**FINALTERM EXAMINATION**

**ACC311- Fundamentals of Auditing**

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

When the cash sales should be recorded by the companies in order to achieve control objectives?

 Record the cash sales when purchase order is received from the customer

 **Record the cash sales at the point they are made**

 Record the cash sales after some period

 Record the cash sales weekly

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

Auditors conduct auditing in accordance with:-

 International Financial Reporting Standards

 Local pronouncements/Legislations

 Financial Accounting Standards Board

 **All of the given options**

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

Which of the following primary assertions is satisfied when an auditor ensures that there are no unrecorded assets, liabilities, transactions or events or undisclosed items in the client s financial records?

Valuation

**Completeness**

Existence

Rights and obligations

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

Which one of the following statements is **NOT** true about the internal control system of a company?

Internal control is affected by people working in an organization

Internal control is a process of bringing accuracy and improvements in the systems

**Internal control system is expected to provide absolute assurance about the performance of a company**

Internal control is geared to achieve objectives of financial reporting, compliance and operations

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

Who shall fix the remuneration of the auditors, if auditors of a company are appointed by the

Directors

**Shareholders**

Securities and Exchange Commission

Institute of Chartered Accountants of Pakistan (ICAP)

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

If Directors could not appoint the first auditors of a company, then the first auditors shall be appointed by which one of the following authorities? *(Companies Ordinance, 1984)*

Shareholders

**Securities and Exchange Commission**

Company secretary

Company registrar

**Question No: 7** **( 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: 8      (Marks: 1) - Please choose one**

Which one of the following is also called as books of secondary entries?

 Journal

 Voucher

 **Ledger**

 Memo

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

According  to  Section  236,  Directors  report  should  be  attached  to  which  of  the

 Following financial statement? *(Companies Ordinance, 1984)*

 **Balance sheet**

 Profit and loss account

 Statement of retained earnings

 Statement of cash flows

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

A  well  designed  Internal  Control  Questionnaire  (ICQ)  should  incorporate  the  following

**EXCEPT**:

 Be a sufficient source of data for the evaluation of internal controls

 Identify the internal control system s strengths and weaknesses

 Be organized by individual functional organizations

 **Should include simple yes or no responses but not narrative responses**

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

 Which one of the following examples constitutes the most reliable piece of evidence available to an auditor?

**A written confirmation from a bank**

A supplier s invoice kept in the client's records

A duplicate sales receipt dated and signed

A receipted shipping document

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

Considering the Extent of audit procedure refers to which one of the following description?

It refers to the nature of testing and their procedures that is, designing, structuring, and

Compiling work to be done

**It refers to the purpose i.e. (tests of controls or substantive procedures) and their type, that is, inspections, observation, inquiry confirmation,  recalculation, re-performances or analytical procedures**

It refers to when audit procedures are performed or the period or date to which the audit evidence applies

It refers to sample size or number of observations of a control activity (quantity of audit

Evidence)

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

 Which one of the following situations can constitute grounds for a claim of negligence on part of the auditors to detect a fraud?

**The fraud was committed by a senior management override of internal controls which had been relied upon in reducing the extent of detailed testing.**

The auditor relied on sample evidence and thus failed to detect the fraudulent transactions.

The auditor reported discrepancies to local management but did not investigate further as

the likely impact on the accounts was not material.

The  auditor  accepted  local  management  representations  as  to  discrepancies  as  the potential impact of the fraud was not material to the accounts as a whole.

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

The control objectives of a sales system typically include the following **EXCEPT**:

Invoices  and  credits  should  be  appropriately  checked  for  accuracy  and  should  be

authorized before entering in the records

Goods returned and claims by customers should be controlled to determine the liability for goods returned and claims received

Customers' orders should be authorized, controlled and recorded in order to execute them promptly

**All  valid  transactions  relating  to  payables,  and  only  those  transactions,  should  be accurately recorded in the accounting records**

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

A local gas station has one clerk that accepts cash payments for gas and rings them up on the cash register. Which one of the following would be the *best* control to provide assurance that the cashier is not keeping some of the cash?

Count all cash before and after the shift and compare it to cash register totals.

**Require that each customer be given a receipt of their purchase.**

Compare cash register totals to a total that is automatically generated by each gas pump.

Each employee should have a separate cash drawer that only they use If receipt is given total receipts can be matched with total cash received.

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

Which one of the following may **NOT** be the control procedure at key stages of the sales cycle of an entity?

Receipt of goods

Receivables

**Bad Debts**

Invoicing and credit notes

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

While testing the purchase system of an entity, which one of the following control tests may

**NOT** be applied to the purchase order document?

Evidence of a sequence check

Evidence of approval of requisitions

**Proof of issuance date**

Adherence to authority limits

**Question No: 18** **( 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 Goods Returned Notes by the auditors?

Adherence to authority limits

**Evidence of approval of requisitions**

Evidence of the sequence check

Proof of the issuance date

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

An oil marketing company employs 1000 personnel in its local market. Majority of its workers are paid on the piece rate basis. The company should compensate them in which one of the following forms of payment?

 Salary

 Cheque

 **Wages**

 None of the given options

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

According to the requirements of auditing standards for Wages and Salaries, who should be allowed to take wages of another employee in a company?

Any colleague

**Next of kin**

No one

Family

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

How often Inventory levels should be checked against the inventory records in order to verify internal control effectiveness?

 Rarely

 **Periodically**

 Never

 Daily

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

Which one of the following is an appropriate evidence for verifying the existence of inventory?

Checking valuation of that inventory

Identifying the slow-moving inventory

Obtaining a letter of representation from the management of the entity about it

 **Observing the counting of inventory**

**Question No: 23** **( 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: 24      ( Marks: 1 ) - Please choose one**

Which one of the following *best* describes the process of 'teeming and lading' in the cash system of an entity?

The use of one's occupation for personal enrichment through the deliberate misuse of

Organizations assets.

**An attempt to hide the loss of cash received from one customer by using cash from another customer or customers to replace it**

The conversion and obtaining of money or property by false pretense

Any intentional deception resulting in injury to another person

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

KMC Electronics Company hires auditors at the year end. Auditors are at the stage of verification and vouching of company s financials. Before examining the equity section, they developed general aspects concerning  the owner s equity. In your opinion, which one of the following aspects may **NOT** be considered by the auditors during this assessment?

 Share capital is properly classified and described in the accounts

 **Assets of the company are properly classified and presented**

 Reserves are properly classified and presented

 Movements in reserves are properly authorized

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

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

Obtain direct bank confirmation Obtain direct bank confirmation

Investigate about outstanding stale cheques

Investigate any significant reconciling items of an unusual nature in

**Ensure that the creditors have been paid for their loan amount**

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

Judgmental sampling has the following advantages **EXCEPT**:

 No special knowledge of statistics is required in this type

 It tends to cause uniform standards among different audit firms

 No time is spent on playing with mathematics

 This approach has been well understood and refined by the experience over years

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

In which one of the following methods of sampling, an auditor is concerned that client should not be able to know or guess which items will be examined?

 Block sampling

 Representative sampling

 Unpredictable sampling

 **Haphazard sampling**

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

Which one of the following is a common approach to increase the audit efficiency in sampling?

Selective testing

Stratification

**Systematic selection**

Random selection

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

Which one of the following can be an advantage of using statistical sampling techniques?

It defines the values of tolerable error and risk of incorrect acceptance required for audit satisfaction.

It has been established in the courts to be superior to judgmental sampling.

It mathematically measures risk.

It eliminates the need for judgmental decisions.

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

Following statements describes the functions of internal auditing **EXCEPT**:

It is a function that evaluates an organization s risk management, control and governance

Processes.

It is a wide ranging activity and includes functions that are advisory or task oriented.

**It is an activity which entails appraising the entity's strategies and expressing an opinion** **on the financial statements.**

It is an activity that extends beyond the appraisal of efficiency and effectiveness.

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

An audit firm started planning annual audit process for a sports goods manufacturing company. The planning involves the following key points **EXCEPT**:

Establishing the overall audit strategy for the engagement.

Developing an audit plan, in order to reduce audit risk to an acceptably low level.

**Surveillance of company operations and procedures.**

To benefit from the experience and insight of auditors and other key members of the engagement team.

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

What is **NOT** required as part of the audit process?

Substantive procedures

Tests of control

Assessment of materiality

**Procedures to obtain an understanding of the internal control structure**

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

Which one of the following mainly affects the auditor s opinion?

Agreement on accounting policies

Limitation on the scope of the auditor s work

Dispute among the members of the company

**Future prospects of the company s growth**

**Question No: 35** **( 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** **matter**

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

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

Which one of the following statements is **TRUE**?

**A very  small  sample  of  only  one  or  two  pieces  of  relevant,  competent,  and**

**timely** **evidence lacks persuasiveness.**

 A large sample of highly competent evidence is not persuasive unless it is relevant to the

audit objective.

A large sample of evidence that is neither competent nor timely is not persuasive.

All of the given options are true.

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

Analytical procedures are performed as a substantive test to achieve  which of the following objectives?

To determine the nature, timing, and extent of compliance procedures

 To reduce detection risk

**To determine the nature, timing, and extent of other audit procedures**

 To keep audit risk to an acceptably low level

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

A written understanding between the auditor and the client concerning the auditor's responsibility for the discovery of illegal acts is usually set forth in which of the following letters?

Client representation letter

Letter of audit inquiry

Management letter

**Engagement letter**

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

Gains and losses during business operations of a company are determined in terms of increases and decreases in which one of the following sections of the Balance sheet?

 Long term finances

 Investments

 **Owners' equity**

 Long term liabilities

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

All expenditures incurred through petty cash should be recorded in which one of the following?

Cheque

Register

Computer sheet

**Voucher**

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

Which one of the following International Auditing Standards deals with the Audit Materiality?

 ISA    300

 ISA    315

 **ISA - 320**

 ISA    335

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

 Property, plant and equipment are stated at cost less accumulated depreciation. Which of the following is the relevant assertion?

Rights and obligations

**Valuation**

Completeness

Existence or occurrence

**Question No:43** **(Marks:3)**

 According to your understanding, what control objectives must be defined for bringing fairness in the Cash System of an entity?

 **Question No: 44** **( Marks: 3)**

 What are the Control Accounts? How they should be monitored in order to bring fairness in the inventory system of an entity?

**Question No: 45** **( Marks: 3)**

Suppose you have been appointed as the auditor of a company and have started examining the entity  by taking initial interviews of the concerned personnel. During this course, one of the person from management has asked you the following information:

1.   What are the matters about which an auditor may disagree with the management?

2.   What should an auditor do if such disagreements are material?

Give your answers in brief

**Question No: 46**  **( Marks: 5 )**

According to your knowledge, what tests of controls auditors usually perform for the evaluation of Purchase Invoice of an entity?

**Question No: 47      ( Marks: 5 )**

What matters should the auditor consider for developing an overall audit plan for the expected scope and control of an audit?

**Question No: 48      ( Marks: 10 )**

A company has hired auditors at the year end. Auditors used audit sampling techniques which made them enable to gather audit evidence efficiently. State the objectives auditors might have defined first to achieve by using sampling techniques and also briefly explain further steps the auditors might undertake to complete the sampling process.

**Question No: 49** **( Marks: 10 )**

An unlisted public limited company undergoing expansion intends to create an internal audit department. The Managing Director (MD) has asked your advice and comments on each of the matters listed below:

1. The fundamental differences in the scope, approach, and responsibility between the internal and external auditor.
2. Whether it would be advisable to assign the responsibility of development of systems and procedures to the internal auditor?