**Fundamentals of Auditing (ACC311)**

**Solved Midterm MCQ’s (42 Questions)**

**Question No: 1 ( Marks: 1 ) - Please choose one**

**Which one of the following is an objective of the internal audit?**

To report on financial statements

To check accounting system and internal control are operating efficiently

**To determine the accuracy of financial statement values and disclosures**

To establish a control system in the company

**Question No: 2 ( Marks: 1 ) - Please choose one**

**Which one of the following statements is NOT correct in respect of the internal auditor?**

The scope of audit performed by internal auditors is primarily in respect of financial report audits

An internal auditor does not require a license to practice

**Internal auditors are usually employed by companies and government units**

Primary responsibility of the internal auditor is to the board of directors

**Question No: 3 ( Marks: 1 ) - Please choose one**

**After how many days the Securities and Exchange Commission may appoint the auditors, if the Directors of a company could not appoint the auditors to fill casual vacancy? (Companies Ordinance, 1984)**

**30 days**

60 days

80 days

120 days

**Question No: 4 ( Marks: 1 ) - Please choose one**

**Suppose that during audit of a company, an auditor accepted the schedule of bad debts furnished by the client, though it was apparent that debts were not recoverable. The auditor shall be held liable for which one of the following liabilities?**

**Liability for negligence**

Liability for misfeasance

Criminal liability

Personal liability

**Question No: 5 ( Marks: 1 ) - Please choose one**

**The books of accounts of a company should be kept at which one of the following offices?(Companies Ordinance, 1984)**

Registered office of the company

Accounts office of the company

**Record office of the company**

Registrar office

**Question No: 6 ( Marks: 1 ) - Please choose one**

**Which of the following is one of the most fundamental and effective internal controls?**

Increased use of computers for recording accounting transactions

Increased reliance on internal auditors to monitor accounting systems

**Segregation of incompatible duties across several people**

Having internal auditors report only to the Board of Directors

**Question No: 7 ( Marks: 1 ) - Please choose one**

**Which of the following is NOT a major component of an internal control system?**

Risk assessment Staffing

Control procedures/activities

**Information and communication system**

**Question No: 8 ( Marks: 1 ) - Please choose one**

**An audit firm audited a Leather Manufacturing company and presented its report addressed to the management. They found significant material misstatements in the company s internal controls system. They strongly recommended that there should be sufficient controls in existence to ensure management can effectively control the business operations. In your opinion, auditors are emphasizing on which one of the following categories of SOAP MAPS?**

Authorization

Management and Monitoring

**Arithmetic and Accounting**

Segregation of duties

**Question No: 9 ( Marks: 1 ) - Please choose one**

**Which of the following statements best describes the purpose of an internal control questionnaire (ICQ)?**

>An internal control questionnaire is a series of questions regarding accounting and control policies and procedures that the auditor considers necessary to prevent all misstatements in the financial report.

>An internal control questionnaire is a series of questions regarding accounting and control policies and procedures that the auditor considers necessary to prevent material misstatements in the financial report.

>An internal control questionnaire is a series of questions regarding accounting and control policies and procedures that the auditor considers necessary to detect material misstatements in the financial report.

>An internal control questionnaire is a series of questions prepared by the entity about the entity's accounting and control policies and procedures for which the entity seeks guidance on from the auditor in order to detect material misstatements in the financial report.

**Question No: 10 ( Marks: 1 ) - Please choose one**

**A Beverages company is being audited by an audit firm. Audit procedures are being undertaken in all of its departments. During this, the audit team has to spend more time on physical examination of the company assets to get reliable audit evidence. In your opinion, auditors are considering which type of audit inquiry in this case?**

Recalculations Inspection of tangible assets Analytical procedures Confirmations

Existence of any immaterial mistake in the statements

Existence of any fraud or error in the statements

Company s growth trend in the future in figures Market value of the company s stock

**Question No: 11 ( Marks: 1 ) - Please choose one**

**Which one of the following matters should be included in the letter of representation?**

Existence of any immaterial mistake in the statements

Existence of any fraud or error in the statements

Company s growth trend in the future in figures

Market value of the company s stock

**Question No: 12 ( Marks: 1 ) - Please choose one**

**Which one of the following may NOT be a type of control of the purchase cycle of an entity?**

Receipt of goods

Invoicing and returns

**Invoicing and credit notes**

Purchase ledger and suppliers

**Question No: 13 ( Marks: 1 ) - Please choose one**

**While testing the purchase system of an entity, which one of the following control tests may be applied to the Credit Notes by the auditors?**

Evidence of matching credit notes to goods returned notes

Evidence of approval of credit notes

**Evidence of a sequence check**

Proof of issuance date

**Question No: 14 ( Marks: 1 ) - Please choose one**

**During the audit work of testing the purchase system of an entity, which one of the following control tests may be applied to the Payables Ledger by the auditors?**

Evidence of authorization of adjustments to payables ledger

**Evidence of review of reconciliation of purchase ledger listing**

Evidence of authorization of adjustments to payable ledger control account

Evidence of authorization of adjustments to purchase ledger

**Question No: 15 (Marks: 1) - Please choose one**

**Which one of the following possible misstatements related to payroll does not involve the audit objective of Validity?**

Payments to fictitious employees

Payments to terminated employees

Payments to valid employees who have not worked

**Payments to valid employees at a rate in excess of the authorized amount**

**Question No: 16 ( Marks: 1 ) - Please choose one**

**In order to ensure effective control, how often a full inventory count should be held when perpetual inventory records are not kept adequately?**

On a daily basis

**At least once a year**

At least monthly

At least weekly

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**Question No: 17 (Marks: 1 ) - Please choose one**

**An oil exploring company employs 1500 personal in its international market. All of its personnel are paid on monthly basis. The company should compensate them in which form of payment?**

Salary

**Cheque**

Wages

None of the given option

**Question No: 18 ( Marks: 1 ) - Please choose one**

**For the purpose of keeping effective control in the cash system, who should have no access to the cash or the preparation of the paying-in slip?**

**Sales ledger personnel**

Teller/cashier

Cash officers

Operations manager

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**Question No: 19 ( Marks: 1 ) - Please choose one**

**When should the petty cash book entries be made?**

At the day end

Next day

**Promptly**

Monthly

**Question No: 20 ( Marks: 1 ) - Please choose one**

**How often the physical inspection of non current assets should be carried out?**

Rarely

Periodically

Never

Daily

**Question No: 21 ( Marks: 1 ) - Please choose one**

**In which one of the following ways auditors can choice the verification techniques in a given set of circumstances?**

It depends upon the available audit evidence to the auditor

It depends upon the nature of business operations of the entity

**It depends upon the audit procedures planned by the auditor**

It depends upon the judgmental skills of the auditor

**Question No: 22 ( Marks: 1 ) - Please choose one**

**Which one of the following may NOT ensure that the movement in share capital of a company is properly authorized and correctly shown and described in accordance with the Companies Ordinance, 1984?**

Check that directors were authorized to allot shares

**Agree authorized capital with memorandum of association**

Consider special rules for allotments of public company shares

Test payments with supporting evidence and trace entries in register

**Question No: 23 ( Marks: 1 ) - Please choose one**

**Which one of the following testing objectives refers to the management assertion Occurrence in obtaining audit evidence?**

Assets shown include all rights under the control of the enterprise

**Transactions and events that have been recorded have occurred and pertain to the entity**

The amounts at which assets and liabilities are stated is correct

Assets and liabilities included on the balance sheet actually exist

**Question No: 24 ( Marks: 1 ) - Please choose one**

**Which one of the following certain expense items may be verified in order to keep control of stock-in-trade and stores & spares?**

Interest on short term loan

Accumulated depreciation on assets

Director’s fees

**Wages and salaries**

**Question No: 25 ( Marks: 1 ) - Please choose one**

**Which one of the following is NOT an advantage of using statistical sampling?**

It aids in the design of an efficient sample

It allows the auditor to measure the sufficiency of the evidential matter obtained

It allows the auditor to greatly reduce substantive testing

**It provides means for mathematically measuring the degree of sampling risk**

**Question No: 26 ( Marks: 1 ) - Please choose one**

**Which one of the following is an underlying feature of random-based selection of items?**

Each stratum of the accounting population be given equal representation in the sample

All items in the accounting population be randomly ordered.

Every item in the population should have an opportunity to be selected

**Every item must be systematically selected using replacement**

**Question No: 27 ( Marks: 1 ) - Please choose one**

**Which one of the following matters is generally included in an auditor's engagement letter?**

**Management's responsibility for the entity's compliance with laws and regulations**

The factors to be considered in setting preliminary judgments about materiality

Management's vicarious liability for illegal acts committed by its employees

The auditor's responsibility to search for significant internal control deficiencies

**Question No: 28 ( Marks: 1 ) - Please choose one**

**What should be the next step of an auditor after establishing the overall audit strategy of an entity?**

**To develop an audit plan**

To define the scope of audit

To determine the focus of engagement team efforts

To determine the objectives of audit

**Question No: 29 ( Marks: 1 ) - Please choose one**

**The establishment of the overall audit strategy involves the following EXCEPT:**

To determine the characteristics of the engagement

To ascertain the reporting objectives of the engagement

To consider the important factors i.e. materiality levels, higher risks of material

Misstatement etc.

**To guide the development of detailed business activities to occur in future**

**Question No: 30 ( Marks: 1 ) - Please choose one**

**Which one of the following mainly affects the auditors opinion?**

Agreement on accounting policies

Limitation on the scope of the auditors work

Dispute among the members of the company

Future prospects of the company s growth

**Question No: 31 ( Marks: 1 ) - Please choose one**

**Which one of the following matters does NOT affect Auditor s Opinion?**

When there is a limitation on the scope of the auditor s work

When there is a disagreement with management regarding the accounting policies selected

**When there is a disagreement with management regarding the method of applying accounting policies**

When an auditor modify the auditor s report by adding a paragraph to highlight a material matter

**Question No: 32 ( Marks: 1 ) - Please choose one**

**Tracing selected shipments to the sales journal to be sure that each one is included is a test of which of the following?**

**Accuracy**

Classification

Completeness

Existence

**Question No: 33 ( Marks: 1 ) - Please choose one**

**Which one of the following best describes the term Input VAT?**

Input VAT is charged on a firm when it makes its purchases

**Input VAT is charged on a firm when it makes its investments**

Input VAT is charged on a firm when it produces highly quality products

Input VAT is charged on a firm when it exports the products

**Question No: 34 ( Marks: 1 ) - Please choose one**

**The duties of the wages staff should preferably be rotated during the year when the salary payment is made by which of the following systems?**

By cheque

In cash

By demand draft

**Direct transfer to employees bank account**

**Question No: 35 ( Marks: 1 ) - Please choose one**

**Which of the following are the three audit objectives that are most important for cash, and that receive the greatest attention during the audit?**

**Existence, accuracy, and completeness**

Existence, cutoff, and presentation

Accuracy, cutoff, and presentation & disclosure

Completeness, realizable value, and cutoff

**Question No: 36 ( Marks: 1 ) - Please choose one**

**Which one of the following is most likely to indicate fraud?**

Several overpayments are made for goods received from a supplier

The year end cash balance does not include cash in transit to the company at year-end

**A check received after year end was inadvertently recorded as if received before year-end**

A documented loan is sanctioned to an officer of the company

**Question No: 37 ( Marks: 1 ) - Please choose one**

**When an auditor increases the assessed level of control risk because certain control activities were determined to be ineffective, which of the following would most likely be increased by the auditor?**

Extent of tests of controls

**Level of detection risk**

Extent of tests of details

Level of inherent risk

**Question No: 38 ( Marks: 1 ) - Please choose one**

**Which one of the following statements is TRUE regarding control procedures?**

They are not required if the control environment is strong

They should generally be all manual

They should generally be all automated

They can be either manual or automated

**Question No: 39 ( Marks: 1 ) - Please choose one**

**Which one of the following statements does not apply to the Institute of Chartered Accountants of Pakistan (ICAP) in Pakistan?**

An autonomous body incorporated under the Chartered Accountants Ordinance 1961

Regulatory body that formulates auditing standards in Pakistan

Its affairs are run by a council which is elected by its member (Chartered Accountants).

**ICAP is a member of the International Federation of Accountants (IFAC)**

**Question No: 40 ( Marks: 1 ) - Please choose one**

**Which one of the following statements indicates a primary difference between an operational audit and a compliance audit?**

Operational audit focuses on business efficiencies and effectiveness, while compliance audit focuses on whether laws and other requirements are being followed

Operational audit focuses on reliability of the financial statements, while compliance audit focuses on whether laws and other requirements are being followed

Operational audit focuses on business growth prospects, while a compliance audit focuses on reliability of the financial statements

Operational audit focuses on business size and potential to grow, while compliance audit focuses on reliability of accounting records

**Question No: 41 ( Marks: 1 ) - Please choose one**

**Which one of the following primary assertions is satisfied when an auditor ensures that there is no false transaction recorded and all recorded transactions have actually taken place?**

**Occurrence**

Completeness

Existence

Rights and obligations

**Question No: 42 ( Marks: 1 ) - Please choose one**

**Following are the points considered during the verification of bank balances EXCEPT:**

Obtain direct bank confirmation

Investigate about outstanding stale cheques

Investigate any significant reconciling items of an unusual nature

Ensure that the creditors have been paid for their loan amount