

FINAL TERM EXAMINATION

Fall 2008

## ACC311- Fundamentals of Auditing (Session - 1)

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

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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 systemt 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 shareholders? (Companies Ordinance, 1984)

Directors

Shareholders

Securities and Exchange Commission

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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 ?

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Journal

Voucher

Ledger

Memo

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

According to Section 236, Director's 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

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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

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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?

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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

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

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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

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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

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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 organization s 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

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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

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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

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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

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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

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

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

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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

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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?

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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.

<http://vustudents.ning.com> 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?

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