***ACC311-Fundamental of auditing***

***Solved Midterm MCQ’s***

**1. Standard format of Auditor’s Report as per the Companies Ordinance 1984 is**

**described in which one of the following Legal Forms?**

**D. Form35A**

**2. IFRS stands for which one of the following?**

**A. International Financial Reporting Standards**

**3. Which of the following is NOT one of the five major components of internal control?**

**D. Human resource background checks**

**4. All of the following should be observed and inspected by the auditors during the**

**risk assessment process of an entity EXCEPT:**

**D. Visit to other companies in the industry**

**5. Which one of the following audit techniques ordinarily provides an auditor with the**

**least assurance about the operating effectiveness of an internal control activity?**

**B. Inspection of documents and reports**

**6. Which one of the following opinions advocates that the auditor should form an**

**opinion only after obtaining sufficient audit evidence instead of blindly accepting**

**any information given by the management?**

**A. Auditor’s liability**

**B. Professional ethics**

**7. Which one of the following is NOT required as part of the audit process?**

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

**8. SECP stands for which one of the following?**

**C. Securities and Exchange Commission of Pakistan**

**9. One type of analytical procedure is the ‘Trend Analysis’. Which one of the following**

**is the best example of trend analysis?**

**C. Comparison of inventory levels over the past 3 years**

**10. While conducting operational audit, which one of the following auditing procedures**

**does the auditor primarily rely upon?**

**B. Analytical procedures**

**11. Which one of the following helps to achieve reasonable assurance about the fairness**

**of financial statements during an audit process?**

**A-Audit report**

**12. Which one of the following cannot be considered as the essential feature of Auditing?**

**The auditor is responsible for the preparation of the financial statements**

**13. Which one of the following best describes why an independent auditor is asked to express**

**an opinion on the presentation of financial reports?**

**The opinion of an independent party is needed because a company may not be**

**objective with respect to its own financial reports**

**14. The audit which is a review of any part of an entity’s operating procedures and methods**

**is known as which one of the following?**

**Operational audits**

**15. Which one of the following is considered as the formal opinion, or disclaimer thereof,**

**issued by an independent auditor as a result of audit or evaluation performed on a legal**

**entity?**

**Auditor's report**

**16. Which of the following statements is true?**

**The auditing profession is regulated only by its own professional body**

**17. Which one 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?**

**Completeness**

**18. Internal control is primarily established within a company to do which of the following?**

**To prevent fraud in the company affairs**

**19. Fixation of remuneration of auditors can be determined by the following authorities**

**EXCEPT: (Companies Ordinance, 1984)**

**Company secretary**

**20. A leather goods manufacturing company has started its operations in year 2001. After**

**five years of conducting successful business, it has become a listed company recently.**

**Now, the company is required to hire its first auditors, but neither the directors nor the**

**members could appoint the auditors during the past 4 months since the incorporation of**

**the company. Select among the following authorities who can appoint the auditors in this**

**situation? (Companies Ordinance, 1984)**

**Company registrar**

**21. A company has hired auditors who have performed the audit process in accordance with**

**the auditing standards, but they fail to present its report. According to the Company law,**

**1984, the auditors shall be liable for which one of the following liabilities?**

**Liability for negligence**

**22. When the cash sales should be recorded by the companies in order to achieve control**

**objectives?**

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

**23. Sales when delivery is done n cash received bcoz sales r recorded after delivery. Cash**

**sales should be recorded at the point the sale is made. Usually this is by means of a Cash**

**Till or the use of cash sale invoices or receipts. Auditors conduct auditing in accordance**

**with**

**International Financial Reporting Standards**

**Local pronouncements/Legislations**

**Financial Accounting Standards Board**

**All of the given options**

**24. 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?**

**Completeness**

**25. Completeness means that all transactions and relevant information has been recorded**

**according with applicable ifrs as well as legislations. Which one of the following**

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

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

**a company**

**26. Internal control systems always minimize risk but never these can eliminate risks**

**absolutely in auditing and accounting noting is absolute. Who shall fix the remuneration**

**of the auditors, if auditors of a company are appointed by the shareholders? (Companies**

**Ordinance, 1984)**

**Shareholders**

**27. 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)**

** Securities and Exchange Commission**

**28. The books of accounts of a company should be kept at which one of the following**

**offices? (Companies Ordinance, 1984)**

**Accounts office of the company**

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

**Ledger**

**According to Section 236, Director s report should be attached to which of the following**

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

**Balance sheet**

**29. A well designed Internal Control Questionnaire (ICQ) should incorporate the follo**

**wing EXCEPT:**

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

**30. Which one of the following examples constitutes the most reliable piece of evidence**

**available to an auditor?**

**A written confirmation from a bank**

**31. Considering the Extent of audit procedure refers to which one of the following**

**description?**

**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**

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

**All valid transactions relating to payables, and only those transactions, should be**

**accurately recorded in the accounting records**

**33. 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?**

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

**34. Which one of the following may NOT be the control procedure at key stages of the sales**

**cycle of an entity?**

**Bad Debts**

**35. While testing the purchase system of an entity, which one of the following control tests**

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

**Proof of issuance date**

**36. 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?**

**Evidence of approval of requisitions**