the working of each period can be correctly ascertained. The arrangement that is made for the purpose is technically known as
- a) Cut-off arrangement b) Distress arrangement
c)Set Off arrangement d)None of above
165. If a credit note issued by a supplier either in respect of goods returned to him or for an allowance granted by him, is not debited to his account, the balance in his account in the Bought Ledger would be smaller than the amount actually due to him.
- a)True b)False
166. When payments to a supplier are usually made by accepting Bills of Exchange but one or more amounts have been paid in cash, the reasons therefore should be ascertained.
- a)Yes b)No
167. The accounts in the Bought Ledger, usually, are in _____ .
- a)credit b)cash c)none of above
168. Quite often, donations and subscriptions, bank charges, conveyance and other petty expenses are included under _____ .
- a)General Expenses b)Managerial Expenses
c)Advertisement Expenses d)None of above
169. Which amongst the following are not the accounts in which adjustment of out standing assets could be made?
- a)Rent receivable b)Interest and dividend
c)Insurance charges paid in advance d)None of above
170. In which of the following cases the reasons there of should not be ascertained:
- a)a change in the basis of accounting, as compared to that in the previous year
b)Where certain common expenses have been divided between two or more activities carried on by the same concern
c)both of the above Hands for Excellence
d)none of above
171. The causes of variation in the proportion of direct expenses usually can be readily ascertained but this is not practicable in the case of in direct expenses, for these often are the results of a variety of factors unconnected with manufacturing process.
- a)True b)False
172. The change in indirect expenses may be the effect of the change in the.
- a)rate of turnover b)rate of earnings
c)either of the above d)none of above
173. It should be verified that quantities of goods sold but not delivered in respect of which bills were not prepared before the close of the year, have not been adjusted in the books as sale.
- a)True b)False

174. The debit to the Goodwill Account would be necessary only when the amount paid for the business is in excess of the total value of asset taken over reduced by the amount of liabilities taken over.
a) True b) False
175. It should be also verified that interest at reasonable rate has been charged on loans advanced to directors, managers, and all concerned; also, that loans were advanced under appropriate authority either that of directors or shareholders-
a) True b) False
176. The auditor should obtain a _____ from the client that all the liabilities which had accrued due till the close of the year have been taken into account.
a) certificate b) agreement c) file d) account
177. A Balance Sheet audit consists of:
a) verification of all includible Balance Sheet items
b) examination of expense and income accounts closely related to B/S Items.
c) both of the above
d) none of above
178. Reconcile the quantity of raw material consumed with quantities of finished products manufactured and compare the _____ with that in the earlier period.
a) rate of wastage b) value of utilization
c) value of finished product d) none of the above
179. A capital expenditure is that which is incurred for the under mentioned purposes-
1. Acquiring fixed assets, i.e., assets of a permanent or a semi-permanent nature, which are held not for resale but for use with a view to earning profits.
2. Making additions to the existing fixed assets.
3. Increasing earning capacity of the business.
4. Reducing the cost of production.
5. Acquiring a benefit of enduring nature of a valuable right
Options-
a) 1 and 2 b) 1,2 and 3 c) 1,2,3 and 5 d) All of the above
180. Which of the following statement is not true?
a) Under the Straight-Line Method, an equal amount is written off each year during the life of the asset.
b) Under the Reducing Balance Method, the annual charge for depreciation decreases from year to year
c) Under the Reducing Balance Method, the value of an asset can never be completely written off.
d) The rate of depreciation to be applied in the case of the Straight-Line Method is substantially higher than that which must be applied under the Reducing Balance Method if asset is to be written off within a certain period.
181. Identify the incorrect one:
A change from one method of providing depreciation to another is made -
a) if adoption of the new method is required by statute
b) If it is considered that the change would result in a more appropriate preparation or presentation of the financial statement of the enterprise.
c) for compliance with an accounting standard
d) none of the above
182. The assessment of depreciation and the amount to be charged in respect thereof in an accounting period are usually based on the following factors:
a) historical cost or other amount substituted for the historical cost of the depreciable asset when the asset has been revalued
b) expected useful life of the depreciable asset
c) Estimated residual value of the depreciable asset.

d)All of the above

183. Reserves are amounts appropriated out of profits which are not intended to meet any _ in the value of assets known to exist at the date of the Balance Sheet.

- 1.liability
- 2.commitment
- 3.contingency
- 4.diminution Option-

a)1 and 2 b)3 and 4' c)1,2 and 3 **d)All of the above**

184. Provisions are amounts charged against revenue to provide for: -

- a)depreciation, renewal or diminution in the value of assets
- b)a known liability, the amount whereof cannot be determined with substantial accuracy
- c)A claim which is disputed.

d)All of the above

185. Amounts contributed or transferred from profits to make good the diminution in assets values due to the fact that some of them have been lost or destroyed, as a result of some natural calamity or debts have proved to be irrecoverable are described as ____.

a)provisions b)reserves c)either a or b d)both a and b

186. Which of the following statements is not true?

- a)Provisions are normally charged to the Statement of Profit and Loss before arriving at the amount of profit.
- b)Reserves are appropriations out of profits.

c)Reserves are normally charged to the Statement of Profit and Loss before arriving at the amount of profit.

d)None of the above

187. If a ____ is in excess of the amount considered necessary, the same must be written back or credited to a _ Account.

a)provision, reserve b)reserve, provision
c)Provision, provision d)reserve, reserve

188. A capital reserve, generally, can be utilized for-

- a)writing down fictitious assets
- b)writing down losses
- c)For issuing bonus shares if it is realized.

d)All of the above

189. Reserves which are not disclosed in the Balance Sheet are known as _.

a)secret reserves b)hidden reserves
c)either a or b d)both a and b

190. Secret reserves can be created in the following ways:

- 1)By writing down fixed asset more than what is necessary.
- 2)By writing off capital expenditure as though it were revenue.
- 3)Under-valuation of inventory.
- 4)By making an excessive provision for bad debts.
- 5)By making an excessive provision for contingencies or by continuing to carry forward provision even when they are not required.

Option

a)2 and 3 b)2, 3 and 4 c)1 and 5 **d)All of the above**

191. A _ reserve is created for some definite purpose out of the profits of the company.

a)hidden b)secret **c)specific** d)All of the above

192. Which of the following statement is not true?

- a)In case any government grant is received in relation to specific fixed assets then the grant can be shown as deduction from cost of the asset
- b)Government grant received in relation to specific fixed assets can be treated as deferred income which is recognized in Statement of Profit and Loss.

c)Fixed assets should be valued at their realizable.

d)Fixed assets are included in the Balance Sheet at their cost less depreciation and impairment loss.

193. The term 'market value' may refer to -
a) net realizable value
c) either a or b
b) replacement cost
d) none of the above
194. Which of the following is/are true about Trade Investment?
a) Trade investments are investments made by a company in the shares and in debentures of another.
b) They are made to promote trade or business of company.
c) Such investments are always valued at cost since the basic consideration in making the investment associates in trade.
d) All of the above
195. Which of the following items are to be deducted from the estimated selling price in the ordinary course of business to arrive at Net Realizable value?
a) estimated costs of completion
b) Estimated costs necessarily to be incurred in order to make the sale.
c) either a or b
d) both a and b
196. Analytical procedures are least likely to be use in the audit of -
a) cash balance b) investments c) bills receivables d) debtors
197. 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) Collateral security given for loan**
198. Which of the following statements is not true with regards to verification of fixed assets?
a) The ownership of assets like land and buildings should be verified by examining title deeds.
b) Physical verification of fixed assets is primarily a responsibility of the management.
c) In case the title deeds are held by other persons such as bankers or solicitors, then it's not required by the auditor to confirm the same.
d) The auditor should test check the book records of fixed assets with the physical verification reports.
199. The auditor shall not accept electronic fixed assets register if the following condition/s is/are not satisfied:
a) The controls and security measures in the company are such that once finalized, the fixed assets register cannot be altered without proper authorization and audit trail.
b) The fixed assets register is in such a form that it can be retrieved in a legible form.
c) either a or b
d) both a and b
200. Identify the correct one?
a) Sometimes the land and building are shown together in the Balance Sheet. In that case, their ledger accounts should always be together, in view of the fact that buildings and land both will be subject to depreciation
b) Sometimes the land and building are shown together in the Balance Sheet. Nevertheless, their ledger accounts should always be separated particularly in view of the fact that buildings are subject to depreciation while land in general is not..
201. Identify the correct one:
1. The land holding in the case of real estate dealer will be a current asset and not a fixed asset.
2. Land holding in the case of real estate dealer will be valued at book value.
3. The land holding in the case of real estate dealer will be a fixed asset and not a current asset.

4. land holding in the case of real estate dealer will be valued at cost or market value whichever is less
Options-
a) 1 & 2 **b) 1 & 4** c) 2 & 3 d) 1 & 3
202. Identify the correct one:
a) An Intangible Asset is an identifiable nonmonetary asset
b) An Intangible Asset is a non - identifiable monetary asset
203. Identify the correct option:
If an item covered _____ the definition of an intangible asset, expenditure to acquire it or generate it internally is _____ when it is incurred.
1. does not meet; recognized as an expense
2. meet; capitalized
3. does not meet; capitalized
4. meet; recognized as an expense Options-
a) 2 & 3 **b) 1 & 2** c) 1 & 4 d) 3 & 4
204. Identify the incorrect one:
Some intangible assets may be contained in or on a physical substance such as a compact disk or film (in the case of motion pictures).
a) The cost of the physical substance containing the intangible assets is usually not significant. Accordingly, the physical substance containing an intangible asset, though tangible in nature, is commonly treated as a part of the intangible asset contained in or on it.
b) The cost of the physical substance containing the intangible assets although not significant, should be bifurcated and shall be shown as an asset separate from the intangible asset.
205. Identify the correct one:
a) As per AS-26, internally generated goodwill is not recognized as an asset because it is not an identifiable resource controlled by the enterprise that can be measured reliably at cost
b) As per AS-26, internally generated goodwill is recognized as an asset because it is an identifiable resource controlled by the enterprise that can be measured reliably at cost
206. The cost of patent should be written off over the -
a) legal term of its validity b) over its useful commercial life
c) a or b, whichever is shorter d) a or b, whichever is longer
207. Which of the following is not true about copyright and trademarks?
a) The copyright and trademarks are generally revalued at cost less amortization charges till date.
b) If copyright and trademarks were purchased, the cost includes purchase price and registration charges.
c) If it has been developed by the client, the cost should include cost of developing outlays, design costs and other associated direct cost.
d) The cost of trademarks and copyright should be amortized over the period of legal validity or useful commercial life, whichever is longer.
208. What should be included in the cost of copyright & trademark if it has been developed by the client?
a) cost of developing outlays b) design costs
c) other associated direct cost **d) All of the above**
209. Where documents of title relating to assets held abroad are not available for in section nothing has to be done by the auditor.
a) True, it's not the part of auditor's duty to verify the same.
b) True, it's not possible for the auditor to verify that asset.
c) False, a certificate should be obtained from the agent or any other party

holding the document.

d) False, a certificate should be obtained from the client.

210. Identify the correct one:

In case any item or machinery has been scrapped, destroyed or sold the auditor should ascertain that the profit or loss arising thereon has been correctly determined

a) which has either been disclosed in the Statement of Profit and Loss or credited to the Capital Reserve

b) which has been disclosed in the Statement of Profit and Loss

c) which has been credited to the Capital Reserve

d) none of the above

211. Identify the correct one:

When an asset has been revalued, depreciation should be provided on the _____ and not on The _____.

a) revised value; historical value

b) historical value; revised value

c) revised value; historical value

d) historical value; historical value

212. Which of the following methods should be used to obtain more accurate information in regard to quantities and value of inventory?

a) modern methods of costing

b) accounting ratios

c) budgetary control

d) All of the above

213. Which of the following statement is not true?

a) The responsibility for properly determining the quantity and value of inventories rests with the management of the entity.

b) The management satisfies this responsibility by carrying out appropriate procedures which will include verification of all items of inventory at least once in every financial year.

c) This responsibility is reduced even where the auditor attends any physical count of inventories in order to obtain audit evidence.

d) The nature, timing and extent of audit procedures to be performed is a matter of professional judgment of the auditor.

214. Which of the following procedures may be carried out for the verification of inventories -

1. examination of records

2. attendance at inventory-taking

3. obtaining confirmations from third parties

4. examination of valuation and disclosure

5. analytical review procedures Options-

a) 2 and 5

b) 1, 2 and 5

c) 2, 3 and 4

d) All of the above

215. Which of the following are the principal methods of inventory-taking?

a) periodic inventory-taking

b) continuous inventory-taking

c) both a and b

d) none of the above

216. Which of the following statement is not true about the continuous inventory-taking method?

a) The physical verification is carried out throughout the year, with different items of inventory being physically verified at different points of time.

b) The verification programme is normally so designed that each material item is physically verified at least once in a year and more often in appropriate cases.

c) Some entities use continuous inventory-taking methods for certain inventories and carry out a full count of other inventories at a selected date.

d) The physical verification of inventories is carried out at a single point of time, usually at the year-end.

217. The _____ is effective when a perpetual inventory system of record-keeping is also in

existence.

- a) continuous inventory-taking method** b) periodic inventory-taking method
c) either a or b d) both a and b

218. The auditor should also examine whether the entity has instituted appropriate 'cut-off procedures' to ensure that -

- a) goods purchased but not received have been included in the inventories and the liability has been provided for
b) Goods sold but not dispatched have been excluded from the inventories and credit has been taken for the sales.
c) either a or b **d) both a and b**

219. Where continuous inventory-taking methods are being used by the entity, the auditor should pay greater attention to ascertaining whether the management:

- a) maintains adequate inventory records that are kept up-to-date
b) has satisfactory procedures for physical verifications of inventories, so that in the normal circumstances the programme of physical verification will cover all material items of inventories at least once during the year
c) Investigates and corrects all material differences between the book records and the physical counts.

d) All of the above

220. What should be done to verify the Work-in-progress?

1. Ascertain that the cost sheets are duly attested by the Works Engineer and Works Manager.
2. Test the correctness of the cost as disclosed by the cost records by verification of original evidence in respect of all expenditure included in the cost-sheets.
3. Compare the unit cost or job cost as shown by the cost sheet with the standard cost
4. Ensure that the allocation of overhead expenses has been made on reasonable basis
5. Compare the cost-sheet in detail with that of the previous year both in regard to the composition of cost and the value placed on various components.

Options-

- a) 1 and 3 b) 1, 3 and 4 c) 1, 2, 3 and 5 **d) All of the above**

221. Under A-B-C classification of inventories, '_____' category items being verified more frequently than '_____' category and the latter more frequently than '_____' category items.

- a) A, C, B b) B, C, A **c) A, B, C** d) B, A, C

222. Records relating to inventories should contain, inter alia, the following:

1. Particulars of the item like nomenclature, nature, etc.
2. Identification code of the item
3. Details regarding quantity of the receipts, issues, balances and dates of transactions in a chronological manner
4. Relevant document number and department identification, if any
5. Location

Options-

- a) 1 and 2 b) 2 and 3 c) 2, 4 and 5 **d) all of the above**

223. Trade receivables shall be sub-classified as:

- a) Secured, considered good; b) Unsecured considered good;
c) Doubtful **d) All of the above**

224. Aggregate amount of Trade Receivables outstanding for a period exceeding _ months from the Date they are due for payment should be separately stated.

- a) six** b) three c) twelve d) nine"

225. Identify the correct one

a) The auditor should ensure that any goods sent to customers on approval which were unsold at the close of the year have not been treated as sold and

are shown in the account as Inventory on Approval and are valued at lower of the cost or market value.

b) The auditor should ensure that any goods sent to customers on approval which were unsold at the close of the year have been treated as sold and are shown in the account as Inventory on Approval and are cost value.

c) The auditor should ensure that any goods sent to customers on approval which were unsold at the close of the year have not been treated as sold and are shown in the account as Inventory on Approval and are valued market value.

d) None of the above

226. Part I of _____ to the Companies Act, 2013 requires that company shall disclose "Trade Receivables" in notes to accounts

a) Schedule III

b) Schedule IV

c) Schedule II

d) Schedule I

227. The term _____ means amounts retained by way of providing for depreciation or diminution in value of assets or retained by way of providing for any known liability the amount of which cannot be determined with substantial accuracy.

a) reserve

b) provision

c) both of the above

d) none of the above

228. State whether true or false:

Provisions with respect to debtors are only dealt under AS 4.

a) True

b) False

229. Method of depreciation changed from WDV to SLM.

a) Change in accounting policy.

b) Change in accounting estimate.

c) Prior period item.

d) Extraordinary item.

230. As per AS 5, prior period item should be accounted by giving-

a) retrospective effect

b) prospective effect.

c) Retrospective effect unless impractical to determine the cumulative effect.

d) pragmatic effect only if material

231. Choose the correct option AS 29 requires disclosure of contingent asset in _____ only if the economic flow of benefit is probable.

a) approving authority report

b) financial statement

c) notes to accounts

d) no disclosure of contingent asset is required (prudence)

232. AS 29 does not considers discounting for making provisions.

a) True

b) False

233. AS 29 requires disclosure of contingent asset in _____ only if the economic flow of benefit is probable.

a) approving authority report

b) financial statement

c) notes to accounts d) no disclosure of contingent asset is required (prudence)

234. The auditor should obtain sufficient appropriate audit evidence to support the fact the at _____ have been taken for recovery of the principal and interest of loans granted by the company.

a) Reasonable steps.

b) Legal steps.

c) Adequate steps.

d) All of the above.

235. Which of the following options will not result in contingent liability?

a) Possible obligation arising from past event.

b) Present obligation economic outflow is not probable.

c) Present obligation which cannot be measured.

d) None of the above.

236. Which of the following condition must be fulfilled to be called contingent liability as per accounting Standard 29?

- a) possible obligation as a result of past event
b) existence of which will be confirmed only by the occurrence or non-occurrence of future event
c) Future event not wholly within the control of the enterprise.
d) all of the above
237. Law suits, disputes and claims against the entity not acknowledged as debts give rise to-
- a) Contingent assets
b) **Contingent liabilities**
c) Provisions
d) All of the above
238. The Schedule III to the Companies Act, 2013 requires disclosure of contingent liabilities/ commitments, to the extent not provided for, in _____
- a) books of a accounts
b) approving authority report
c) notes to account
d) none of the above

SET-4

239. The Auditor examines Debit Notes to vouch sales Returns. The given Statement is
- a) True
b) False
240. Analysis of GP Ratio is relevant for audit of manufacturing entities only. The given statement is
- a) True
b) False
241. Quantitative Reconciliation is applicable in the audit of Manufacturing and Trading Entities. The given statement is
- a) True**
b) False
242. Balance sheet audit includes verification of _____
- a) assets
b) liabilities
c) income and expenditure details
d) All of the above
243. An unexplained decrease in the Gross profit Ratio may result due to Fictitious sales. The given statement is
- a) True**
b) False
244. Verification of Expenses involves confirmation of the assertions relating to Occurrence, completeness, Measurement and presentation & Disclosure. The given statement is
- a) True**
b) False
245. Special considerations are applicable for audit of expenses of a company. The given statement is
- a) True**
b) False
246. The company produced photocopies of Fixed Deposit Receipts as the original receipts were kept in the iron safe of the Director Finance who was presently out of the country on company business. This is a valid audit. The given statement is
- a) True
b) False
247. A company can consider an useful life of the Asset longer than the one prescribed by schedule II of the companies Act, 2013. The given statement is
- a) True
b) False
248. Documents which is not relevant for cash sales vouching is
- a) Daily cash sales summary
b) salesmen's summary
c) Monthly statements sent to customers
d) Bank statement
249. The auditor has to examine realization of revenue such as dividends, interest, commission, etc to
- a) Identify cases of unrecorded revenue**
b) ensure proper disclosure in the balance sheet

- c) recomputed accrued income on the date of balance sheet
d) Any of these
250. 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 loading
251. To verify _____ the auditor is most likely to examine cost records.
a) Commission earned b) Bad debts recorded
c) Credit sales **d) sale of scrap**
252. The "Guidance Note on Revenue" issued by the ICAI deals with
a) Sales revenue b) Revenue rendering service
c) Income from interest, dividend **d) All of the above**
253. Following activity would prevent double payment of the same voucher ?
a) **The person signing the cheque should deface the supporting documents**
b) Cheques should be signed by at best two persons
c) The date of payment of vouchers of similar nature should be the same
d) None of the above
254. In case of unclaimed dividend, 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 the above
255. In order to vouch, which of the expenses, the auditor will examine bill of entry ?
a) Customs Duty b) Income tax c) Entertainment tax d) wealth tax
256. For sales return, the auditor should examine
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
257. Auditor discovered that fictitious purchases have been recorded by the purchase clerk. This indicates absence of
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 entity fortnightly.
d) Purchase function and production function are clubbed in one department
258. 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
259. The creditor's accounts, generally, have credit balance. Debit balance may be due to
a) advance paid against an order b) goods returned
c) wrong debit to supplier account **d) Any of these**
260. The receipt of goods must be entered in _____
a) Goods inward book b) Good out ward book
c) Receipt of stores d) receipt issue and balance of stores
261. 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
262. 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 might have offered bribe
 - d) Any of these**
263. Surprise checks are part of _____
- a) Auditor working papers
 - b) An audit programme**
 - c) An auditor's report
 - d) an accounting standard
264. Verification is _____
- a) The art of recording the business transaction
 - b) An examination of the books of accounts
 - c) The art of establishing the accuracy of entries in the books of accounts**
 - d) None of the above
265. Depreciation is _____
- a) The decrease in the value of an asset**
 - b) The increase in the value of an asset
 - c) An appreciation to the company
 - d) A credit to shareholders
266. Capital reserves are created out of profits are of _____
- a) Revenue nature
 - b) Capital nature**
 - c) Secret reserve
 - d) Contingency reserve
267. 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
268. 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
269. 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 to property tax files
 - b) Inquiry of plant manager
 - c) Examination of debits to accumulated depreciation
 - d) All of the above**
270. 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**
271. 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)
272. While verifying intangible assets, auditors would recomputed amortization charges and determine whether amortization period is reasonable. The auditor tries to establishby doing it
a) valuation b) existence c) disclosure d) possession
273. Equity shares of XY Ltd. Held by ABC Ltd. Are in the custody of Stock Holding corporation of India Limited. The auditor many verify this investment by
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.
274. Which of the following would give the assurance that debtors mentioned on the date of balance sheet actually exist ?
a) Sending debtor's confirmation letters
b) Reviewing subsequent collection
c) Verify debtors against sales document
d) Both (a) and (b)
275. Analytical procedures are least likely to be use in the audit of _____
a) Physical cash balance
b) Investments
c) Bills Receivables
d) Debtors
276. 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 different individuals are involved in cash receipts its accounting teeming and lading is likely to happen.
d) None of the above
277. When counting cash on hand the auditor should have a
a) Investigative approach
b) Questioning Mind
c) Surprise Element
d) All of the above
278. 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 maay 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
279. Inspection report while preparing GRN supports entries in
a) sales book and sales return book
b) purchase book and purchase return book
c) cash book and purchase book
d) sales book and purchase return book
280. When credit purchases of Rs 5,100/- is recorded on credit side and credit sales of Rs 5,100/- is recorded on debit side, this kind of error is called
a) Error of omission
b) Compensating error

- c) Error of principle d) Error of commission
281. Who among the following is required to comply with section 149(8) read with schedule IV to the companies Act, 2013 ?
- a) Board of Directors
 - b) Audit Committee
 - c) Statutory Auditor
 - d) Independent Directors**
282. User Training is an activity related to which of the following General IT controls ?
- a) Data center and network operations
 - b) Program change**
 - c) Access security
 - d) Application system acquisition, development, and maintenance (Business Applications)
283. The Objective of establishing security policies and procedures is to
- a) To ensure that production systems are processed to meet financial reporting objectives.
 - b) To ensure that modified systems continue to meet financial reporting objectives
 - c) To ensure that access to programs and data is authenticated and authorized to meet financial reporting objectives**
 - d) To ensure that system are developed, configured and implemented to meet financial reporting objectives.
284. IT related risks, if not mitigated, may put an impact on
- a) Substantive Audit
 - b) Controls
 - c) Reporting
 - d) All of above**
285. The company and _____ shall abide by the provisions specified in schedule IV which lays down the code for Independent Directors
- a) Independent directors**
 - b) women directors
 - c) board of directors
 - d) executive directors
286. During the course of audit of intangible assets, expenditure incurred during following phase is not capitalised :
- a) Development phase
 - b) Research phase**
 - c) None of the above
 - d) Both (a) and (b)
287. Useful life of assets is given in schedule _____ of companies Act 2013.
- a) II**
 - b) IV
 - c) Verify debtors against sales document
 - d) VII
288. Search for unrecorded liability is performed during audit of current liabilities to address the following balance sheet assertion :
- a) Valuation
 - b) Rights and obligations
 - c) Existence
 - d) completeness and valuation**
289. are charges against to provide for known liabilities for which amounts cannot be determined with accuracy
- a) Contingent liabilities
 - b) Provision**
 - c) Securities premium reserve
 - d) liabilities
290. A Special Resolution is required by company to authorize issue of shares at discount. The given statement is
- a) True**
 - b) False

291. Surplus on the re-issue of Forfeited shares standing to the credit of share Forfeited Account can be distributed as dividend. The given statement is
a) True **b) False**
292. Capital Profits realized in Cash may be distributed as dividend, provided the Articles do not prohibit, hence profit on re-issue of Forfeited shares may be distributed as Dividend. The given statement is
a) True **b) False**
293. If there is no change in the Paid-up Capital, it can be verified by reference to the Audited financial statements of the
a) Previous year b) Current year c) Subsequent year d) None of the above
294. Auditor has to verify that the issue of shares and the related terms are in accordance with
a) Prospectus b) Statement in lieu of prospectus
c) Both (a) and (b) d) None of the above
295. As per companies Act, 2013 shares cannot be issued at Discount at any point of time. The given statement is
a) True **b) False**
296. Minimum subscription of shares has to be received before the company proceeded to allot the shares. The given statement is
a) True b) False
297. Amount payable on application shall not be less than
a) 5% of the nominal value of Securities b) 15% of the nominal value of securities
c) 10% of the nominal value of securities d) 5% of the Issue value of securities
298. The minimum amount, in the opinion of the Directors or of the signatories to the Memorandum, must be raised by the issue of shares, is called as
a) Securities premium **b) Minimum subscription**
c) Maximum subscription d) Allotment subscription
299. A Company can issue shares for valuable for valuable consideration other than cash. The given statement is
a) True b) False
300. Securities Premium shall be considered as
a) Free Reserve **b) Restricted Reserve** c) Bonus Reserve d) None of the above
301. Securities premium account can be used for
a) Issue of fully paid Bonus shares b) Buy Back of Shares
c) Both (a) and (b) d) None of the above
302. Sweat Equity shares can be issued at Discount. The given statement is
a) True b) False
303. ESOP can be issued to
a) Employees or Directors b) Suppliers and Creditor
c) Customers and Debtors d) None of the above
304. Sweat Equity shares, can be issued only after _____ after the date it commenced business
a) One year b) Five years c) Two years d) Three years
305. Rights shares can be offered only to the existing Members. The given statement is
a) True b) False
306. Buy-back is completed within _____ from the date of passing the special Resolution or the Board resolution
a) 18 Months b) 1 Month c) 15 Months **d) 12 Months**
307. After Buy Back, the Debt-Equity Ratio is not more than
a) 0.0430555555555556 **b) 0.0840277777777778**
c) 0.04375 d) None of the above

Chapter – 6 AUDIT DOCUMENTATION

SET-1

1. Which of the following statement is appropriately suited to preparation of audit documentation?
(a) Audit documentation has to be prepared simultaneously as audit progresses.
(b) Audit documentation has to be prepared 60 days after date of audit report.
(c) Audit documentation has to be prepared when information is required by regulator.
(d) Audit documentation has to be prepared 60 days after completion of audit work.
2. Audit documentation is owned by: -
(a) Client
(b) Auditor
(c) Team member responsible for documentation
(d) Regulator
3. Which of the following is least likely to be included in audit documentation of a company engaged in manufacturing and export of goods?
(a) Previous years audited financial statements
(b) Projected cash flow statement for next twelve months provided by management in support of going concern assumption
(c) Statements showing dispatch of overseas consignments in accordance with delivery schedules of overseas buyers
(d) Statement showing verification of ageing of trade receivables as on date of balance sheet
4. Which of the following is false in relation to audit documentation when an external auditor relies upon work of internal auditor?
(a) Evaluation of objectivity and competence of internal auditor has to be documented.
(b) Nature of work used and reason for relying upon work used forms part of documentation.
(c) Documentation on whether quality control is exercised in internal audit work forms part of audit documentation.
(d) Documentation on what specific recommendations were given by internal auditor for risk assessment to external auditor forms part of audit documentation.

Inter MEC, CEC | CA | CMA | CS

SET-2

CASE STUDY-1

CA Rajan Pillai is heading the engagement team conducting audit of a company. While audit is in progress, consider following issues regarding audit documentation:-

- (A) Audit programme was prepared assigning responsibilities for different types of works to be performed to team members. The engagement team consists of 4 members Mohit (CA final student), Rohit (CA final student), Shobhit (Paid CA) and CA Rajan Pillai (partner of audit firm).
- (B) The team has determined materiality for financial statements as a whole.
- (C) The team has assessed risks of material misstatements to be low.
- (D) CA Shobhit is responsible for attending inventory count process and putting down its documentation part.
- (E) During the course of audit, many related party transactions have come to notice.

Based on above, answer the following questions: -

5. Work relating to verification of revenue was assigned to Mohit in audit programme. However, it is being performed by Rohit actually. Verification of trade receivables was planned to be carried out by Rohit in audit programme. However, it being performed by CA Rajan Pillai due to last minute practical issues. Which of the following statements is most appropriate in this regard relating to audit documentation?
- (a) Audit programme contains names of persons and work to be performed. It is immaterial whether work assigned to one person is performed by another person.
- (b) Audit programme was already prepared. Only persons assigned specific responsibilities can perform those duties.
- (c) It is necessary that audit programme be suitably updated or notes are given in working papers to this effect so that planned duties are in accordance with actual work performance.**
- (d) Changes in audit programme or notes clarifying the matter are required only when a person not forming part of engagement team is deputed to perform a duty. Otherwise, this issue of inter-shuffling of team members is frivolous.
6. As regards materiality, which of the following statements is most appropriate in context of audit documentation?
- (a) Materiality has already been determined. There is no need to put it into working papers.
- (b) Materiality depends upon professional judgment of auditor. Whatever amount has been determined can be documented in working papers.
- (c) Materiality arrived on basis of professional judgment along with factors considered in the determination has to be documented.**
- (d) Materiality has been arrived upon professional judgment. It also depends upon professional judgment of auditor whether he wants to document it or not.
7. As regards team's assessment that risk of material misstatements is low, which of the following statements is odd one relating to documentation of risk?
- (a) Discussion amongst engagement team members and detail of significant decisions reached has to be documented.
- (b) Details of risk assessment procedures have to be documented.
- (c) Details about how understanding of each component of internal control was obtained has to be documented.
- (d) Precise calculation of risk of material misstatements has to be documented.**
8. CA Shobhit is responsible for attending physical inventory count of the company. Which of the following is not true in this regard relating to audit documentation?
- (a) Dates on which physical inventory count process was attended by him should be documented. It may also include photographs of that date showing his attendance of inventory counting process at a particular location.
- (b) Detail of test counting undertaken should form part of audit documentation.
- (c) Detail of obsolete goods found should form part of audit documentation.
- (d) Reports showing that stocks conform to quality control standards in accordance with law are essential part of audit documentation.**
9. As regards related party transactions, which of the following should not be part of audit documentation?
- (a) Management representation letter in this regard
- (b) Related party transaction policy of the company
- (c) Documentation to show that such transactions are at arm's length basis
- (d) Documentation to show that such transactions are at close length basis.**

SET-3

10. Audit documentation provides:
- a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; or evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
 - b) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor; and evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.**
 - c) evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor
 - d) evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.
11. Which of the following is correct :
- a) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report.**
 - b) The auditor shall assemble the audit documentation in an audit file and shall not complete the administrative process of assembling the final audit file.
 - c) The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis before the date of the auditor's report.
 - d) The auditor shall not assemble the audit documentation in an audit file.
12. Audit evidence includes
- a) information contained in the accounting records underlying the financial statements
 - b) both information contained in the accounting records underlying the financial statements and other information.**
 - c) other information.
 - d) information contained in the accounting records underlying the financial statements or other information.
13. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express :
- a) a disclaimer opinion
 - b) a qualified opinion
 - c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.**
 - d) unmodified opinion
14. _____ refers to the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
- a) Audit Techniques
 - b) Audit evidence
 - c) Audit Documentation**
 - d) Audit Procedures record
15. Which of the following is not an Audit procedure to obtain audit evidence:
- a) Inspection
 - b) Observation
 - c) External Confirmation
 - d) Internal Control**
16. Due to inherent limitations of audit, the audit evidence is in nature rather than
- a) persuasive; conclusive.**
 - b) conclusive; persuasive.
 - c) sufficient; appropriate.
 - d) appropriate; sufficient
17. Identify the incorrect one:
- Audit Documentation means Record of:
- a) Audit procedures performed.
 - b) Relevant audit evidence obtained.

- c) Conclusions the auditor reached **d) None of the above**
18. Working papers means audit documentation:
a) True, terms such as "working papers" or "work papers" are also sometimes used for audit documentation
b) False, working papers and audit documentations are completely different things.
c) False, "only current years working papers" or "only current years' work papers" can be referred as audit documentation
d) True, however such statement holds good only in case of permanent working papers.
19. Audit documentation may be recorded on:
a) only paper b) electronic or paper media
c) paper or other media. **d) paper, electronic or other media**
20. Arrange the audit documentation in sequence:
1. Audit programmes 2. Issus memoranda.
3. Letters of representation 4. Checklists
Options:
a) 1/2/3/4 b) 4/2/1/3 c) 3/2/1/4 d) 1/2/4/3
21. Identify the correct one:
a) Audit documentation is not a substitute for the entity's accounting records.
b) Audit documentation can be used as a substitute for the entity's accounting records.
c) Audit documentation is another name for the entity's accounting records.
d) All of the above
22. Identify the correct one:
a) Audit documentation is auditor's property.
b) Audit documentation is clients' property.
c) Audit documentation is joint property of auditor's & clients.
d) Audit documentation is client's property in custody of auditor
23. Identify the incorrect one:
Audit documentation serves a number of additional purposes, including the following:
a) Enabling the engagement team to be accountable for its work (but cannot be used as evidence against charges of negligence)
b) Retaining a record of matters of continuing significance to future audits
c) Enabling the conduct of quality control reviews
d) Enabling the conduct of Inspection
24. Following are _____ proportionate _____ to _____ the extent of _____ audit documentation.
Size/Complexity/Risk/Nature and extent of exceptions.
a) directly b) indirectly c) reverse d) converse
25. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis.
a) before the date of the auditor's report
b) after the date of the auditor's report
c) before the end of 1 year from financial year to which such auditor's report relate
d) before the report of approving authority
26. Identify the correct option:
1) The auditor can delete or discard audit documentation after the end of its retention period.
2) The auditor shall not delete or discard audit documentation before the end of its retention period.
3) The auditor can delete or discard audit documentation before the end of its retention period.
4) The auditor cannot delete or discard audit documentation after the end of its retention period.
Options:

- a)1 & 2 b)1 only c)3 & 4 d)1&4
- 27.SQC -1 requires firms to establish policies and procedures for the timely completion of the assembly of audit files. An appropriate time limit with in which to complete the assembly of the final audit file is ordinarily _____
a)not more than 30 days after the date of the auditor's report
b)not more than 60 days after the date of the auditor's report
c)not more than 90 days after the date of the auditor's report
d)not more than 120 days after the date of the auditor's report
- 28.Changes may, however, be made to the audit documentation during the final assembly process sif they are in nature.
a)managerial. **b)administrative**
c)operational d)Any of the above
- 29.SQC 1 requires firms to establish policies and procedures for the retention of engagement documentation. The retention period for audit engagements ordinarily is:
a)no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
b)no longer than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.
c)no shorter than eight years from the date of the auditor's report, or, if later, the date of the group auditor's report.
d)no shorter than seven years from the date of the auditor's report, or the date of the group auditor's report whichever is earlier.
- 30.Audit documentation is the property of the _____
a) Auditor b)Client c)Management d)Shareholders
- 31.A summary retained as part of the audit documentation that describes the significant matters identified during the audit and how they were addressed or cross- references to other relevant supporting audit documentation that provides such information.
a)Audit note book **b)Completion memorandum**
c)Permanent audit file d)Temporary audit file
- 32.Is preparation of Summary of Completion or Completion Memorandum mandatory in each audit assignment?
a) Yes, it gives bird's eye view of significant matters in audit assignment
b) Yes, its mandatory and it should be in format that experienced auditor should be able to understand it.
c) No, such requirement doesn't exist in India, it is required for European audits
d) No, it is not mandatory. It can be prepared if audit team finds it useful.
- 33.Audit evidence obtained by the auditor as a direct written response from a third party is called _____.
a) Internal Confirmation
b) External Confirmation
c) Interior Confirmation
d) Exterior confirmation
- 34.A court decree or a lease agreement are examples of what type of documentary evidence?
a) Internal Evidence **b)External Evidence**
c) Partly Internal and partly external d) None of above
- 35.should be preferred, since the likelihood of its being duplicated or fabricated is much less.
a) External Evidence b)Internal Evidence
c) Documentary Evidence d)External Confirmation
- 36.Choose the incorrect one:
a) Audit evidence obtained directly by the auditor is more reliable

- b) Audit evidence is more reliable when it exists in documentary form
c) Audit evidence obtained by auditor from client is more reliable
d) None of above
37. When using external confirmation procedures, the auditor shall maintain control over:
a) Determining the information to be confirmed or requested
b) Selecting the appropriate confirming party
c) Designing the confirmation requests,
d) All of above

SET-4

38. An audit report is the _____ product of audit.
(A) Main
(B) Final
(C) Semi final
(D) None of the above
39. Chartered Accountants have to retain the working papers for-
(A) 2yrs
(B) 3yrs
(C) 5yrs
(D) 7yrs
40. Check list contains the instruction to be followed by the-
(A) Internal Auditor
(B) External Auditor
(C) Audit Assistants
(D) Employee of the organization
41. As per SQC1, Audit working papers should be retained for a period of
(A) 2 years
(B) 5years
(C) 7years
(D) 10years
42. Internal Control Questionnaire contains the questions which need to be followed by the
(A) Employer of the organisation
(B) Employee of the organisation
(C) Auditor of the entity
(D) Banker to the organisation
43. Which of the following is not included in the Current Audit File?
(A) Memorandum and Articles of Association
(B) Current year's audit programme
(C) Internal Control Questionnaire
(D) Copies of budget
44. Current Audit file contains
(A) AOA and MOA of the company
(B) Analysis of significant ratios and trends
(C) Notes regarding significant accounting policies
(D) Audit programme

Chapter – 7 COMPLETION AND REVIEW

SET-1

1. An auditor of a company communicates significant findings from audit with those charged with governance in the company. Which of the statements is false in regard to communication made?
(a) Evaluation of adequacy of communication process is required on part of the auditor.
(b) Planned scope and timing of audit has also to be communicated.
(c) Communication of rationale behind audit procedures is necessary.
(d) Significant difficulties encountered during audit, if any, have to be communicated.
2. Written representations are: -
(a) Necessary audit evidence
(b) Sufficient appropriate audit evidence
(c) Not audit evidence
(d) Audit evidence depending upon auditor's professional judgment
3. Which of the following is false regarding communication of misstatements identified during course of an audit?
(a) The auditor should request those charged with governance for correction of identified misstatements.
(b) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is material.
(c) The auditor should obtain written representation acknowledging management belief that effect of uncorrected misstatements is immaterial.
(d) The auditor should communicate effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.
4. Which of the following is not an example of subsequent event?
(a) Event occurring between date of financial statements and date of auditor's report.
(b) Event occurring on date of financial statements.
(c) Event occurring after filing audit report with tax authorities. Had such an event been known earlier, auditor would have amended report.
(d) Event occurring during course of performing audit procedures after date of financial statements.
5. Which of the following is not an example of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?
(a) Adverse key financial ratios
(b) Inability to invest in modernisation of plant
(c) Inability to pay creditors on time
(d) Inability to pay salary of staff

SET-2

CASE STUDY-1

CA. Gaurav Gogoi is about to conclude audit of a company. It has been noticed during the course of audit that there is shortage of important raw material supplies being imported from China due to prevailing geo-political situation. The company has shared with him its plan to deal with the situation. He is satisfied with assessment of the company for dealing with the matter. The issue is disclosed in financial statements and considering management's assessment, it is felt that use of going concern assumption by company in preparation of financial statements is appropriate.

Besides, he also wants to be sure that all subsequent events till now have been considered and accounted for, where ever necessary, in financial statements.

Before concluding audit, he requests written representations from management regarding its responsibilities. However, it is noticed that such written representations provided by management use qualifying language.

He has also communicated significant findings from audit in writing with those charged with governance in the company and has retained copy of relevant mails. Besides, there are certain matters which were communicated by him orally from time to time during the course of audit to those charged with governance.

Based on above, answer the following questions: -

6. As regards description of matter above concerning issue of going concern, which of the following statements is most appropriate for auditor's report?
 - (a) The auditor should express an unmodified opinion.
 - (b) The auditor should express a qualified opinion as material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - (c) Besides expressing an unmodified opinion, the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" drawing attention to the note in which such disclosure is made in financial statements along with related matters.**
 - (d) Such an issue does not affect auditor's opinion.
7. As regards going concern basis of accounting is concerned, which of the following statements is true?
 - (a) A company showing net loss in its financial statements is essentially not a going concern.
 - (b) Following going concern assumption of accounting is primary duty of auditor.
 - (c) In case, a company is not a going concern, its financial statements must be prepared on liquidation basis.**
 - (d) Audit procedure seeking confirmation from banker regarding outstanding balance relates to verification of going concern assumption.
8. Which of the following statements is true in respect of auditor's responsibilities in respect of subsequent events?
 - (a) There is no obligation for an auditor to perform audit procedures for events occurring between date of financial statements and date of auditor's report.
 - (b) There is no obligation for an auditor to perform audit procedures after signing of a auditor's report, even if he comes to know of an event, which if known to him earlier would have caused him to amend the audit report.
 - (c) The auditor has only to rely upon written representation of management regarding subsequent events. He has no other means to know about such events.
 - (d) The auditor should perform necessary audit procedures to know about events occurring between the date of financial statements and date of auditor's report.**
9. As regards use of qualifying language in written representations, which of the following statement is most appropriate?
 - (a) It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.**
 - (b) Written representations should be unconditional. Such a wording is not acceptable.
 - (c) Such a wording dilutes intent of written representations. However, it can be accepted by auditor only in exceptional circumstances.
 - (d) Qualifying language in written representations is compulsory.
10. As regards auditor's responsibility regarding matters communicated orally with those charged with governance, which of following is most appropriate?
 - (a) Matters communicated orally have to be documented by the auditor stating**

when and to whom these were communicated.

- (b) Matters communicated orally need not be put into writing. It is sufficient for auditor to have communicated orally.
- (c) Matters communicated orally need not be put into writing. It is not practically feasible.
- (d) Matters communicated orally have to be documented by the auditor stating to whom these were communicated.



Chapter – 8 AUDIT REPORT

SET-1

1. While expressing an unmodified opinion on financial statements, the auditor shall not use which of the following phrases?
(a) present fairly in all material respects
(b) give a true and fair view
(c) with the foregoing explanation
(d) All of the above
2. is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to the user's understanding of the financial statements.
(a) Emphasis of Matter Paragraph
(b) Other Matter Paragraph
(c) Key Audit Matter
(d) Management Responsibility Paragraph.
3. Statement 1: Communicating key audit matter in the auditor's report constitutes a substitute for disclosure in the financial statements.
Statement 2: Instead of modifying an opinion in accordance with SA 705, the statutory auditor can use Key Audit Matter paragraph in the audit report with an unmodified opinion.
(a) Only Statement 1 is correct
(b) Only Statement 2 is correct
(c) Both the statements are correct
(d) None of the statement is correct
4. Which of the following is not correct?
(a) SA 700 - Forming an Opinion and Reporting on the Financial Statements
(b) SA 701- Key Audit Matters in the Independent Auditor's Report
(c) SA 705- Comparative Information- Corresponding figures and Comparative Financial Statements
(d) SA 706- Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
5. Responsibilities of Joint Auditors are governed by:
(a) SA 200
(b) SA 229
(c) SA 299
(d) SA 230

SET-2

CASE STUDY-1

M/s AB & Company is a firm of Chartered Accountants based in Mumbai. Mr. A and Mr. B are the Partners of the Firm. The Firm is engaged in various assignments including Audits. The partners are taking a summary of their work in order to prepare themselves to finalize the Audit and issue the audit report to various clients. You are requested to go through the following and answer the questions that follow:

During the audit of M/s Persistent & Co, Mr. A found that the firm has changed the method of Depreciation from WDV to SLM but has not given the retrospective effect. Mr. A has calculated the difference of depreciation but M/s Persistent & Co. has stated that they don't want to change the financial.

statements and if auditor persists they may give the effect in the next financial year. During the audit of M/s Dubious Brothers, Mr B observed that the firm had a very large amount of cash sales and there were no details of the customers to whom the sales were made. Further, cash generated was not even deposited into bank regularly. When Mr. B asked the firm to give him an opportunity to count cash, the manager of the firm said that the cash is with the owner and it cannot be made available to the auditor for the checking purpose. The manager also declined to give an opportunity for stock verification to Mr B. During the audit of M/s Honest & Associates, Mr. A came to know that the firm has changed its method of valuation of stock. This change has a material impact on the financial statement of the firm. The firm has made relevant disclosures in the financial statements and has given proper accounting treatment to this exercise.

Based on above, answer the following questions: -

6. In case of M/s Persistent & Company, what would be an ideal Audit Opinion?
 - (a) Unmodified
 - (b) Qualified**
 - (c) Mention the fact in Emphasis of Matter Paragraph
 - (d) Disclaimer
7. In case of M/s Dubious Brothers, what Audit Opinion should the Auditor give?
 - (a) Qualified
 - (b) Adverse
 - (c) Disclaimer**
 - (d) Unmodified
8. According to you, what would be appropriate course to take in case of M/s Honest & Associates?
 - (a) Issue Qualified Opinion
 - (b) Issue Adverse Opinion
 - (c) Mention the fact of change in method in Emphasis of Matter Paragraph**
 - (d) Issue Disclaimer of Opinion
9. When the Auditor, after conclusion of an Audit exercise, is of the opinion that there are material misstatements in the Financial Statements, but they are not pervasive, then what should an Auditor do?
 - (a) Issue Unmodified Opinion
 - (b) Issue Qualified Opinion**
 - (c) Issue Disclaimer of Opinion
 - (d) Mention it in Emphasis of Matter Paragraph
10. When the Auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, Auditor shall give:
 - (a) Modified Opinion
 - (b) Qualified Opinion
 - (c) Disclaimer of Opinion
 - (d) Unmodified Opinion**

SET-3

11. Which of the following is not a type of modified opinion:
 - a) qualified opinion
 - b) adverse opinion
 - c) disclaimer of opinion
 - d) negative opinion.**
12. The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
 - a) Adverse**

- b) Qualified
 - c) Disclaimer
 - d) unmodified opinion with key audit matter paragraph.
13. SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SA more recognizable. Which of the following is the specific heading:
- a) Key audit matters
 - b) Basis of opinion
 - c) Date
 - d) All of the above**
14. The Opinion section of the auditor's report shall:
- a) Identify the entity whose financial statements have been audited;
 - b) State that the financial statements have been audited;
 - c) Identify the title of each statement comprising the financial statements;
 - d) All of the above**
15. To report on the financial statement is an objective of the auditor only under SA 700 and hence SA 200 does not deal with the same.
- a) True, SA 200 deals with general objectives of the auditor and not with reporting on the financial statements.
 - b) False, SA 200 deals with overall objectives of the auditor which also includes reporting on the financial statements as its objective.**
 - c) True, SA 200 deals with overall objectives of the auditor which does not involve reporting on the financial statements as its objective.
 - d) False, as not only SA 200 requires reporting on financial statements but also specifies the content of the audit report.
16. To express an opinion on whether the financial statements are prepared as per applicable financial reporting framework is an objective of the auditor only under SA 700 and hence SA 200 does not deal with the same.
- a) True, SA 200 deals with general objectives of the auditor and not with expressing an opinion on whether the financial statements are prepared as per applicable financial reporting framework
 - b) False, SA 200 deals with overall objectives of the auditor which also includes expressing an opinion on whether the financial statements are prepared as per applicable financial reporting framework**
 - c) True, SA 200 deals with overall objectives of the auditor which does not involve expressing an opinion on whether the financial statements are prepared as per applicable financial reporting framework
 - d) False, as not only SA 200 specifies to express an opinion on whether the financial statements are prepared as per applicable financial reporting framework but also specifies the content of the audit report.
17. does not require the auditor as its objective in normal course to give opinion on internal financial controls as its objective, however requires the auditor to comment on the internal financial controls over financial reporting / with respect to financial statements. Later overrides the earlier hence the auditor is required to report on the same.
- a) SA 200; Section 143 of the Companies Act, 2013**
 - b) Section 143 of the Companies Act, 2013; SA 200
 - c) SA 700; Section 143 of the Companies Act, 2013
 - d) SA 200; Section 144 of the Companies Act, 2013
18. Compliance framework allows
- a) additional disclosure for better financial presentation
 - b) amending requirement for better financial presentation
 - c) Both the above
 - d) None of the above**
19. Fair Presentation Financial Reporting framework allows
- a) additional disclosure for better financial presentation

- b)amending requirement for better financial presentation
c)Any of the above d)None of the above
- 20.Wording of opinion para in Fair Presentation Financial Reporting framework?
a)Whether the financial statement give true & fair view.
 b)Financial statements are as per compliance framework.
 c)Whether the financial statement give full & fair view.
 d)Whether the financial statement give true & correct view.
- 21.Wording of opinion para in Compliance frame work?
 a)Whether the financial statement give true & fair View.
b)Financial statements are as per compliance framework.
 c)Whether the financial statement give full & fair View.
 d)Whether the financial statement give true & correct view.
- 22.Identify the correct one
 There are two types of financial reporting framework:
 1.General purpose financial reporting framework
 2.Specific purpose financial reporting framework
 3.Special purpose financial reporting framework
 4.Government purpose financial reporting framework
 Options:
 a)3 & 4 **b)1 & 3** c)2&3 d)2&4
- 23.Identify the correct one
 General purpose financial reporting framework is:
 a)followed and suitable for few.
b)followed and suitable for public at large.
 c)followed and suitable for government entities.
 d)followed and suitable for public sector entities.
- 24.Special purpose financial reporting frame work is:
a)followed and suitable for few.
 b)followed and suitable for public at large.
 c)followed and suitable for government entities.
 d)followed and suitable for public sector entities.
- 25.Identify to which option the following example relates to the most AS in India are required to be followed by almost all.
a) General purpose financial reporting framework
 b) Special purpose financial reporting framework
 c) Government purpose financial reporting framework
 d) Specific purpose financial reporting framework
- 26.Identify to which option the following example relates to the most. TRAI asked for circle wise profit and loss which is suitable for decision making of license fees.
 a)General purpose financial reporting framework
b)Special purpose financial reporting framework
 c)Government purpose financial reporting framework
 d)Specific purpose financial reporting framework
- 27.General purpose report is covered by SA:
a)700 b)800 c)600 d)810
- 28.Which of the standards of auditing are relevant when the financial statements are prepared as per special purpose financial reporting framework?
 a)700 b)800 **c)Both of the above** d)None of the above
- 29.Identify the correct option:
 _____gives permission,
 1. For additional-Disclosures or
 2. To amend requirement of Financial Reporting Framework, fox better financial

presentation

Options:

- a) Fair presentation Framework
b) Compliance Framework
c) Equitable presentation Framework
d) Docility Framework

30.State whether true or false:

Compliance Framework gives permission,

1. For additional Disclosures or
2. To amend requirement of Financial Reporting Framework, for better financial presentation

Options:

- a) True, as compliance framework does permits the same.
b) False, as only fair presentation framework permits the same.
 c) True, as docility Framework does permits the same.
 d) False, as only equitable presentation framework permits the same.

31. Identify the expected wording of Fair presentation Framework:

- a) **Whether financial statements give true & fair view.**
b) Whether financial statements are as per compliance framework.
c) Auditor did not receive any information which suggests material misstatement exist.
d) None of the above

32. Which from the following is a written confirmation of accuracy of facts?

- a) Audit Report **b) Certificate** c) Review Report d) None of the above.

33. Which from the following is a formal Statement made after enquiry of matter specified?

- a) **Audit Report** b) Certificate c) Review Report d) None of the above.

34.involves expression of opinion which may differ from person to person.

- a) **Audit Report** b) Certificate c) Review Report d) None of the above.

35. While giving audit report, auditor is responsible for:

- a) Ensuring that report is based on factual data.
b) Factual accuracy of the what is stated
c) All of the above
d) None of the above

36. While giving certificate, auditor is responsible for:

- a) Ensuring that report is based on factual data.
b) Factual accuracy of the what is stated
 c) All of the above
 d) None of the above

37. Identify the correct one:

- a) **Supplementary Information is the additional information which is not required as per financial reporting framework but is included voluntarily or as per law.**
- b) Supplementary Information is the additional information which is required as per financial reporting framework or voluntarily or as per law.
- c) Supplementary Information is the additional information which is required as per financial reporting framework and not voluntarily or not as per law.
- d) None of the above

38. Report under section 143 of the Companies Act, 2013 is addressed to:

- a) Management
b) Those charged with governance
c) Shareholders
d) None of the above

39. Communication under SA 260 is addressed to:

- a) Management
b) Those charged with governance
c) Shareholders
d) None of the above

40. Report under section 143 of the Companies Act, 2013 is an internal document.

- a) True, it is a report for management of the company.

- b)False, it is a statutory report and is available in public domain.**
c)True, it is a report for TCWG of the company.
d)None of the above
- 41.Communication under SA 260 is an internal document.
a)True, it is a report for TCWG of the company.
b)False, it is a statutory report and is available in public domain.
c)True, it is a statutory report and is internal document of the company.
d)None of the above
- 42.Pervasive effects on the financial statements are those that, in the auditor's judgment:
a)are not confined to specific element
b)If confined, represent a substantive portion in financial statement
c)are disclosure which are fundamental to user understanding
d)All of the above
- 43.Identify as to which of the following option will be appropriate to the respective statement taking into consideration the concept of pervasiveness. A misstatement that affects many items in the financial statement
a)Not confined to specific element
b)If confined to one item represent a substantive portion in financial statement
c)Disclosure which are fundamental to user understanding
d)None of the above
- 44.Identify as to which of the following option will be appropriate to the respective statement taking into consideration the concept of pervasiveness. A misstatement that affects only a particular item in financial statement, but that item is of substantial importance
a)Not confined to specific element
b)If confined to one item represent a substantive portion in financial statement
c)Disclosure which are fundamental to user understanding
d)None of the above
- 45.Identify as to which of the following option will be appropriate to the respective statement taking into consideration the concept of pervasiveness. Not disclosing the facts which can have material impact on user understanding of financial statement.
a)Not confined to specific element.
b)If confined represent a substantive portion in financial statement.
c)Disclosure which are fundamental to user understanding.
d)None of the above
- 46.What kind of opinion will be given by auditor in the following circumstances?
Material misstatement exists in financial statement and its pervasive.
a)Disclaimer of opinion b)Qualified opinion
c)Adverse opinion d)Unmodified Opinion
- 47.What kind of opinion will be given by auditor in the following circumstances?
Material misstatement exists in financial statements but it's not pervasive.
a)Disclaimer of opinion **b)Qualified opinion**
c)Adverse opinion d)Unmodified opinion
- 48.What kind of opinion will be given by auditor in the following circumstances?
Sufficient and appropriate audit evidence is not available but it's not pervasive.
a) Disclaimer of opinion **b)Qualified opinion**
c)Adverse opinion d) Unmodified opinion
- 49.What kind of opinion will be given by auditor in the following circumstances?
Sufficient and appropriate audit evidence is not available and its pervasive.
a)Disclaimer of opinion b)Qualified opinion
c)Adverse opinion d)Unmodified opinion
- 50.What kind of opinion will be given by auditor in the following circumstances?

- Sufficient and appropriate audit evidence is available, and no material misstatement exist.
- a)Disclaimer of opinion
c)Adverse opinion
d)Unmodified opinion
- 51.What kind of opinion will be given by auditor in the given circumstances?
No Material misstatement exists in financial statements and sufficient and appropriate audit evidence is also available
- a)Disclaimer of opinion
c)Adverse opinion
d)Unmodified opinion
- 52.Relate the statement to the respective opinion:"Not able to express opinion"
- a)Disclaimer of opinion
c)Adverse opinion
d)Unmodified opinion
- 53.Relate the statement to the respective opinion:"Subject to / Except effect of:"
- a)Disclaimer of opinion
c)Adverse opinion
b)Qualified opinion
d)Unmodified opinion
- 54.Relate the statement to the respective opinion:"Financial statements does not show true and fair view"
- a) Disclaimer of opinion
c)Adverse opinion
b)Qualified opinion
d)Unmodified opinion
- 55.Relate the statement to the respective opinion:"Financial statements show true and fair view "
- a)Disclaimer of opinion
c)Adverse opinion
d)Unmodified opinion
b)Qualified opinion
- 56.When auditor expects to modify the opinion in the audit report, the auditor shall inform " those charged with governance" regarding intended wording of the modification and reason for the same.
- a)True, SA'705 specifies the same**
c)True, SA 706 specifies the same
b)False, SA 705 does not specify the same
d)False, SA 706 does not specify the same
- 57.If any limitation are imposed on the auditors scope of work after acceptance, which is likely to result in qualification or disclaimer ,the auditor shall request management to remove such limitation .If management refuses, auditor should go to those charged with governance and shall perform alternate audit procedures .If the auditor is not able to obtain sufficient and appropriate audit evidence and its pervasive, the auditor shall give a(if its early stage):
- a)Disclaimer of opinion
c)Adverse opinion
d)resign from engagement
b)Qualified opinion
- 58.If any limitation are imposed on the auditors scope of work after acceptance , which is likely to result in qualification or disclaimer ,the auditor shall request management to remove such limitation .If management refuses ,auditor should go to those charged with governance and shall perform alternate audit procedures .If the auditor is not able to obtain sufficient and appropriate audit evidence and its pervasive, the auditor shall give a(if it is an advanced stage):
- a)Disclaimer of opinion**
c)Adverse opinion
b)Qualified opinion
d)Resign from engagement
- 59.If any limitations are imposed on the auditors scope of work after acceptance , which is likely to result in qualification or disclaimer /the auditor shall request management to remove such limitation .If management refuses, auditor should go to those charged with governance and shall perform alternate audit procedures .If the auditor is not able to obtain sufficient and appropriate audit evidence but it's not pervasive, the auditor shall give a :
- a)Disclaimer of opinion
c)Adverse opinion
b)Qualified opinion
d)Resign from engagement

60. _____ is used by the auditor to refer the matter appropriately presented in financial statement, with the intention to highlight the matter.
- a) Other Matter Paragraph
b) **Emphasis of Matter Paragraph**
c) Opinion paragraph
d) None of the above
61. is used by the auditor to refer the matter other than those mentioned in financial statement, which is relevant to user understanding regarding auditor's responsibility or his report.
- a) **Other Matter Paragraph**
b) Emphasis of Matter Paragraph
c) Opinion paragraph
d) None of the above
62. Examples, where emphasis of matter paragraph will be used:
- a) Prior period item.
b) Amalgamation
c) Changes in accounting policy
d) **All of the above**
63. Examples, where other matter para will be used:
- a) Prior period item.
b) Amalgamation
c) Changes in accounting policy
d) **None of the above**
64. Examples, where other matter para will be used:
- a) Last year no audit was conducted.
b) Last year audit was conducted by someone else.
c) Some branches are audited by other auditors.
d) **All of the above**
65. When auditor expects to include emphasis of matter para or other matter para in the audit report the auditor shall communicate to management, the fact and the expected wordings of this para.
- a) **True**
b) False
66. Emphasis of matter para is a substitute for:
1. Qualified, Adverse or Disclaimer of Opinion or,
2. Disclosure to be made by management in financial statement.
- a) True
b) **False**
67. Widespread use of Emphasis of matter para reduces its effectiveness.
- a) **True**
b) False
68. Before using emphasis of matter para or other matter para, auditor is required to obtain sufficient and appropriate audit evidence that matter for which such para is used, is not materially misstated.
- a) **True**
b) False
69. As per SA 710, _____ are amounts and disclosures which are of one or more prior period and are included in financial statement in accordance with applicable financial reporting framework.
- a) prior period items
b) **comparative Information**
c) both of the above
d) none of the above
70. Identify the approach:
Detailed information of previous year is given.
- a) Corresponding Figure Approach.
b) **Comparative financial statements Approach.**
c) Complementary Figure Approach.
d) Restricted financial statements Approach
71. Identify the approach:
Previous Year is not given equal importance.
- a) **Corresponding Figure Approach.**
b) Comparative financial statements Approach.
c) Complementary Figure Approach.
d) Restricted financial statements Approach

72. Identify the approach:

Currency year and previous year both are referred in intra para and opinion para.

- a) Corresponding Figure Approach.
- b) Comparative financial statements Approach.**
- c) Complementary Figure Approach.
- d) Restricted financial statements Approach

73. Identify the approach:

Currency year only is referred in intra para and opinion para.

- a) Corresponding Figure Approach.**
- b) Comparative financial statements Approach.
- c) Complementary Figure Approach.
- d) Restricted financial statements Approach

74. Identify the approach:

Previous year financial statement is considered as separate financial statement.

- a) Corresponding Figure Approach.
- b) Comparative financial statements Approach.**
- c) Complementary Figure Approach.
- d) Restricted financial statements Approach

75. In case of Comparative financial statement approach, if last year audit was not done by the auditor or last year's financial statements were not audited then, auditor shall refer the intra para and opinion para of:

- a) previous year, current year and shall mention the fact in other matter paragraph.
- b) current year and shall mention the fact in other matter paragraph.**
- c) previous year and shall mention the fact in other matter paragraph.
- d) previous year and current year.

76. As per SA 710, In case of Comparative financial statement approach written representation are required for all periods on which opinion is given in audit report.

- a) True, as management need to reaffirm that written representation it previously made with respect to prior period remains appropriate.**
- b) False, written representation are only required for current period as audit report only refers to the current period.
- c) False, there is no such requirement as per SA 710
- d) None of the above.

77. Choose the most appropriate option from below after considering the statement given. As per SA 710, In case of Corresponding financial statement approach written representation are required for only for current period.

- a) False, written representation of prior period also required as management need to reaffirm that written representation it previously with respect to prior period remains appropriate.
- b) True, written representation are only required for current period as audit report only refers to the current period.**
- c) False, there is no such requirement as per SA 710
- d) None of the above

78. As per SA 710, In case of Comparative financial statement approach if misstatement is stated in previous year audit report or detected during current year, the auditor should ask management to resolve if management agrees, auditor shall issue a:

- a) Clean report and shall mention the fact in emphasis of matter para**
- b) Clean report and shall mention the fact in other matter para
- c) Modified report and shall mention the fact in emphasis of matter para
- d) Modified report and shall mention the fact in other matter para

79. As per SA 710, In case of Corresponding figure approach if misstatement is stated in previous year audit report or detected during current year, the auditor should ask management to resolve if management agrees, auditor shall issue a:

- a) Clean report and shall mention the fact in emphasis of matter para**

- b) Clean report and shall mention the fact in other matter para
c) Modified report and shall mention the fact in emphasis of matter para
d) Modified report and shall mention the fact in other matter para
80. As per SA 710, In case of Corresponding figure approach if misstatement of previous year is stated in previous year audit report or detected during current year, the auditor should ask management to resolve if management disagrees, auditor shall issue:
a) Qualified opinion on entire financial statement as it affects comparability.
b) Qualified opinion on current year figures only
c) No qualification required on current year figures
d) None of the above
81. As per SA 710, In case of Comparative financial statement approach if misstatement of previous year is stated in previous year audit report or detected during current year, and it doesn't have any effect on current year, the auditor should ask management to resolve if management disagrees, auditor shall issue a:
a) Give a Qualified opinion on entire financial statement
b) Give a Qualified opinion on previous year figures only
c) No qualification required on current year figures
d) None of the above
82. As per SA 710, In case of Comparative financial statement approach if misstatement of previous year is stated in previous year audit report or detected during current year and also affects current year figures, the auditor should ask management to resolve if management disagrees, auditor shall issue a:
a) give a Qualified opinion on previous year and current year figures.
b) give a Qualified opinion on previous year figures only
c) no qualification required on current year figures
d) none of the above
83. As per SA 710, if auditor changes his opinion regarding previous year as reported earlier the auditor shall specify the fact in:
a) emphasis of matter para
b) **other matter para**
c) opinion para
d) none of the above
84. The auditor's responsibility in relation to "other information" in documents containing audited financial statements, such other information includes:
a) Financial information
b) Non-financial information
c) Either a or b
d) None of the above
85. Financial or non-financial information included in an entity's annual report can contain which of the following information-
a) management review information
b) governance information
c) shareholder information
d) all of the above
86. Other information included in an entity's annual report does not contain which of the following information-
a) Financial statement information
b) management review information
c) shareholder information
d) Board report information
87. State whether true or false:
As per SA 720, the auditor shall make appropriate arrangements with management to obtain other information or documents in a timely manner only prior to the date of the auditor's report.
a) False. When some or all of the documents will not be available until after the date of the auditor's report, the auditor should request management to provide a written representation that the final version of documents will be provided to the him when available and prior to issuance of audit report by the entity.
b) True. When some or all of the documents will not be available until after the date of the
c) auditor's report, the auditor cannot request management to provide a written representation that the final version of documents will be provided to the him when

- available and prior to issuance of audit report by the entity.
88. As per SA 720, the auditor shall _____ the other information.
a) verify b) review **c) read** d) evaluate
89. While reading and considering the other information as per SA 720, the auditor shall consider-
a) whether there is a material inconsistency between the other information and the financial statements
b) whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit
c) whether the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated
d) all of the above
90. As per SA 720, while responding to a material inconsistency which appears to exist, or other information appears to be materially misstated, the auditor shall -
a) discuss the matter with management
b) if necessary, perform other additional procedures
c) both a and b d) none of the above
91. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, which of the following appropriate action auditor can take-
a) address the material misstatement in the auditor's report under the para "Report on other Information"
b) If refusal to correct raises doubt over integrity of management & TCWG, withdraw from the engagement, if allowed under law
c) If refusal to correct raises doubt over integrity of management & TCWG, withdraw from the engagement, then give disclaimer of opinion
d) any of the above
92. SA 720 deals with requirements related to -
a) Material Inconsistency between Other Info & Financial Statements
b) Material Inconsistency between Other Info & Auditor's Knowledge
c) Other Info is Materially Misstated
d) all of the above
93. SA 720 is applicable to-
a) Preliminary announcements of financial information
b) Securities offering documents
c) Annual reports matter
d) All of the above

SET-4

94. SA-700 stands for _____.
(A) Audit Planning
(B) Joint Auditor
(C) Forming an opinion and reporting on Financial Statement
(D) None of the above
95. An auditor should submit a Disclaimer of Opinion when
(A) he is satisfied with the truth and fairness of financial statements
(B) he has certain reservations as to the presentation of truth and fairness in financial statements
(C) some material information is not available
(D) the effect of any disagreement with the management is not so material

96. The purpose of Internal audit is to detect the error in the;
(A) **Accounting records**
(B) Employees records
(C) Cash records
(D) Bank records
97. The purpose of internal audit is to determine liabilities of;
(A) Employer
(B) **Employees**
(C) Accountant
(D) External auditor
98. The assets protection is possible through
(A) **Internal Audit**
(B) Internal Control
(C) Internal Check
(D) None of the above
99. If the Debentures are issued as collateral security either to Banks or Creditors the Auditor needs to ensure that such issue is approved by
(A) Share holders
(B) **Board of Directors**
(C) Debenture Trustee
(D) Audit Committee



Chapter – 9
SPECIAL FEATURES OF AUDIT OF DIFFERENT TYPES OF ENTITIES

SET-1

1. The audit of municipal corporation of a large metro city is in progress. Which of the following is not likely an objective of such as audit?
(a) To report on the adherence to legal and administrative requirements
(b) To report on whether value is being fully received for money spent
(c) To report on the weakness of systems of financial control
(d) To provide better civic amenities to residents of metro city
2. "Save Democracy" is an NGO working in cause of promoting democracy and democratic institutions in many countries including India. Its Indian counterpart has received funds from a renowned "Flower Trust" of US. As auditor of NGO, which of the following laws/orders would be relevant to you in context of above information?
(a) Income Tax Act, 1961
(b) Foreign Contribution Regulation Act, 2010
(c) Companies Act, 2013
(d) Orders issued by Ministry of Social Justice and Empowerment
3. The appointment of first auditor of a multi-state cooperative society is made by: -
(a) Central Registrar
(b) Board of society
(c) Members of society
(d) Central Government
4. Consider following revenue sources of Union Government.
(P) Revenues from direct taxes
(Q) Revenues from Goods and Services Tax
(R) Revenues from Custom Duties
(S) Revenues from Excise Duties
Out of P, Q, R and S, which of the following flow to "Consolidated Fund of India"?
(a) P, Q and R
(b) P, Q and S
(c) P and Q
(d) P, Q, R and S
5. An LLP files compliance returns with: -
(a) Registrar of firms & societies
(b) Central Registrar
(c) Registrar of Companies
(d) Local fund audit wing

SET-2

CASE STUDY-1

Consider the following five descriptions: -

(A) Audit of "Implementation of Nagpur Metro Rail Project" was conducted by the Comptroller and Auditor General of India.

Following is extract of few audit findings placed on website cag.gov.in.

"The location of New Airport station was not ideal from the viewpoint of ridership due to sparse population in and around the station and also from the accessibility point of view. Cotton Market station, the second additional station was projected to have high peak hour peak direction trips but the work was kept on hold midway citing fund crunch due to non-release of pending contribution from stakeholders. However, the situation could have been managed through prioritization of works."

(B) Another set of audit findings in respect of audit of Haryana Power Generation Corporation Limited, a wholly owned government company responsible for operation of power generation plants in state of Haryana is as under: -

“The main reason for low generation was higher variable cost of thermal power stations which resulted in backing down of plants.”

(C) A report was tabled in Parliament highlighting main features of direct taxes administration of country as mandated in Constitution of India. This report primarily discussed compliance to the provisions of the Income Tax Act, 1961 and the associated rules and procedures etc. as applied to administration of direct taxes including irregularities noticed in finalizing assessments etc.

(D) Radial finance corporation Limited is a government company. The audit of the company is conducted by statutory auditors appointed by Comptroller and Auditor General of India.

(E) Bharat Insurance Company Limited is a general insurance government owned company. The statutory auditor is appointed by Comptroller and Auditor General of India.

The annual report for a particular year also contains comments of statutory auditors on matters such as whether company has carried out reconciliations in respect of its inter-company balances with other government owned insurance companies.

Based on above, answer the following questions: -

6. Based upon plain reading of audit findings stated at Para (A), identify type of audit carried out by office of the Comptroller and Auditor General of India.
 - (a) Audit against provision of funds
 - (b) Propriety audit
 - (c) Performance audit**
 - (d) Compliance audit
7. Keeping in view audit findings in respect of Haryana Power Generation Corporation Limited, identify type of audit carried out.
 - (a) Audit of Government Company
 - (b) Audit against rules and orders
 - (c) Compliance audit
 - (d) Performance audit**
8. Which of the following is the most appropriate statement in context of report tabled in Parliament regarding administration of direct taxes?
 - (a) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Comptroller and Auditor General of India.**
 - (b) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by an independent task force of experts.
 - (c) It is likely to be a report prepared for submission to the President under Article 151 of the Constitution of India by Central Board of Direct Taxes.
 - (d) It is likely to be a report prepared for submission to the Prime Minister under Article 151 of the Constitution of India by Central Board of Direct Taxes.
9. Who is empowered to conduct “supplementary audit” in case of Radial finance Corporation Limited, a government company?
 - (a) Central Government
 - (b) Another independent auditor appointed by CAG
 - (c) CAG**
 - (d) Another independent auditor appointed by Ministry of Corporate Affairs
10. As regards comments of auditors specified in respect of audit report of above insurance company, which of the following is likely to be most appropriate statement?
 - (a) Such are likely to be comments of test audit carried out by CAG.
 - (b) Such are likely to be comments in respect of directions to statutory auditor by CAG for reporting on specific aspect of their audit work.**

- (c) Such are likely to be comments of supplementary audit carried out by CAG
(d) Such are likely to be comments of statutory auditors in accordance with requirements of Standards on Auditing

SET-3

11. Public enterprises are required to maintain commercial accounts and are generally classified under three categories. Which of the following is not a category relating to above:
a. departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;
b. statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and
c. government companies set up under the Companies Act, 2013.
d. Charitable Trusts.
12. Article 151 requires that the reports of the C&AG relating to the accounts of the Union/State shall be submitted to the ----- who shall cause them to be laid before House of Parliament/State Legislature
a) President/Governor b) Prime Minister/ Chief Minister
c) Union Finance Minister/State Finance Minister d) Union Cabinet
13. _____ aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
a) Audit against provision of funds b) Propriety audit
c) Audit of sanctions d) Audit against rules and orders
14. The Auditor of a Sole Proprietor Concern is appointed by
a) CAG b) Bank
c) Sole Proprietor himself d) District Administration
15. Every LLP would be required to file annual return in Form _____ with ROC within 60 days of closer of financial year :-
a) Form 11 b) Form 8 c) Form 9 d) Form DPIN
16. In addition to the audit certificate in the prescribed form and various schedules, the auditor of a Co-operative society in the applicable State has to answer two sets of questionnaires called as
a) Internal Control Questionnaires b) Audit Supplements
c) Audit Memos c) Memorandum reports
17. While conducting the audit of a local body, the auditor's areas of audit do not include
a) Budgetary Procedure b) Expenditure Control
c) Accounting System **d) Dispute Resolution**
18. After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the
a) CAG b) President **c) Public Accounts Committee** d) Parliament
- AUDIT OF CO-OPERATIVE SOCIETY**
19. Stat which form the following are pre-requisites to be an auditor of co-operative society;
1. chartered Accountant 2. Diploma in co-operative accounts
3. cost Accountant 4. Any person (expert) that auditor considers appropriate
Options:
a) 1 & 4 **b) 1 & 2** c) 3 & 2 d) 1 & 3
20. Auditor of the co-operative society is appointed by -
a) registrar b) Co-operative society
c) state government d) any of the above

21. Fees of the auditor of the co-operative society is prescribed by-
a) **registrar** b) Co-operative society
c) State Government d) any of the above
22. Fees of the auditor of the co-operative society is paid by
a) registrar b) **Co-operative society**
c) State Government d) any of the above
23. To whom the auditor of the co-operative society is required to report?
1. registrar 2. Co-operative society 3. State government
4. Central government
Options:
a) 1 & 4 b) **1 & 2** c) 3 & 2 d) 1 & 3
24. In case of society where liability of the member is limited, how much shares the members of the co-operative society required to hold?
1. Maximum 20% of the total number of shares
2. Value of shareholding minimum to Rs. 1000
3. Value of shareholding maximum to Rs. 1000
4. Minimum 20% of the total number of shares
Options:
a) 1 & 4 b) 1 & 2 c) 3 & 2 d) **1 & 3**
25. A registered society is a member of a co-operative society, how much shares a registered society being a member of the co-operative society can hold?
1. Maximum 20 % of the total number of shares
2. Value of shareholding maximum to Rs 1000
3. Both of the above
4. No such limit is applicable to member being a registered society.
Options:
a) 1 only b) 2 only c) 3 only d) **4 only**
26. A co-operative society can give loan without any restriction to:
a) **members of the society only** b) any other registered society
c) both of the above d) none of the above
27. A co-operative society can give loan to subject to special sanction from registrar.
a) members of the society only b) **any other registered society**
c) both of the above d) none of the above
28. A co-operative society can invest in which of the following, as specified from below
a) Central or State co-operative bank b) Securities of Indian Trust Act, 1882
c) In shares, bonds or debentures of other society with limited liability.
d) **Any of the above**
29. A co-operative society is required to transfer of profit to reserve fund, before distribution of dividend or bonus.
a) 15 % b) 20 % c) **25 %** d) 10 %
30. A co-operative society is required to transfer of profit to reserve fund, before distribution audit guru. in of dividend or bonus. However, the registrar can reduce the percentage, but not less than .
a) 15 %; 5 % b) 20%; 10% c) **25%; 10%** d) 10%; 2%
31. A co-operative society can contribute towards charitable purpose. However, such contribution shall not exceed _____ of profit after transfer to reserve fund.
a) 15 % b) 20% c) 25% d) **10%**
32. Some of the State Acts may provide that every society shall contribute annually towards the education fund of state federal society. Such a contribution is a _____ the profits.
a) **charge on** b) appropriation of c) allotment of d) setting apart of

33. The Registrar shall audit or cause to be audited by some person authorized by him by general or special order in writing in this behalf the accounts of every registered society _____.
- a) once at least in every three year b) once at least in every two years
c) once at least in every year d) once at least in every 5 years
34. Overdue debts for a period from and more than _____ will have to be classified and shall have to be reported by an auditor
a) six months to five years; five years
 b) six months to four years; four years
 c) six months to three years; three years
 d) six months to two years; two years
35. Auditor shall check that the overdue interest is interest outstanding and accrued due while calculating profit.
a) excluded from
 b) included in
36. During the course of audit, if the auditor notices that there are some serious irregularities in the working of the society, he may report these special matters to the registrar. In which of the following cases such special report is issued by auditor.
1. Personal Profiteering 2. Detection of fraud 3. Reckless Advancing
 4. Mismanagement
- Options:
- a) 1,2 and 4 b) 1,2 and 3 **c) 1,2,3, and 4** d) 2,3 and 4
37. Following is not a feature of co-operative society audit?
- a) Adherence to Co-operative principles b) Certification of Bad Debts
 c) Special report to the Registrar **d) CARO reporting**
38. Which from following persons shall be not be disqualified for appointment as auditor of a multistate cooperative society?
- a) a body corporate
 b) an officer or employee of the multi-state cooperative society
c) a person who is indebted to the multi-state cooperative society for a sum of Rs.800
 d) a person who is in the employment, of an officer or employee of the multi-State cooperative society
39. First auditor or auditors of multi-state cooperative society shall be appointed by the board within _____
- a) one month of the date of start of operations of such society
b) one month of the date of registration of such society
 c) two months of the date of start of operations of such society
 d) two months of the date of registration of such society
40. First auditor or auditors of a multi-state co-operative society shall hold office until the _____
- a) conclusion of the first annual general meeting**
 b) Conclusion of the second annual general meeting
 c) conclusion of the sixth annual general meeting
 d) None of the above
41. Every multi-stat cooperative society shall, at each annual general meeting, appoint an auditor or auditors to hold office from the conclusion of that meeting until _____
- a) conclusion of the first annual general meeting
 b) Conclusion of the second annual general meeting
 c) conclusion of the sixth annual general meeting
d) conclusion of the next annual general meeting
42. Every auditor of the co-operative society so appointed shall be intimation within _____

- _____ of the appointment.
- a) fifteen days **b) seven days** c) fourteen days d) thirty days
43. In case of Multi-State co-operative society, central government can direct special audit of co-operative in certain cases-under section 77 where the central Government is of the opinion that:
- a) Multi-state co-operative society are not being management as per prudent commercial practices
b) Multi-State Co-operative society is being managed in a manner likely to cause damage to the interests of the trade industry
c) Financial position of any multi-state co-operative society is such as to endanger its solvency.
d) Any of the above
44. In case of special audit directed by central government, fees of the auditor of the co-operative society is prescribed by -
- a) registrar b) co-operative society
c) state government **d) central government**
45. In case of special audit directed by central government, fees of the auditor of the co-operative society is paid by -
- a) registrar **b) multi state co-operative society**
c) state government d) central government

AUDIT OF DIFFERENT TYPES OF ENTITY

46. Internal checks as regards to the receipt and issue of stores are examined, so as to ensure that purchases have been properly recorded in the _____ and that the issues have been made only against proper _____.
- a) Assets Register; documents b) Inventory Register; documents
c) Inventory Register; authorization d) Assets Register; authorization
47. As an auditor of a hospital, what areas would you consider while verifying the incomes of the hospital?
- a) Legacies & Donations b) Grants & TDS Refund
c) Investment Income **d) All of the above**
48. Bills issued to patients are verified for a selected period with the patients' attendance records to:
- a) See that bills have been properly prepared.**
b) See that bills have been documented.
c) both of the above d) none of the above
49. The auditor has to vouch all the purchases and expenses and verify that the capital expenditure was incurred only with the prior sanction of
- a) Trustees b) Managing Committee **c) Either a or b** d) None of the above
50. The auditor has to verify that the grants, if any, received from _____ has been duly accounted for.
- a) General Public b) Reserve Bank of India
c) Government d) Trustees
51. The significant variations, if any, which have taken place while comparing the totals of various items of expenditure and income with the budgeted amount are to be reported to:
- a) Trustees b) Managing Committee
c) Either a or b d) None of the above
52. The auditor should obtain proper _____ and _____ with respect to various aspects covered during the course of audit of hospital.
- a) Management Letter; Certificate
b) Management Representation; Certificate

- c) Management-Representation; Statement
- d) Management Letter; Statement

Audit of Educational Institutes

53. The auditor of a school while verifying the students' fees, shall verify that there operates a system of _____ which ensures that demand against the students are properly raised.
- a) internal controls
 - b) internal guidelines
 - c) internal checks**
 - d) none of the above
54. What are the areas to be considered by the auditor while verifying student's fees in an audit of a school?
- a) Checking names entered in the Students Fees Register with the respective class registers showing names of students on rolls and test amount of fees charged.
 - b) Checking fees received by comparing counterfoils of receipts granted with entries in the Cash Book and tracing the collections in the Fees Register to confirm that the revenue from this source has been duly accounted for.
 - c) Totaling up the various columns of the Fees Register for each month or term to ascertain that fees paid in advance have been carried forward and that the arrears that are irrecoverable have been written off under the sanction of an appropriate authority.
 - d) All of the above**
55. The auditor shall check admission fees with admission slips signed by the head of the institution and confirm that the amount has been credited to a _____, unless the _____ has taken a decision to the contrary.
- a) Student Fund; Managing Committee
 - b) Capital Fund; Managing Committee**
 - c) Any of the above
56. State whether true or false:
The auditor has to report old heavy arrears, if any, on account of fees, dormitory rents etc., to the Managing Committee.
- a) True; it is the duty of the auditor to report heavy arrears on account of fees, dormitory rents etc. to the Managing Committee as he/she looks after all the affairs of the institute.**
 - b) False; it is the duty of the auditor to report old heavy arrears, if any, on account of fees, dormitory rents etc., not to the Managing Committee but to the Government.
 - c) False; there is no need for the auditor to report on old heavy arrears.
 - d) True; it is the duty of the auditor to report heavy arrears on account of fees, dormitory rents etc. to the Managing Committee only if the government has dedicated managing power to the Managing Committee
57. While vouching the donations received, if some donations were meant for any specific purpose, then as an auditor what would you do?
- a) Verify whether the specific purpose was approved by the proper authority.
 - b) See whether the money was utilized for the purpose.**
 - c) Both of the above
 - d) None of the above

Audit of Hotels

58. _____ is one of the greatest problems in any hotel and the importance of internal control cannot be undermined.
- a) Charity
 - b) Donation
 - c) Pilferage**
 - d) None of the above
59. It is the responsibility of introduce controls which will minimize the leakage as far as possible.
- a) Auditor
 - b) Management**
 - c) Both of the above
 - d) None of the above
60. If the internal control in a hotel is weak or perhaps breaks down, then a very serious

- problem exists for the auditor. As a result of _____ nature of many of his clients' records, the auditor must rely to a very large extent on the gross margin shown by the accounts.
- a)Continuing b)Persistent c)Durable **d)Transient**
61. In the event of a material margin discrepancy being unexplained, the auditor will have to consider _____ his audit report.
- a)Qualifying**
b)disclosing the matter in Emphasis of Matter paragraph
c) disclosing the matter in other matter paragraph
d) None of the above
62. The charge for the room sales is normally posted to _____ by the receptionist/front office or in case of large hotels by the night auditor. The source of these entries is variably the _____.
- a)guest bills; service register **b)guest bills; guest register**
c)service bills; guest register d)service bills; service register
63. should be carried out to ensure that the correct number of guests are charged for the correct period.
- a)Audit checks b)Internal checks **c)Audit tests** d)None of the above
64. In many hotels, the Prepares a daily report of the rooms which were occupied the previous night and the number of beds kept in each room.
- a)manager b)service staff **c)housekeeper** d)none of the above
65. The main areas that the auditor while conducting the audit of a hotel, should look into, includes:
- a)Proper valuation of occupancy in progress at the balance sheet date
b)Ensuring that proper records maintained for booking of halls and recovered on the basis of tariff.
c)Verifying a few restaurants bills by reference to Kitchen Order Tickets or basic records
d)All of the above
66. The hotel trade operates to very large extent on casual labour. The records maintained of such wage payments are frequently inadequate. The auditor should ensure that _____ on this proper controls to the management.
- a)adequacy b)sufficiency c)stealing **d)defalcation**
67. State whether true or false:
All expenses incurred at a hotel such as cost of repairs, alterations and additions to the hotel building are all capitalized.
- a)True; all the expenditure incurred irrespective of its nature shall be capitalized.
b)False; all the major alterations and additions to the hotel building only will be capitalized.
68. Many hotels account for certain quasi-fixed assets such as silver and cutlery on basis.
- a)fixed assets **b)inventory** c)Both of the above d)None of the above
69. Many hotels' account for certain quasi-fixed assets such as silver and cutlery on inventory basis. This can lead to confusion between each inventory items and similar assets which are accounted for on a more normal fixed assets basis. In such cases, it is important that very _____ definitions of inventory items exist, and the auditor should carry out tests to ensure that definitions have been closely followed.
- a)summarized b)compiled **c)detailed** d)None of the above
70. Many hotels use _____ to take and value the inventories on a continuous basis throughout the year. Such a valuation is then invariably used as the basis of the balance sheet inventory figure at the year end.
- a)specialized professional valuers** b)auditor expert
c)auditors d)none of the above

Audit of Cinema Halls

71. How an auditor of a cinema hall, would verify the internal control mechanism?
- a) The auditor should verify that whether the entry to the cinema hall during show is only through printed tickets or not.
 - b) The auditor should verify that whether for advance booking a separate series of tickets is issued or not.
 - c) The auditor should verify that whether the inventory of tickets is kept in the custody of a responsible person or not.
 - d) All of the above**
72. Which from the following constitutes the major sources of income for a cinema hall?
- a) Sale of movie tickets
 - b) Advertisement slides
 - c) Income from restaurant
 - d) All of the above**
73. Amount of Entertainment Tax collected shall be reconcile by the auditor with:
- a) Total number of tickets issued for each class**
 - b) Register of Slides and Shorts Exhibited kept at the cinema
 - c) Agreements, entered into with advertisers
 - d) All of the above
74. Charges collected for advertisement shall bereconcile by the auditor with:
- a) Register of Slides Exhibited kept at the cinema
 - b) Agreements, entered into with advertisers
 - c) Register of Shorts Exhibited kept at the cinema
 - d) All of the above**
75. State whether true or false:
In case of cinema halls all expenses incurred on an advertisement, repairs and maintenance should be capitalized.
- a) True, all expenses incurred on an advertisement, repairs and maintenance should be capitalized
 - b) False, only major expenses incurred on an advertisement, repairs and maintenance should be capitalized
 - c) False, no expenses incurred on an advertisement, repairs and maintenance should be capitalized**
 - d) None of the above
76. The auditor of a club while conducting the audit, should vouch the receipt on account of with members application, counterfoils issued to them, as well as on a reference to minutes of the managing committee.
- a) service fees
 - b) entrance fees**
 - c) subscription fees
 - d) none of the above
77. For verification of subscriptions being a major source of revenue generation, the auditor should:
- a) vouch members' subscriptions with the counterfoils of receipts issued to them, trace receipts for a selected period to the Register of Members; also reconcile the amount of total subscriptions due with the amount collected and that outstanding.
 - b) Ensure that arrears of subscriptions for the previous year have been correctly brought over and arrears for the year under audit and subscriptions received in advance have been correctly adjusted.
 - c) both of the above**
 - d) none of the above
78. The auditor should vouch purchases of sports items, linen, crockery etc. and trace their entries into the respective
- a) fixed assets register
 - b) inventory register**
 - c) purchases register
 - d) none of the above

Audit of Sole Trader

- 79.State whether true or false:
A sole trader is under no obligation to have his account audited.
a)True b)False
- 80.Auditors of sole proprietary concern shall be appointed by .
a)sole proprietor himself b)any relative of sole proprietor
c)both of the above d)none of the above
- 81.The auditor to a firm is usually appointed by the partners on the basis of:
a)decision taken by the partners of the firm
b)complying with a condition in the partnership agreement
c)either a or b d)only b
- 82.The remuneration for the auditor of the firm is fixed by the
a)board b)registrar c)CAG **d)Partner**
- 83.The auditor of the firm may, particularly, ensure application of _____ prescribed by the institute.
a)auditing standards **b)accounting standards**
c)accounting estimates d)none of the above
- 84.In case the firm is required to get its accounts audited under the requirements of any statute, the auditor will have to _____ his report in case of non-compliance with the accounting standards.
a)qualify b)give disclaimer of opinion
c)introduce emphasis of matter paragraph d)none of the above
- 85.Before starting the audit, the auditor should examine the partnership agreement and note the provisions as regards:
a)The name and style under which the business shall be conducted.
b)The duration of the partnership, if any, has been agreed upon.
c)Borrowing capacity of the partnership **d)All of the above**
- 86.State whether true or false:
The auditor should consider, the amount of capital that shall be contributed by each partner and shall check whether it will be fixed or could be varied from year to year, from partnership firm.
a)False **b)True**
- 87.Before starting the audit, the auditor should examine the partnership agreement and note the provisions as regards:
a)The provisions as regards maintenance of books of account and the matters which must be taken into account for determining the profits.
b)The rate at which interest will be allowed on the capitals and loans provided by partners and the rate at which it will be charged on their drawings and current accounts.
c)Limitations and restrictions that have been agreed upon, the rights and powers of partners and on their implied authority to pledge the firm's credit or to render it liable.
d)All of the above
- 88.The advantages of audit of accounts of a partnership firm includes:
a)Audited statements of accounts are relied upon by the bank when advancing loans as well as by prospective purchasers of the business, as evidence of profitability of the concern and its financial position.
b)An audit is an effective safeguard against any undue advantage being taken by a working partner or partners specially in case of those partners who are not actively associated with the working of the firm.
c)Audited statements of accounts can be helpful in the negotiations to admit a person as a partner, especially when they are available for a number of past years.
d)All of the above

89. On the retirement or death of a partner, audit ed accounts, which have been accepted by the partners, constitute a reliable evidence for computing the amounts due to the retiring partner or to the representative of the deceased partner in respect of his share of
- a) capital b) profits c) goodwill **d) all of the above**
90. Identify the correct option:
In conducting the audit of a partnership firm, the auditor should not give special considerations to matters such as:
- 1) Verifying that the business in which the partnership is engaged is authorized by the partnership agreement or by any extension or modification thereof agreed to subsequently.
2) Examining whether books of account appear to be reasonable and are considered adequate in relation to the nature of business of the partnership.
3) Verifying that the profits and losses have been divided among the partners in their agreed profit-sharing ratio.
Choose the correct option:
a) 1 b) 1, 2 & 3 c) 3 **d) none of the above**
- Audit of Hire Purchase**
91. means an agreement under which goods are let on hire and hirer has an option to purchase them in accordance with the terms of the agreement.
- a) Operating Lease b) Finance Lease
c) Hire Purchase d) None of the above
92. The terms of hire purchase agreement mean:
- Possession of goods is delivered by the owner to a person on condition that such person pays the agreed amount in periodical installments.
 - The property in the goods is to pass to such person on the payment of the very first installment.
 - Such person has no right to terminate the agreement at any time before the property so passes.
- Choose the correct option:
a) True; True; False
b) False; True; True
c) True; False; False
d) False; False; True
93. While checking the hire-purchase transaction, the auditor will not examine whether:
- a) Hire Purchase agreement is in writing and is signed by all the partners
b) Installment payments are being received regularly as per the agreement
c) Hire purchase agreement specifies clearly the goods to which the agreement relates, in a manner that is sufficient to identify them.
d) None of the above

Audit of Lease Agreement

94. In a lease agreement, a party called _____ acquires the right to use an asset for an agreed period of time in consideration of payment of rent to another party called _____.
- a) Lessor; Lessee b) Acquirer; Lessor
c) Lessee; Lessor d) Lessee; Acquirer
95. In certain lease agreements, the legal ownership of the asset remains with the lessor, but in substance all the risks and rewards of ownership of the asset are transferred to the lessee. Such leases are termed as _____.
- a) Operating Lease **b) Finance Lease**
c) Hire Purchase Agreement d) None of the above

96. is a simple arrangement where, in return for rent, the lessor allows the lessee to use the asset for a certain period.
- a) Finance Lease
b) Rental Agreement
c) Hire Purchase Agreement
d) **Operating Lease**
97. During the lease period, the lessee:
- Will pay rentals regularly at periods agreed-upon, which are usually each calendar month.
 - Will keep the equipment in good repair and working condition, etc.
 - Will not be entitled to any manufacturer's warranties or after-sales services."
- Choose the correct option:
- a) False; True; True
b) True; True; True
c) **True; True; False**
d) False; True; False
98. Which from the following options, should not be looked into while examining any lease transaction?
- a) The description of lessee, the lessor, the equipment and the location where the equipment is to be installed.
b) The amount of tenure of lease, dates of payment, late charges, deposits or advances etc.
c) Whether the equipment shall be returned to the lessor on termination of the agreement and the cost shall be born by the lessee
d) **None of the above**
99. Which from the following options, is not an attribute of a finance lease?
- a) The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the end of the lease term, that option will be exercised.
b) **The lease term is not for the major part of the economic life of the asset even if title is not transferred.**
c) At the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all the fair value of the leased asset.
d) The leased assets are of such a specialized nature that only the lessee can use them without modifications.
100. Major sources of income of NGO does not includes:
- a) Contributions and Grants for projects and programmes
b) Membership Fees
c) Receipts from fund raising programmes
d) **None of the above**
101. The accounts of every LLP shall be audited in accordance with Rule 24 «f LLP, Rules 2009.
- a) The above shall be applicable to all the LLP
b) **The above shall not be applicable to all the LLP whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty-five lakh rupees.**
c) The above shall be applicable to only the LLP whose turnover does not exceed, in any financial year, forty lakh rupees, or whose contribution does not exceed twenty-five lakh rupees.
d) The above shall not be applicable to all the LLP whose turnover does not exceed, in any financial year, twenty-five lakh rupees, or whose contribution does not exceed forty lakh rupees.
102. State the correct one:
- a) There is a mandatory insurance requirement under LLP Act.
b) **There is no mandatory insurance requirement under LLP Act.**
c) There is no mandatory insurance requirement under LLP Act to whom audit is not required.

- d) There is a mandatory insurance requirement under LLP Act to whom audit is required.
103. Every LLP would be required to file annual return in _____ with ROC.
a) Form 12 **b) Form 11** c) Form 10 d) Form 9
104. Every LLP would be required to file annual return within _____ from the closure of the financial year.
a) 45 days **b) 60 days** c) 30 days d) 7 days
105. Identify the correct one:
a) A Statement of Accounts and Solvency in prescribed form shall be filed by every LLP with the Registrar every year.
b) A Statement of Accounts and Solvency in prescribed form shall be filed by every LLP with the Registrar in every two year.
c) A Statement of Accounts and Solvency in prescribed form shall be filed by every LLP with the Registrar in every three year.
d) A Statement of Accounts and Solvency in prescribed form shall be filed by every LLP with the Registrar in every five year.
106. Statement of Accounts and Solvency shall be filed in _____.
a) Form 8 b) Form 9 c) Form 10 d) Form 11
107. Statement of Accounts and Solvency shall be filed within a period of _____ from the end of _____ the financial year to which the Statement of Account and Solvency relates.
a) _____ fifteen days; three months **b) thirty days; six months**
c) _____ sixty days; six months d) thirty days; three months
108. In case LLPs files relevant documents after their due dates only additional fees will be required, if the delay is of _____.
a) upto 300 days b) upto 200 days
c) upto than 100 days d) upto than 400 days
109. In case LLP files relevant documents after their due dates, assessee shall be liable to pay additional fees and shall also be liable to be prosecuted, if the delay is of _____.
a) more than 300 days b) more than 200 days
c) more than 100 days d) more than 400 days
110. The fees for inspection of an LLP's annual return is
a) Rs 40/- **b) Rs 50/-** c) Rs 60/- d) Rs 30/-
111. Fees for certified copy or extract of any document u/s 36 of LLP Act is Rs.
a) 5/- per page b) 15/- per page c) 20/- per page d) 10/- per page
112. In case of first financial year, the auditor may be appointed by or designated partners of the LLP
a) At any time, but before the end of first financial year.
b) At any time, but before the end of six months of the first financial year.
c) At any time, but before the end of three months of the first financial year.
d) At any time, but before the end of nine months of the first financial year.
113. In case of other than first financial year, the auditor may be appointed by the designated partners of LLP.
a) At least sixty days prior to the end of each financial year.
b) At least thirty days prior to the end of each financial year.
c) At least ninety days prior to the end of each financial year.
d) At least forty-five days prior to the end of each financial year.

SET-4

114. The first Auditor of a Company shall be appointed by the Board of Directors within
(A) 30 days from the date of registration
(B) 90 days from the date of registration
(C) 30 days from the date of first AGM
(D) 1 year from the date of registration

115. Authorization for Government Audit.

- (A) BOD
- (B) Audit committee
- (C) CAG**
- (D) None of the above

116. Appointment of auditor for government company is done by

- (A) BOD
- (B) Audit committee
- (C) Managing Director
- (D) CAG**

117. Secretarial Audit can be done by

- (A) Employee of the organization
- (B) Cost Auditor
- (C) Secretarial Auditor**
- (D) None of the above

SET-5

118. Comptroller and Auditor General of India can be removed by the Prime Minister of India on the recommendation of his council of Ministers. The given statement is

- a) True
- b) False**

119. The C & AG can conduct audit of Government Companies. The given Statement is

- a) True
- b) False**

120. NGOs are incorporated as Public Sector Undertakings. The given Statement is

- a) True
- b) False**

121. C & AG, shall be appointed by the

- a) Prime Minister
- b) Chief Minister
- c) President**
- d) Supreme Court

122. The part of Government Audit which is concerned with examining whether the money has been spent for the purpose specified in Appropriation Act is called.

- a) audit of sanctions
- b) audit of provision of funds**
- c) audit of rules and orders
- d) audit of financial propriety

123. The income Tax Department has sent Mr. Jeevan double refund of advance tax. The Government Auditor can detect this while conducting

- a) audit of expenditure
- b) performance audit
- c) audit of stores and stock
- d) audit of receipts**

124. A state Government spent rupees fifty lakhs on renovation of Raj Bhavan for its Governor. In the C & AG's opinion, this expenditure was more than what occasion demanded ? It is an example of -

- a) Propriety audit**
- b) performance audit
- c) audit of stores and stock
- d) audit of receipts

125. Audit reports on central Government shall be

- a) submitted to the president for being laid before the parliament**
- b) sent to concerned ministries/ departments
- c) submitted to BOD of concerned PSU
- d) any of the above

126. Audit of Government shall be performed by
a) C & AG b) CA in Practice c) CMA in Practice d) CA appointed by C & AG
127. The accounts of the Union and of the States shall be kept in such form as the president may, on the advice of the _____
a) C & AG b) MCA c) ICAI d) IFAC
128. The C & AG shall
a) Compile the audit report relating to the annual receipts and disbursements of the Union
b) Compile the accounts relating to the annual receipts and disbursements of the Union
c) Not compile the accounts relating to the annual receipts and disbursements of the Union
d) None of the above
129. The C & AG shall have the authority to audit and report on the accounts of stores and stock kept in any office or department of the Union / state. The given statement is
a) True b) False
130. The Government Official should exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise when spending his own money. This will be verified in
a) Audit of stores and stock
b) Propriety Audit
c) Audit of sanction of Funds
d) All of the above
131. Performance Audit of C & AG shall also be called as
a) Financial Audit b) Statutory Audit
c) Full Scope Audit d) None of the above
132. Audit of Departmental Enterprise shall be handled by
a) C & AG b) CA in Practice c) CMA in Practice d) CA appointed by C & AG
133. Audit of Government companies shall be handled by
a) C & AG b) CA in Practice c) CMA in Practice **d) CA appointed by C & AG**
134. In case of Government Companies, C & AG is having power to conduct
a) Supplementary Audit b) Test Audit
c) Statutory Audit **d) Both (a) and (b)**
135. In case of Government Companies, the comments made by C & AG shall also be placed in the
a) BOD Meeting **b) AGM similar to that of the Audit Report**
c) both (a) and (b) d) none of the above
136. Public enterprises are required to maintain commercial accounts and are generally classified under three categories. Which of the following is not a category relating to above :
a) departmental enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other government departments and agencies;
b) Statutory bodies, corporations, created by specific statutes mostly financed by government in the form of loans, grants, etc.; and
c) Government companies set up under the companies Act, 2013
d) Charitable Trusts.
137. Article 151 requires that the reports of the C & AG relating to the accounts of the Union? State shall be submitted to the who shall be submitted to the who shall cause them to be laid before House of Parliament / State Legislature
a) President & Governor
b) Prime Minister & Chief Minister

- c) Union Finance Minister & State Finance Minister
d) Union Cabinet
138. _____ aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.
a) Audit against provision of funds
b) Propriety audit
c) Audit of sanctions
d) Audit against rules and orders
139. While conducting the audit of a local body, the auditor's areas of audit do not include
a) Budgetary Procedure
b) Expenditure Control
c) Accounting System
d) Dispute Resolution
140. After a Government expenditure has been incurred and the accounts are closed, the Appropriation Accounts are prepared which are scrutinised by the
a) CAG b) President c) Public Accounts Committee d) Parliament
141. Who among the following can be appointed as special auditor for an MSCS ?
a) The statutory auditor
b) Chartered Accountant in practice
c) Any chartered accountant who is not in practice
d) Both (a) and (b)
142. Co-operative Societies are governed under
a) Central Co-operative societies Act
b) Companies Act
c) Rules framed under companies Act
d) All of the above
143. The Auditor of a Co-operative society is appointed by
a) Shareholders
b) Central Government
c) Registrar of Co-operative societies
d) Board of Directors
144. Audit remuneration for a auditor of Co-operative society shall be fixed by
a) Shareholders
b) Central Government
c) Registrar of Co-operative societies
d) Board of Directors
145. _____ Acts confers power on the Registrar to issue directions for the maintenance of books of account.
a) State Acts
b) Central Government
c) Companies Act
d) Income Tax Act
146. Record of immovable and movable properties belonging to the society shall be maintained in
a) Investment Register
b) Property Register
c) Loan Register
d) All of the above
147. Details like cost Price, Face Value, Market value of Investments shall be maintained in
a) Investment Register
b) Property Register

- c) Loan Register
d) All of the above
148. Fixed Deposit register shall contain details about
a) Date of acceptance of Deposit
b) Date of Maturity of Deposit
c) Interest Rates
d) All of the above
149. Details of Surety for a loan given shall be maintained in
a) Surety Register b) FD Register
c) Investment Register d) None of the above
150. Members of the cooperative society cannot hold more than
a) 1/5th of share capital b) 1/10th of share capital
c) 1/3rd of share capital d) 50% of share capital
151. A Registered Society shall make loan only to
a) Its Members b) Non Members
c) Both (a) and (b) d) Financial Institutions
152. Registered Society may make loans to another Registered society after getting approval from
a) Central Government b) Share Holders
c) Registrar of Co-operative Societies d) creditor
153. A Registered society may invest or deposit its funds
a) In any other company b) In any other Registered society
c) In all private banks **d) Only on approved modes**
154. A Registered society must transfer minimum of % of profits to reserves before distribution to its members
a) 0.4 b) 0.2 **c) 0.25** d) 0.1
155. A Registered society can do charitable contribution only after approval from
a) Shareholders
b) Central Government
c) Registrar of Co-operative societies
d) Board of Directors
156. Amount of Charitable contribution by a Registered society shall not exceed
a) 10% of net Profits b) 15% of net profits
c) 25% of net profits d) None of the above
157. If the Auditor of a Society notices serious irregularities, he may submit a
a) Investment Register b) Management Report
c) Special Report d) Supplementary Report
158. Special Report of the society shall be submitted to
a) Shareholders b) Central Government
c) Registrar of Co-operative societies d) Board of Directors
159. Person eligible to be appointed as Auditor of a Mutli state co-operative society
a) CA in practice b) CA not in Practice
c) Cost Accountant in Practice d) None of the above
160. A Body Corporate can be appointed as Auditor of an MSCS
a) TRUE **b) FALSE**
161. Special Audit of the MSCS's accounts can be ordered by
a) Board of Directors b) Share Holders
c) Central Government d) All of the above
162. Special Auditor can be
a) CA in Practice b) MSCS Auditor himself c) C& AG **d) Both (a) and (b)**
163. Special Audit can be ordered only if Central Government holds
a) 51% of Share capital in MSCS

- b) 26% of Share capital in MSCS
c) 50% of share capital in MSCS
d) 100% of Share capital in MSCS
164. Special Auditor shall make his Report to
a) Shareholders
c) Registrar of Co-operative societies
b) Central Government
d) Board of Directors
165. Remuneration of special Auditor shall be determined by
a) Shareholders
c) Registrar of Co-operative societies
b) Central Government
d) Board of Directors
166. Special Audit fees shall be paid by
a) Shareholders
c) Central Government
b) MSCS Auditor himself
d) Board of Directors
167. In addition to the audit certificate in the prescribed form and various schedules, the auditor of a co-operative society in the applicable state has to answer two sets of questionnaires called as
a) Internal control Questionnaires
b) Audit Supplements
c) Audit Memos
d) Memorandum reports
168. There is no legal obligation for a sole Trader to have his accounts audited, except when he is covered by certain specific legal provisions. The given statement is
a) TRUE b) FALSE
169. Aspects to be verified in Partnership deed include
a) Rate of interest allowable on Partners' capitals and loans
b) Remuneration payable to partners
c) Pattern of contribution to losses by partners
d) All of the above
170. The property of the firm must help and used by the partners _____ for the purpose of the firm's business
a) Mutually **b) Exclusively** c) Party d) not
171. Incomplete records may arise due to
a) Lack of agreement between partners
b) Single Entry system of Accounting
c) Insisted by companies Act
d) None of the above
172. If the accounts have been reconstructed, the Auditor must consider the _____ in audit imposed by the circumstances.
a) Limitation of scope
b) Audit evidence
c) Audit documentation
d) Written representation
173. Powers and duties of the managing committee or Board of trustees for a trust can be verified through
a) MOA b) AOA **c) Bye-laws or Trust Deed** d) Both (a) and (C)
174. In an educational Institution, Fees Received can be verified by comparing counterfoils of receipts given, with entries in
a) Journal Book b) Credit Book **c) Cash Book** d) Attendance Register
175. Verification of printed tickets are serially numbered and bound into books in a cinema hall is a
a) Income verification b) Expenses verification
c) Internal control verification d) None of the above
176. Verification of day's collection is deposited into bank on the following day is
a) Debit book verification **b) Cash book verification**
c) Credit book verification d) None of the above

177. Verification of Member's subscription with the counterfoils of receipts issued to members will be done in
a) Audit of cinema hall
c) Audit of clubs
b) Audit of Hospitals
d) Audit of Hotels
178. Verification of bills issued to all the patients from whom any amount was recoverable according to the Rules and Regulations of the Hospital. Is Audit of
a) Income verification
b) Expenses verification
c) Asset verification
d) None of the above
179. Auditor has to cross verify the payments Register and _____ to see that only persons who are entitled to attend the conference, have attended it.
a) Credit Register
b) Attendance Register
c) Cash Book
d) Journal Book
180. In Audit of Hotels, Restaurant bills can be cross verified by reference to
a) MOT's b) AOT's c) JOT's **d) KOT's**
181. In Audit of Hotels, KOT
a) Kitchen Order Ticket
b) Kitchen Order Tracing
c) Kitchen Order Table
d) None of the above
182. In Compilation Engagements, CA provides
a) No Assurance
b) Reasonable Assurance
c) Absolute Assurance
d) None of the above
183. The Auditor of a sole Proprietor concern is appointed by
a) CAG b) Bank **c) Sole Proprietor himself** d) District Administration
184. Every LLP would be required to file annual return in form with ROC within 60 days of closer of financial year :
a) Form 11 b) Form 8 c) Form 9 d) Form DPIN



Chapter – 10 AUDIT OF BANKS

SET-1

1. Which of the following is included in "Interest Earned" in Profit & loss A/c of a bank?
(a) Discount on Bills
(b) Loan Processing fees
(c) Commission on bills for collection
(d) Credit Card Fees
2. While auditing advances of a bank as statutory auditor, which of the following is not a likely concern of auditor?
(a) Appropriate documentation of advances
(b) Ensuring budgeted targets of advances given by bank management
(c) Compliance of sanctioned terms and conditions
(d) Operations in advance accounts
3. Any amount due to the bank under any credit facility is 'overdue' if: -
(a) it is not paid on the due date fixed by the bank
(b) it is not paid within 30 days of due date fixed by the bank
(c) it is not paid within 60 days of due date fixed by the bank
(d) it is not paid within 90 days of due date fixed by the bank
4. Which of the following statement is true regarding appointment of statutory branch auditor of a nationalized bank?
(a) The appointment is made by bank acting through its board of directors with prior approval of Central govt.
(b) The appointment is made by bank acting through its board of directors with prior approval of RBI
(c) The appointment is made by bank acting through its board of directors with prior approval of ICAI
(d) The appointment is made by shareholders in AGM.
5. Identify the correct statement: -
(a) Income from non-performing assets is recognized on accrual basis
(b) Income from non-performing assets is never recognized.
(c) Income from non-performing assets is recognized on basis of actual recovery
(d) Income from non-performing assets is recognized only when such assets are upgraded to standard assets

SET-2

CASE STUDY-1

CA M is conducting statutory audit of branch of MMC Bank. During the course of audit, it is noticed as under:-

(i) Loans under "Kisan credit card" are given by Bank to farmers to meet their short-term credit needs for cultivation of crops.

In respect of one agricultural advance classified under "Kisan Credit Card" having an outstanding balance of Rs. 20 lacs as at year end, there is no transaction in account since last 90 days. The said loan has been granted for cultivation of paddy which is harvested in a period of 3-4 months from sowing. The branch has classified the said advance as "Standard asset".

(ii) It is also observed that account of one borrower availing cash credit limit of Rs.50 lacs was taken over from another bank. The proposal was sanctioned by branch manager instead of immediate next higher authority as required in "Manual of Delegation of Powers" of Bank.

(iii) It is noticed that head office of bank has flagged a savings account maintained in branch in which interest was wrongly paid at higher rate due to wrong data feeding entry. Now, situation has been rectified by debiting excess interest paid in the account. Since there was little balance in savings account, a debit balance of Rs.1.50 lac was created in the said savings account due to above reversal. The matter was immediately informed to account holder. However, he has not turned up for payment since matter was informed to him about six months ago.

(iv) There are many cash credit accounts in the branch. Such borrowers are required to submit monthly stock statements to branch showing calculation of drawing power.

(v) One borrower has availed a housing loan and a car loan from the branch. Housing loan EMIs are overdue for 120 days as on date of Balance sheet. Car loan EMIs are overdue for 60 days as on date of Balance sheet.

Based on above, answer the following questions: -

6. WAs regards description of agricultural advance, which of the following statements is most appropriate in this regard?
- (a) The branch has erred in making classification as per RBI norms. It is a "Sub-standard" asset.
- (b) The classification made by branch is proper. However, there are no transactions in account since last 90 days, it is SMA.
- (c) The classification made by branch is proper.**
- (d) The branch has erred in making classification as per RBI norms. It is a "doubtful" asset.
7. Regarding taken over account from another bank, which of following statements is most appropriate?
- (a) It is an internal issue of Bank and auditor is not concerned with it.
- (b) It is an internal issue of Bank. However, the auditor may, at his discretion, report it.
- (c) It is a serious violation of laid down procedures of bank for sanction of advances and should be reported by auditor without fail.**
- (d) There is no issue involved as credit facility was properly sanctioned.
8. As regards debit balance of Rs. 1.50 lacs in Savings account, which of the following is correct from point of view of an auditor?
- (a) The situation does not attract RBI norms on asset classification.
- (b) The debit balance of Rs.1.50 lacs should be classified as NPA.**
- (c) The situation does not attract RBI norms on asset classification as no credit facility was granted.
- (d) The bank cannot demand excess interest paid to account holder.
9. Which of the following statements is not true about "drawing power" (DP)?
- (a) Drawing Power refers to the amount calculated based on primary security less margin as on particular date.
- (b) It is always less than sanctioned limit.**
- (c) It can be different from sanctioned limit.
- (d) Creditors for goods are reduced for purpose of calculating Drawing Power.
10. Considering housing loan and car loan availed by a borrower, which of the following statements is appropriate?
- (a) Both Housing loan as well as car loan should be classified as "Non - Performing Assets" in accordance with RBI norms on asset classification.**
- (b) Housing Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Car loan should be classified as Standard asset.
- (c) Car Loan should be classified as "Non-Performing Asset" in accordance with RBI norms on asset classification. However, Housing Loan should be classified as Standard asset.
- (d) Both Housing as well as car loans should be classified as Standard

SET-3

11. Regulating body in case of banks is :
a) SEBI b) IRDA **c) RBI** d) ICAI
12. Which of the following is not classification of NPA
a) Impaired b) sub standard c) doubtful d) Loss
13. Which of the following is fund based advance :
a) Term loans b) Cash credits, c) Demand Loans **d) All of the above**
14. Engagement Team Discussions are usually done at which stage of Bank audit?
a) Appointment **b) Developing an Audit Plan**
c) Framing an Audit Programme d) Issuing Audit Report
15. The auditor of a nationalised bank is to be appointed by:-
a) The Bank concerned through its Board of Directors
b) Shareholders in Annual General Meeting
c) Comptroller & Auditor General of India
d) Ministry of Corporate Affairs
16. The LFAR is to be submitted before every year
a) 30th April b) 31st May **c) 30th June** d) 30th September
17. Which of the following is a Non-Funded facility as sanctioned by any bank :-
a) Bank Guarantee
b) Term Loan
c) Staff Advances d) Bank Overdraft
18. The term "Drawing Power" is associated with which of the following facilities as sanctioned by any Bank :-
a) Letter of Credit b) Term Loan
c) Staff Advances **d) Cash Credit Limit**
19. Drawing Power in case of a Consortium advance is computed and allocated to member banks by the
a) Bank members proportionately **b) Lead bank**
c) Borrower d) Reserve Bank of India
20. A Ltd. has been assigned a Cash Credit limit of INR 20 lacs as against its Book Debts furnished as security. What kind of Security creation is it?
a) Pledge b) Mortgage **c) Assignment** d) Set-off
21. Choose the correct one:
The principal enactments which govern the functioning of various types of banks are:
a) Reserve Bank of India Act 1934
b) Banking Regulation Act 1949
c) State Bank of India Act 1955
d) All of the above
22. Choose the correct one:
The principal enactments which govern the functioning of various types of banks are:
a) Information Technology Act 2000
b) Prevention of Money Laundering Act 2013
c) Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002
d) All of the above
23. Who from the following appoints the auditor of State Bank of India?
a) Central Government
b) Comptroller and Audit General of India
c) Shareholders in the AGM
d) Comptroller and Audit General of India in consultation with Central Government
24. Who from the following appoints the auditor of Subsidiaries of State Bank of India?

- a)Central Government
b)State Bank of India
 c)Comptroller and Audit General of India
 d)Comptroller and Audit General of India in consultation with Central Government
25. Who from the following appoints the auditor of Nationalized Banks?
 a)Central Government b)Reserve Bank of India
c)Board of Directors with prior approval of Reserve Bank of India
 d)Comptroller and Audit General of India
26. Who from the following appoints the auditor of Other Banking Companies?
 a)Shareholders at AGM b)Central Government
 c)Reserve Bank of India
d)Shareholders at AGM with prior approval of Reserve Bank of India
27. Who from the following appoints the auditor of Regional Rural Banks?
a)Bank with approval of Central Government b)Central Government
 c)Bank with approval of Reserve Bank of India d)Reserve Bank of India
28. The remuneration of the auditor of State Bank of India shall be fixed by _____
 a)Central Government
 b)Reserve Bank of India
c)Reserve Bank of India in consultation with Central Government
 d)Comptroller and Audit General of India
29. The remuneration of the auditor of subsidiaries of State Bank of India shall be fixed by _____
 a)Central Government b)Reserve Bank of India **c)State Bank of India**
 d)Comptroller and Audit General of India
30. The remuneration of the auditor of Nationalized Banks shall be fixed by _____
 a)Central Government b)Reserve Bank of India c)State Bank of India
d)Board of Directors with prior approval of Reserve Bank of India
31. The remuneration of the auditor of Other Banking Companies in general shall be fixed by _____
 a)Central Government b)Reserve Bank of India
c)As per Sec 142 of the Companies Act 2013 d)None of the above
32. The remuneration of the auditor of Regional Rural Banks shall be fixed by _____
a)Bank with approval of Central Government b)Central Government
 c)Bank with approval of Reserve Bank of India d)Reserve Bank of India
33. The auditors, central as well as branch, should also ensure that the audit report issued by them complies with the requirements of _____
 a)SA700 b)SA705 c)SA706 **d)All of the above**
34. Besides the audit report as per the statutory requirements, the terms of appointment of auditors of public sector banks, private sector banks and foreign banks (as well as their branches), require the auditors to also furnish _____
a)Long Form Audit Report (LFAR) b)Short Form Audit Report (SFAR)
 c)Long Form Audit Statement (LFAS) d)Short Form Audit Statement (SFAS)
35. The matters which the banks require their auditors to deal with in the long form audit report have been specified by the _____
 a)Central Government b)State Bank of India **c)Reserve Bank of India**
 d)Comptroller and Audit General of India
36. The RBI has advised that the banks, before appointing their statutory central/circle/branch auditors, should obtain a declaration of _____
 a)insolvency **b)indebtedness** c)business relationships d)none of the above
37. Planning an audit of banks or branches of banks involves the following steps
 1. Establishing the overall Audit Strategy
 2. Determining Audit Materiality

3. Developing the Audit Plan
4. Audit Planning Memorandum Choose the correct option:
a) 1 and 2 b) Only 1 c) 1, 2 and 3 **d) 1, 2, 3 and 4**
38. An understanding of the bank and its environment, including its internal control, enables the auditor:
a) to identify and assess risk
b) to develop an audit plan so as to determine the operating effectiveness of the controls
c) to address the specific risk **d) all of the above**
39. An effective risk management system in a bank generally requires the following:
a) Oversight and involvement in the control process by TCWG
b) Identification, measurement and monitoring of risks
c) Control activities **d) all of the above**
40. An effective risk management system in a bank generally requires the following;
a) Reliable Information b) Identification, measurement and monitoring of risks
c) Control activities **d) all of the above**
41. For managing the risks, a bank should have appropriate controls excluding
a) Credit Risks b) Operational Risks c) Market Risks **d) none of the above**
42. A term loan is treated as if interest and/or installment of principal remain overdue for a period of
a) Non-Performing Asset; more than 60 days
b) Loss Asset; less than 90 days
c) Non-Performing Asset; more than 90 days
d) Loss Asset; more than 90 days
43. How long should the State Government Guaranteed advances remain overdue to be considered as Non-Performing Asset?
a) if it remains overdue for more than 90 days
b) if it remains overdue for more than 180 days
c) if it remains overdue for more than 120 days
d) if it remains overdue for more than 60 days
44. Accounts where regular/ad hoc limits are not reviewed within _ days from the due date/date of ad hoc sanction, should be considered as Non-Performing Asset.
a) 60 b) 120 c) 90 **d) 180**
45. Which of the following is not true about the examination by the auditor in case of Sale/Purchase of NPA by Bank?
a) only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years
b) the assets have been sold/ purchased "without recourse" only
c) the assets have been sold/ purchased "with recourse" only
d) the NPA has been sold at cash basis only.
46. How much % risk weights should be assigned by the banks to the NPAs purchased from other banks for the purpose of capital adequacy?
a) 50 **b) 100** c) 25 d) 75
47. What treatment should be given to interest for the purpose of income recognition if government guaranteed advance becomes NPA?
a) interest on such advance should always be taken to income §
b) interest on such advance should never be taken to income
c) interest 'on such advance should not to be taken to income unless interest is realized
d) interest on such advance should be taken to income irrespective of interest is realized or not
48. Government auditing is the systematic and independent examination of
a) financial operations of a public entity

- b)administrative operations of a public entity
c)operations (other than financial and administrative) of a public entity
d)all of the above
- 49.Government audit serves as a mechanism or process for .
a)public accounting of government funds
b)public accounting of the operational, management, programme and policy aspects of public administration
c)accountability of the administering officials **d)all of the above**
- 50.Identify the incorrect one:
a)Government audit is neither equipped nor intended to function as an investigating agency
b)Government audit incorporates investigative tools and is intended to function as an investigating agency
- 51.Identify the main objectives of the government audit:
a)ensuring accountability of administration to legislature
b)functioning as an aid to administration
c)both of the above
d)none of the above
- 52.Identify the correct one:
a)In government audit, criticism of administrative actions wherever warranted is inherent in auditoria function. Criticism is made in a constructive spirit.
b)In government audit, criticism of administrative actions wherever warranted is inherent in auditoria function. Criticism is made in an unconstructive spirit.
c)In government audit, criticism of administrative actions wherever warranted is not inherent in auditoria function. Criticism is made in a constructive spirit.
d)In government audit, criticism of administrative actions wherever warranted is not inherent in auditoria function. Criticism is made in an unconstructive spirit.
- 53.As per Article 148 of C & AG Act, 1971 the appointment of the Comptroller and Auditor General is made by the
a) President of India b)Governor of India
c) Central Government d)Any of the above
- 54.State whether true or false-
As per C & AG Act, 1971 the Comptroller and Auditor General shall not be eligible for further office under CG or SG after end of tenure.
a)True b)False
- 55.As per C & AG Act, 1971 the Comptroller and Auditor General can only be removed from his office on the grounds of proven
a) Mis-behavior b)incapacity **c)Either of the above** d)None of the above
- 56.Comptroller and Auditor General of India, if falls under circumstances which demand removal from the Office, can be removed only when each House of Parliament decides to do so by
a)majority of not less than 2/3 of the members present and voting
b)majority of not less than 1/3 of the members present and voting
c)majority of not less than 3/4 of the members present and voting
d)majority of not less than 1/4 of the members present and voting
- 57.The report of the CAG relating to the accounts of the union shall be submitted to the who shall cause them to be laid before the_____.
a)President; Parliament Legislature b)Governor; State Legislature
c)President; State Legislature d)Governor; Parliament Legislature
- 58.The report of the CAG relating to the accounts of the state shall be submitted to the who shall cause them to be laid before the
a)President; Parliament Legislature **b)Governor; State Legislature**

- c)President; State Legislature
59.As per articles 150 of the C&AG (Duties, Powers and Conditions of Services) Act, 1971,accounts of Union and the States will be maintained as per the descriptions given by the on advice of .
a)**President; C&AG**
c)C&AG; Governor
60.In terms of remuneration, CAG shall be paid as equivalent to that of _____ Judge
a)District Court
c)**Supreme Court**
61.Identify the correct one:
a)CAG shall hold office for six years or up to 60 years, whichever is earlier
b)CAG shall hold office for five years or up to 65 years, whichever is earlier
c)**CAG shall hold office for six years or up to 65 years, whichever is earlier**
d)CAG shall hold office for five years or up to 60 years, whichever is earlier
62.The C&AG shall audit and report on-
a)All expenditure from consolidated fund of India
b)All transactions of the Union/State relating to Contingency Funds and Public Accounts
c)All trading, manufacturing, Profit and Loss Accounts and Balance Sheets of the Union/State
d)**All of the above**
63.According to ' _____ ', the auditors aims to bring out cases of improper, avoidable, or in fructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.
a)**propriety audit**
c)audit of Sanctions
64.The type of Government Audit which is concerned with expenditure incurred conforms to the relevant provisions of the statutory enactment and is in accordance with the financial rules and regulations framed by the competent authority?
a)audit of sanctions
c)**audit of rules and orders**
65.The type of Government Audit which is concerned with examining whether expenditure incurred has been on the purpose for which the grant and appropriation had been provided?
a)audit of sanctions
c)audit of rules and orders
66.Audit, under which the auditor has to ensure that each item of expenditure is covered by a proper permission, either general or special, accorded by the competent authority, authorizing such expenditure?
a)**audit of sanctions**
c)audit of rules and orders
67.Audit whose objective is examination of the financial and operational performance of an organization, programme, authority or function and is oriented towards identifying opportunities for greater economy, and effectiveness?
a)audit of sanctions
c)audit of rules and orders
68.The C & AG, some years ago, gave adverse comments on expenditure incurred on buying coffins for soldiers killed in a war. In his opinion, the coffins cases imported could have been replace with less expensive, domestically produced ones. This is an aspect of-
a)Audit of sanctions
c)**Propriety audit**
69.The income Tax Department has sent Mr. X double refund of advance tax. The Government Auditor detected this while conducting

d)Governor; Parliament Legislature

b)C&AG; President

d)Governor; C&AG

b)High Court

d)Fast track court

Estd.: 2007

b)performance audit

d)audit against Rules & Orders

b)audit of provision of funds

d)audit of financial propriety

b)**audit of provision of funds**

d)audit of financial propriety

b)audit of provision of funds

d)audit of financial propriety

b)audit of provision of funds

d)**Performance Audit**

b)Audit of stores and stocks

d)Both (b) and (c)

- a) audit of expenditure
c) audit of stores and stock
b) performance audit
d) audit of receipts
70. Money for road construction should be used for road construction, it should not be Used for development of villages on the sides of road or plantation or pollution control. It is an example of-
- a) Propriety audit
b) Performance audit
c) Audit against provision of funds
d) None of the above
71. A state Government spent rupees fifty lakhs on renovation of Raj Bhavan' for its Governor. In the C & AG's opinion, this expenditure was more than what occasion demanded? It is an example of-
- a) Propriety audit
b) Performance audit
c) Audit against provision of funds
d) None of the above
72. The C & AG shall compile the accounts relating to the annual receipts and disbursements of the Union Territory and shall submit those accounts to the:
- a) President
b) Governor
c) Administrator
d) any of the above
73. While auditing receipts of Government Company, auditor shall check whether all revenues or other debts due to government have been correctly to government account by the designated authorities.
- a) assessed
b) realized
c) credited
d) all of the above
74. Identify the correct one: audit guru. in
- a) The audit of receipts is neither all pervasive or as old as audit of expenditure**
b) The audit of receipts is all pervasive and is as old as audit of expenditure
c) Audit of receipt and audit of expenditure are one and the same thing
d) None of the above
75. Identify the correct one:
- a) The basic principle of audit of receipts is that "Individual is important as compared to Overall"
b) The basic principle of audit of receipts is that "Overall is important as compared to Individual"
c) The basic principle of audit of receipts is that "Overall is as important as Individual"
d) None of the above
76. "Audit of the accounts of stores and inventories has been developed as a part of
- a) audit of receipts
b) audit of expenditure
c) audit of commercial accounts.
d) None of the above
77. "Under the audit of stores and stock, one of the aims is to bring to the notice of the government any _____ in quantities of stores held or any '_____ in the system of control.
- a) defects; deficiencies
b) deficiencies; defects
c) either of the above
d) none of the above
78. In case of Audit of commercial accounts, taking into consideration the nature of entity, identify who will undertake the audit?
- Departmental Enterprises engaged in commercial and trading operations, which are subject to the same laws, financial and other regulations as other Government departments and agencies.
- a) Audit of these enterprises are undertaken by the C&AG in the same manner as any other Government department**
b) Audit is conducted by Statutory Auditors (Chartered Accountants) appointed by the C&AG.
c) Audit of these bodies depends upon the nature and type of governing statutes
d) Either of the above
79. In case of Audit of commercial accounts, taking into consideration the nature of entity,

- identify who will undertake the audit?
"Statutory Bodies, Corporations, created by specific statutes mostly financed by Government in the form of loans, grants, etc."
a) Audit of these enterprises are undertaken by the C&AG in the same manner as any other Government department
b) Audit is conducted by Statutory Auditors (Chartered Accountants) appointed by the C&AG.
c) Audit of these bodies depends upon the nature and type of governing statutes
d) Either of the above
80. "In case of Audit of commercial accounts, taking into consideration the nature of entity, identify who will undertake the audit?" Government Companies set up under the Companies Act, 2013."
a) Audit of these enterprises are undertaken by the C&AG in the same manner as any other Government department
b) Audit is conducted by Statutory Auditors (Chartered Accountants) appointed by the C&AG
c) Audit of these bodies depends upon the nature and type of governing statutes
d) Either of the above
81. Identify the incorrect one:
a) In government audit, the extent and quantum of audit required to be done under each category of audit are determined by the C&AG. These are neither negotiable nor questioned.
b) In government audit, the extent and quantum of audit required to be done under each category of audit are determined by the C&AG. However, these are negotiable and can be questioned.
82. Which from the following is not examined by Public Accounts Committee?
a) That the moneys were disbursed legally on the service or purpose to which they were applied
b) Examine the statement of accounts of autonomous and semi-autonomous bodies
c) To examine the reports and accounts of public undertakings
d) None of the above
83. Which from the following is not examined by Committee on Public Undertaking?
a) To examine the reports and accounts of public undertakings.
b) Whether Public undertaking are being managed in accordance with sound business principles and prudent commercial practices
c) Examine the evaluation of the policies, programmes and financial working of the public undertaking
d) Distribution of funds
84. The functions of Committee on Public Undertakings include:
a) To examine the reports and accounts of public undertakings
b) To examine the reports of the Comptroller & Auditor General on public undertakings
c) To examine the evaluation of the policies, programmes and financial working of the undertaking
d) all of the above
85. To examine that the government moneys were disbursed legally on the service or purpose to which they were applied and whether the expenditure was authorized is a function of-
a) Committee on Public Undertakings
b) Estimate committee
c) Public Accounts committee
d) Public finance committee
86. The C&AG Act gives which of the following power to the C&AG in connection with the performance of his duties-
a) To inspect any office of accounts under the control of the Union or a State Government

including office responsible for the creation of the initial or subsidiary accounts.

b) To require that any accounts, books, papers and other documents which deal with or are otherwise relevant to the transactions under audit, be sent to specified places.

c) To put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which his duty is to prepare.

d) All of the above

87. _____ aims at ascertaining that the expenditure incurred has been on the purpose for which the grant and appropriation had been provided and that the amount of such expenditure does not exceed the appropriation made.

a) Audit against provision of funds

b) Propriety audit

c) Audit of sanctions

d) Audit against rules and orders

88. Under audit of local bodies, municipal government in India covers distinct types of urban local authorities.

a) two

b) three

c) five

d) six

89. Municipal authorities cover which of the specific local functions:

a) regulatory

b) maintenance

c) development

d) all of the above

90. Local bodies may receive different types of grants from the state administration as well. Taking into consideration the following statement identify to which type of grant such statement refers to?

"These are primarily intended to substantially bridge the gap between the needs and resources of the local bodies"

a) General purpose grants

b) Specific purpose grants

c) Statutory and compensatory grants

d) None of the above

91. Local bodies may receive different types of grants from the state administration as well. Taking into consideration the following statement identify to which type of grant such statement refers to?

"These grants which are tied to the provision of certain services or performance of certain tasks"

a) General purpose grants

b) Specific purpose grants

c) Statutory and compensatory grants

d) None of the above

92. Local bodies may receive different types of grants from the state administration as well. Taking into consideration the following statement identify to which type of grant such statement refers to?

"These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government."

a) General purpose grants

b) Specific purpose grants

c) Statutory and compensatory grants

d) None of the above

93. In Audit of local bodies, one important feature of the municipal budgets is that there is no strict separation between revenue and capital items; usually there is a 'head' called _____ which cover most of the capital transactions.

a) Composite items

b) Extraordinary items

c) Special items

d) Ordinary items of special nature

94. In Audit of local bodies, Municipal accounting and budget format have been criticized as neither _____ nor _____

a) simple; comprehensible

b) difficult; comprehensible

c) simple; unclear

d) difficult; unclear

95. Audit of local bodies does not incorporate which of the following objectives;

a) detection and prevention of error, fraud and misuse of resources

b) reporting upon whether value is being fully received on money spent

c) reporting on the fairness of the content and presentation of financial statements

d) None of the above

96. Who among the following is eligible to be appointed as an auditor of Government company?

a) A chartered accountant in practice

- b) A chartered accountant whether in practice or not
- c) An auditor appointed by the C & AG
- d) Any of the above

97. The statutory auditor of a government Company submits his report to –

- a) the BODs of the company
- b) the C & AG
- c) the Legislature
- d) Both a & b**

SET-4

98. Banks can be classified into

- a) Rural Banks
- b) Co-operative banks
- c) Commercial Banks
- d) all of the above**

99. Scheduled Banks can be classified into

- a) Nationalised Banks
- b) Non Nationalised Banks
- c) Corporate Banks
- d) Both (a) and (b)**

100. Scheduled Banks are included in the Schedule of Reserve Bank of India Act, 1934.

- a) First Schedule
- b) Second schedule**
- c) Third schedule
- d) Fourth schedule

101. For Banks, Information Technology Act, 2000, is

- a) Not applicable
- b) Applicable**
- c) Partly applicable
- d) exempted

102. As per Banks Book keeping system, Daily Trial Balances are extracted from

- a) Financial statements
- b) Bank Account
- c) General Ledger**
- d) Trial Balance

103. Transaction in a Bank are

- a) Cash and Cash**
- b) Direct and Indirect
- c) Funded and non Funded
- d) all of the above

104. Vouchers which contain both Debit and credit to different accounts are called as

- a) Primary vouchers
- b) Secondary Vouchers
- c) Composite vouchers**
- d) Debit Vouchers

105. Advanced Information Technology processes implemented in Banks are called as

- a) Core Banking solutions**
- b) Computer banking solution
- c) Complete Banking solution
- d) Comprehensive banking solution

106. Computerised system is not put to unauthorized use is a

- a) Control feature**
- b) Dstructural Feature
- c) Input Feature
- d) Reporting Feature

107. The Computer operations for each day begin with

- a) "key of the Day " (KOD) process
- b) "Begin of the Day" (BOD) process
- c) "Day to day" (TOD) process
- d) "Start of the Day" (SOD) process**

108. SOD process is done by

- a) Date Manager
- b) Systems Administrator**
- c) both (a) and (b)
- d) None of the above

109. EOD process is taken up for

- a) Checking data integrity

- b) Printing logs
c) Day-Book printing
d) all of the above
110. Risk of foreign customers and counter-parties failing to settle their obligations is called as
a) Credit Risk **b) Country Risk** c) Interest Rate Risk d) Currency Risk
111. Risk related to the customer who will not settle the amounts borrowed is
a) Credit Risk b) Country Risk c) Interest Rate Risk d) Currency Risk
112. Bank's concentration on any one customer or industry or geographic area increases
a) Credit Risk b) Country Risk c) Interest Rate Risk d) Currency Risk
113. Risk of loss from future movements in exchange rates, applicable to foreign currency assets is
a) Credit Risk b) Country Risk c) Interest Rate Risk **d) Currency Risk**
114. Risk of loss from failure or negligence in the management of assets on behalf of other parties is
a) Credit Risk **b) Country Risk** c) Interest Rate Risk d) Currency Risk
115. Risk that a movement in interest rate would have an adverse effect is
a) Credit Risk b) Fiduciary Risk **c) Interest Rate Risk** d) Currency Risk
116. Risk that contracts are documented incorrectly, or are not legally enforceable is
a) Legal & Documentary Risk b) Fiduciary Risk
c) Interest Rate Risk d) Currency Risk
117. Loss arising from the changes in the Bank's ability to sell / dispose off an asset is
a) Liquidity Risk b) Modeling Risk c) Operational Risk d) Price Risk
118. Risk associated with imperfections and subjectivity of valuation is
a) Liquidity Risk **b) Modeling Risk** c) Operational Risk d) Price Risk
119. Risk of direct or indirect loss resulting from inadequate internal processes is
a) Liquidity Risk b) Modeling Risk **c) Operational Risk** d) Price Risk
120. Loss resulting from failed internal processes is
a) Liquidity Risk b) Modeling Risk **c) Operational Risk** d) Price Risk
121. Risk of loss arising from adverse changes in market prices is
a) Liquidity Risk b) Modeling Risk c) Operational Risk **d) Price Risk**
122. Price Risk Includes
a) Adverse changes in market prices b) Adverse changes in Interest Rates
c) Adverse changes in fore Rates **d) all of the above**
123. Risk of loss arising from failure to comply with applicable regulatory / legal requirements.
a) Liquidity Risk **b) Regulatory Risk**
c) Operational Risk d) Price Risk
124. Risk of failure of a customer or counter-party, to perform the terms of a contract is
a) Liquidity Risk b) Regulatory Risk **c) Replacement Risk** d) Price Risk
125. Risk of losing business because of negative public opinion, loss of reputation is
a) Reputational Risk b) Advertisement Risk
c) Operational Risk d) Price Risk
126. Risk that one side of a transaction will be settled, without value being received is
a) Settlement Risk b) Advertisement Risk
c) Operational Risk d) Price Risk
127. Loss arising from the possibility of the Bank not having sufficient funds to meet its obligations is
a) Liquidity Risk **b) Solvency Risk** c) Operational Risk d) Transfer Risk
128. Risk of loss arising when a counter-party's obligations are not denominated in the counter-party's home currency
a) Liquidity Risk b) Solvency Risk c) Operational Risk **d) Transfer Risk**

129. Oversight and involvement by TCWG in the control process is a part of
 a) General Risk Management System
 b) Specific Risk Management system
 c) IT Risk Management system
d) Effective Risk Management System
130. Identification, measurement and monitoring of risks is a part of
 a) General Risk Management system
 b) Specific Risk Management system
 c) IT Risk Management system
d) Effective Risk Management System
131. Effective Risk Management system includes
 a) Control Activities b) Monitoring Activities
 c) Reliable Information systems **d) all of the above**
132. Impersonation and false information on loan applications, is an example of
a) External Frauds b) External Documentation
 c) Internal Frauds d) Internal Errors
133. Misappropriation of loan funds by Agents / customers is an example of
a) External Frauds b) External Documentation
 c) Internal Frauds d) Internal Errors
134. Theft of customer Deposits, from dormant accounts, is an example of
 a) External Frauds b) External Documentation
 c) Internal Frauds **d) Employee Frauds**
135. Balance sheet of a Bank should be presented as per schedule _____ of Banking Regulation Act.
 a) I b) II **c) III** d) IV 3
136. Reserves and surplus of a Bank shall be disclosed in schedule
 a) 1 **b) 2** c) 3 d) 4
137. Balances with Banks & Money at call & short Notice shall be disclosed in schedule
 a) 6 **b) 7** c) 8 d) 9
138. For Banking company incorporated in India, SBI, Nationalised Banks and RRBs, signatories to their Financial statements shall be
 a) Manager or Principal officer and at least 4 Directors
 b) Manager or principal officer and at least 1 Directors
c) Manager or Principal officer and at least 3 Directors
 d) None of the above
139. Auditor for state bank of India shall be appointed by
a) C&AG b) share Holders c) Management d) President of India
140. Remuneration of Auditors for Banking companies shall be fixed as per
 a) RBI Act b) Banking Regulation Act
c) Companies Act d) all of the above
141. Auditors of Public sector Banks, Private sector banks & Foreign Banks (as well as their Branches), are required to submit.... On various matters specified by RBI
 a) Special Audit Report
 b) Supplementary Audit Report
c) Long Form Audit Report
 d) Long Financial Audit Report
142. While doing audit for Banking company, auditor need not comply on standards on Auditing. The given statement is
 a) True **b) False**
143. To Banking Company, reporting by Auditor under CARO, 2016 is
 a) Applicable **b) Not Applicable**
 c) Partly applicable d) Applicable only for 5 clauses

144. Special Mention Accounts (SMA) are those Assets / Accounts that shows symptoms of bad asset quality in
a) First 60 days itself. b) First 30 days itself.
c) First 90 days itself. d) None of the above
145. Special Mention Accounts are intended to be identified as
a) Outstanding b) Doubtful **c) NPA** d) Performing
146. Signs of Non Financial signals of stress include
a) Non Submission of stock statement
b) Non submission of operating control statements
c) both (a) and (b)
d) None of the above
147. If Principal or Interest Payment is Overdue between 31-60 days, it shall be treated as
a) SMA 1 b) SMA2 c) NPA d) NPA 1
148. If Principal or Interest Payment is overdue between 61-90 days, it shall be treated as
a) SMA 1 **b) SMA2** c) NPA d) NPA 1
149. Loan against Fixed Deposits, which are secured by marking them is an Example of
a) Pledge **b) Lien** c) Hypothecation d) Assignment
150. Gold Loans are secured by _____ of Gold Ornaments
a) Pledge b) Lien c) Hypothecation d) Assignment
151. Cash Credit Facilities are secured by _____ of stocks
a) Pledge b) Lien **c) Hypothecation** d) Assignment
152. Bill Discounting Facilities are secured by _____ of Book Debts in Bank's favor
a) Pledge b) Lien c) Hypothecation **d) Assignment**
153. Loans against Insurance Policies, are secured by _____ of such policies in Bank's favor.
a) Pledge b) Lien c) Hypothecation **d) Assignment**
154. Housing Loans, loans against Immovable Property are secured by creating _____
a) Pledge **b) Lien** c) Hypothecation d) Assignment
155. RBI's _____ Norms apply for Asset Classification, Income Recognition and Provisioning
a) Accrual **b) Prudential** c) Security d) Internal Control
156. Interest on NPA's has to be recognised on
a) Accrual basis b) Going Concern Basis **c) cash Basis** d) None of the above
157. If any Advance, including Bills Purchased and Discounted, becomes NPA as at close of any year, the entire interest accrued and credited to Income Account in the past periods, should be reversed. The given statement is
a) True b) False
158. Which of the following is fund based advance:
a) Term loans b) Cash credits, c) Demand loans **d) all of the above**
159. Which of the following is not classification of NPA-
a) Impaired b) Sub standard c) doubtful d) loss
160. Engagement Team Discussions are usually done at which stage of Bank audit ?
a) Appointment **b) Developing an Audit Plan**
c) Framing an Audit programme d) Issuing Audit Report
161. The auditor of a nationalised bank is to be appointed by :
a) The bank concerned through its Board of Directors
b) share Holders in Annual General Meeting
c) Comptroller & Auditor general of India
d) Ministry of corporate Affairs
162. The LFAR is to be submitted before every year
a) 30th April b) 31st May **c) 30th June** d) 30th September
163. The term "Drawing Power" is associated with which of the following facilities as

- sanctioned by any Bank:
- a) Letter of Credit
 - b) Term Loan
 - c) Staff Advances
 - d) Cash credit limit**
164. Drawing power in case of a consortium advance is computed and allocated to member banks by the
- a) Bank members proportionately
 - b) Lead bank**
 - c) borrower
 - d) Reserve Bank of India
165. A Ltd. Has been assigned a cash credit limit of INR 20 lacs as against its book debts furnished as security. What kind of security creation is it ?
- a) Pledge
 - b) Mortgage
 - c) Assignment**
 - d) Set-off
166. Mrs. Reema has availed a personal loan for her Boutique of INR 5 lakhs and a Vehicle loan to purchase an Activa scooter for INR 60,000. She is regular in depositing EMI of the Activa loan but has not made any payments towards the personal loan due to low business during the year. In this case, which of the following facilities should be categorized as NPA ?
- a) Activa Loan
 - b) Personal Loan
 - d) Both the Activa loan & the Personal loan**
 - c) Higher of the two



Chapter – 11 ETHICS AND TERMS OF AUDIT ENGAGEMENTS

SET-1

1. Identify the most appropriate statement: -
 - (a) SA 220 applies at the level of firm.
 - (b) SQC 1 is premised on the basis that firm is subject to SA 220.
 - (c) SA 220 is premised on the basis that firm is subject to SQC 1.**
 - (d) SA 220 applies to all engagements.
2. Professional skepticism includes-
 - (a) Overlooking unusual circumstances.
 - (b) Using inappropriate assumptions in determining extent of audit procedures.
 - (c) Over generalising when drawing conclusions from audit observations.
 - (d) Being vigilant to conditions that might indicate possibilities of fraud.**
3. Which of the following is not a fundamental principle governing professional ethics?
 - (a) Professional competence and due care
 - (b) Integrity
 - (c) Objectivity
 - (d) Safeguards to independence**
4. Which of the following is not necessary to establish preconditions for an audit?
 - (a) Acceptability of financial reporting framework.
 - (b) Acknowledgment of cooperation from management in designing audit procedures.**
 - (c) Acknowledgment from management of providing access to persons within company.
 - (d) Acknowledgment of management in understanding its responsibility for preparation of financial statements.
5. Identify the most appropriate statement in context of SQC 1.
 - (a) Assembly of engagement files should be completed in not more than 60 days after date of auditor's report in case of audit engagements.**
 - (b) Engagement files should be completed before date of auditor's report in case of audit engagements.
 - (c) Engagement files should be completed in not more than 60 days after completion of an engagement.
 - (d) Engagement files should be completed on date on which audit report is signed in case of audit engagements.

SET-2

CASE STUDY-1

Das & Co, a firm of auditors, is offered appointment as auditor of a company, a prospective new client. CA Sukanya, one of partners, is dealing with new client. While meeting with officers of the company, she comes to know that Sushant, CFO of the company, was her class mate. In fact, both of them had started CA together.

However, Sushant had left CA mid-way due to repeated failures and tried his luck to pursue MBA (finance) from one of leading institutions.

During initial discussions, it transpires that company is going to launch new services in the field of "weather-forecasting". Such services would be available on web site of company and micro weather information would be available on payment of charges. The company requests audit firm to be visibly associated with their marketing blitz.

Assume that firm chooses to accept the offer and writes to previous auditor, Walker & Co., to advise whether there exist any professional reasons for them not to accept the proposed offer. However, Walker & Co. do not reply to the request of Das & Co.

During preliminary discussions, it also became known that the said company has acquired all shares of another company. Under relevant provisions of law, financial statements of both companies needed to be consolidated and audited. Despite this knowledge, Das & Co. failed to advise their client regarding audit of consolidated financial statements.

The company also offers auditors contract for providing IT services pertaining to information system of company.

Based on above, answer the following questions: -

6. Considering discussion about Sukanya and Sushant, which of the following statements seems most appropriate?
- (a) The above discussion is irrelevant in context of proposed offer.
 - (b) The proposed offer should be accepted by firm. The engagement team may be headed by CA Sukanya for better coordination and results.
 - (c) The proposed offer should be accepted by firm. The engagement team may be headed by a different partner of the firm.**
 - (d) The matter is too trivial to be reported by CA Sukanya to other partners of firm.
7. Keeping in view request of the company to be visibly associated with company's new services, identify which type of threat is being faced by audit firm.
- (a) Self-interest threat
 - (b) Familiarity threat
 - (c) Self-review threat
 - (d) Advocacy threat**
8. The previous auditors, Walker & Co., have not replied to communication of Das & Co. Which fundamental principle of professional ethics is not followed by them?
- (a) Objectivity
 - (b) Professional behaviour**
 - (c) Professional competence and due care
 - (d) Integrity
9. Das & Co. have failed to advise the company regarding audit of consolidated financial statements. Which fundamental principle of professional ethics is violated by Das & Co.?
- (a) Professional behaviour
 - (b) Integrity
 - (c) Objectivity
 - (d) Professional competence and due care**
10. Which of the following statements is most appropriate regarding providing offer of work of IT services by auditors to the company?
- (a) Such offer may create a self-review threat.**
 - (b) Such offer may create an advocacy threat.
 - (c) Such offer does not constitute any threat.
 - (d) Such offer may create self-review and advocacy threats.

SET-3

11. As per SA 210 Preconditions does not mean -
- a) management should accept their responsibility regarding preparation of the financial statements.
 - b) Management should accept their responsibility regarding preparation of the Internal Control System.
 - c) providing auditor with information required during course of audit.
 - d) Management should accept their responsibility regarding written representation in matters of conflict**
12. SA 220 deals with:
- a) Quality control at firm level
 - b) Quality control at Professional level.
 - c) Quality control at assignment level**
 - d) Quality control at branch level.

13. SQC 1 deals with:
 a) **Quality control at firm level.** b) Quality control at professional level.
 c) Quality control at assignment level. d) Quality control at branch level.
14. SA 220 and SQC 1 are one and the same thing?
 a) **SA 220 deals with implementation of quality controls in audit of historic financial statements whereas SQC 1 deals with implementation of quality controls in all of the assignments taken up by the firm**
 b) SQC 1 deals with implementation of quality controls in audit of historic financial statements whereas SA 220 deals with implementation of quality controls in all of the assignments taken up by the firm
 c) Yes SA 220 and SQC 1 are one and the same thing. Both deals with quality.
 d) None of the above
15. Is SA 220 being applicable in case of prospective financial statements?
 1 Yes, SA 220 is applicable in case of prospective financial statements
 2 No, SA 220 is not applicable in case of prospective financial statements
 3 Yes, SA 220 is applicable in case of prospective financial statements with certain restrictions
 4 No, SA 220 is applicable only in case of audit of historic financial statement.
 Options:
 a) 1 & 3 b) **2&4** c) 1 & 4 d) 2&3
16. Is SQC 1 is applicable in case of prospective financial statements?
 1. Yes, SQC 1 is applicable in case of prospective financial statements
 2. No, SQC 1 is not applicable in case of prospective financial statements
 3. Yes, SQC 1 is applicable to all assignments taken by the firm
 4. No, SQC 1 is applicable only in case of audit of historic financial statement
 Options:
 a) **1 & 3** b) 2&4 c) 1 & 4 d) 2&3
17. Is SQC 1 is applicable in compilation of financial statements?
 1. Yes, SQC 1 is applicable in case of compilation financial statements
 2. No SQCL 1 is not applicable in case of compilation financial statements
 3. Yes, SQC 1 is applicable to all assignments taken by the firm
 4. No, SQC 1 is applicable only in case of audit of historic financial statement
 Options:
 a) **1 & 3** b) 2&4 c) 1 & 4 d) 2&3
18. Identify the incorrect one:
 The auditor may decide to discuss elements of planning to facilitate the conduct and management of the audit engagement with:
 a) The audit teams
 b) Management
 c) **External party of whose confirmation is required**
19. Identify the incorrect one:
 The auditor shall undertake the following activities at the beginning of the current audit engagement (preliminary engagement activity):
 a) Acceptance and continuance procedures required by SA 220
 b) Evaluating compliance with ethical requirements as required by SA 220.
 c) Establishing an understanding of the terms of the engagement, as required by SA 210.
 d) **Performing procedures required by SA 240"**
20. Which from the following is not a synonym to another options?
 a) Overall Audit Plan b) Overall Audit Strategy c) **Audit Plan**
21. Choose the correct one:
 a) In case of recurring audits, the auditor is required to send engagement letter every

- year as a normal procedure.
- b) In case of recurring audits, the auditor is not required to send engagement letter every year as a normal procedure.**
- c) Concept of engagement letter is no longer applicable
- d) Engagement letter is given by retiring auditor to newly appointed auditor.
22. In which of the following cases new engagement letter is required to be sent in recurring audits?
- a) Revision in terms of engagement.
- b) Change in nature & size of the business.
- c) Change in management.
- d) All the above.**
23. Choose the correct one:
- a) If during the course of audit management request for change in terms of audit, the auditor shall record the new terms of the engagement in an engagement letter, if no reasonable justification is provided.
- b) If during the course of audit management request for change in terms of audit, the auditor shall not accept the change in terms and shall withdraw from the audit, if no reasonable justification is provided.**
- c) If during the course of audit management request for change in terms of audit, the auditor shall accept such revised terms and shall not withdraw from the audit, even if no reasonable justification is provided.
- d) None of the above
24. Choose the correct one:
- a) Engagement letter is recommendatory at the time of acceptance of audit.
- b) Engagement letter is mandatory at the time of acceptance of audit.**
- c) Concept of engagement letter is no longer applicable
- d) Engagement letter is given by retiring auditor to newly appointed auditor.
25. Choose the correct one:
- a) If law prescribes terms of engagement, then auditor should not include it again in the written engagement letter.
- b) Terms of engagement should always be included in the written engagement letter as it decides the objectives of audit.**
- c) Terms of engagement may be excluded in the written engagement letter at the instance of the mutual agreement.
- d) Terms of engagement may be excluded in the written engagement letter if written representation for the same is received from management.
26. Identify the mandatory clause of engagement letter from below:
- a) Restriction of the auditor's liability.
- b) Obligations to provide audit working papers to other parties.
- c) Basis on which fees are computed and any billing arrangements
- d) Reference to the expected form and content of audit reports**
27. Identify the non-mandatory clause of engagement letter from below:
- a) Responsibilities of management.
- b) Obligations to provide audit working papers to other parties.**
- c) Responsibilities of the auditor.
- d) Reference to the expected form and content of audit reports
28. The state of mind that permits the provision of an opinion without being affected by influences allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- a) Independence of Mind**
- b) Independence in Appearance
- c) Independence of auditor
- d) None of the above

29. The avoidance of facts and circumstances that are so significant that a third party would reasonably conclude an auditor's integrity, objectivity or professional skepticism had been compromised.
- a) Independence of Mind
 - b) **Independence in Appearance**
 - c) Independence of auditor
 - d) None of the above
30. Undue dependence on total fees from a client may create-
- a) **self-interest threats**
 - b) self-review threats
 - c) advocacy threats
 - d) intimidation threats
31. Which of the following circumstances that may not create self-interest threats?
- a) A financial interest in a client or jointly holding a financial interest with a client
 - b) Potential employment with a client
 - c) A loan to or from an assurance client or any of its directors or officers
 - d) **Reporting on the operation of financial systems after being involved in their design or implementation**

