CA INTERMEDIATE

रामबाण MCQs

GROUP–2

COST AND MANAGEMENT ACCOUNTING
AUDITING & ETHICS
FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

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- Comprehensive Curriculum Coverage with Diverse questions.
- Syllabus coverage strictly as per ICAI study Material.
- Covers Theoretical and Practical questions.

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COST AND MANAGEMENT ACCOUNTING

1 CHAPTER

Introduction to Cost & Management Accounting

MULTIPLE CHOICE QUESTIONS

1. __________ provides information for income determination.

(*a*) Financial accounting (*b*) cost accounting
(*c*) management accounting (*d*) none of these

2. _______ helps in ascertaining costs beforehand.

(*a*) Financial accounting (*b*) cost accounting
(*c*) management accounting (*d*) none of these

3. _______ is anything for which a separate measurement is required.

(*a*) cost unit (*b*) cost object
(*c*) cost driver (*d*) cost centre

4. Cost accounting disclose __________.

(*a*) The Financial position (*b*) profit/loss of a product, job or service
(*c*) effect and impact of cost on business (*d*) none of these

5. _______ is a post mortem of past costs.

(*a*) Financial accounting (*b*) cost accounting
(*c*) both (*a*) & (*b*) (d) none of these

6. ___________ aids in price fixation.

(*a*) Financial accounting (*b*) none of these
(*c*) management accounting (*d*) cost accounting

7. Which of the following is true about cost control?

(*a*) It is a corrective function (*b*) It challenges the set standards
(*c*) It ends when targets achieved (*d*) It is concerned with future

8. _______ includes financial and cost accounting, tax planning and tax accounting.

(*a*) Financial accounting (*b*) cost accounting
(*c*) management accounting (*d*) none of these

9. In automobile __________ costing is used .

(*a*) Process (*b*) batch
(*c*) multiple (*d*) job

10. Service costing is used in industries producing _______ .

(*a*) Products (*b*) service
(*c*) both (*a*) & (*b*) (*d*) none of these

11. _______ costing is applicable to printers.

(*a*) Process (*b*) batch
(*c*) multiple (*d*) job

12. Which of these is not an objective of Cost Accounting?

(*a*) Ascertainment of Cost (*b*) Determination of Selling Price
(*c*) Cost Control and Cost reduction (*d*) Assisting Shareholders in decision making

13. Cost unit in power sector is:

(*a*) Kilometer (KM) (*b*) Kilowatt-hour (kWh)
(*c*) Number of electric points (*d*) Number of hours

14. _________ costing is a type or technique of costing.

(*a*) Marginal (*b*) batch
(*c*) multiple (*d*) job

15. _______ costing is a type or technique of costing.

(*a*) Absorption (*b*) batch
(*c*) multiple (*d*) job

16. __________ is not the scope of Cost Accountancy.

(*a*) Ascertaining cost (*b*) cost accounting
(*c*) cost control (*d*) tax planning

17. Process costing method is suitable for __________.

(*a*) Transport sector (*b*) Chemical industries
(*c*) Dam construction (*d*) Furniture making

18. Distinction between direct cost and indirect cost is an example of __________ classification.

(*a*) By Element (*b*) By Function
(*c*) By Controllability (*d*) By Variability

19. The ordinary trading account is a locked storehouse of most valuable information to which cost system is the __________.

(*a*) Key (*b*) lock
(*c*) house (*d*) none of these

20. The advantages of using IT in Cost Accounting does not include:
(*a*) Integration of various functions
(*b*) Stock needs to be reconciled with goods received note
(*c*) Reduction in multicity of documents
(*d*) Customized reports can be prepared

21. Cost accounting provides data for managerial __________.
(*a*) Decision making (*b*) recruitment
(*c*) retrenchment (*d*) none of the above

22. A taxi provider charges minimum ₹80 thereafter ₹12 per kilometer of distance travelled, the behavior of conveyance cost is:
(*a*) Fixed cost (*b*) Semi-variable cost
(*c*) Variable cost (*d*) Administrative cost

23. Cost accounting provides detailed information about _________ of various products, processes, services and operations.
(*a*) Costs (*b*) income
(*c*) either (*a*) or (*b*) (*d*) none of these

24. SK Ltd. has three production department, each department has two machines, which of the following cannot be treated as a cost centre for cost allocation:
(*a*) Machines under the production department (*b*) Production departments
(*c*) Both production department and machines (*d*) SK Ltd.

25. The method of costing used in a refinery is _________ costing.
(*a*) Batch (*b*) Process
(*c*) multiple (*d*) job

26. _______ costing is used in transport undertakings.
(*a*) Process (*b*) service
(*c*) multiple (*d*) job

27. The total variable cost _______ in total proportion to output.
(*a*) Increases (*b*) does not increase
(*c*) decreases (*d*) none of these

28. Variable cost per unit __________.
(*a*) Increases (*b*) varies
(*c*) decreases (*d*) Remains constant

29. Sunk costs are __________ for decision-making.
(*a*) Relevant (*b*) Irrelevant
(*c*) Useful (*d*) none of these

30. Which of the following is an example of functional classification of cost:

(*a*) Direct material cost (*b*) Fixed cost

(*c*) Administrative overheads (*d*) Indirect overheads

31. Fixed cost _______ in the same proportion in which output changes.

(*a*) Increases (*b*) changes

(*c*) does not change (*d*) none of these

32. Abnormal cost is _________.

(*a*) Uncontrollable (*b*) controllable

(*c*) fixed (*d*) none of these

33. Variable cost increases with _________ in output.

(*a*) Increase (*b*) decrease

(*c*) increase or decrease (*d*) none of these

34. Cost centre and cost unit are _________.

(*a*) not the same (*b*) the same

(*c*) not related (*d*) none of these

35. Fixed cost per unit _________ with rise in output and _________ with fall in output.

(*a*) Decreases, increases (*b*) increases, decreases

(*c*) is constant, remains same (*d*) none of the above

36. A profit centre is a centre _________.

(*a*) Where the manager has the responsibility of generating and maximizing profits

(*b*) Which is concerned with earning an adequate Return on Investment

(*c*) Both of the above

(*d*) Which manages cost

37. _________ is the smallest segment of activity or area or responsibility for which costs are accumulated.

(*a*) Cost Object (*b*) Cost driver

(*c*) Cost Centre (*d*) none of the above

38. Purchase of bonds, stock or real estate property will be covered under _________ centre.

(*a*) Cost (*b*) Revenue

(*c*) Profit (*d*) Investment

39. Ticket counter at railway station will be covered under _________ centre.

(*a*) Cost (*b*) Revenue

(*c*) Profit (*d*) Investment

40. Decentralized branches of an organization will be covered under __________ center.

(*a*) Cost (*b*) Revenue

(*c*) Profit (*d*) Investment

41. Mahartana, Navratna and Maniratna public sector undertaking (PSU) of central government will be covered under __________ center.

(*a*) Cost (*b*) Revenue

(*c*) Profit (*d*) Investment

42. Sales department of an organization will be covered under __________ center.

(*a*) Cost (*b*) Revenue

(*c*) Profit (*d*) Investment

43. Describe the method of costing to be applied in case of Nursing Home:

(*a*) Operating Costing (*b*) Process Costing

(*c*) Contract Costing (*d*) Job Costing

44. Describe the cost unit applicable to the Bicycle industry:

(*a*) per part of bicycle (*b*) per bicycle

(*c*) per tonne (*d*) per day

45. Cost Unit is defined as:

(*a*) Unit of quantity of product, service or time in relation to which costs may be ascertained or expressed

(*b*) A location, person or an item of equipment or a group of these for which costs are ascertained and used for cost control.

(*c*) Centres having the responsibility of generating and maximizing profits

(*d*) Centres concerned with earning an adequate return on investment

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*b*)	**4.** (*b*)	**5.** (*a*)	**6.** (*d*)	**7.** (*c*)	**8.** (*c*)	**9.** (*b*)	**10.** (*b*)
11. (*d*)	**12.** (*d*)	**13.** (*b*)	**14.** (*a*)	**15.** (*a*)	**16.** (*d*)	**17.** (*b*)	**18.** (*a*)	**19.** (*a*)	**20.** (*b*)
21. (*a*)	**22.** (*b*)	**23.** (*a*)	**24.** (*d*)	**25.** (*b*)	**26.** (*b*)	**27.** (*a*)	**28.** (*d*)	**29.** (*b*)	**30.** (*c*)
31. (*c*)	**32.** (*a*)	**33.** (*a*)	**34.** (*a*)	**35.** (*a*)	**36.** (*a*)	**37.** (*c*)	**38.** (*d*)	**39.** (*b*)	**40.** (*c*)
41. (*d*)	**42.** (*b*)	**43.** (*a*)	**44.** (*b*)	**45.** (*a*)					

CHAPTER 2

Cost Sheet

MULTIPLE CHOICE QUESTIONS

1. An item of cost that is direct for one business may be ________ for another business.
   (*a*) Important (*b*) Indirect
   (*c*) Direct (*d*) none of the above

2. The total of all direct expenses is known as ________ cost.
   (*a*) Prime (*b*) Works
   (*c*) Production (*d*) both (*a*) & (*b*)

3. Generally, for the purpose of cost sheet preparation, costs are classified on the basis of:
   (*a*) Functions (*b*) Variability
   (*c*) Relevance (*d*) Nature

4. Depreciation based on the number of units produced would be classified as what type of cost?
   (*a*) Semi-variable (*b*) Fixed
   (*c*) Variable (*d*) None of the above

5. Provident Fund & ESI paid by the employer for production workers are preferably accounted for as:
   (*a*) Direct Labour (*b*) Indirect Labour
   (*c*) Factory overheads (*d*) Administrative overheads

6. The cost of goods sold under a periodic cost accumulation system is equal to the:
   (*a*) Cost of goods available for sale less ending finished goods inventory
   (*b*) Cost of goods available for sale plus beginning finished goods inventory
   (*c*) Cost of goods manufactured plus beginning finished goods inventory
   (*d*) Cost of goods manufactured less beginning finished goods inventory

7. The cost of goods manufactured, under a periodic cost accumulation system, is equal to the:
   (*a*) Beginning finished goods inventory plus purchases
   (*b*) Beginning work-in-process plus cost of goods in process during the year
   (*c*) Cost of goods put into production plus beginning work in process less ending work in process
   (*d*) Cost of goods sold less beginning work-in-process

8. The term "conversion costs" refer to:
   (*a*) Manufacturing costs incurred to produce unit of output
   (*b*) All costs associated with manufacturing other than direct labour costs and raw material cost
   (*c*) Costs which are associated with marketing, shipping, warehousing, and billing activates
   (*d*) The sum of direct labour cost and all factory overhead costs

9. The "Prime costs" refers to:
   (*a*) Manufacturing costs incurred to produce unit of output
   (*b*) All costs associated with manufacturing other than direct labour costs and raw material cost
   (*c*) The sum of direct labour cost and all factory overhead costs
   (*d*) The sum of direct labour cost and direct labour costs

10. Costs which are inventorial are:
   (*a*) Manufacturing costs incurred to produce units of output
   (*b*) All costs associated with manufacturing other than direct labour costs and raw material costs
   (*c*) Costs which are associated with marketing, shipping ware housing, and billing activates
   (*d*) The sum of direct labour costs and all factory overhead costs

11. The term 'cost' refers to:
   (*a*) An asset that has given benefit and is now expired
   (*b*) The price of products sold or serves rendered
   (*c*) The value of the sacrifice made to acquire goods or services
   (*d*) None of the above

12. Cost sheet includes:
   (*a*) Only direct costs
   (*b*) Only indirect costs
   (*c*) Both direct and indirect costs
   (*d*) Profit & its appropriations

13. According to elements of cost, cost is classified into:
   (*a*) Material
   (*b*) Labour
   (*c*) Expenses
   (*d*) All of the above

14. Total of prime cost and work overheads are known as:
   (*a*) Work cost
   (*b*) Cost of production
   (*c*) Cost of sales
   (*d*) Total cost

15. Which of the following does not form part of prime cost?
   (*a*) Cost of packing
   (*b*) Cost of transportation paid to bring materials to factory
   (*c*) GST paid on raw materials (*i*nput credit cannot be claimed)
   (*d*) Overtime premium paid to workers

16. SK Ltd. received an order, for which it purchased a special frame for manufacturing, it is a part of:

(*a*) Direct Materials
(*b*) Direct Expenses
(*c*) Factory Overheads
(*d*) Administration Overheads

17. The other name of Prime Cost is:

(*a*) Direct cost
(*b*) Flat cost
(*c*) Total cost
(*d*) All of the above

18. Work cost is also known as:

(*a*) Prime cost
(*b*) Manufacturing cost
(*c*) Cost of production
(*d*) All of the above

19. Wages of delivery van driver is included in:

(*a*) Factory overheads
(*b*) Office overheads
(*c*) Selling and distribution overheads
(*d*) None of the above

20. In cost sheet realizable value of scrap is deducted from:

(*a*) Factory overheads
(*b*) Direct cost
(*c*) Work cost
(*d*) Direct material

21. Salary paid to plant supervisor is a part of:

(*a*) Direct expenses
(*b*) Factory overheads
(*c*) Quality control cost
(*d*) Administration cost

22. Depreciation of director's laptop is treated as a part of:

(*a*) Administration overheads
(*b*) Factory overheads
(*c*) Direct expenses
(*d*) Research & Development cost

23. A manufacture has set-up a lab for testing of products for compliance with standards, salary of this lab staffs are part of:

(*a*) Work overheads
(*b*) Quality control cost
(*c*) Direct expenses
(*d*) Research & development costs

24. Salary paid to factory store staff is part of:

(*a*) Factory overheads
(*b*) Production cost
(*c*) Direct employee cost
(*d*) Direct material cost

25. Canteen expenses for factory workers are part of:

(*a*) Factory overheads
(*b*) Administration cost
(*c*) Marketing cost
(*d*) None of the above

26. A company pays royalty to State Government on the basis of production, it is treated as:

(*a*) Direct material cost
(*b*) Factory overheads
(*c*) Direct expenses
(*d*) Administration cost

27. Drawing office expenses are included in _______ overheads.

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) None of the above

28. Haulage expenses are included in _______ overheads.

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) None of the above

29. Sale of scrap of material is deducted from _______.

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

30. Rectification cost of defective goods are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

31. Carriage inward on raw material are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

32. Bank charges are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

33. Audit fees are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

34. Salary of office workers are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

35. Depreciation of delivery vans are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

36. Director's fees are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

37. Bad debts written off are added to:

(*a*) Factory overheads (*b*) Office overheads

(*c*) Selling and distribution overheads (*d*) Direct material cost

38. General charges are added to:

(*a*) Factory overheads
(*b*) Office overheads
(*c*) Selling and distribution overheads
(*d*) Direct material cost

39. Market research expenses are added to:

(*a*) Factory overheads
(*b*) Office overheads
(*c*) Selling and distribution overheads
(*d*) Direct material cost

40. Cost of samples is added to:

(*a*) Factory overheads
(*b*) Office overheads
(*c*) Selling and distribution overheads
(*d*) Direct material cost

41. ________ costs are partly fixed and partly variable in relation to output.

(*a*) Variable
(*b*) Fixed
(*c*) Semi-variable
(*d*) both (*a*) & (*b*)

42. An opportunity cost is ________.

(*a*) the advantage foregone
(*b*) the cost
(*c*) the income
(*d*) none of the above

43. Works cost is a total of ________.

(*a*) Indirect material, Indirect labour
(*b*) Direct material, direct labour, direct or chargeable expenses and works expenses
(*c*) Direct material, direct labour
(*d*) Indirect material, Indirect labour, Indirect expenses

44. An opportunity cost does not involve ___________ .

(*a*) Cash outlays
(*b*) Direct cost
(*c*) Indirect cost
(*d*) none of the above

45. Abnormal cost is the cost:

(*a*) Cost not normally incurred at a given level of output
(*b*) Cost normally incurred at a given level of output
(*c*) Cost which is included in the cost of the product
(*d*) Cost which is charged to customer

46. Conversion cost includes cost of converting _________ into ________.

(*a*) Raw material, WIP
(*b*) Raw material, Finished goods
(*c*) WIP, Finished goods
(*d*) Finished goods, Saleable goods

47. Cost of goods available for sale is equal to opening finished goods plus _________.

(*a*) Work cost
(*b*) Prime cost
(*c*) Cost of production
(*d*) Gross factory cost

48. Total goods processed during the period is equal to gross factory cost plus ________.

(*a*) opening finished goods inventory
(*b*) closing finished goods inventory
(*c*) opening work in progress inventory
(*d*) closing work in progress inventory

49. If profit is 25% of cost, it will be _______ percent on sales.

(*a*) 25%
(*b*) 18%
(*c*) 20%
(*d*) 30%

50. If profit is 25% of sale, it will be _______ percent on cost.

(*a*) 25%
(*b*) 33.33%
(*c*) 20%
(*d*) 66.67%

51. Total Sales are ₹5,00,000, 25% profit on cost, total profit would be:

(*a*) ₹1,00,000
(*b*) ₹1,20,000
(*c*) ₹1,50,000
(*d*) ₹1,66,667

52. Total costs are ₹5,00,000, 25% profit on sale, total profit would be:

(*a*) ₹1,00,000
(*b*) ₹1,20,000
(*c*) ₹1,50,000
(*d*) ₹1,66,667

53. If prime cost is ₹16,000, factory overheads are 25% of prime cost and office overheads are 75% of factory overheads then office cost would be:

(*a*) ₹3,000
(*b*) ₹15,000
(*c*) ₹23,000
(*d*) ₹28,000

54. If prime cost is ₹24,000, office cost ₹30,000, office overheads are 50% of factory overheads then factory cost would be:

(*a*) ₹3,000
(*b*) ₹15,000
(*c*) ₹23,000
(*d*) ₹28,000

55. Calculate the prime cost from the following information:

• Direct material purchased:	₹1,00,000
• Direct material consumed:	₹90,000
• Direct labour:	₹60,000
• Direct expenses:	₹20,000
• Manufacturing overheads:	₹30,000

(*a*) ₹1,80,000
(*b*) ₹2,00,000
(*c*) ₹1,70,000
(*d*) ₹2,10,000

56. Total cost of a product: ₹10,000; Profit: 25% on Selling Price; Profit is:

(*a*) ₹2,500
(*b*) ₹3,000
(*c*) ₹3,333
(*d*) ₹2,000

57. Calculate cost of sales from the following:

- Net Works cost: ₹2,00,000
- Office & Administration Overheads: ₹1,00,000
- Opening stock of WIP: ₹10,000
- Closing Stock of WIP: ₹20,000
- Closing stock of finished goods: ₹30,000
- There was no opening stock of finished goods.

  Selling overheads: ₹10,000

(*a*) ₹2,70,000 (*b*) ₹2,80,000

(*c*) ₹3,00,000 (*d*) ₹3,20,000

58. Calculate value of closing stock from the following:

- Opening stock of finished goods (500 units) : ₹2,000
- Cost of production (10000 units) : ₹50,000
- Closing stock (1000 units): ?

(*a*) ₹4,000 (*b*) ₹4,800

(*c*) ₹5,000 (*d*) ₹6,000

Answer Key

1. (*b*)	**2.** (*a*)	**3.** (*a*)	**4.** (*c*)	**5.** (*a*)	**6.** (*a*)	**7.** (*c*)	**8.** (*d*)	**9.** (*d*)	**10.** (*a*)
11. (*c*)	**12.** (*c*)	**13.** (*d*)	**14.** (*a*)	**15.** (*a*)	**16.** (*b*)	**17.** (*a*)	**18.** (*b*)	**19.** (*c*)	**20.** (*a*)
21. (*b*)	**22.** (*a*)	**23.** (*b*)	**24.** (*a*)	**25.** (*a*)	**26.** (*c*)	**27.** (*a*)	**28.** (*a*)	**29.** (*a*)	**30.** (*a*)
31. (*d*)	**32.** (*b*)	**33.** (*b*)	**34.** (*b*)	**35.** (*c*)	**36.** (*b*)	**37.** (*c*)	**38.** (*b*)	**39.** (*c*)	**40.** (*c*)
41. (*c*)	**42.** (*a*)	**43.** (*b*)	**44.** (*a*)	**45.** (*a*)	**46.** (*b*)	**47.** (*c*)	**48.** (*c*)	**49.** (*c*)	**50.** (*b*)
51. (*a*)	**52.** (*d*)	**53.** (*c*)	**54.** (*d*)	**55.** (*c*)	**56.** (*c*)	**57.** (*b*)	**58.** (*c*)		

3

CHAPTER

Employee Cost & Direct Expenses

MULTIPLE CHOICE QUESTIONS

1. __________ is a method of evaluating the job in terms of its money value.

(*a*) Job analysis (*b*) Job evaluation
(*c*) Work measurement (*d*) Motion Study

2. The requirements of a particular job are known as _________.

(*a*) Job description (*b*) Job evaluation
(*c*) Job specification (*d*) Motion Study

3. Qualities demanded from the job holder is technically known as __________.

(*a*) Job description (*b*) Job evaluation
(*c*) Job specification (*d*) Motion Study

4. For conducting _______workers are studied at their jobs and all their movements and motions are noted.

(*a*) Time Study (*b*) Merit Rating
(*c*) Motion Study (*d*) None of theses

5. _______is concerned with discovery of facts concerning a job and _______is concerned with ascertaining the money value of a job.

(*a*) Job analysis; Job evaluation (*b*) Job specification; Job evaluation
(*c*) Job description; Job evaluation (*d*) Motion Study

6. _______ is the assessment of the relative worth of jobs within a company whereas _______is the assessment of the relative worth of man behind the job.

(*a*) Job evaluation; Merit rating (*b*) Job analysis; Job evaluation
(*c*) Job analysis; Merit rating (*d*) None of theses

7. _______is maintained to know how the worker's time shown by the time card is spent on various jobs.

(*a*) Daily time sheets (*b*) Weekly time sheets
(*c*) Job card (*d*) None of theses

8. Idle time is the time under which-
   (*a*) Full wages are paid to workers
   (*b*) No productivity is given by the workers
   (*c*) Both (*a*) & (*b*)
   (*d*) None of the above

9. Cost of idle time due to non-availability of raw material is-
   (*a*) charged to overhead costs
   (*b*) charged to respective jobs
   (*c*) charged to costing profit & loss account
   (*d*) None of the above

10. Time and motion study is conducted by-
   (*a*) Time keeping department
   (*b*) Personnel department
   (*c*) Payroll department
   (*d*) Engineering department

11. Identify, which one of the following, does not account for increasing labour productivity:
   (*a*) Job satisfaction
   (*b*) Motivating workers
   (*c*) High labour turnover
   (*d*) Proper supervision and control

12. Labour turnover is measured by-
   (*a*) Number of persons replaced ÷ average number of workers
   (*b*) Number of persons separated ÷ number of workers at the beginning of the year
   (*c*) (Number of persons replaced + number of persons separated) ÷ number of persons at the beginning + number of persons at the end of the year)
   (*d*) None of the above

13. Time booking refers to a method wherein _________ of an employee is recorded.
   (*a*) Attendance
   (*b*) Food expenses
   (*c*) Health status
   (*d*) Time spent on a particular job

14. Employee cost includes:
   (*a*) Wages and salaries
   (*b*) Allowance and incentives
   (*c*) Payment for overtime
   (*d*) All of the above

15. If the time saved is less than 50% of the standard time, then the wages under Rowan and Halsey premium plan on comparison gives-
   (*a*) More wages to workers under Rowan plan than Halsey plan
   (*b*) More wages to workers under Halsey plan than Rowan plan
   (*c*) Equal wages under two options
   (*d*) None of the above

16. Important factors for control of employee cost can be-
   (*a*) Time and motion study
   (*b*) Control over idle time and overtime
   (*c*) Control over employee turnover
   (*d*) All of the above

17. Out of the following methods attendance is marked by recognizing an employee based on physical and behavioral traits-

(*a*) Punch-card attendance method
(*b*) Bio-metric attendance system
(*c*) Attendance register method
(*d*) Token method

18. If overtime is required for meeting urgent orders, the overtime premium should be charged as:

(*a*) Respective job
(*b*) Overhead cost
(*c*) Costing P&L A/c
(*d*) None of the above

19. _______is most suitable when quality of work is of prime importance.

(*a*) Piece rate system
(*b*) Time wage system
(*c*) Both (*a*) & (*b*)
(d) None of these

20. Wages sheet is prepared by the _____________.

(*a*) Personnel department
(*b*) Cost accounting department
(*c*) Payroll department
(*d*) Time keeping department

21. Cost of abnormal idle time is transferred to:

(*a*) Costing profit & loss account
(*b*) General profit & loss account
(*c*) Profit & loss appropriation account
(*d*) None of these

22. Which of the following methods of wage payment does not guarantee wages on time basis?

(*a*) Halsey Premium System
(*b*) Rowan Premium System
(*c*) Time Rate System
(*d*) Piece-Rate System

23. When overtime is required for meeting an urgent order, overtime premium should be charged to:

(*a*) Costing Profit & Loss Account
(*b*) Overhead Cost
(*c*) Concerned Job
(*d*) Prime Cost

24. When time saved is more than 50% of standard time, Halsey plan allows:

(*a*) More wages than Rowan plan
(*b*) Less wages than Rowan plan
(*c*) Equal wages as of Rowan plan
(*d*) None of the above

25. According to Factories Act 1948, a worker is entitled for overtime if he works beyond ___ hours in a day or ___ hours in a week.

(*a*) 8; 48
(*b*) 8; 44
(*c*) 9; 48
(*d*) 9; 44

26. If overtime is due to general pressure of work to increase the output, the premium as well as overtime wages will be charged to _____________.

(*a*) Costing Profit & Loss Account
(*b*) Directly to the job worked
(*c*) General Overheads
(*d*) None of the above

27. Which are the reasons for labour turnover?

(*a*) Retirement of worker
(*b*) Bad working conditions
(*c*) Personal betterment avenues
(*d*) All of the above

28. Which of the following are the costs of labour turnover?

(*a*) Preventive cost
(*b*) Replacement cost
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

29. Which of the following is not the effect of labour turnover?

(*a*) Increase cost of selection
(*b*) Increase in cost of supervision
(*c*) Increase in scrap, wastes etc.
(*d*) None of the above

30. _________ workers are employed temporarily, for a short duration to cope with sudden increase in volume of work.

(*a*) Casual
(*b*) Outdoor
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

31. _________ workers do not carry their work in the factory premises.

(*a*) Casual
(*b*) Outdoor
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

32. Standard time of a job is 60 hours, and guaranteed time rate is ₹0.30 per hour. What is the amount of wages under Rowan plan if jobs is completed in 48 hours?

(*a*) ₹16.20
(*b*) ₹17.28
(*c*) ₹18.00
(*d*) ₹14.40

Answer Key

1. (*b*)	**2.** (*a*)	**3.** (*c*)	**4.** (*c*)	**5.** (*a*)	**6.** (*a*)	**7.** (*c*)	**8.** (*c*)	**9.** (*c*)	**10.** (*d*)
11. (*c*)	**12.** (*a*)	**13.** (*d*)	**14.** (*d*)	**15.** (*a*)	**16.** (*d*)	**17.** (*b*)	**18.** (*a*)	**19.** (*b*)	**20.** (*c*)
21. (*a*)	**22.** (*d*)	**23.** (*c*)	**24.** (*a*)	**25.** (*c*)	**26.** (*c*)	**27.** (*d*)	**28.** (*c*)	**29.** (*d*)	**30.** (*a*)
31. (*b*)	**32.** (*b*)								

CHAPTER

4

Material Cost

MULTIPLE CHOICE QUESTIONS

1. Material control does not cover the following stage.

(*a*) purchase of materials
(*b*) storing of materials
(*c*) issue of materials
(*d*) production

2. Direct material can be classified as:

(*a*) Fixed cost
(*b*) Variable cost
(*c*) Semi-variable cost
(*d*) Prime cost

3. In most of the industries, the most important element of cost is

(*a*) Material
(*b*) Labour
(*c*) Overheads
(*d*) Administration cost

4. Stores Ledger is maintained in the_______ .

(*a*) store
(*b*) finance department
(*c*) cost accounting department
(*d*) Both (*a*) & (*b*)

5. Bin card is a record of _______only.

(*a*) cost
(*b*) value
(*c*) quantity
(*d*) expense

6. Re-order quantity may be measured as:

(*a*) Maximum stock level – Record level + (Minimum usage × Minimum reorder peiod)
(*b*) Re-order level + Minimum stock – (Minimum usage × Minimum reorder period)
(*c*) Maximum stock level – Reorder level – (Minimum usage × Maximum reorder period)
(*d*) Normal usage x Normal reorder period.

7. Which of the following is not likely to be a contributory factor to the incidence of excess expenditure on material cost:

(*a*) The level in the number of product units produced.
(*b*) An increase in the number of product units produced.
(*c*) The incorrect choice of purchase order quantity.
(*d*) Failure to control the issue of materials from stores.

8. If the raw material prices are suffering from inflation, which of the following methods of valuing stocks will give the lowest gross profit

(*a*) LIFO (*b*) Replacement cost
(*c*) FIFO (*d*) Simple Average

9. Which of the following source documents in a cost accounting system is designed to exercise control over the delivery and accurate recording of the receipt of goods?

(*a*) Goods received note (*b*) Purchase requisition
(*c*) Order to the supplier (*d*) Material requisition

10. If the raw material prices are suffering from deflation, which of the following methods of valuing stocks will give the lowest gross profit

(*a*) LIFO (*b*) Replacement cost
(*c*) FIFO (*d*) Simple Average

11. Which of the following is considered to be the normal loss of materials?

(*a*) loss due to accidents (*b*) Pilferage
(*c*) Loss due to breaking the bulk (*d*) Loss due to careless handling of materials

12. In which of the following methods of pricing, costs lag behind the current economic values?

(*a*) Last-in-first out price (*b*) First-in-first out price
(*c*) Replacement price (*d*) Weighted average price

13. Continuous stock taking is a part of

(*a*) Annual stock taking (*b*) Perpetual inventory
(*c*) ABC Analysis (*d*) Bin cards

14. In which of the following methods, issues of materials are priced at pre-determined rate?

(*a*) Inflated price method (*b*) Standard price method
(*c*) Replacement price method (*d*) Market price method

15. When prices fluctuate widely, the method that will smooth out the effect of fluctuations is:

(*a*) Simple average price (*b*) Weighted average price
(*c*) Moving average price (*d*) Inflated price

16. When prices fluctuate widely, the method that will smooth out the effect of fluctuations is

(*a*) simple average (*b*) weighted average
(*c*) FIFO (*d*) LIFO

17. Under the FSN system of inventory control, inventory is classified on the basis of:

(*a*) volume of material consumption
(*b*) frequency of usage of items of inventory
(*c*) criticality of the item of inventory for production
(*d*) value of items of inventory

18. Form used for making a formal request to the purchasing department to purchase materials is a:-

(*a*) Material transfer note (*b*) Purchase requisition note

(*c*) Bill of materials (*d*) Material requisition note

19. A written order sent to inform the purchasing department of a need for materials is called:

(*a*) Purchase order (*b*) Purchase requisition

(*c*) Receiving report (*d*) Material requisition form

20. A written request to a supplier for specified goods at agreed upon price is called:

(*a*) Purchase order (*b*) Purchase requisition

(*c*) Receiving report (*d*) Material requisition form

21. Which of the following forms must be filled out when inventory is to be removed from the materials inventory to be placed into production?

(*a*) Purchase order (*b*) Purchase requisition

(*c*) Receiving report (*d*) Material requisition form

22. Under a periodic inventory system, the purchase of materials is recorded in an account entitled:

(*a*) Cost of Goods Sold (*b*) Purchase of Raw Materials

(*c*) Material Inventory (*d*) Work in Process Inventory

23. Under a perpetual inventory system, the purchase of materials is recorded in an account entitled:

(*a*) Cost of Goods Sold (*b*) Purchase of Raw Materials

(*c*) Material Inventory (*d*) Work in Process Inventory

24. Average cost method of valuing material issues is suitable when_______ .

(*a*) Prices rise (*b*) prices fall

(*c*) prices fluctuate considerably (*d*) none of these

25. A bill of material serves the purpose of_______ .

(*a*) Material requisition (*b*) stores ledger

(*c*) material issue analysis sheet (*d*) none of these

26. Stock verification sheets are maintained to record the results of_______ .

(*a*) Physical verification (*b*) financial control

(*c*) financial verification (*d*) quality verification

27. The quantity of material to be ordered at one time is known as_______ .

(*a*) Ordering quantity (*b*) commercial order quantity

(*c*) economic order quantity (*d*) none of these

28. _______represents that quantity of material which is normally ordered when a particular material reaches reordering level.

(*a*) maximum level (*b*) re-order level

(*c*) minimum level (*d*) Re-order quantity

29. Inventory turnover ratio = Cost of inventory consumed during the period ÷ Cost of _______held during the period.

(*a*) Average inventory (*b*) minimum inventory

(*c*) maximum inventory (*d*) none of these

30. Inventory turnover in days = Days during the period ÷ _______ .

(*a*) Inventory turnover ratio (*b*) material consumed during the period

(*c*) cost of average stock during the period (*d*) none of these

31. _______is a technique of material cost control which leads to low carrying cost as a result of low investment in inventory.

(*a*) ABC Analysis (*b*) JIT Inventory System

(*c*) VED Analysis (*d*) Perpetual Inventory System

32. _______is a technique of stock control which leads to saving of time of the management because attention is required to be paid only to some of the items rather than on all the items.

(*a*) Perpetual Inventory System (*b*) JIT Inventory System

(*c*) VED Analysis (*d*) ABC Analysis

33. _______ is used primarily for control of spare parts.

(*a*) ABC Analysis (*b*) JIT Inventory System

(*c*) VED Analysis (*d*) Perpetual Inventory System

34. _______forms part of cost of production.

(*a*) Abnormal waste (*b*) normal waste

(*c*) both a & b (*d*) none of these

35. _______does not form part of production.

(*a*) Abnormal waste (*b*) normal waste

(*c*) both a & b (*d*) none of these

36. Material losses due to abnormal reasons should be transferred to_________ .

(*a*) Profit and loss account (*b*) Costing Profit and Loss Account

(*c*) Trading Account (*d*) none of these

37. Units that do not meet production standards and are sold for their salvage value (if any) are called:

(*a*) Spoiled units (*b*) Defective units

(*c*) Scrap material (*d*) Waste material

38. Units that do not meet production standards and must be processed further in order to be saleable as good units or irregulars are called:

(*a*) Spoiled units (*b*) Defective units

(*c*) Scrap material (*d*) Waste material

39. Internal instruction to buy the specified quantity and description of goods is called:

(*a*) Purchase order (*b*) Inspection note

(*c*) Goods requisition (*d*) Purchase requisition

40. Which of the following is deducted from purchases in order to get the value of Net purchase?

(*a*) Purchase returns (*b*) carriage inward

(*c*) custom duty (*d*) all of the given options

41. Stores Ledger is a:

(*a*) Quantitative as well as value wise records of material received, issued and balance;

(*b*) Quantitative record of material received, issued and balance

(*c*) Value wise records of material received, issued and balance

(*d*) A record of labour attendance

42. The level at which the goods ordered earlier must reach the factory premises is______________ level.

(*a*) minimum (*b*) maximum

(*c*) re-order (*d*) average

43. __________ level is fixed to avoid the problem of over-stocking.

(*a*) minimum (*b*) maximum

(*c*) re-order (*d*) average

44. __________ level is fixed to avoid the problem of under-stocking.

(*a*) minimum (*b*) maximum

(*c*) re-order (*d*) average

45. __________ ensures that stock level are as low as possible.

(*a*) ABC technique (*b*) VED analysis

(*c*) JIT (*d*) FSN analysis

46. JIT _________ stock out costs while EOQ __________ stock out costs.

(*a*) exclude, include (*b*) include, exclude

(*c*) include, include (*d*) exclude, exclude

47. A manufacturer buys certain equipment from outside suppliers at ₹ 20 per unit. Total annual needs are 900 units. The further data are available:

- Annual return of investment — 10%
- Rent, Taxes, insurance per unit per year — ₹ 2
- Cost of placing an order — ₹ 200

Determine the economic order quantity.

(*a*) 600 (*b*) 500

(*c*) 400 (*d*) 300

48. Monthly demand of product X – 1500 units

- Requirement of component to produce 1 unit of product X: 5 units
- Ordering, receiving and handling cost: ₹ 10 per order
- Trucking costs: ₹ 5 per order
- Deterioration and obsolescence cost: ₹ 10 per unit p.a.
- Interest rate: 15% p.a.
- Storage cost: ₹ 4,50,000 for 90,000 units
- Purchase price of a component: ₹ 100

Calculate Economic Order Quantity.

(*a*) 600 (*b*) 500

(*c*) 400 (*d*) 300

Answer Key

1. (*d*)	**2.** (*b*)	**3.** (*a*)	**4.** (*c*)	**5.** (*c*)	**6.** (*a*)	**7.** (*b*)	**8.** (*a*)	**9.** (*a*)	**10.** (*c*)
11. (*c*)	**12.** (*b*)	**13.** (*b*)	**14.** (*b*)	**15.** (*a*)	**16.** (*b*)	**17.** (*b*)	**18.** (*b*)	**19.** (*b*)	**20.** (*a*)
21. (*c*)	**22.** (*c*)	**23.** (*c*)	**24.** (*c*)	**25.** (*a*)	**26.** (*a*)	**27.** (*a*)	**28.** (*d*)	**29.** (*a*)	**30.** (*a*)
31. (*b*)	**32.** (*d*)	**33.** (*c*)	**34.** (*b*)	**35.** (*a*)	**36.** (*b*)	**37.** (*a*)	**38.** (*b*)	**39.** (*d*)	**40.** (*a*)
41. (*a*)	**42.** (*a*)	**43.** (*b*)	**44.** (*a*)	**45.** (*c*)	**46.** (*b*)	**47.** (*d*)	**48.** (*d*)		

CHAPTER 5

Overheads

MULTIPLE CHOICE QUESTIONS

1. Basis of apportionment of stores service expenses is _______.

(*a*) Value of Material Consumed
(*b*) Units of material consumed
(*c*) Units produced
(*d*) None of the above

2. Basis of apportionment of welfare department expenses is ________.

(*a*) Wages of each department
(*b*) Number of employees
(*c*) Material consumed
(*d*) Number of machineries

3. Under step method of re-apportionment of costs of service departments, the cost of last service department is apportioned only to the ________.

(*a*) Production Department
(*b*) Service Department
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

4. _______ is the amount by which the absorbed overheads fall short of the actual amount of overheads incurred.

(*a*) Over absorption of overheads
(*b*) Under absorption of overheads
(*c*) Overhead absorption
(*d*) None of these

5. Expenses incurred during production other than direct materials and direct labour are called factory expenses; those charged to production on estimated basis are called _______

(*a*) Actual, applied
(*b*) Applied, actual
(*c*) Indirect, direct
(*d*) None of these

6. _________is the excess of overheads absorbed over the actual amount of overheads incurred.

(*a*) Overhead absorption
(*b*) Under absorption of overheads
(*c*) Over absorption of overheads
(*d*) None of the above

7. Apportionment of overhead cost may be defined as:

(*a*) Charge to a cost center of an overhead cost item with no estimation.
(*b*) Charge each cost center with a share of an overhead cost using an appropriate basis to estimate the benefit extracted by each cost center

(*c*) Charge to cost units for the use of an overhead cost
(*d*) Classification of overhead cost as fixed or variable

8. Which of the following is an illustration of reciprocal service costs?
(*a*) The maintenance cost center uses 10% of the power generating cost center costs and the power generating cost center uses 15% of the maintenance cost center.
(*b*) Maintenance costs are charged to the power generating cost center which are then charged to the production cost center using power.
(*c*) Service cost center costs are caused because of the requirements of production cost centers.
(*d*) The use of a service results in reciprocal action by the service cost center whereby it charges the use of cost center.

9. Which of the following is most likely to occur where activity level is lower than that planned?
(*a*) An over-absorption of fixed production overhead.
(*b*) A reduction in expenditure on fixed production overhead
(*c*) An increase in expenditure on fixed production overhead
(*d*) An under-absorption of fixed production overhead

10. "Fixed overhead costs are not affected in monetary terms during a given period by a change in output". But this statement holds good provided:
(*a*) Increase in output is not substantial
(*b*) Increase in output is substantial
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

11. ____ capacity is defined as actually utilized capacity of plant.
(*a*) Theoretical
(*b*) Installed
(*c*) Practical
(*d*) Normal

12. The allotment of whole items of cost centres or cost units is called:
(*a*) Overhead absorption
(*b*) Cost apportionment
(*c*) Cost allocation
(*d*) None of the above

13. Primary packaging cost is a part of:
(*a*) Direct material cost
(*b*) Production cost
(*c*) Selling overheads
(*d*) Distribution overheads

14. Director's remuneration and expenses form part of:
(*a*) Production overheads
(*b*) Administration overheads
(*c*) Selling overheads
(*d*) Distribution overheads

15. Which of the following is not the classification of overhead based on its functionality?
(*a*) Factory overhead
(*b*) Administrative overhead
(*c*) Fixed overhead
(*d*) Selling overhead

16. Bad Debts is an example of:
    (*a*) Distribution overhead
    (*b*) Production overhead
    (*c*) Selling overhead
    (*d*) Administration overhead

17. Normal capacity of a plant refers to the difference between:
    (*a*) Maximum capacity and practical capacity
    (*b*) Practical capacity and normal capacity
    (*c*) Practical capacity and estimated idle capacity as revealed by long term sales trend
    (*d*) Maximum capacity and actual capacity

18. The difference between actual factory overhead and absorbed factory overhead will be usually at the minimum level, provided pre-determined overhead rate is based on:
    (*a*) Maximum capacity
    (*b*) Direct labour hours
    (*c*) Machine hours
    (*d*) Normal capacity

19. Which of the following overhead cost may not be apportioned on the basis of direct wages?
    (*a*) Worker's holiday pay
    (*b*) Perquisite to worker
    (*c*) ESI contribution
    (*d*) Managerial salaries

20. Which of the following would not cause either an under-or over-absorption of overheads?
    (*a*) Actual direct labour time per unit being greater than budget
    (*b*) Actual cost of direct labour being greater than budget
    (*c*) Actual overheads incurred being less then budget
    (*d*) the number of units produced being greater than budget

21. SK Company found that the differences in product costs, resulting from the application of predetermined overhead rates rather than actual overhead rates, were immaterial – even though actual production was substantially less than planned production. The most likely explanation is that
    (*a*) Overhead was composed chiefly of variable costs
    (*b*) Several products were produced simultaneously
    (*c*) Fixed factory overhead was a significant cost
    (*d*) Cost of overhead items were substantially higher than anticipated

22. In order to identify costs that relate to a specific product, and allocation base should be chosen that:
    (*a*) Does not have a cause an effect relationship
    (*b*) Has a cause and effect relationship
    (*c*) Considers direct materials and direct labour but not factory overhead
    (*d*) Considers variable costs but not fixed costs

23. The only method of allocating service department costs to producing departments that considers reciprocal series is called the:
    (*a*) Direct method
    (*b*) Step method
    (*c*) Out-of-step method
    (*d*) Simultaneous equation method

24. The ___ method recognizes the services provided to other service departments using a sequence of reallocations in which service department costs are allocated to production department and other service departments.

(*a*) Direct method (*b*) Repeated distribution method

(*c*) Step-down method (*d*) Reciprocal method

25. A common absorption rate used throughout factory for all jobs and units of output irrespective of the department in which they were produced is called ________.

(*a*) Machine hour rate (*b*) Overall absorption rate

(*c*) Department absorption rate (*d*) Blanket absorption rate

26. The difference between practical capacity and capacity utilize is:

(*a*) Idle capacity (*b*) Idle machine hours

(*c*) Unused hours (*d*) Excess capacity

27. Under Machine-hour rate method machine is treated as:

(*a*) Cost unit (*b*) Cost centre

(*c*) Service department (*d*) None of the above

28. Blanket overhead rate is:

(*a*) One single overhead absorption rate for the whole factory

(*b*) Rate which is blank or nil rate

(*c*) Rate in which multiple rate are computed for each department

(*d*) Always a machine hour rate

29. Labour hour rate of recovery of overheads will be most suitable in __________ industries.

(*a*) Machine intensive (*b*) Labour intensive

(*c*) Both (*a*) & (*b*) (*d*) None of these

30. In case of under absorption due to heavy machine breakdown then it should be transferred to____.

(*a*) Product Cost (*b*) Costing Profit & Loss A/c

(*c*) Both (*a*) & (*b*) (*d*) None of these

31. If raw material used is ₹50,000 and direct labour cost is ₹30,000, then factory overheads absorbed @ 20% on prime cost will be;

(*a*) ₹10,000 (*b*) ₹6,000

(*c*) ₹16,000 (*d*) ₹8,000

32. If factory overhead is ₹60,000 and direct labour hours are 12,000, then overhead absorption rate per direct labour hour will be;

(*a*) ₹5.00 (*b*) ₹0.20

(*c*) ₹2.50 (*d*) ₹3.50

33. If machine hours are 8,000 and factory overhead absorption rate per machine hour is ₹8, then absorbed factory overheads will be;

(*a*) ₹74,000 (*b*) ₹64,000

(*c*) ₹54,000 (*d*) ₹44,000

34. If direct material cost is ₹50,000 and direct labour cost is ₹40,000 and factory overheads are absorbed @ 20% on direct wages. The amount of factory overheads will be;

(*a*) ₹10,000 (*b*) ₹18,000

(*c*) ₹15,000 (*d*) ₹8,000

35. From the following data calculate the overhead absorption rate based on prime cost;

- Direct material cost 15,000
- Direct labour cost 25,000
- Direct expenses 10,000
- Production overhead cost 10,000

(*a*) 20% (*b*) 25%

(*c*) 30% (*d*) 35%

36. If cost of machine is ₹10,000, Scrap ₹1,000 and working life of machine is 20,000 hours then depreciation per hour will be;

(*a*) ₹0.50 (*b*) ₹0.45

(*c*) ₹0.40 (*d*) ₹0.35

37. Overheads are charged at a pre-determined rate of ₹5 per hour. Total overhead incurred and hours actually worked were ₹21,40,000 and 4,20,000 hours respectively. What is the amount of under or over absorption?

(*a*) ₹40,000 (*u*nder absorbed) (*b*) ₹40,000 (over absorbed)

(*c*) ₹10,000 (*o*ver absorbed) (*d*) ₹10,000 (over absorbed)

38. The XYZ Company budgeted overhead at ₹2,55,000 for the period for department A, based on a budgeted volume of 1,00,000 direct labour hours. At the end of the period, the Factory Overhead Control Account for Department A had a balance of ₹2,70,000; actual direct labour hours were 1,05,000. What was the over or under-applied overhead for the period?

(*a*) ₹2,250 (*u*nder absorbed) (*b*) ₹2,250 (over absorbed)

(*c*) ₹3,000 (*o*ver absorbed) (*d*) ₹3,000 (over absorbed)

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*a*)	**4.** (*b*)	**5.** (*a*)	**6.** (*c*)	**7.** (*b*)	**8.** (*a*)	**9.** (*d*)	**10.** (*a*)
11. (*c*)	**12.** (*c*)	**13.** (*b*)	**14.** (*b*)	**15.** (*c*)	**16.** (*c*)	**17.** (*c*)	**18.** (*d*)	**19.** (*d*)	**20.** (*b*)
21. (*d*)	**22.** (*b*)	**23.** (*d*)	**24.** (*c*)	**25.** (*d*)	**26.** (*a*)	**27.** (*b*)	**28.** (*a*)	**29.** (*b*)	**30.** (*b*)
31. (*c*)	**32.** (*a*)	**33.** (*b*)	**34.** (*d*)	**35.** (*a*)	**36.** (*b*)	**37.** (*a*)	**38.** (*a*)		

CHAPTER 6

Activity Based Costing

MULTIPLE CHOICE QUESTIONS

1. ABC improves control over overhead costs?

(*a*) True (*b*) False

(*c*) Either of the above (*d*) None of the above

2. Activity based costing is less expensive than traditional costing system.

(*a*) True (*b*) False

(*c*) Either of the above (*d*) None of the above

3. _______ uses multiple activity rates.

(*a*) Activity Based Costing (*b*) Traditional Costing

(*c*) Either of the above (*d*) None of the above

4. Cost are grouped into _______ according to activities which drive them:

(*a*) Cost driver (*b*) Cost pool

(*c*) Cost object (*d*) Cost unit

5. In activity based costing, cost are accumulated by:

(*a*) Cost driver (*b*) Cost pool

(*c*) Cost object (*d*) None of the above

6. Activity based costing is defined as cost attribution to ___ on the basis of benefit received from indirect activities.

(*a*) Cost driver (*b*) Cost pool

(*c*) Cost object (*d*) Cost unit

7. Under ABC system, the aggregate of closely related tasks is called ________.

(*a*) Activity (*b*) Pool

(*c*) Driver (*d*) Cost unit

8. The appropriate cost driver for maintenance cost pool is:

(*a*) No. of customers (*b*) No. of machine hours

(*c*) No. of setups (*d*) No. of deliveries

9. A cost driver is:

(*a*) An item of production overheads

(*b*) A common cost which is shared over cost centres

(*c*) Any cost relating to transport

(*d*) An activity which generates costs

10. In activity based costing, costs are accumulated by activity using:

(*a*) Cost drivers
(*b*) Cost objects
(*c*) Cost pools
(*d*) Cost benefit analysis

11. A cost driver:

(*a*) Is a force behind the overhead cost

(*b*) Is an allocation base

(*c*) Is a transaction that is a significant determinant of cost

(*d*) All of the above

12. Which of the following is not a correct match:

Activity	Cost Driver
(*a*) Production scheduling	Number of production runs
(*b*) Despatching	Number of dispatch orders
(*c*) Goods receiving	Goods received orders
(*d*) Inspection	Machine hours

13. Transactions undertaken by support department personnel are the appropriate cost drivers. Find the out which is not appropriate:

(*a*) The number of purchase, supplies and customers' orders drives the cost associated with new material inventory, work-in-progress and finished goods inventory.

(*b*) The number of production runs undertaken drivers production scheduling, inspection and material handling

(*c*) The quality of raw material issued drives the cost of receiving department costs

(*d*) The number of packing orders drives the packing costs.

14. Steps in ABC include:

(*a*) Identification of activities and their respective costs

(*b*) Identification of cost driver of each activity and computation of an allocation rate per activity

(*c*) Allocation of overhead cost to products/services based on the activities involved

(*d*) All of the above

15. Which of the following is not a benefit of ABC?

(*a*) Accurate cost allocation
(*b*) Improved decision making
(*c*) Better control on activity and costs
(*d*) Reduction of prime cost

16. The steps involved for installation of ABC in a manufacturing company include the following except:
(*a*) Borrowing fund
(*b*) Feasibility study
(*c*) Building up necessary IT infrastructure and training of line employees
(*d*) Strategy and value chain analysis

17. Which of the following statements are true: (1) Activity based management involves activity analysis and performance measurement; (2) Activity based costing serves as a major source of information in ABM.
(*a*) (1) True; (2) False
(*b*) (1) True; (2) True
(*c*) (1) False; (2) True
(*d*) (1) False; (2) False

18. The key elements of activity based budgeting are:
(*a*) Type of activity to be performed
(*b*) Quantity of activity to be performed
(*c*) Cost of activity to be performed
(*d*) All of the above

19. Activity based costing identifies the activities which cause cost to be incurred and trace ___ of these activities.
(*a*) Cost drivers
(*b*) Cost object
(*c*) Activity Based Costing
(*d*) None of the above

20. Cost object is the point of focus for the costs relating to a particular activity.
(*a*) True
(*b*) False
(*c*) Either (*a*) or (*b*)
(*d*) None of the above

21. The cost objects are linked to the objective of the organization.
(*a*) True
(*b*) False
(*c*) Either (*a*) or (*b*)
(*d*) None of the above

22. Cost pools under ABC are similar to ___ in traditional cost system.
(*a*) Cost pool
(*b*) Cost driver
(*c*) Activities
(*d*) Cost centre

23. ___ is a planning and control system used for continues improvement by setting up budgets based on activities analysis and used of cost pools and cost drives.
(*a*) Activity Based Management
(*b*) Activity Cost Management
(*c*) Activity Based Accounting
(*d*) None of these

24. Processing units on machines is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Organizational

25. Setting up equipment is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Organizational

26. Performing periodic maintenance on general use equipment is a ________ level activity.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Organizational

27. Human resources is a ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

28. Purchasing is a ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

29. Parts management is a ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

30. Assembly department costs are ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

31. Receiving department costs are ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

32. Employee training costs are ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

33. Quality control costs are ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

34. Equipment set-up costs are ________ level cost.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

35. Machine set-up activity is a ________ level activity.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

36. Advertising cost, if advertisement is for individual product then it is a ________ level activity.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

37. Plant security is a ________ level activity.
(*a*) Batch (*b*) Facility
(*c*) Unit (*d*) Product

38. Advertising campaign for promoting the company is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Product

39. Material ordering is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Product

40. Designing the product is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Product

41. Maintenance of building is a ________ level activity.
(*a*) Batch
(*b*) Facility
(*c*) Unit
(*d*) Product

42. Which of the following is not a limitation of ABC?
(*a*) Costly to maintain
(*b*) Complex system
(*c*) Reduce the frivolous use of common resources
(*d*) Data can be easily misinterpreted

43. Company X uses activity based costing for its two products: Product B and Product D. One of the activity cost pools is parts administration. The total estimated overhead cost for that pool was ₹10,10,000 and the expected activity was 4000 part types. If product D requires 1,200 part types, the amount of overhead allocated to it would be:
(*a*) ₹2,50,000
(*b*) ₹2,53,000
(*c*) ₹3,00,000
(*d*) ₹3,03,000

44. Company X uses activity based costing and has the following activity cost pools and estimated overhead cost for each pool:
- Machine related – ₹2,50,000
- Handling material – ₹5,00,000
- Processing purchase related – ₹2,40,000
- General factory – ₹6,30,000

(*a*) ₹9,90,000
(*b*) ₹13,70,000
(*c*) ₹16,20,000
(*d*) ₹13,80,000

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*a*)	**4.** (*c*)	**5.** (*b*)	**6.** (*d*)	**7.** (*a*)	**8.** (*c*)	**9.** (*d*)	**10.** (*c*)
11. (*d*)	**12.** (*d*)	**13.** (*c*)	**14.** (*d*)	**15.** (*d*)	**16.** (*a*)	**17.** (*b*)	**18.** (*d*)	**19.** (*a*)	**20.** (*a*)
21. (*a*)	**22.** (*d*)	**23.** (*b*)	**24.** (*c*)	**25.** (*a*)	**26.** (*b*)	**27.** (*b*)	**28.** (*a*)	**29.** (*d*)	**30.** (*c*)
31. (*a*)	**32.** (*b*)	**33.** (*c*)	**34.** (*c*)	**35.** (*a*)	**36.** (*d*)	**37.** (*b*)	**38.** (*b*)	**39.** (*a*)	**40.** (*d*)
41. (*b*)	**42.** (*c*)	**43.** (*d*)	**44.** (*c*)						

CHAPTER 7

Cost Accounting System

MULTIPLE CHOICE QUESTIONS

1. General Ledger Adjustment Account is also known as ________ account.
   (*a*) Work-in-progress Ledger Control A/c
   (*b*) Cost Ledger Control A/c
   (*c*) Stores Ledger Control A/c
   (*d*) Finished Goods Ledger Control A/c

2. In non-integrated accounting __________ account is debited for purchase of materials.
   (*a*) Work-in-progress Ledger Control A/c
   (*b*) Cost Ledger Control A/c
   (*c*) Stores Ledger Control A/c
   (*d*) Finished Goods Ledger Control A/c

3. For absorption of direct wages ________ account is debited.
   (*a*) Work-in-progress Ledger Control A/c
   (*b*) Cost Ledger Control A/c
   (*c*) Stores Ledger Control A/c
   (*d*) Finished Goods Ledger Control A/c

4. Normal wastage of material is debited to _______ account.
   (*a*) Stores ledger control A/c
   (*b*) Work-in-progress ledger control A/c
   (*c*) Work overheads control A/c
   (*d*) General ledger adjustment A/c

5. ___________ of records is avoided under Integral Accounting.
   (*a*) Simplification
   (*b*) Duplication
   (*c*) Triplication
   (*d*) None of the above

6. Which account is not required under integrated accounting system?
   (*a*) Stores ledger control A/c
   (*b*) Work-in-progress ledger control A/c
   (*c*) Work overheads control A/c
   (*d*) General ledger adjustment A/c

7. General Ledger Adjustment Account is credited for purchases of material in cash under non-integral system.
   (*a*) True
   (*b*) False
   (*c*) Either of (*a*) or (*b*)
   (*d*) None of the above

8. Assets accounts are not maintained in Integrated System.
   (*a*) True
   (*b*) False
   (*c*) Either of (*a*) or (*b*)
   (*d*) None of the above

9. Under the system of Integrated Accounts, there is no need for a separate cost ledger.
   (*a*) True
   (*b*) False
   (*c*) Either of (*a*) or (*b*)
   (*d*) None of the above

10. Under the Non-integrated accounting system
   (*a*) Some ledger is maintained for cost and financial accounts by accountants
   (*b*) Separate ledgers are maintained for cost and financial accounts
   (*c*) (*a*) & (*b*) both
   (*d*) None of the above

11. Notional costs
   (*a*) May be included in integrated accounts
   (*b*) May be included in Non-integrated accounts
   (*c*) Cannot be included in Non-integrated accounts
   (*d*) None of the above

12. Under Non-integrated accounting system, the account made to complete double entry is:
   (*a*) Stores ledger control account
   (*b*) work-in-progress control account
   (*c*) finished goods control account
   (*d*) General ledger adjustment account

13. Integrated systems of accounts are maintained
   (*a*) In separate books of accounts for costing and financial accounting purposes
   (*b*) In same books of accounts
   (*c*) Both (*a*) & (*b*)
   (*d*) None of the above

14. Under Non-integrated system of accounting, purchase of raw material is debited to which account
   (*a*) Material control account/Stores ledger control account
   (*b*) General ledger adjustment account
   (*c*) Purchase account
   (*d*) None of the above

15. Under Non-integrated accounts, if materials worth, ₹1,500 are purchased for a special job, then which account will be debited:
   (*a*) Special job account/Work-in-Process account
   (*b*) Material control account
   (*c*) Cost Control Account
   (*d*) None of the above

16. Which account is to be debited if materials worth ₹500 are returned to vendor under Non-integrated accounts:
   (*a*) Cost ledger control account
   (*b*) Finished goods control account
   (*c*) WIP control account
   (*d*) None of the above

17. Which of the following items is included in cost accounts?

(*a*) Notional rent (*b*) Donations

(*c*) Transfer to general reserve (*d*) Rent receivable

18. When costing loss ₹5,600, administrative overhead under-absorbed being ₹600, the loss as per financial accounts should be

(*a*) ₹5,600 (*b*) ₹6,200

(*c*) ₹5,000 (*d*) None of the above

19. Which of the following items should be added to costing profit to arrive at financial profit?

(*a*) Over-absorption of works overhead (*b*) Interest paid on debentures

(*c*) Income tax paid (*d*) All of the above

20. Reconciliation statement is required to be prepared in case of ____________ system.

(*a*) Integrated (*b*) Non-Integrated

(*c*) Either of the above (*d*) None of the above

21. Which of the following items are shown in Profit & Loss account only?

(*a*) Dividend paid (*b*) Commission received

(*c*) Income tax paid (*d*) All of the above

22. Which of the following items are shown in cost accounts only?

(*a*) Rent of own premises (*b*) Notional cost of own capital

(*c*) Salary of own manager at notional figure (*d*) All of the above

23. Goodwill written off is such item which is included in _______ accounts but not ______ in accounts.

(*a*) Financial; Cost (*b*) Cost; Financial

(*c*) Main; Supplementary (*d*) Supplementary; Main

24. Following item shall be added to costing profit to arrive at financial profit:

(*a*) Income tax provision (*b*) Interest on debentures

(*c*) Dividend received (*d*) None of the above

25. Profit as per financial accounts is ₹ 50,000. What will be the profit as per cost accounts when depreciation overcharged in cost accounts is ₹ 2,000.

(*a*) ₹ 50,000 (*b*) ₹ 48,000

(*c*) ₹ 52,000 (*d*) None of the above

26. Which of these items are not included in cost accounts?

(*a*) Interest received on bank deposits (*b*) Transfer fee received

(*c*) Profit on sale of assets (*d*) All of the above

27. Under absorption of overhead decreases profit in costing books.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

28. Loss on sale of fixed assets is an item of both financial accounts and cost accounts.

(*a*) True
(*b*) False
(*c*) Either of (*a*) or (*b*)
(*d*) None of the above

29. Depreciation charged in cost books is ₹ 8,000 and in financial books is ₹ 6,700. What will be the profit as per financial books when profit as per cost book is ₹ 6,000?

(*a*) ₹ 7,300
(*b*) ₹ 4,700
(*c*) ₹ 6,000
(*d*) None of the above

30. When financial profit is 8,000, the administrative overhead over recovered in cost accounts is ₹ 600, the costing profit is ₹ 8,600.

(*a*) True
(*b*) False
(*c*) Either of (*a*) or (*b*)
(*d*) None of the above

31. Opening raw material value as per cost accounts is ₹ 50,000 and as per financial accounts its ₹ 60,000. In this situation costing profit will be __________ than the financial profit.

(*a*) Higher
(*b*) Lower
(*c*) Either of the above
(*d*) None of the above

32. Closing work in progress value as per cost accounts is ₹ 60,000 and as per financial accounts its ₹ 50,000. In this situation costing profit will be __________ than the financial profit.

(*a*) Higher
(*b*) Lower
(*c*) Either of the above
(*d*) None of the above

33. Closing finished goods stock value as per cost accounts is ₹ 50,000 and as per financial accounts its ₹ 60,000. In this situation costing profit will be __________ than the financial profit.

(*a*) Higher
(*b*) Lower
(*c*) Either of the above
(*d*) None of the above

34. Opening finished goods stock value as per cost accounts is ₹ 60,000 and as per financial accounts its ₹ 50,000. In this situation costing profit will be __________ than the financial profit.

(*a*) Higher
(*b*) Lower
(*c*) Either of the above
(*d*) None of the above

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*a*)	**4.** (*c*)	**5.** (*b*)	**6.** (*d*)	**7.** (*b*)	**8.** (*b*)	**9.** (*a*)	**10.** (*b*)
11. (*b*)	**12.** (*d*)	**13.** (*b*)	**14.** (*a*)	**15.** (*a*)	**16.** (*a*)	**17.** (*a*)	**18.** (*b*)	**19.** (*a*)	**20.** (*b*)
21. (*d*)	**22.** (*d*)	**23.** (*a*)	**24.** (*c*)	**25.** (*c*)	**26.** (*d*)	**27.** (*b*)	**28.** (*b*)	**29.** (*a*)	**30.** (*b*)
31. (*a*)	**32.** (*a*)	**33.** (*b*)	**34.** (*b*)						

CHAPTER 8

Unit and Batch Costing

MULTIPLE CHOICE QUESTIONS

1. Which are the feature of batch costing?
(*a*) Units produced are identical
(*b*) Each batch is costed separately
(*c*) Each batch is a cost unit
(*d*) All of the above

2. At Economic Batch Quantity, sum of _______ cost & ________ cost is minimum.
(*a*) Set-up and ordering
(*b*) Carrying and Ordering
(*c*) Set-up and carrying
(*d*) None of the above

3. Which of the following production batch sizes will minimize cost where annual output is 20,000 units, set-up costs per batch are ₹ 25 and holding costs are ₹ 3 per unit.
(*a*) 83 units
(*b*) 267 units
(*c*) 577 units
(*d*) 480 units

4. The ____ costing is used when a quantity of similar and identical products are manufactured together.
(*a*) Job
(*b*) Batch
(*c*) Contract
(*d*) Process

5. A television company manufactures several components in batches. The following data relates to one component: Annual demand - 32,000 units; setup cost per batch - Rs 120; Annual rate of interest - 12%; Cost of production per unit - Rs 8.The economic batch quantity is ____ units.
(*a*) 4,000
(*b*) 3,000
(*c*) 2,000
(*d*) 1,000

6. Batch costing is applied to engineering workshops.
(*a*) True
(*b*) False
(*c*) Either (*a*) or (*b*)
(*d*) None of the above

7. Batch costing is a variant of job costing.
(*a*) True
(*b*) False
(*c*) Either (*a*) or (*b*)
(*d*) None of the above

8. Batch costing is use for toy manufacturing firm.

(*a*) True (*b*) False

(*c*) Either (*a*) or (*b*) (*d*) None of the above

9. Different businesses in order to determine cost of their product or service offering follow:

(*a*) Different methods of costing (*b*) Uniform costing

(*c*) Different techniques of costing (*d*) None of the above

10. In order to determine cost of the product or service, following are used:

(*a*) Techniques of costing like marginal, standard etc.

(*b*) Methods of costing

(*c*) Comparatives

(*d*) All of the above

11. Unit costing is applicable where:

(*a*) Product produced are unique and no 2 products are same

(*b*) Dissimilar articles are produced as per customer specification

(*c*) Homogeneous articles are produced on large scale

(*d*) Products made require different raw materials

12. In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:

(*a*) Process costing (*b*) Operating costing

(*c*) Job costing (*d*) None of the above

13. Job costing is:

(*a*) Applicable to all industries regardless of the products or services provided

(*b*) Techniques of costing

(*c*) Suitable where similar products are produced on mass scale

(*d*) Method of costing used for non-standard and non-repetitive products

14. The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is know as:

(*a*) Bin card (*b*) Bill of material

(*c*) material requisition slip (*d*) None of the above

15. Batch costing is a type of:

(*a*) Process costing (*b*) Job costing

(*c*) differential costing (*d*) Direct costing

16. Batch costing is similar to that under job costing except with the difference that a:

(*a*) Job becomes a cost unit

(*b*) Batch becomes the cost unit instead of a job

(*c*) Process becomes a cost unit

(*d*) None of the above

17. The main points of distinction between job and contract costing includes:

(*a*) Length of time to complete

(*b*) Big jobs

(*c*) Activities to be done outside the factory area

(*d*) All of the above

18. Economic batch quantity is that size of the batch of production where:

(*a*) Average cost is minimum

(*b*) Set-up cost of machine is minimum

(*c*) Carrying cost is minimum

(*d*) Both (*b*) and (*c*)

Answer Key

1. (*d*)	**2.** (*c*)	**3.** (*c*)	**4.** (*b*)	**5.** (*c*)	**6.** (*b*)	**7.** (*a*)	**8.** (*a*)	**9.** (*a*)	**10.** (*b*)
11. (*c*)	**12.** (*c*)	**13.** (*d*)	**14.** (*b*)	**15.** (*b*)	**16.** (*b*)	**17.** (*d*)	**18.** (*d*)		

9 CHAPTER

Job Costing

MULTIPLE CHOICE QUESTIONS

1. __________ costing is applied where work is usually carried out within a factory or workshop and is of short duration.

(*a*) Job (*b*) Batch
(*c*) Contract (*d*) None of the above

2. Labour time on each job are recorded on a __________ which is then costed and recorded on the Job Cost Sheet.

(*a*) Wage Sheet (*b*) Job Card
(*c*) Either of the above (*d*) None of the above

3. __________ costing is applied where production is not on continuous basis.

(*a*) Job (*b*) Batch
(*c*) Contract (*d*) None of the above

4. __________ account is prepared for each job so that its cost and various components of cost can be readily ascertained.

(*a*) Job (*b*) Batch
(*c*) Contract (*d*) None of the above

5. Which of the following is not the advantage of Job costing?

(*a*) Helps to detect profitable and non-profitable job
(*b*) Spoilage & defective can be easily identified to the job
(*c*) It is time consuming
(*d*) All of the above

6. A company wishes to earn a 15% profit margin on selling price when quoting for a job which of the following is the profit mark-up on cost which will achieve the required profit margin?

(*a*) 15% (*b*) 17.65%
(*c*) 85% (*d*) 13.04%

7. A Job order cost accumulation system is most suitable where:

(*a*) Mass production techniques are used
(*b*) Continuous processing is performed
(*c*) Homogeneous products are produced
(*d*) Customized products are produced

8. Each job has a ____ prepared for it that bears the job number and which is used to collect all cost data relating to the job.

(*a*) Job time sheet
(*b*) Job ticket
(*c*) Job cost card
(*d*) Job account

9. Job costing is used in ___________.

(*a*) Paper mill
(*b*) Printing press
(*c*) Textile mill
(*d*) Chemical work

10. Job card is meant to recorded the attendance or works.

(*a*) True
(*b*) False
(*c*) Either (*a*) or (*b*)
(*d*) None of the above

11. In case product produced or jobs undertaken are of diverse nature, the system of costing to be used should be:

(*a*) Process costing
(*b*) Operation costing
(*c*) Job costing
(*d*) None of the above

12. The production planning department prepares a list of materials and stores required for the completion of a specific job order, this list is known as:

(*a*) Bin card
(*b*) Bill of material
(*c*) Material requisition slip
(*d*) None of the above

13. Job costing is similar to that under Batch costing except with the difference that a:

(*a*) Job becomes a cost unit
(*b*) Batch becomes the cost unit instead of a job
(*c*) Process becomes a cost unit
(*d*) None of the above

14. In job costing which of the following documents are used to record the issue of direct material to a job:

(*a*) goods received note
(*b*) Material requisition note
(*c*) Purchase order
(*d*) Purchase requisition

15. The most suitable cost system where the products differ in type of materials and work performed is:

(*a*) Job costing
(*b*) Process costing
(*c*) Operating costing
(*d*) None of the above

16. Which of the following statements is true:

(*a*) Job cost sheet may be used for estimating profit of jobs.

(*b*) Job costing cannot be used in conjunction with marginal costing.

(*c*) A production order is an order received from a customer for particular jobs.

(*d*) None of the above.

17. Which of the following statement is true:

(*a*) Job cost sheet may be prepare for facilitating routing and scheduling of the job.

(*b*) Job costing can be suitably used for concerns producing uniformly any specific product.

(*c*) Job costing cannot be used in companies using standard costing.

(*d*) None of the above

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*a*)	**4.** (*a*)	**5.** (*c*)	**6.** (*b*)	**7.** (*d*)	**8.** (*c*)	**9.** (*b*)	**10.** (*b*)
11. (*c*)	**12.** (*b*)	**13.** (*a*)	**14.** (*b*)	**15.** (*a*)	**16.** (*a*)	**17.** (*d*)			

CHAPTER 10

Process Costing

MULTIPLE CHOICE QUESTIONS

1. The method of costing used in a refinery used is_______.
   (*a*) Process (*b*) Batch
   (*c*) Multiple (*d*) Contract

2. The method of costing applied in biscuit industries is _______ costing and in steel industry _______ costing.
   (*a*) Job, Contract (*b*) Job, Process
   (*c*) Process, Operation (*d*) Job, Batch

3. The valuation of abnormal wastage is not based on cost.
   (*a*) True (*b*) False
   (*c*) Either of (*a*) or (*b*) (*d*) None of the above

4. When the actual loss is more than the estimated loss, the difference between the two is considered to be _________.
   (*a*) Abnormal loss (*b*) Normal Loss
   (*c*) Loss (*d*) None of them

5. When actual loss is less than the estimated loss, the difference between the two is considered to be _______.
   (*a*) Abnormal Gain (*b*) Normal Loss
   (*c*) Abnormal Loss (*d*) Income

6. When actual loss is _______ than the estimated loss, the difference between the two is considered to be abnormal gain.
   (*a*) More (*b*) less
   (*c*) Higher (*d*) none of them

7. The cost of _______ process loss is absorbed in the cost of production of good units.
   (*a*) Abnormal (*b*) Normal
   (*c*) Both (*a*) & (*b*) (*d*) none of them

8. In inter process profits, the output of one process is transferred from one process to another not at _______ but at _______.

(*a*) Market price, actual cost (*b*) Actual cost, Market price

(*c*) Both (*a*) & (*b*) (*d*) none of them

9. Equivalent units represent the production of a process in terms of _______ units.

(*a*) Total Production (*b*) Completed

(*c*) Semi-finished (*d*) Both (*a*) & (*b*)

10. In process costing, cost per unit increases due to:

(*a*) Normal loss (*b*) Normal gain

(*c*) Abnormal loss (*d*) Abnormal gain

11. The type of process loss that should not be allowed to affect the cost of good unit is:

(*a*) Abnormal loss (*b*) Normal loss

(*c*) Seasonal loss (*d*) Standard loss

12. 200 units were introduced in a process in which 20 units is the normal loss. If the actual output is 150 units, then there is:

(*a*) No abnormal loss (*b*) No abnormal gain

(*c*) Abnormal loss of 30 units (*d*) Abnormal gain of 30 units

13. 100 units are processed at a total cost of ₹160, normal loss is 10%, & scrap units are sold @₹0.25 each. If the output is 80 units, then the value of abnormal loss is:

(*a*) ₹2.50 (*b*) ₹16

(*c*) ₹17.50 (*d*) ₹17.75

14. When average method is used in process costing, the opening inventory costs are:

(*a*) Subtracted from the new costs

(*b*) Added to the new costs

(*c*) Kept separate from the costs of the new period

(*d*) Averaged with other costs to arrive at total cost

15. Spoilage that occurs under inefficient operating conditions and is ordinarily controllable is called:

(*a*) Normal spoilage (*b*) Abnormal spoilage

(*c*) Normal defectives (*d*) None of the above

16. The cost of normal process loss is:

(*a*) Absorbed by good units produced and amount realised by the sale of loss units should be debited to the process account

(*b*) Debited to costing profit and loss account

(*c*) Absorbed by good units produced

(*d*) Debited to costing profit and loss account and amount realized by the sale of loss units should be credited to the process account.

17. The value of abnormal loss is equal to:
   (*a*) total cost of materials
   (*b*) Total process cost less realizable value of normal loss
   (*c*) Total process cost less cost of scrap
   (*d*) Total process cost less realizable value of normal loss less value of transferred out goods.

18. Inter-process profit is calculated, because:
   (*a*) a process is a cost centre
   (*b*) each process has to report profit
   (*c*) the efficiency of the process is measured
   (*d*) the wages of employees are linked to the process profitability

19. Under Weighted Average (Average) Method:
   (*a*) The cost to complete the opening WIP is ignored
   (*b*) The cost to complete the opening WIP and other completed units are calculated separately
   (*c*) The cost of opening work-in-progress and cost of the current period are aggregated and the aggregate cost is divided by output in terms of complete units.
   (*d*) Closing stock of work in process is valued at current cost.

20. A process account is debited by abnormal gain, the value is determined as:
   (*a*) equal to the value of normal loss
   (*b*) cost of good units less realizable value of normal loss
   (*c*) cost of good units less realizable value of actual loss
   (*d*) Equal to the value of good units less closing stock

21. Lean Labs develops 55mm film using a four step process that moves progressively through four departments. The company specialized in overnight service and has the largest drug store chain as its primary customer. Currently, direct labour, direct materials, and overhead are accumulated by departments. The cost accumulation system that best describes the system Lean Labs is using is:
   (*a*) Operation costing
   (*b*) Activity based costing
   (*c*) Job-order costing
   (*d*) Process costing

22. When compared with normal spoilage, abnormal spoilage:
   (*a*) Arises more frequently from factors that are inherent in the manufacturing process
   (*b*) Is given the same accounting treatment as normal spoilage
   (*c*) Is generally thought to be more controllable by purchase department than production department
   (*d*) Is not typically by the “tightness” of production standards

23. The valuation of abnormal wastage-is not based on cost.
   (*a*) True
   (*b*) False
   (*c*) Either of (*a*) or (*b*)
   (*d*) None of the above

24. The balance of abnormal wastage account being profit is transferred to the profit and loss account.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

25. Assume 550 units were worked on during a period in which a total of 500 good units were completed. Normal spoilage consisted of 30 units; abnormal spoilage, 20 units. Total production costs were ₹2,200. The company accounts for abnormal spoilage separately on the income statement as loss due to abnormal spoilage. Normal spoilage is not accounted for separately. What is the cost of the good units produced?

(*a*) ₹2,080 (*b*) ₹2,115

(*c*) ₹2,200 (*d*) ₹2,332

26. IC Limited uses process costing systems and inspects its goods post manufacturing. An engineer noticed on May 31st the following:

Good units completed	15,000
Normal spoilage (units)	300
Abnormal spoilage (units)	100

Unit costs were; Material ₹2.50 and conversion costs (labour & overheads) ₹6.00. The number of units that company would transfer to its finished goods stock and the related cost of these units are:

(*a*) 15,000 units transferred to a cost of ₹1,27,500

(*b*) 15,000 units transferred at a cost of ₹1,30,050

(*c*) 15,000 units transferred at a cost of ₹1,35,000

(*d*) 15,300 units transferred at a cost of ₹1,30,050

27. An input of 5000kg of material introduced into the process and the expected loss is 8% and if the actual output from the process is 4300, the abnormal loss is _______kg.

(*a*) 300 (*b*) 400

(*c*) 500 (*d*) 600

28. When 1000 units are 60% complete in a process, it is equivalent to _______completed units.

(*a*) 60 (*b*) 600

(*c*) 6,000 (*d*) 1,000

29. Cost of normal output of 800 units is ₹ 2,400 than value of abnormal wastage of 200 units will be:

(*a*) ₹ 60 (*b*) ₹ 600

(*c*) ₹ 6,000 (*d*) None of the above

30. Input in a process is 10,000 units and normal loss is 5%. If finished output in process is only 9,600 units, then there is an:

(*a*) Abnormal gain of 100 units (*b*) Abnormal gain of 400 units

(*c*) Abnormal loss of 100 units (*d*) Abnormal loss of 400 units

31. In a particular process it is expected, that for every 200 kg. of raw material input, output of good material will be 190 kg. In a period 1,280 Kg. of raw material were input at a cost of ₹ 3,000 and 1,178 kg. of good output were produced. What is the cost per kg. of the good output (to the nearest place).

(*a*) ₹ 2.42 (*b*) ₹ 2.27
(*c*) ₹ 2.52 (*d*) ₹ 2.47

32. In a machine process the normal spoilage rate to be 2% of input. Spoiled units are sold for 53 paisa each. In a period 5,000 units were input at a cost of ₹ 2 each. The total output of good units was 4,750. How much will be written off to the profit and loss account in respect of the abnormal spoilage?

(*a*) ₹ 304.00 (*b*) ₹ 304.50
(*c*) ₹ 225.00 (*d*) ₹ 225.50

33. Purchased materials are added in the second department of a three department process: this does not increase the number of units produced in the second department and would,

(*a*) Not change the number of units produced in the second department
(*b*) Decrease total work-in-process inventory
(*c*) Increase the factory overhead portion of the ending work-in-process inventory
(*d*) Increase total unit cost.

34. In X Ltd. 500 units of raw material were introduced in Process I .The actual output and normal loss of the respective processes are:

	Output	Normal loss on output
Process I	**450 units**	**10%**
Process II	**340 units**	**20%**
Process III	**270 units**	**25%**

The abnormal effective in Process III is _____ units.

(*a*) 10 (*b*) 15
(*c*) 20 (*d*) 25

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*b*)	**4.** (*a*)	**5.** (*a*)	**6.** (*b*)	**7.** (*b*)	**8.** (*b*)	**9.** (*b*)	**10.** (*a*)
11. (*a*)	**12.** (*c*)	**13.** (*c*)	**14.** (*b*)	**15.** (*b*)	**16.** (*c*)	**17.** (*d*)	**18.** (*c*)	**19.** (*c*)	**20.** (*b*)
21. (*d*)	**22.** (*d*)	**23.** (*b*)	**24.** (*b*)	**25.** (*b*)	**26.** (*b*)	**27.** (*a*)	**28.** (*b*)	**29.** (*b*)	**30.** (*a*)
31. (*d*)	**32.** (*b*)	**33.** (*d*)	**34.** (*b*)						

CHAPTER 11 Joint Products & By Products

MULTIPLE CHOICE QUESTIONS

1. A bakery produces cakes, biscuit and bread. These products should be treated as:
(*a*) Joint Products (*b*) By Products
(*c*) Co-products (*d*) None of the above

2. Wood pieces, left out in furniture should be treated as:
(*a*) Waste (*b*) By Products
(*c*) Scrap (*d*) None of the above

3. In accounting of joint products under market value method, joint costs will be apportioned to the products in the ratio of _______ of individual products.
(*a*) Sales value (*b*) Contribution
(*c*) Physical units (*d*) None of the above

4. A furniture manufacturing company manufactures tables, chairs, cots, interior decorating furniture is an example of:
(*a*) Joint Products (*b*) By Products
(*c*) Co-products (*d*) None of the above

5. An oil manufacturing company manufactures petrol, diesel, lubricant oil, natural gas etc. from the crude oil is an example of:
(*a*) Joint Products (*b*) By Products
(*c*) Co-products (*d*) None of the above

6. The production of molasses arising during manufacturing of sugar is an example of:
(*a*) Joint Product (*b*) By Product
(*c*) Co-product (*d*) None of the above

7. The production of husk arising in rice mill during rice production is an example of:
(*a*) Joint Product (*b*) By Product
(*c*) Co-product (*d*) None of the above

8. Timber boards made from different trees is an example of:

(*a*) Joint Product (*b*) By Product

(*c*) Co-product (*d*) None of the above

9. Production of white flour, brown flour, animal feeding stuff in a flour-mill is an example of:

(*a*) Joint Product (*b*) By Product

(*c*) Co-product (*d*) None of the above

10. Ash produced in thermal power plant is an example of:

(*a*) Joint Product (*b*) By Product

(*c*) Co-product (*d*) Scrap

11. The main product is usually produced in greater quantities than _______.

(*a*) Joint Product (*b*) By Product

(*c*) Co-product (*d*) None of these

12. In sugar manufacturing industries molasses is also produced along with sugar. Molasses may be of smaller value as compared with the value of sugar and is known as:

(*a*) common product (*b*) By-product

(*c*) Joint product (*d*) None of them

13. Method of apportioning joint costs on the basis of output of each joint product at the point of split off is:

(*a*) Sales value method

(*b*) Physical unit method

(*c*) Average cost method

(*d*) Marginal cost and contribution method

14. In the Net realisable value method, for apportioning joint costs over the joint products, the basis of apportionment would be:

(*a*) Selling price per unit of each of the joint products

(*b*) Selling price multiplied by units sold of each of the join products

(*c*) Sales value of each joint product less further processing costs for individual products

(*d*) Both (*b*) and (*c*)

15. The main purpose of accounting of joint products and by-products is to:

(*a*) Determine the opportunity cost

(*b*) Determine the replacement cost

(*c*) Determine profit or loss on each product line

(*d*) None of the above

16. Under net realizable value method of apportioning joint costs to joint products, the selling & distribution cost is:

(*a*) Added to joint cost (*b*) Deducted from further processing cost

(*c*) Deducted from sales value (*d*) Ignored

17. Which of the following is a co-product

(*a*) Diesel and petrol in an oil refinery

(*b*) Edible oils and oil cakes

(*c*) Cured and butter in a dairy

(*d*) Mustard oil and sunflower oil in an oil processing company

18. Which of the following is an example of by-product.

(*a*) Diesel and Petrol in an oil refinery (*b*) Edible oils and oil cakes

(*c*) Curd and butter in a dairy (*d*) Mustard seeds and mustard oil

19. Which of following method can be used when the join products are of unequal quantity and used for captive consumption:

(*a*) Technical estimates, using market value of similar goods

(*b*) Net Realisable value method

(*c*) Physical units method

(*d*) Market value at split-off method

20. Which of the following statement is not correct in relation to Co-products:

(*a*) Co-products may also have joint products

(*b*) Costing for co-products are done according to process costing method

(*c*) Co-products do not have any by-products

(*d*) Co-products are treated as a separate cost object for costing purpose.

21. When a by-product does not have any realisable value, the cost of by-product is:

(*a*) Transferred to costing Profit & Loss A/c

(*b*) By-product cost is borne by the good units

(*c*) By-product is ignored

(*d*) By-product cost is determined taking value of similar goods

22. SG Ltd. manufactures two products from a joint milling process. The two products developed are Mine support (MS) and commercial building (CB). A standard production run incurs joint costs of ₹1,00,000 and results in 60,000 units of MS and 90,000 units of CB. Each MS sells for ₹200 per unit, and each CB sells for ₹450 per unit.

Assuming no further processing work is done after the split-off point, the amount of joint cost allocated to commercial building (CB) on a physical quantity allocation basis would be:

(*a*) ₹60,000 (*b*) ₹1,80,000

(*c*) ₹2,25,000 (*d*) ₹1,20,000

23. Kay company manufactures two hair care lotions, Livi and Sili, out of a joint process. The join (common) costs incurred are ₹6,30,000 for a standard production run that generates 1,80,000 gallons of Livi and 1,20,000 gallons of Sili. Livi sells for ₹240 per gallon, and Sili sells for ₹390 per gallon.

If additional processing costs beyond the split-off point are ₹140 per gallon for Livi and ₹90 per gallon for Sili, the amojnt of joint cost of each production run allocated to Livi on a physical-quantity basis is:

(*a*) ₹3,40,000 (*b*) ₹3,78,000

(*c*) ₹2,32,000 (*d*) ₹5,80,000

24. For the purpose of allocating joint costs to join products, the sales price at point of sale, reduced by cost to complete after split-off, is assumed to be equal to the:

(*a*) Joint costs

(*b*) Sales price less a normal profit margin at point of sale

(*c*) Net sales value at split off

(*d*) Total costs

Answer Key

1. (*c*)	**2.** (*c*)	**3.** (*a*)	**4.** (*c*)	**5.** (*a*)	**6.** (*b*)	**7.** (*b*)	**8.** (*c*)	**9.** (*a*)	**10.** (*b*)
11. (*b*)	**12.** (*b*)	**13.** (*b*)	**14.** (*d*)	**15.** (*c*)	**16.** (*c*)	**17.** (*d*)	**18.** (*b*)	**19.** (*a*)	**20.** (*c*)
21. (*b*)	**22.** (*a*)	**23.** (*b*)	**24.** (*c*)						

CHAPTER 12

Service Costing

MULTIPLE CHOICE QUESTIONS

1. State which of the following are the characteristics of service costing.

1. High levels of indirect costs as a proportion of total costs
2. Use of composite cost units
3. Use of equivalent units

(*a*) (1) only (*b*) (1) & (2) only
(*c*) (2) only (*d*) (2) & (3) only

2. Which of the following organizations should not be advised to use service costing?

(*a*) Distribution service
(*b*) Hospital
(*c*) Maintenance department of a manufacturing company
(*d*) A light engineering company

3. ______is the most suitable method in a transport industry.

(*a*) Operation Costing (*b*) Service Costing
(*c*) Process Costing (*d*) Job Costing

4. Room/day is the cost unit used in ________.

(*a*) Hotels (*b*) Hospitals
(*c*) Schools (*d*) None of these

5. In electricity supply company uses __________ as cost unit.

(*a*) Kilo watt hour (*b*) Per household
(*c*) Voltage (*d*) None of these

6. In transportation costing a composite unit such as __________ is used.

(*a*) Passenger km (*b*) Per km
(*c*) Per passenger ton (*d*) Per passenger

7. Boiler house costing is an example of __________ costing.

(*a*) Operation (*b*) Service
(*c*) Process (*d*) Job

8. Service costing is not used in one of the following:

(*a*) Electricity (*b*) Hospitals

(*c*) Transport (*d*) Electronics

9. Operating Costing is used in _________ concerns.

(*a*) Manufacturing (*b*) Trading

(*c*) Service providing (*d*) All of the above

10. An example of a simple cost unit in transport costing is ______.

(*a*) Per Mile (*b*) Per passenger mile

(*c*) Per km (*d*) Both (*a*) & (*c*)

11. The per unit cost of a powerhouse is calculated by machine hour rate.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

12. The unit under operating costing is selected according to nature of business.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

13. For finding expenses a daily log book is maintained of each vehicle.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

14. Absolute tonne kilometer and commercial tonne kilometer are synonyms.

(*a*) True (*b*) False

(*c*) Either of (*a*) or (*b*) (*d*) None of the above

15. Which of the following pair is not correct with regard to Operating Costing:

(*a*) Passenger Transport — per passenger km (*b*) Electricity Generation — per KWh

(*c*) Hotel — per person hour (*d*) Medical Service —per patient day

16. Composite cost unit for a hospital is:

(*a*) per patient (*b*) per patient-day

(*c*) per day (*d*) per bed

17. Cost of diesel and lubricant is an example of:

(*a*) operating cost (*b*) fixed charges

(*c*) semi-variable cost (*d*) none of the above

18. Cost units used in power sector is:

(*a*) Kilo meter (KM) (*b*) Kilowatt-hour (kWh)

(*c*) Number of electric points (*d*) Number of hours

19. Absolute Tonne-km is an example of:

(*a*) Composite unit in power sector
(*b*) Composite unit of transport sector
(*c*) Composite unit for bus operation
(*d*) Composite unit for oil and natural gas

20. Depreciation is treated as fixed cost if it is related to:

(*a*) Activity level
(*b*) Related with machine hours
(*c*) Efflux of time
(*d*) None of the above

21. Jobs undertaken b IT & ITES organizations are considered as:

(*a*) project
(*b*) batch work
(*c*) contract
(*d*) all of the above

22. In toll Road costing, the repetitive costs include:

(*a*) Maintenance cost
(*b*) Annual operating costs
(*c*) None of the above
(*d*) Both (*a*) and (*b*)

23. BOT approach means:

(*a*) Build, operate and Transfer
(*b*) Buy, Operate and Transfer
(*c*) Build, operate and Trash
(*d*) Build, Own and Trash

24. Pre-product development activities in insurance companies, include:

(*a*) Processing of claim
(*b*) Selling of policy
(*c*) Provisions of conditions
(*d*) policy application processing

25. Which of the following costing method is not appropriate for costing of educational institutes:

(*a*) Batch costing
(*b*) Activity based costing
(*c*) Absorption costing
(*d*) Process costing

26. A hotel has a capacity of 100 single and 20 double rooms .The average occupancy of both single and double rooms is expected to be 80% throughout the year of 365 days . The rent of double room has been fixed at 125% of the rent of a single room. The total notional single rooms/day are ________.

(*a*) 36,000
(*b*) 35,040
(*c*) 36,500
(*d*) 35,500

27. The hospital is opened for 365 days ,but bed occupancy is 25 patients per day in 120 days and 20 bed occupied in another 80 days. Extra beds occupied during the year is 400. The patient days of the hospital are _____.

(*a*) 3,500
(*b*) 4,000
(*c*) 4,500
(*d*) 5,000

28. The seating capacity of a school bus is 60 students one way. The seating capacity is fully occupied during the whole year. The school follows differential bus fee based on distance travelled as under:

Distance to and from school	Buss fee	Students availing the facility
4 kms	25% of Full	15%
8 kms	50% of Full	30%
16 kms	Full	55%

The total students, equivalent to 25% fare students per tripe are:

(*a*) 177 (*b*) 264

(*c*) 354 (*d*) 424

29. Calculate the most appropriate unit cost for a distribution division of a multinational company using the following information.

- Miles travelled 636,500
- Tonnes carried 2,479
- Number of drivers 20
- Hours worked by drivers 35,520
- Tonnes miles carried 375,200
- Cost incurred 562,800

(*a*) ₹0.88 (*b*) ₹1.50

(*c*) ₹15.84 (*d*) ₹28,140

30. The following information is available for the W hotel for the latest thirty day period.

- Number of rooms available per night 40
- Percentage occupancy achieved 65%
- Room servicing cost incurred ₹3,900
- The room servicing cost per occupied room-night last period, to the nearest ₹ was:

(*a*) ₹3.25 (*b*) ₹5.00

(*c*) ₹97.50 (*d*) ₹150.00

31. A transport company is running five buses between two towns, which are 80 kms apart. Seating capacity of each bus is 80 passengers. Actually passengers carried by each bus were 78% of seating capacity. All buses ran on all days of the month. Each bus made one round trip per day. Passenger kms are:

(*a*) 2,81,250 (*b*) 1,87,500

(*c*) 5,62,500 (*d*) none of the above

Answer Key

1. (*c*)	**2.** (*c*)	**3.** (*b*)	**4.** (*a*)	**5.** (*a*)	**6.** (*a*)	**7.** (*b*)	**8.** (*d*)	**9.** (*c*)	**10.** (*d*)
11. (*b*)	**12.** (*a*)	**13.** (*a*)	**14.** (*b*)	**15.** (*c*)	**16.** (*b*)	**17.** (*a*)	**18.** (*b*)	**19.** (*b*)	**20.** (*c*)
21. (*a*)	**22.** (*a*)	**23.** (*a*)	**24.** (*c*)	**25.** (*d*)	**26.** (*c*)	**27.** (*d*)	**28.** (*c*)	**29.** (*b*)	**30.** (*b*)
31. (*c*)									

CHAPTER 13

Standard Costing

MULTIPLE CHOICE QUESTIONS

1. Standard cost is a ________ cost.

(*a*) Predetermined
(*b*) Historical
(*c*) Actual
(*d*) Final

2. Standard costing is more widely applied in________ industries.

(*a*) Jobbing
(*b*) Construction
(*c*) Process and engineering
(*d*) All of the above

3. Three types of standards are ________.

(*a*) Actual standard, base standard and normal standard
(*b*) Currency standard, basic standard & normal standard
(*c*) Expected standard, ideal standard and normal standard
(*d*) Current standard, basic standard & normal standard

4. The deviation of the actual cost or profit or sales from the standard cost or profit or sale is known as ________.

(*a*) Difference
(*b*) Variance
(*c*) Discrepancy
(*d*) Inconsistency

5. Management by exception is exercising control over ________.

(*a*) Costs
(*b*) Favorable items
(*c*) Unfavorable items
(*d*) All of the above

6. An unfavourable material price variance occurs because of:

(*a*) Less than anticipated normal wastage in the manufacturing process
(*b*) Price increase in raw materials
(*c*) More than anticipated normal wastage in the manufacturing process
(*d*) Price decrease in raw materials

7. Volume variance arises because of:

(*a*) Increase or decrease in actual output as compared to the budgeted output
(*b*) Increase in overhead rate per hour

(*c*) Difference in budgeted overheads and actual overheads
(*d*) Decrease in overhead rate per hour

8. ________ represents the difference between hours paid and hours worked.

(*a*) Actual hours (*b*) Standard hours
(*c*) Idle hours (*d*) Budgeted hours

9. ________ is a predetermined calculation of how much costs should be under specified working conditions.

(*a*) Standard cost (*b*) Actual cost
(*c*) Historical cost (*d*) None of the above

10. A standard that is developed using theoretical conditions for a given manufacturing process is known as:

(*a*) Expected standard (*b*) Ideal standard
(*c*) Current standard (*d*) Normal standard

11. Analysis of variance is done in order to determine the reasons for increase or decrease in profit.

(*a*) True (*b*) False
(*c*) Either of (*a*) or (*b*) (*d*) None of the above

12. Labour efficiency variance is due to the different between standard hours for actual output and actual hours for actual output.

(*a*) True (*b*) False
(*c*) Either of (*a*) or (*b*) (*d*) None of the above

13. Which of the following is not a reason for an idle time variance.

(*a*) Wage rate increase (*b*) Machine breakdown
(*c*) Illness or injury of worker (*d*) Non-availability of material

14. Which of the following would explain an adverse variable production overhead efficiency variance?

(1) Employees were of a lower skill level than specified in the standard
(2) Unexpected idle time resulted from a series of machine breakdown
(3) Poor quality material was difficult to process

(*a*) (1), (2) & (3) (*b*) (1) & (2)
(*c*) (2) & (3) (*d*) (1) & (3)

15. Standard costs are already adjusted for ________ losses.

(*a*) Normal (*b*) Abnormal
(*c*) Both (*a*) & (*b*) (*d*) None of the above

16. Which of the following is the cause of material price variance?

(*a*) Use of non-standard material (*b*) Pilferage
(*c*) Rush purchases (*d*) Change in the quality of materials

17. Which of the following is the not the cause of material price variance?

(*a*) Change in the delivery cost
(*b*) Change in the market price of materials
(*c*) Change in the method of production
(*d*) Change in the rate of excise duty etc.

18. Which of the following is not the cause of material usage variance?

(*a*) Defect in plant & machinery
(*b*) Change in the design of the product
(*c*) Inefficient purchasing
(*d*) Use of substitute material

19. Which of the following is not the cause of material yield variance?

(*a*) Lack of due card in handling
(*b*) Defective methods of operation
(*c*) Lack of proper supervision
(*d*) None of the above

20. Which of the following is not the cause of labour efficiency variance?

(*a*) Use of non-standard grade of workers
(*b*) Use of defective method of operation
(*c*) Poor working conditions
(*d*) Break-down of plant and machinery

21. Which of the following is not the cause of idle time variance?

(*a*) Power failure
(*b*) Breakdown of plant & machinery
(*c*) Delay in giving production instructions
(*d*) Poor working conditions

22. Which of the following is not the cause of fixed overhead expenditure variance?

(*a*) Rise in price due to inflation
(*b*) Power failure
(*c*) Change in methods of operation
(*d*) Improperly set standards

23. Which of the following is not the cause of fixed overhead volume variance?

(*a*) Machine breakdown
(*b*) Labour strikes or lock outs
(*c*) Defective scheduling & routing of production
(*d*) None of the above

24. Which of the following is the cause of fixed overhead efficiency variance?

(*a*) Poor supervision
(*b*) Frequent power failure
(*c*) Improperly set standards
(*d*) All of the above

25. Which of the following is not the cause of fixed overhead capacity variance?

(*a*) Labour troubles
(*b*) Shortage of material
(*c*) Frequent power failure
(*d*) Defective material

26. If the control ratio is 100% or more, it indicates a ________ position.

(*a*) Favorable
(*b*) Unfavorable
(*c*) Either of (*a*) or (*b*)
(*d*) None of the above

27. Under standard cost system the cost of the product determined at the beginning of production is its:

(*a*) Direct cost
(*b*) Pre-determined cost
(*c*) Historical cost
(*d*) Actual cost

28. The deviations between actual and standard cost is known as:

(*a*) Multiple analysis
(*b*) Variable cost analysis
(*c*) Variance analysis
(*d*) Linear trend analysis

29. The standard which is attainable under favourable conditions is:

(*a*) Theoretical standard
(*b*) Expected standard
(*c*) Normal standard
(*d*) Basic standard

30. The standard most suitable from cost control point of view is:

(*a*) Nor mal standard
(*b*) Theoretical standard
(*c*) Expected standard
(*d*) Basic standard

31. Overhead cost variance is:

(*a*) The difference between overheads recovered on actual output – actual overheads incurred
(*b*) The difference between budgeted overhead cost and actual overhead cost.
(*c*) Obtained by multiplying standard overhead absorption rate with the difference between standard hours for actual output and actual hours worked.
(*d*) None of the above

32. Which of the following variance arises when more than one material is used in the manufacture of a product?

(*a*) Material price variance
(*b*) Material usage variance
(*c*) Material yield variance
(*d*) Material mix variance

33. If standard hours for 100 units of output are 400 @ ₹2per hour and actual hours take are 380 @ ₹2.25 per, then the labour rate variance is:

(*a*) ₹95 (*a*dverse)
(*b*) ₹100 (adverse)
(*c*) ₹25 (*f*avourable)
(*d*) ₹120 (adverse)

34. Controllable variances are best disposed-off by transferring to:

(*a*) Cost of goods sold
(*b*) Cost of goods sold and inventories
(*c*) Inventories of work-in-progress and finished goods
(*d*) Costing profit & loss account

35. Idle time variance is obtained by multiplying:

(*a*) The difference between standard and actual hours by the actual rate of labour pe hour
(*b*) The difference between actual labour hours paid and actual labour hours worked by the standard rate
(*c*) The difference between standard and actual hours by the standard rate of labour per hour
(*d*) None of the above

36. Basic standards are:

(*a*) Those standards, which require high degree of efficiency and performance
(*b*) Average standards and are useful in long term planning
(*c*) Standards, which can be attained or achieved
(*d*) Assuming to remain unchanged for a long time.

37. During a period 17,500 labour hours were worked at a standard cost of ₹6.50 per hour. The labour efficiency variance was ₹7,800 favourable. How many standard hours were produced?

(*a*) 1,200 (*b*) 16,300

(*c*) 17,500 (*d*) 18,500

38. During April, 300 labour horus were worked for a total cost of ₹4,800. The variable overhead expenditure variance was ₹600 (A). Overheads are assumed to be related to direct labour hours of active working. What was the standard cost per labour hour?

(*a*) ₹14 (*b*) ₹16.50

(*c*) ₹17.50 (*d*) ₹18

39. The actual output of 1,62,500 units and actual fixed costs of ₹87,000 were exactly as budgeted. However, the actual expenditure of ₹3,00,000 was ₹18,000 over budget. What was the budget variable cost per unit?

(*a*) ₹1.20 (*b*) ₹1.31

(*c*) ₹1.42 (*d*) ₹1.50

40. The budgeted fixed overheads for a budgeted production of 10,000 units is ₹20,000. For a certain period the actual production was 11,000 units and actual expenditure came to ₹24,000. Then, the volume variance is ₹________.

(*a*) 4,000 (A) (*b*) 4,000 (F)

(*c*) 2,000 (A) (*d*) 2,000 (F)

41. In a factory where standard costing is followed 9,600 kgs. of materials at ₹10.50/kg were actually consumed resulting in a price variance of ₹4,800 (A) and usages variance of ₹4,000(F) the standard cost of actual production is ₹________.

(*a*) 96,000 (*b*) 1,00,000

(*c*) 1,10,000 (*d*) 1,20,000

42. If the capacity usages ratio of a production department is 99% and activity ratio is 90% then the efficiency ratio of the department is ________.

(*a*) 100 % (*b*) 80%

(*c*) 110% (*d*) 89.10%

43. The standard variable overhead cost of a product is ₹10 (5 hours @ ₹2/hr). In a certain month it took 1800 hours at a cost of ₹4,200 to manufacture 400 units. Then, the variable overhead expenditure variance is ₹________.

(*a*) 600 (A) (*b*) 600 (F)

(*c*) 400 (A) (*d*) 400 (F)

44. The standard variable overhead cost of a product is ₹10 (5 hours @ ₹2/hr). In a certain month it took 1800 hours at a cost of ₹4,200 to manufacture 400 units. Then, the variable overhead efficiency variance is ₹________.

(*a*) 600 (A) (*b*) 600 (F)

(*c*) 400 (A) (*d*) 400 (F)

45. In a factory of ABC Ltd. where standard costing is followed, the budgeted fixed overheads for a budgeted production of ₹4,800 units is ₹24,000 for a certain period. Actual expenditure incurred was ₹22,000 resulting in a fixed overhead volume variance of ₹3,000 (A). Then actual production for the period was ________.

(*a*) 5,400 units (*b*) 3,000 units

(*c*) 4,200 units (*d*) None of the above

46. In a factory of XYZ Ltd. operating standard cost system, 2000 kgs. of a material @12 per kg were used for a product resulting in price variance of ₹6,000 (F) and usage variance of ₹3,000 (A). Then Standard material cost of actual production was ₹________.

(*a*) 24,000 (*b*) 27,000

(*c*) 30,000 (*d*) 33,000

47. A company budgets for fixed overhead of ₹24,000 and production of 4,800 units Actual production is ₹4,200 units and fixed overhead cost incurred is ₹22,000 .The fixed overhead volume variance is ₹________.

(*a*) 3,000 (A) (*b*) 3,000 (F)

(*c*) 2,000 (A) (*d*) 2,000 (F)

48. SK Ltd. purchased 6,850 kg of materials for ₹21,920. The material price variance was ₹1,370 (F). The standard price per kg was ₹________.

(*a*) 3.00 (*b*) 3.20

(*c*) 3.40 (*d*) 3.60

49. The information relating to the direct material cost is as under:

- Standard price per unit ₹3.60
- Actual quantity allowed for actual production 1,600 units
- Standard material allowed for actual production 1,450 units
- Material price variance on purchase ₹240 (F)

What is the actual purchase price per unit?

(*a*) ₹3.15 (*b*) ₹3.25

(*c*) ₹3.35 (*d*) ₹3.45

Answer Key

1. (*a*)	**2.** (*c*)	**3.** (*d*)	**4.** (*b*)	**5.** (*c*)	**6.** (*b*)	**7.** (*a*)	**8.** (*c*)	**9.** (*a*)	**10.** (*b*)
11. (*b*)	**12.** (*a*)	**13.** (*a*)	**14.** (*d*)	**15.** (*a*)	**16.** (*c*)	**17.** (*c*)	**18.** (*c*)	**19.** (*d*)	**20.** (*d*)
21. (*d*)	**22.** (*b*)	**23.** (*d*)	**24.** (*d*)	**25.** (*c*)	**26.** (*a*)	**27.** (*b*)	**28.** (*c*)	**29.** (*a*)	**30.** (*c*)
31. (*a*)	**32.** (*d*)	**33.** (*a*)	**34.** (*d*)	**35.** (*b*)	**36.** (*d*)	**37.** (*d*)	**38.** (*a*)	**39.** (*a*)	**40.** (*d*)
41. (*b*)	**42.** (*c*)	**43.** (*b*)	**44.** (*c*)	**45.** (*c*)	**46.** (*b*)	**47.** (*a*)	**48.** (*c*)	**49.** (*d*)	

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CHAPTER

Marginal Costing

MULTIPLE CHOICE QUESTIONS

1. According to marginal costing assumptions, costs are influenced by ________ mainly.
   (*a*) Output (*b*) Selling price
   (*c*) Variable cost (*d*) Fixed cost

2. In ______ costing both variable and fixed cost are charged to products.
   (*a*) Absorption (*b*) Marginal
   (*c*) Both (*a*) & (*b*) (*d*) None of the above

3. Under marginal costing, stocks are valued at prime cost plus ________.
   (*a*) Fixed manufacturing overheads (*b*) Variable manufacturing overheads
   (*c*) Both (*a*) & (*b*) (*d*) None of the above

4. Under _______ costing, fixed cost are regarded as period cost.
   (*a*) Marginal costing (*b*) Absorption costing
   (*c*) Both (*a*) & (*b*) (*d*) None of the above

5. Under _______ costing, stock valuation gets affected due to impact of the related fixed costs.
   (*a*) Marginal costing (*b*) Absorption costing
   (*c*) Both (*a*) & (*b*) (*d*) None of the above

6. CVP analysis makes an attempt to measure variation in _____, and _____ with variation in ______.
   (*a*) Cost; Volume; Profit (*b*) Profit; Volume; Cost
   (*c*) Cost; Profit; Volume (*d*) None of the above

7. At break-even point, total contribution is just enough to cover_____ costs.
   (*a*) Variable cost (*b*) Fixed cost
   (*c*) Both (*a*) & (*b*) (*d*) None of the above

8. Improvement in P/V Ratio can be done by ______.
   (*a*) Increasing the selling price (*b*) Reducing the variable cost
   (*c*) Changing the sales mix (*d*) All of the above

9. P/V ratio will ______ at different levels of production.
(a) Decrease
(b) Increase
(c) Remain Constant
(d) None of the above

10. Improvements in margin of safety can be done by _______.
(a) Increasing the selling price
(b) Increasing the volume of sales
(c) Reducing the variable cost
(d) All of the above

11. _______ is formed at the break-even point at which the sales line cuts the total cost line.
(a) Angle of incidence
(b) Angle of fixed cost
(c) Angle of profitability
(d) None of the above

12. In 'make or buy' decision, it is profitable to buy from outside only when the supplier's price is below the firm's own _________.
(a) Variable cost
(b) Fixed cost
(c) Total cost
(d) Prime cost

13. A company's approach to a make or buy decision:
(a) Depends on whether the company is operating at or below normal value
(b) Involves an analysis of avoidable costs
(c) Should use absorption (full costing)
(d) Should use activity based costing

14. The cost behavior pattern for a company is as follows:

Activity (Units)	500	700	900
Total Cost (Rs.)	2,500	3,100	4,600

If fixed cost remains unchanged throughout all activity levels, which of the following statements is true in relation to cost behavior?
(a) Variable cost per unit is constant for all activity levels.
(b) Variable cost per unit increase above 700 units.
(c) Total average cost per unit is constant for all activity levels.
(d) Variable cost per unit falls above 50 units.

15. An increase in fixed costs will result in which of the following?
(a) A decrease in the contribution to sales ratio
(b) A decrease in the constitution per unit
(c) An increase in the break-even point sales level
(d) An increase in the margin of safety

16. Under marginal costing the cost of product includes:
(a) Prime cost only
(b) Prime cost and variable overheads
(c) prime cost and fixed overheads
(d) Prime cost and factory overheads

17. Reporting under marginal costing is accomplished by:

(*a*) Treating all costs as period costs

(*b*) Eliminating the work-in-progress inventory account

(*c*) Matching variable costs against revenue and treating fixed cost as period costs

(*d*) Including only variable costs in income statement

18. Period costs are:

(*a*) Variable costs (*b*) fixed costs

(*c*) Prime costs (*d*) Overhead costs

19. When sales and production (in units) are same then profit under:

(*a*) Marginal costing is higher than that of absorption costing

(*b*) Marginal costing is lower than that of absorption costing

(*c*) Marginal costing is equal to that of absorption costing

(*d*) None of the above

20. When sales exceed production (in units) then profit under:

(*a*) Marginal costing is higher than that of absorption costing

(*b*) Marginal costing is lower than that of absorption costing

(*c*) Marginal costing is equal to that of absorption costing

(*d*) None of the above

21. The difference between marginal costing and absorption costing is regarding the treatment of:

(*a*) Prime cost (*b*) Fixed overheads

(*c*) Direct materials (*d*) Variable overheads

22. Under profit volume ratio, the term profit

(*a*) Means the sales proceeds in excess of total costs

(*b*) Means the same thing as is generally understood

(*c*) It is a misnomer, it in fact refers to contribution i.e. (sales revenue – variable costs)

(*d*) None of the above

23. Factors which can change the break-even point:

(*a*) Change in fixed costs (*b*) Change in variable costs

(*c*) Change in the selling price (*d*) All of the above

24. If PV ratio is 40% of sales then what about the remaining 60% of sales:

(*a*) Profit (*b*) Fixed cost

(*c*) Variable cost (*d*) Margin of safety

25. The PV ratio of a product is 0.6 and profit is ₹9,000. The margin of safety is:

(*a*) ₹5,400 (*b*) ₹15,000

(*c*) ₹22,500 (*d*) ₹3,600

26. The present unit cost data for a product are: selling price ₹15; variable cost ₹8. If selling price is reduced by 10% and variable costs are increased by 12.5%, which of the following is the amended contribution to sales ratio?

(*a*) 0.50 (*b*) 0.666

(*c*) 0.25 (*d*) 0.333

27. Existing sales are ₹1,00,000 (500 units), variable costs are ₹60,000 and fixed costs are ₹24,000. If selling price is reduced by 10% which of the following is the break-even sales quantity?

(*a*) 400 (*b*) 450

(*c*) 500 (*d*) 550

28. Product A has a contribution to sales ratio of 0.50; Product B has a contribution to sales ratio of 0.40. At present 100 units of each product are sold. If total sales units remain at the present level but an extra 20 units of B are substituted for 20 units of A, which of the following is true for the overall positions?

(*a*) Contribution to sales ratio remain unchanged

(*b*) Contribution to sales ratio rises from 0.45 to 0.50

(*c*) Contribution to sales ratio rises from 0.45 to 0.46

(*d*) Contribution to sales ratio falls from 0.45 to 0.44

29. A company's fixed cost amount to ₹120 lakhs p.a. and its overall P/V ratio is 0.4 the annual sales of the company should be ₹_______ lakhs to have a margin of safety of 25%.

(*a*) 400 (*b*) 450

(*c*) 500 (*d*) 550

30. The variable cost of a product increases by 10% and the management raises the unit selling price by 10%. The fixed cost remain unchanged .Then BEP of the firm __________.

(*a*) Increases (*b*) Decreases

(*c*) Remains same (*d*) Raise in long term

31. A company maintains a Margin of safety of 25% on its current sales and earns a profit of ₹30 lakhs per annum. If the company has a profit Volume (P/V) Ratio of 40%, its current sales amount to ₹____ lakhs.

(*a*) 200 (*b*) 250

(*c*) 300 (*d*) 350

32. A company an annual turnover of ₹200 lakhs and an average C/S ratio of 40%. It makes 10% profit on sales before charging depreciation and interest which amount to ₹10 lakhs and ₹15 lakhs respectively. The annual fixed cost of the company is ₹________ lakhs.

(*a*) 80 (*b*) 60

(*c*) 75 (*d*) 55

33. Sale for two consecutive months of a company are ₹3,80,000 and ₹4,20,000 the company's net profits for these months amounted to ₹24,000 and ₹40,000 respectively. There is no change in C/S ratio or fixed costs. The P/V ratio of the company is ________.

(*a*) 25% (*b*) 30%

(*c*) 35% (*d*) 40%

34. A product sells for ₹8 each with variable cost of ₹5 each. Fixed costs are budgeted at ₹18,000 or ₹2 per unit. The margin of safety is:

(*a*) 50% (*b*) 66.67%

(*c*) 33.33% (*d*) None of the above

35. A company determines its selling price by marking up variable cost 60%. In addition, the company uses frequent selling price mark downs to stimulate sales. If the mark down average 10%, then the company's contribution margin ratio is:

(*a*) 27.5% (*b*) 37.58%

(*c*) 30.56% (*d*) 41.75%

Answer Key

1. (*a*)	**2.** (*a*)	**3.** (*b*)	**4.** (*a*)	**5.** (*b*)	**6.** (*c*)	**7.** (*b*)	**8.** (*d*)	**9.** (*c*)	**10.** (*d*)
11. (*a*)	**12.** (*a*)	**13.** (*b*)	**14.** (*b*)	**15.** (*c*)	**16.** (*b*)	**17.** (*c*)	**18.** (*b*)	**19.** (*c*)	**20.** (*a*)
21. (*b*)	**22.** (*c*)	**23.** (*d*)	**24.** (*c*)	**25.** (*b*)	**26.** (*d*)	**27.** (*a*)	**28.** (*d*)	**29.** (*a*)	**30.** (*c*)
31. (*c*)	**32.** (*c*)	**33.** (*d*)	**34.** (*c*)	**35.** (*c*)					

15

CHAPTER

Budgetary Control

MULTIPLE CHOICE QUESTIONS

1. Budgeting system ________ key managerial functions.
   (*a*) Integrates
   (*b*) Dismisses
   (*c*) Discharge
   (*d*) None of the above

2. The budget relating to ________ must be prepared first and the other budgets should be prepared in the light of that factor.
   (*a*) Material
   (*b*) Labour
   (*c*) Limiting Factor
   (*d*) Production

3. The budget which commonly takes the form of budgeted profit and loss account and balance sheet is ________.
   (*a*) Fixed budget
   (*b*) Performance budget
   (*c*) Flexible budget
   (*d*) Master budget

4. ________ budget is the preparation of budget starting from a clean state.
   (*a*) Zero Base budget
   (*b*) Performance budget
   (*c*) Cash budget
   (*d*) Master budget

5. The level of attainment in the budget refers to:
   (*a*) The extent to which actual cost differs from that budgeted
   (*b*) The performance of employees and management
   (*c*) The level of operating standard at which the budget is set
   (*d*) The volume of output achieved

6. The direct material usage budget and direct material purchases budget differ because of which of the following?
   (*a*) The level of material scrap forecast occur
   (*b*) The level of efficiency of men or machines
   (*c*) A change in the level of finished goods stock
   (*d*) A planned change in the level of material stock

7. The quantity of raw material in the purchase budget may be higher than the quantity of raw material in the production budget because
   (*a*) stock levels are being reduced
   (*b*) raw material prices are falling
   (*c*) the company obtains discount for bulk purchases
   (*d*) Units sold will be higher than units made

8. A Ltd. is manufacturing company that has no production resources limitations for the foreseeable future. The Managing Director has asked the company managers to coordinate the preparation of their budgets for the next financial year. In what order should the following budgets be prepared?
   (*i*) Sales budget
   (*ii*) Cash budget
   (*iii*) Production budget
   (*iv*) Purchase budget
   (*v*) Finished goods inventory budget
   (*a*) (*ii*), (*iii*), (*iv*), (*v*), (*i*)
   (*b*) (*i*), (*v*), (*iii*), (*iv*), (*ii*)
   (*c*) (*i*), (*iv*), (*v*), (*iii*), (*ii*)
   (*d*) (*iv*), (*v*), (*iii*), (*i*), (*ii*)

9. Which of the following is not the objective of budgetary control?
   (*a*) Planning
   (*b*) Performance evaluation
   (*c*) Expensive technique
   (*d*) Control

10. Zero base budgeting is a ________ oriented approach.
   (*a*) Decision
   (*b*) Accounting
   (*c*) Management
   (*d*) None of the above

11. Budgeted production =
   (*a*) Budgeted sales + closing stock + opening stock
   (*b*) Budgeted sales - closing stock + opening stock
   (*c*) Budgeted sales + closing stock - opening stock
   (*d*) Budgeted sales - closing stock - opening stock

12. ________ budget is prepared by the Personnel Department and is submitted to the Budget Committee for its approval.
   (*a*) Sales
   (*b*) Cash
   (*c*) Purchase
   (*d*) Labour

13. If a company wishes to establish a factory overhead budget system in which estimated costs can be derived directly from estimates of activity levels, it should prepare a:
   (*a*) Master budget
   (*b*) Cash budget
   (*c*) Flexible budget
   (*d*) Fixed budget

14. The classification of fixed and variable cost is useful for the preparation of:

(*a*) Master budget (*b*) Flexible budget

(*c*) Cash budget (*d*) Capital budget

15. Budget manual is a document:

(*a*) Which contains different type of budgets to be formulated only

(*b*) Which contains the details about standard cost of the products to be made

(*c*) Setting out the budget organization and procedures for preparing a budget including fixation of responsibilities, formats and records required for the purpose of preparing a budget and for exercising budgetary control system.

(*d*) None of the above

16. The budget control organization is usually headed by a top executive who is known as:

(*a*) General manager (*b*) Budget director/budget controller

(*c*) Accountant of the organization (*d*) None of the above

17. "A favourable budget variance is always an indication of efficient performance." Do your agree, give reason?

(*a*) A favourable variance indicates, saving on the part of the organization hence it indicates efficient performance of the organization.

(*b*) Under all situations, a favourable variance of an organization speaks about its efficient performance.

(*c*) A favourable variance does not necessarily indicate efficient performance, because such a variance might have been arrived at by not carrying out the expenses mentioned in the budget

(*d*) None of the above

18. A budget report is prepared on the principle of exception and thus-

(*a*) Only favourable variances should be shown

(*b*) Only favourable variance should be shown

(*c*) Both favourable and unfavourable variances should be shown

(*d*) None of the above

19. Purchase budget and materials budget are same:

(*a*) Purchase budget is a budget which includes only the details of all materials purchased

(*b*) Purchases budget is a wider concept and thus includes not only purchases of materials but also other item's as well

(*c*) Purchases budget is different from materials budget; it includes purchases of other items only

(*d*) None of the above

20. Efficiency ratio is:

(*a*) The extent of actual working days avoided during the budget period

(*b*) Activity ratio/capacity ratio

(*c*) Whether the actual activity is more or less than budgeted activity

(*d*) None of the above

21. Activity ratio depicts:

(*a*) Whether actual capacity utilized exceeds or falls short of the budgeted capacity

(*b*) Whether the actual hours used for actual production were more or less than the standard hours

(*c*) Whether actual activity was more or less than the budgeted capacity

(*d*) None of the above

22. Which of the following is usually a short-term budget:

(*a*) Capital expenditure budget (*b*) Research and development budget

(*c*) Cash budget (*d*) Sales budget

23. ABC Co. makes a single product and is preparing its material usage budget for next year. Each unit of product requires 2kg of material and 5,000 units of product are to be produced next year. Opening inventory of material is budgeted to be 800 kg and ABC Co. budgets to increase material inventory at the end of next year by 20%. The material usage budget for next year is:

(*a*) 8,000 Kg (*b*) 9,940 Kg

(*c*) 10,000 Kg (*d*) 10,160 Kg

24. Budgeted sales of X for March are 18,000 units. At the end of the production process for X, 10% of production units are scrapped as defectives. Opening inventories for X for March are budgeted to be 15,000 units and closing inventories will be 11,400 units. All inventories of finished goods must have successfully passed the quality control check. The production budget for X for March, in units is:

(*a*) 12,960 (*b*) 14,400

(*c*) 15,840 (*d*) 16,000

25. Champu Co. manufactures a single product T. Budgeted production output of product T during June is 200 units. Each unit of product T requires 6 labour hours for completion and Champu Co. anticipates 20 percent idle time. Labour is paid at a rate of ₹7 per hour. The direct labour cost budget for March is:

(*a*) ₹6,720 (*b*) ₹8,400

(*c*) ₹10,080 (*d*) ₹10,500

26. ABC Ltd. is currently preparing its cash budget for the year to 31st march 2014. An extract from its sales budget for the same year shows the following sales values.

Month	**(₹)**
March	60,000
April	70,000
May	55,000
June	65,000

40% of its sales are expected to be for cash. Of its credit sales, 70% are expected to pay in month after sale and take a 2% discount. 27% are expected to pay in the second month after the sale, and the remaining 3% are expected to be bad debts. The value of sales budget to be shown in the cash budget for May 2013 is:

(*a*) ₹60,532 (*b*) ₹61,120
(*c*) ₹66,532 (*d*) ₹86,620

27. A co. manufactures a single product and has drawn up the following flexible budget for the year.

	60% (₹)	**70%** (₹)	**80%** (₹)
Direct materials	1,20,000	1,40,000	1,60,000
Direct labour	90,000	1,05,000	1,20,000
Production overheads	54,000	58,000	62,000
Other overheads	40,000	40,000	40,000
Total Cost	3,04,000	3,43,000	3,82,000

What would be the total cost in a budget that is prepared at the 77% level of activity?

(*a*) ₹3,30,300 (*b*) ₹3,70,300
(*c*) ₹3,73,000 (*d*) ₹3,77,300

28. Product units are produced at the rate of 3 units per useful direct labour hour. Direct labour idle time is 10% of hours paid for. Sales of 540 units are planned. Which of the following is the direct labour budget (hours)?

(*a*) 1,620 hours (*b*) 1,800 hours
(*c*) 180 hours (*d*) 200 hours

29. In a Flexible Budget format, the depreciation at the output of 4500 units is ₹12000, the depreciation per units at 5000 units would be:

(*a*) ₹2.67 (*b*) ₹2.40
(*c*) ₹2.27 (*d*) ₹2.00

Answer Key

1. (*a*)	**2.** (*c*)	**3.** (*d*)	**4.** (*a*)	**5.** (*c*)	**6.** (*d*)	**7.** (*c*)	**8.** (*b*)	**9.** (*c*)	**10.** (*a*)
11. (*c*)	**12.** (*d*)	**13.** (*c*)	**14.** (*b*)	**15.** (*c*)	**16.** (*b*)	**17.** (*c*)	**18.** (*c*)	**19.** (*b*)	**20.** (*b*)
21. (*c*)	**22.** (*c*)	**23.** (*c*)	**24.** (*d*)	**25.** (*d*)	**26.** (*d*)	**27.** (*b*)	**28.** (*d*)	**29.** (*b*)	

AUDITING AND ETHICS

1

CHAPTER

Nature, Objective and Scope of Audit

MULTIPLE CHOICE QUESTIONS

1. ___________ 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

2. 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*)

3. 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.

4. (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.

5. 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

6. 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

7. An employee of Fruits and Vegetables Limited was of the opinion that the 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.

8. The auditor of Delicious Sweets Limited was of the opinion that the 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.

9. 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.

10. 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.

11. A request from the client for the auditor to change the engagement may result from-
   (1) a change in circumstances affecting the need for the service,
   (2) a misunderstanding as to the nature of an audit or related service originally requested
   (3) 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)

12. 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.

13. 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

14. Which of the following is not the Part of a complex business environment?

(*a*) Share holders
(*b*) Bank
(*c*) Government
(*d*) Succeeding parties

15. From which latin word audit originated?

(*a*) Audire
(*b*) Audir
(*c*) Audiry
(*d*) Audi

16. When was the first auditor general of India appointed in British india?

(*a*) 1850
(*b*) 1860
(*c*) 1870
(*d*) 1880

17. What are the points which are required for an independent examination of financial information of any entity?

(1) Financial statements are asked for the books of accounts and the proper amount is mentioned in asper classification of accounting standards

(2) All the entries are mentioned in the books and has been supported by sufficient and appropriate audit evidences and no accounting entries has been omitted

(3) All the information is clear and unbiased.

(*a*) (1) only
(*b*) (1), (2) only
(*c*) (2), (3) only
(*d*) (1), (2), (3)

18. What is the core purpose of an audit?

(*a*) To ensure that entries has been made properly in the books of accounts
(*b*) To ensure that unbiased information has been provided in the financial statements
(*c*) To ensure that an opinion has been given on the financial statement
(*d*) To ensure that qualified opinion has been given on the financial statement

19. By what method an order expresses an opinion on the financial statements of an entity?

(*a*) By Audit evidences
(*b*) By Audit Documentation
(*c*) By Working papers
(*d*) By Written Audit report

20. The financial statements are properly .... , ... and ....in conformity with the accounting standards.

(*a*) Classified, described and disclosed
(*b*) Accounted, described and disclosed
(*c*) Classified, described and supported
(*d*) Classified, reported and disclosed

21. Auditing Has interdisciplinary relationship with various subjects. Based on the sentence whether the following points are correct or not:-

(1) Auditor should have a good knowledge of accounting law and the production only.

(2) Auditor must be familiar with the economic environment of the client with a good knowledge of human behavior so that a good strategic sampling can be done through statistics in mathematical knowledge.

(3) The Auditor must verify and go through the data processing. Having a good financial knowledge and having a sound knowledge of accounting also.

(a) (1) only
(*b*) (1), (2) only
(*c*) (2), (3) only
(*d*) (1), (2) and (3)

22. As per SA 200 the objective of audit includes to obtain .... and to report on ....

(*a*) Absolute assurance; financial statements
(*b*) Reasonable assurance ; financial statements
(*c*) Complete assurance ; standard of accounting
(*d*) Reasonable assurance ; the standard of accounting

23. What is meant by reasonable assurance?

(*a*) Guarantee
(*b*) Absolute assurance
(*c*) High level of assurance
(*d*) Low level of assurance

24. Reasonable assurance is not a guarantee but a high level of assurance.

Following are the objectives of audit

(1) To report on financial statements
(2) Reporting of opinion in accordance with audit findings
(3) Communication of reporting
(4) Reporting and communication in accordance with standards on accounting

(*a*) (1)
(*b*) (1),(2)
(*c*) (1),(2),(3)
(*d*) (1),(2),(3),(4)

25. Scope refers to the range or reach of something. The purpose of an order is to enhance the .... of indented users in the financial statements.

(*a*) degree of confidence
(*b*) degree of reliability
(*c*) Degree of adequacy
(*d*) Degree of objectivity

26. A scope of audit of financial statement doesn't includes

(*a*) Coverage of all aspects of entity

(*b*) Reliability and sufficiency of financial information

(*c*) Proper disclosure of financial information

(*d*) Investigation

27. A scope of audit of financial statement includes:-

(*a*) Investigation

(*b*) Responsibility of preparation of financial statements

(*c*) Authentication of the documentation

(*d*) Reliable and sufficient financial information

28. Auditors are not expected to reduce the audit risk to ....

(*a*) Zero (*b*) Assurance

(*c*) 50% (*d*) Judgement

29. Auditors cannot obtain absolute assurance. It means-

(*a*) Financial statements as a whole are free from material misstatement.

(*b*) Financial statements as a whole are free from material misstatement due to fraud and error.

(*c*) Financial statements as a whole are free from misstatement due to fraud and error.

(*d*) Financial statements as a whole are free from material misstatement due to fraud.

30. The nature of audit proceedings may involve

(*a*) Sampling Approach (*b*) Limited Approach

(*c*) 100% assurance Approach (*d*) Documentation

31. Which of the following are not inherent limitations of audit

(*a*) Preparation of financial statements does not involve management judgment

(*b*) Nature of audit processor is based on sampling approach

(*c*) Audit is not an official investigation.

(*d*) Timeliness of financial reporting and decrease in relevance of information over time

32. The management of a company has devised the control that all purchase bills should reflect the stamp and signature of an authorized person and goods receiving section of the company. What does it reflect?

(*a*) Internal control (*b*) Internal Audit

(*c*) Internal order (*d*) Audit limitation

33. An auditor does not test all transactions and balances. He forms his opinion only by testing samples. It is an example of a practical limitation on an auditor's ability to obtain ....

(*a*) Audit evidence (*b*) Audit processor

(*c*) Audit strategy (*d*) Written representation

34. There is no way by which an auditor can force management to provide complete information as may be requested by the auditor. In case he is not provided with required information, he can only report. It is an example of .... on an auditor's ability to obtain audit evidence.

(*a*) Practical limitation (*b*) legal limitation
(*c*) Internal Limitation (*d*) Internal Control

35. The information being relied upon by the auditor over the timeliness of financial reporting may decrease in .... of information over time.

(*a*) Reasonable assurance (*b*) Absolute assurance
(*c*) Relevance (*d*) Material Misstatement

36. Which of the following is an advantage of audit?

(*a*) It Enhances risk of management bias
(*b*) It doesn't provide high quality financial information
(*c*) It never helps in safeguarding interest of shareholders
(*d*) It acts as a moral check on employees

37. What kind of documents may be produced from any of the transactions in which fraud is involved to make the auditor believe?

(*a*) Fake documents (*b*) Non genuine documents
(*c*) Fabricated documents (*d*) Fraud documents

38. MGF and company chartered accountants successfully carried out the audit of Escape garments for the financial year 2023-2024. After the completion of the audit, there were found material misstatement due to fraud in the financial statements, which were not noticed and reported by the auditor even after performing audit with all due diligence and in accordance with SAs. Management alleges that it is a failure on the part of the auditor. What kind of risk does it involve?

(*a*) Avoidable Risk (*b*) Unavailable Risk
(*c*) Unavoidable Risk (*d*) Available Risk

39. In the case of certain subject matters, limitations on the auditor's ability to detect material misstatement are particularly significant. Such assertions are subject matters may not include:-

(*a*) Fraud (*b*) Related party transactions
(*c*) Future events (*d*) Compliance with law and regulations

40. What is a formal agreement between auditor and client under which auditor agrees to provide audit services to the entity?

(*a*) Engagement (*b*) Audit engagement
(*c*) Engagement letter (*d*) External audit engagement

41. In India, non corporate entities choose to have their accounts audited by an external auditor because of the benefits of such an audit. What does it reflect?

(*a*) Internal Audit Engagements (*b*) External audit engagements
(*c*) Absolute audit engagements (*d*) Audit engagement

42. The purpose of .... is to enhance the degree of confidence of invented users of financial statements.

(*a*) Internal Audit Engagements
(*b*) External audit engagements
(*c*) Absolute audit engagements
(*d*) Audit engagement

43. What is not the purpose of audited financial statements?

(*a*) High quality information
(*b*) Reliability
(*c*) Give confidence to user of financial statements
(*d*) Rectification of legal limitation

44. Why is an audit needed?

(*a*) High quality information of financial statements
(*b*) Model check on employees
(*c*) Helpful for government
(*d*) Non review of internal control

45. Is audit mandatory?

(*a*) As per IT Act 1961, A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 1 crore/ Rs. 10 crore.
(*b*) As per IT Act 1961, A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 2 crore/ Rs. 10 crore.
(*c*) As per IT Act 1961, A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 3 crore/ Rs. 10 crore.
(*d*) As per IT Act 1961, A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 5 crore/ Rs. 10 crore.

46. Who appoints an auditor of non government companies?

(*a*) Board of directors
(*b*) Audit committee
(*c*) Members (share holders)
(*d*) As per Regulations

47. Who appoints an auditor of government authorities?

(*a*) Board of directors
(*b*) Audit committee
(*c*) Members (share holders)
(*d*) As per Regulations/Law

48. What kind of order to report is to be submitted by an auditor?

(*a*) Oral report
(*b*) Absolute Report
(*c*) Written Report
(*d*) Oral and written report

49. To whom ordered reporters submitted by an auditor?

(*a*) Directors
(*b*) Appointies
(*c*) C & AG
(*d*) Partners

50. What kind of assurance does an audit of financial statements provide?

(*a*) It provides reasonable assurance meaning a more great level

(*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 assurance

51. .... means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible parties about the outcome of the evaluation or measurement of a subject matter against criteria.

(*a*) Reasonable assurance | (*b*) Assurance engagement

(*c*) Reasonable engagement | (*d*) Absolute engagement

52. What is not the suitable benchmarks can be used to evaluate the subject matter for assurance engagement?

(*a*) Accounting Standards | (*b*) Guidance notes

(*c*) Different laws | (*d*) Opinions

53. .... relates to the quantity of evidence obtained by the auditor and .... relates to the quality of evidence obtained by the auditor.

(*a*) Appropriate; Sufficient | (*b*) Sufficient; Appropriate

(*c*) Reasonable; absolute | (*d*) Absolute; reasonable

54. Which of the following are not an element of an assurance engagement?

(*a*) Three party relationship | (*b*) Sufficient appropriate evidence

(*c*) Written assurance report | (*d*) Inappropriate subject matter

55. What does not include in review of financial statements?

(*a*) Limited assurance engagement | (*b*) Lower level of assurance

(*c*) Limited conclusion | (*d*) More procedures

56. .... engagement performs elaborate and extensive procedures to obtain sufficient appropriate evidence.

(*a*) Reasonable assurance | (*b*) Limited assurance

(*c*) Review assurance | (*d*) Absolute assurance

57. What is not correct about prospective financial information?

(*a*) Audit and review of historical financial information

(*b*) Based on events that may occur in future

(*c*) In form of forecast

(*d*) It is on internal control of an entity

58. Prospective financial information provides which level of assurance?

(*a*) Reasonable assurance | (*b*) Absolute assurance

(*c*) Low assurance | (*d*) Moderate assurance

59. Which of the following are examples of engagement assurance?

(1) Audit of financial statements

(2) Review of financial statements

(3) Examination of prospective financial statements

(4) Report on controls operating at an organization

(*a*) (2),(3),(4) (*b*) (1),(2),(4)

(*c*) (1),(2),(3) (*d*) (1),(2),(3),(4)

60. What is the core purpose of the standard of quality controls (SQC)?

(*a*) Carrying ordered aspire global practices and benchmark

(*b*) Improve quality of financial report

(*c*) To ensure uniformity

(*d*) Services covered by engagement standards

61. Which engagement standards are not issued under the authority of the ICAI council?

(*a*) SQC (*b*) SA

(*c*) SRE (*d*) ACS

62. What is true about SRS?

(*a*) Quality control for all services

(*b*) Audit of historical financial information

(*c*) Review of historical financial information

(*d*) Procedures with compilation of related services

63. Which standard of accounting is for identifying and assessing the risk of material misstatement through understanding the entity and its environment?

(*a*) SA 230 (*b*) SA 315

(*c*) SA 500 (*d*) SA 200

64. Which standard on review engagement is issued for engagement to review historical financial statements?

(*a*) SRE 2400 (Revised) (*b*) SRE 2400

(*c*) SRE 2410 (*d*) SRE 2410 (Revised)

65. Why are standards needed?

(1) Standards ensure carrying out orders against established benchmarks at par with global practices.

(2) Standards improve quality of financial reporting thereby helping users to make diligent decisions

(3) Standards promote uniformity as audit of financial statements is carried out following these standards

(4) Standards does not equip professional accountants.

(*a*) (1),(2),(3)
(*b*) (1),(2),(4)
(*c*) (2),(3),(4)
(*d*) (1),(3),(4)

66. What is the duty of a professional accountant if standards would be ineffective in particular engagement?

(*a*) To disclose in the report
(*b*) To document alternative procedures only.
(*c*) To document alternative procedures with the reason to depart in his report.
(*d*) No disclosure required.

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*c*)	**4.** (*d*)	**5.** (*b*)	**6.** (*c*)	**7.** (*b*)	**8.** (*b*)	**9.** (*a*)	**10.** (*c*)
11. (*c*)	**12.** (*d*)	**13.** (*c*)	**14.** (*d*)	**15.** (*a*)	**16.** (*b*)	**17.** (*d*)	**18.** (*c*)	**19.** (*d*)	**20.** (*a*)
21. (*d*)	**22.** (*b*)	**23.** (*c*)	**24.** (*d*)	**25.** (*a*)	**26.** (*d*)	**27.** (*d*)	**28.** (*a*)	**29.** (*b*)	**30.** (*a*)
31. (*a*)	**32.** (*a*)	**33.** (*a*)	**34.** (*b*)	**35.** (*c*)	**36.** (*d*)	**37.** (*c*)	**38.** (*c*)	**39.** (*d*)	**40.** (*c*)
41. (*b*)	**42.** (*b*)	**43.** (*d*)	**44.** (*d*)	**45.** (*a*)	**46.** (*c*)	**47.** (*d*)	**48.** (*c*)	**49.** (*b*)	**50.** (*c*)
51. (*b*)	**52.** (*d*)	**53.** (*b*)	**54.** (*d*)	**55.** (*d*)	**56.** (*a*)	**57.** (*a*)	**58.** (*d*)	**59.** (*d*)	**60.** (*d*)
61. (*d*)	**62.** (*d*)	**63.** (*b*)	**64.** (*a*)	**65.** (*a*)	**66.** (*c*)				

SOLUTION

1. (*a*) Auditing: Auditing, 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.

2. (*b*) Record and Accounts: No business or institution can effectively carry on its activities without the help of proper record and accounts.

3. (*c*) Both (***a***) and (***b***) above: 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

4. (*d*) Professional competence and due care: (IESBA Code) related to an audit of financial statements establishes Professional competence and due care as the fundamental principle of professional ethics relevant to the auditor when conducting an audit of financial statements.

5. (*b*) Independence: The auditor's Independence safeguards the auditor's ability to form an audit opinion without being affected by any influences.

6. (*c*) Express an opinion on the Financial Statements: The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.

7. (*b*) Financial Statements of the Company: An employee of Fruits and Vegetables Limited was of the opinion that the auditor of a company is required to express an opinion. The auditor of a company is required to express an opinion on the financial statements of the company.

8. (*b*) Material: The auditor of Delicious Sweets Limited was of the opinion that the objective of audit of financial statements of a company is to provide reasonable assurance that financial statements of that company are free from misstatements. In the given case Material misstatements are mentioned by the auditor.

9. (*a*) The original engagement; or any procedures that may have been performed in the original engagement: 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 the original engagement; or any procedures that may have been performed in the original engagement.

10. (*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: 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 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.

11. (*c*) (1), (2) and (3): A request from the client for the auditor to change the engagement may result from-

(1) a change in circumstances affecting the need for the service,

(2) a misunderstanding as to the nature of an audit or related service originally requested

(3) a restriction on the scope of the engagement, whether imposed by management or caused by circumstances.

12. (*d*) Unless otherwise specified by law or regulation, audit documentation is the property of the auditor: Standard on Quality Control (SQC) 1 provides that, unless otherwise specified by law or regulation, audit documentation is the property of the auditor.

13. (*c*) Reasonable assurance: As explained in SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing", reasonable assurance 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.

14. (*d*) Succeeding parties: The importance of a complex business environment is associated with the company's shareholders, bank or financial institutions, Government, other trade industries and many other diversified users.

15. (*a*) Audire: The word audit originates from the latin word Audire meaning to hire.

16. (*b*) 1860: The first Auditor General of India was appointed in British India in 1860, having both accounting and auditing functions.

17. (*d*) (1), (2) and (3): All the above mentioned points have to be considered by an auditor for independent examination of financial statements of any of the entities.

18. (*c*) To ensure that an opinion has been given on the financial statement: The main purpose of the audit is to express an opinion on the financial statements.

19. (*d*) By Written Audit report: The auditor expresses an opinion on a financial statement by means of a written report.

20. (*a*) Classified, described and disclosed: The financial statements are properly classified, described and disclosed in conformity with accounting standards.

21. (*d*) (1), (2) and (3): All the above mentioned points have to be considered by an auditor for auditing.

22. (*b*) Reasonable assurance ; financial statements: As per SA 200 the objective of audit includes to obtain reasonable assurance and to report on financial statements.

23. (*c*) High level of assurance

24. (*d*) (1),(2),(3),(4): The objectives of audit are as follows

1. Obtaining a reasonable assurance that financial statements are as a whole are free from material misstatement and due to fraud or error
2. Gaining reasonable assurance
3. To report on financial statements
4. Reporting of opinion in accordance with audit findings
5. Communication of reporting
6. Reporting and communication in accordance with standards on accounting

25. (*a*) Degree of confidence: The purpose of an order is to enhance the degree of confidence of indented users in the financial statements.

26. (*d*) Investigation: A scope of audit of financial statement includes:-

- Coverage of all aspects of entity
- Reliability and sufficiency of financial information
- Proper disclosure of financial information

27. (*d*) Reliable and sufficient financial information: A scope of audit of financial statement doesn't includes:-

- Investigation
- Responsibility of preparation of financial statements
- Authentication of the documentation

28. (*a*) Zero: Auditors are not expected to reduce the audit risk to Zero.

29. (*b*) Financial statements as a whole are free from material misstatement due to fraud and error: Auditors cannot obtain absolute assurance. It means financial statements as a whole are free from material misstatement due to fraud and error.

30. (*a*) Sampling Approach: The nature of audit proceedings may involve Sampling Approach.

31. (*a*) Preparation of financial statements does not involve management judgment: Following are inherent limitations of audit:-

- Preparation of financial statements involves management judgment
- Nature of audit processor is based on sampling approach
- Audit is not an official investigation.
- Timeliness of financial reporting and decrease in relevance of information over time
- It is based on future event

32. (*a*) Internal Control: The management of a company has devised the control that all purchase bills should reflect the stamp and signature of an authorized person and goods receiving section of the company. It reflects internal control.

33. (*a*) Audit evidence: An auditor does not test all transactions and balances. He forms his opinion only by testing samples. It is an example of a practical limitation on an auditor's ability to obtain audit evidence.

34. (*b*) Legal limitation: There is no way by which an auditor can force management to provide complete information as may be requested by the auditor. In case he is not provided with required information, he can only report. It is an example of legal limitation on an auditor's ability to obtain audit evidence.

35. (*c*) Relevance: The information being relied upon by the auditor over the timeliness of financial reporting may decrease in relevance of information over time.

36. (*d*) It acts as a moral check on employees: Following other advantages of an audit:-

- It does not enhance risk of management bias
- It provides high quality financial information
- It helps in safeguarding interest of shareholders
- It acts as a moral check on employees

37. (*c*) Fabricated documents: It is possible to produce fabricated documents before the auditor to lead him to believe that audit evidence is valid. However in reality such documents could be fake or non genuine.

38. (*c*) Unavoidable Risk: MGF and company, chartered accountants successfully carried out the audit of Escape garments for the financial year 2023-2024. After the completion of the audit, there were found material misstatement due to fraud in the financial statements, which were not noticed and reported by the auditor even after performing audit with all due diligence and in accordance with SAs. Management alleges that it is a failure on the part of the auditor. It involves unavoidable risk.

39. (*d*) Compliance with law and regulations: In the case of certain subject matters, limitations on the auditor's ability to detect material misstatement are particularly significant. Such assertions are subject matters may include:-

- Fraud
- Related party transactions
- Future events
- Non Compliance with law and regulations

40. (*c*) Engagement letter: Engagement letter is a formal agreement between auditor and client under which the auditor agrees to provide audit services to the entity.

41. (*b*) External audit engagements: The purpose of external audit engagements is to enhance the degree of confidence of invented users of financial statements.

42. (*b*) External audit engagements: The purpose of external audit engagements is to enhance the degree of confidence of invented users of financial statements.

43. (*d*) Rectification of legal limitation: Following are purpose of audited financial statements:-

- High quality information
- Reliability
- Give confidence to user of financial statements
- Detection of fraud and errors.

44. (*d*) Non review of internal control: Audit is needed because:-

- High quality information of financial statements
- Model check on employees
- Helpful for government

45. (*a*) As per IT Act 1961, A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 1 crore/ Rs. 10 crore: As per section 44AB of IT Act ,1961, following persons are compulsorily required to get their accounts audited : A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 1 crore/ Rs. 10 crore

46. (*c*) Members (share holders): Members (share holders) appoint an auditor of non government companies.

47. (*d*) As per Regulations/Law: Auditor of government authorities are appointed as per Regulations/ Law.

48. (*c*) Written Report: Written Report is to be submitted by an auditor.

49. (*b*) Appointies: Auditor will submit his report to appointees.

50. (*c*) It provides reasonable assurance meaning a High level of assurance: Audit of financial statements provides reasonable assurance meaning a High level of assurance.

51. (*b*) Assurance engagement: Assurance engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible parties about the outcome of the evaluation or measurement of a subject matter against criteria.

52. (*d*) Opinions: The suitable benchmarks can be used to evaluate the subject matter for assurance engagement:-

- Accounting Standards
- Guidance notes
- Different laws/regulations

53. (*b*) Sufficient; Appropriate: Sufficient relates to quantity of evidence obtained by auditor and appropriate relates to quality of evidence obtained by auditor.

54. (*d*) Inappropriate subject matter: The following are element of an assurance engagement:-

- Three party relationship
- Sufficient appropriate evidence
- Written assurance report
- Appropriate subject matter

55. (*d*) More procedures: Review of financial statements may include:-

- Limited assurance engagement
- Lower level of assurance
- Limited conclusion
- Fewer procedures

56. (*a*) Reasonable assurance: Reasonable assurance engagement performs elaborate and extensive procedures to obtain sufficient appropriate evidence.

57. (*a*) Audit and review of historical financial information: Prospective financial information is generally an audit and review of historical financial information that does. It is generally on the internal control of an entity based on assumptions about events that may occur in the future or possible actions by an entity in form of a cast or projections, which obtains sufficient appropriate audit evidence about management assumptions.

58. (*d*) Moderate assurance: Prospective financial information provides a moderate level of assurance.

59. (*d*) (1),(2),(3),(4)

60. (*d*) Services covered by engagement standards: Standard of Quality Controls (SQC) apply for all services covered by engagement standards i.e. SAs, SREs, SAEs and SRSs.

61. (*d*) ACS: Following Are the engagement standard issued under the authority of ICAI council:

- SQC
- SA

- SRE
- SAE
- SRS

62. (*d*) Procedures with compilation and related services: Standards on related services which apply an agreed upon procedure to information compilation engagements and other related service engagement.

63. (*b*) SA 315

64. (*a*) SRE 2400 (Revised)

65. (*a*) (1),(2),(3): Standards are needed because:-

- Standards ensure carrying out orders against established benchmarks at par with global practices.
- Standards improve quality of financial reporting thereby helping users to make diligent decisions.
- Standards promote uniformity as audit of financial statements is carried out following these standards.
- Standards equip professional accountants with professional knowledge and the skills.
- Standards ensure audit quality.

66. (*c*) To document alternative procedures with the reason to depart in his report: A situation may arise when a specific processor has required a standard that would be ineffective in a particular engagement. In such a case, he is required to document how alternative procedures achieve the purpose of the required procedure. Also the reason for the department has also to be documented unless it is clear. Further, his report drew attention to such departments.

CHAPTER 2

Audit Strategy, Audit Planning and Audit Programme

MULTIPLE CHOICE QUESTIONS

1. What is the primary objective of the auditor according to SA 300 - Planning an audit of financial statements?

(*a*) To maximize audit fees

(*b*) To ensure a smooth and quick audit process

(*c*) To plan the audit so that it will be performed in an effective manner

(*d*) To identify potential fraud within the financial statements

2. Why is planning considered necessary for an effective audit of financial statements?

(*a*) To maximize audit fees

(*b*) To ensure a quick audit process

(*c*) To comply with professional standards and perform the audit effectively

(*d*) To identify potential fraud within the financial statements

3. What is one of the benefits of adequate planning in the audit process?

(*a*) Maximizing audit fees

(*b*) Identifying potential problems on a timely basis

(*c*) Minimizing attention to important areas of the audit

(*d*) Reducing the need for engagement team members

4. How does planning assist in managing the audit engagement?

(*a*) By minimizing the organization of the audit process

(*b*) By ensuring a lengthy and inefficient audit

(*c*) By properly organizing and managing the audit engagement

(*d*) By reducing the attention given to important areas of the audit

5. What role does planning play in selecting engagement team members?

(*a*) It minimizes the need for capable team members

(*b*) It helps identify team members with inappropriate levels of competence

(*c*) It facilitates the selection of team members with appropriate capabilities and competence

(*d*) It excludes the need for assigning work to team members

6. How does planning contribute to reducing audit risk?
   (*a*) By increasing audit fees
   (*b*) By decreasing the need for review of work
   (*c*) By minimizing attention to potential problems
   (*d*) By ensuring audit work is adequately and properly planned

7. When does the process of planning an audit typically begin?
   (*a*) At the start of the current audit engagement
   (*b*) After the completion of the current audit engagement
   (*c*) After the completion of the previous audit engagement
   (*d*) At the completion of risk assessment procedures

8. Which of the following is an example of a risk assessment procedure in the planning phase?
   (*a*) Obtaining a general understanding of the legal and regulatory framework
   (*b*) Completion of the financial statement review
   (*c*) Finalizing the engagement team composition
   (*d*) Conducting substantive testing

9. What is the purpose of risk assessment procedures in the planning process?
   (*a*) To complete the legal and regulatory framework analysis
   (*b*) To identify and assess the risks of material misstatement
   (*c*) To determine materiality for the audit engagement
   (*d*) To involve experts in the audit process

10. In the context of planning, what is the role of experts?
   (*a*) To minimize the need for risk assessment procedures
   (*b*) To ensure compliance with legal and regulatory frameworks
   (*c*) To involve them in every phase of the audit
   (*d*) To provide assistance based on their expertise in complex matters

11. Why is planning considered a continuous and repetitive process?
   (*a*) To prolong the audit engagement unnecessarily
   (*b*) To ensure a one-time thorough examination of financial statements
   (*c*) To allow for iterative consideration of risks and procedures
   (*d*) To minimize the involvement of experts in the audit process

12. What is a key consideration in planning related to the determination of materiality?
   (*a*) Maximizing the complexity of business operations
   (*b*) Minimizing the involvement of legal and regulatory analysis
   (*c*) Considering the need for experts based on business complexity
   (*d*) Avoiding the assessment of risks of material misstatement

13. When does the planning process end?

(*a*) At the completion of risk assessment procedures

(*b*) After obtaining a general understanding of the legal framework

(*c*) When the engagement team is finalized

(*d*) At the completion of the current audit engagement

14. Why is the involvement of the engagement partner and other key members in planning considered beneficial?

(*a*) To increase audit fees

(*b*) To enhance the effectiveness and efficiency of the planning process

(*c*) To delegate planning responsibilities to lower-level team members

(*d*) To minimize the discussion among engagement team members

15. What role does the experience and insight of key engagement team members play in planning the audit?

(*a*) To complicate the planning process

(*b*) To increase the time required for planning

(*c*) To enhance the effectiveness of the planning process

(*d*) To reduce the need for communication within the engagement team

16. When may the auditor decide to discuss elements of planning with the entity's management?

(*a*) After the completion of the audit engagement

(*b*) During the finalization of the audit plan

(*c*) At any time during the audit engagement

(*d*) To avoid compromising the effectiveness of the audit

17. Why does the auditor need to exercise care when discussing matters included in the overall audit strategy or audit plan with the entity's management?

(*a*) To avoid any discussion with the entity's management

(*b*) To prevent engagement team members from participating in the discussion

(*c*) To ensure the audit process remains complex

(*d*) To avoid compromising the effectiveness of the audit

18. Which of the following is considered a preliminary engagement activity in audit planning?

(*a*) Conducting substantive testing

(*b*) Evaluating compliance with ethical requirements, including independence

(*c*) Finalizing the overall audit strategy

(*d*) Reviewing financial statements for accuracy

19. What is involved in performing procedures regarding the continuance of the client relationship during preliminary engagement activities?

(*a*) Conducting a detailed review of financial statements

(*b*) Assessing compliance with legal requirements

(*c*) Evaluating the effectiveness of internal controls

(*d*) Checking whether the relationship with the client should be continued

20. What is the purpose of performing procedures regarding the acceptance and continuance of client relationships and audit engagements?
    (*a*) To increase audit fees for the engagement
    (*b*) To ensure compliance with ethical requirements
    (*c*) To obtain necessary information and reach appropriate conclusions
    (*d*) To minimize communication with the predecessor auditor

21. What is one of the considerations when deciding whether to continue an existing audit engagement?
    (*a*) The firm's marketing strategy
    (*b*) The complexity of the client's business operations
    (*c*) The integrity of principal owners and key management
    (*d*) The engagement team's familiarity with the client

22. In the context of acceptance and continuance of client relationships, what may need to be considered regarding the competence of the engagement team?
    (*a*) Their proficiency in marketing
    (*b*) Their expertise in legal matters
    (*c*) Their ability to perform the audit engagement
    (*d*) Their experience in financial statement preparation

23. What is the primary purpose of establishing the overall audit strategy?
    (*a*) To expedite the audit process
    (*b*) To guide the development of the audit plan
    (*c*) To determine the audit fees for specific areas
    (*d*) To review other auditors' work in group audits

24. In the process of establishing the overall audit strategy, what does it assist the auditor in determining?
    (*a*) The client's budget for the audit engagement
    (*b*) The scope, timing, and direction of the audit
    (*c*) The number of team members assigned to marketing activities
    (*d*) The completion of the auditor's risk assessment procedures

25. What does the overall audit strategy help the auditor determine regarding resources for specific audit areas?
    (*a*) The audit fees to be charged for each area
    (*b*) The engagement partner's role in specific areas
    (*c*) The scope and direction of the audit plan
    (*d*) The deployment of resources, such as using experienced team members for high-risk areas

26. When considering the allocation of resources to specific audit areas, what might the auditor determine?
    (*a*) The financial statements' accuracy
    (*b*) The number of team members for inventory count observation

(*c*) The overall risk tolerance for the engagement
(*d*) The expertise required for marketing strategies

27. In the establishment of the overall audit strategy, what is considered in determining how resources are managed, directed, and supervised?
(*a*) The auditor's risk assessment procedures
(*b*) The completion of the engagement quality control reviews
(*c*) The overall budget for the audit engagement
(*d*) The schedule for team briefing and debriefing meetings

28. What is crucial for the auditor in establishing a sound audit strategy?
(*a*) Volume of transactions
(*b*) The nature of industry regulations
(*c*) Well-identified scope of the engagement
(*d*) Expected use of audit evidence

29. Which factor helps the auditor in planning the timing of audit procedures and the nature of required communications?
(*a*) Results of previous audits
(*b*) Industry-specific reporting requirements
(*c*) Ascertainment of reporting objectives
(*d*) Nature of business segments

30. In directing the engagement team's efforts, what should the auditor focus on?
(*a*) Routine transactions
(*b*) Volume of transactions
(*c*) Matters that are significant in the auditor's professional judgment
(*d*) Internal control deficiencies

31. What is an example of a factor considered significant in directing the engagement team's efforts?
(*a*) Routine industry developments
(*b*) Changes in the financial reporting framework
(*c*) Frequency of team meetings
(*d*) Length of previous audit reports

32. Why is considering the results of preliminary engagement activities important for establishing the audit strategy?
(*a*) To minimize audit team meetings
(*b*) To identify and address deficiencies in internal control
(*c*) To expedite the audit process
(*d*) To maintain a questioning mind

33. What is an auditor's consideration when ascertaining the reporting objectives of the engagement?
(*a*) Expected communications on industry developments
(*b*) Timetable for reporting by the entity
(*c*) Volume of audit evidence obtained in previous audits
(*d*) Frequency of team debriefing meetings

34. In determining the nature, timing, and extent of resources necessary for the engagement, what does the auditor consider?

(*a*) The legal environment affecting the entity
(*b*) The volume of transactions in previous audits
(*c*) The expertise of the engagement team members
(*d*) The expected type of reports to be issued

35. Why is knowledge gained on other engagements performed by the engagement partner for the entity relevant?

(*a*) To expedite the audit process
(*b*) To maintain a questioning mind
(*c*) To evaluate the operating effectiveness of internal control
(*d*) To avoid discussions with management

36. What is a key consideration in determining the nature, timing, and extent of resources necessary for the engagement?

(*a*) Maintaining a questioning mind
(*b*) Emphasizing the need for professional skepticism
(*c*) Industry-specific reporting requirements
(*d*) Assignment of audit work to team members

37. Why is it important for the auditor to consider the nature of business segments during preliminary engagement activities?

(*a*) To minimize audit evidence requirements
(*b*) To identify deficiencies in internal control
(*c*) To ascertain the reporting objectives of the engagement
(*d*) To allocate resources appropriately for different audit areas

38. What is the primary focus of the audit strategy in relation to the audit plan?

(*a*) Implementing specific audit procedures
(*b*) Determining the scope, timing, and direction of the audit
(*c*) Identifying deficiencies in internal control
(*d*) Allocating resources to the engagement team

39. How does the audit plan differ from the overall audit strategy?

(*a*) It is less detailed
(*b*) It is developed after the audit strategy
(*c*) It addresses broader aspects of the audit
(*d*) It involves fewer audit procedures

40. What does the audit plan describe?

(*a*) The overall audit strategy
(*b*) The implementation of the audit strategy
(*c*) The nature, timing, and extent of audit procedures
(*d*) The scope and direction of the audit

41. When does planning for audit procedures take place?

(*a*) Before the establishment of the overall audit strategy

(*b*) Concurrently with the development of the audit plan

(*c*) After the detailed audit plan is finalized

(*d*) Only at the conclusion of the audit engagement

42. How are the overall audit strategy and the detailed audit plan related?

(*a*) They are entirely separate and independent processes

(*b*) Changes in one do not affect the other

(*c*) They are closely interrelated, and changes in one may result in consequential changes to the other

(*d*) The detailed audit plan is developed before the overall audit strategy

43. Who is primarily responsible for establishing the overall audit strategy and developing the audit plan?

(*a*) Entity's management

(*b*) External consultants

(*c*) Engagement team members

(*d*) The auditor

44. Under what circumstances may the auditor need to modify the overall audit strategy and audit plan during the course of the audit?

(*a*) If there is a change in engagement team members

(*b*) In case of unexpected events, changes in conditions, or new audit evidence

(*c*) Only if there is a request from entity management

(*d*) When there is a change in the financial reporting framework

45. Why might the auditor modify the overall audit strategy and audit plan based on the revised consideration of assessed risks?

(*a*) To expedite the audit process

(*b*) To avoid any discussions with entity management

(*c*) To align with the original audit evidence obtained

(*d*) In response to unexpected events or changes in conditions

46. When might the auditor update the overall audit strategy and audit plan?

(*a*) Only at the beginning of the audit engagement

(*b*) After obtaining audit evidence from detailed checking

(*c*) As necessary during the course of the audit

(*d*) Only if there is a change in engagement team members

47. What are the factors that influence the nature, timing, and extent of direction and supervision of engagement team members and the review of their work?

(*a*) The financial reporting framework

(*b*) The size and complexity of the entity, the area of the audit, assessed risks of material misstatement, and the competence of team members

(*c*) The engagement team members' familiarity with the client
(*d*) The audit fees charged for the engagement

48. What does the auditor need to document concerning the overall audit strategy and audit plan?
(*a*) Only the overall audit strategy
(*b*) Only the audit plan
(*c*) Both the overall audit strategy and the audit plan
(*d*) Only significant changes during the audit engagement

49. What does the documentation of the audit plan primarily record?
(*a*) Standard audit programs only
(*b*) The overall audit strategy
(*c*) The planned nature, timing, and extent of risk assessment procedures and further audit procedures
(*d*) Changes to the financial reporting framework

50. What is the purpose of documenting significant changes to the overall audit strategy and the audit plan?
(*a*) To increase audit fees
(*b*) To create a detailed financial report for the entity
(*c*) To explain why the changes were made and the final audit strategy and plan adopted
(*d*) To expedite the audit process

51. What is the purpose of an audit programme?
(*a*) To expedite the audit process
(*b*) To create financial statements for the entity
(*c*) To list examination and verification steps for obtaining sufficient evidence
(*d*) To assess the competence of the audit team

52. How should an audit programme be designed in relation to the assertions discernible in the statements of account?
(*a*) It should focus on irrelevant assertions
(*b*) It should be designed without considering assertions
(*c*) It should be designed with a clear understanding of assertions
(*d*) It should prioritize marketing strategies

53. What does an audit programme consist of?
(*a*) A series of financial statements
(*b*) A list of internal controls
(*c*) A detailed plan of audit procedures with instructions for appropriate techniques
(*d*) An assessment of the entity's risk tolerance

54. Why is it not practical to have one audit programme applicable to all businesses under all circumstances?

(*a*) Businesses are generally similar in nature

(*b*) The size and composition of businesses are constant

(*c*) Businesses vary in nature, size, and composition

(*d*) Internal controls are consistent across all businesses

55. What is the primary reason for specifying in detail the nature of work in the audit programme?

(*a*) To increase the complexity of the audit process

(*b*) To ensure uniformity in audit procedures across all businesses

(*c*) To prevent wasting time on irrelevant matters and address specific situations

(*d*) To expedite the audit process

56. What is the initial aim when an auditor frames an audit programme?

(*a*) To include all possible audit procedures

(*b*) To provide for a minimum essential work, termed as a standard programme

(*c*) To address all potential issues in the business

(*d*) To expedite the audit process

57. How may the audit programme be altered as experience is gained?

(*a*) By increasing the complexity of the audit process

(*b*) By adding unnecessary or irrelevant work

(*c*) By dropping unnecessary or irrelevant work and addressing relevant situations

(*d*) By discouraging assistants from noting and reporting significant matters

58. What is the role of the assistant engaged in the audit job regarding the audit programme?

(*a*) To strictly adhere to the given programme without any modifications

(*b*) To keep an open mind and note/report significant matters to seniors or partners

(*c*) To only follow the original programme and not report any issues

(*d*) To expedite the audit process by minimizing communication with seniors

59. Why is a periodic review of the audit programme necessary?

(*a*) To increase the complexity of the audit process

(*b*) To minimize the need for reviewing client operations and internal control

(*c*) To assess whether the programme is adequate for obtaining requisite knowledge and evidence

(*d*) To expedite the audit process

60. What consequence may an auditor face if there is a neglect in reviewing the audit programme?

(*a*) Increased audit fees

(*b*) Legal consequences and a negligently conducted audit

(*c*) Positive feedback from the client

(*d*) Expedited audit process

61. What is the purpose of periodic review of the audit programme?

(*a*) To increase rigidity in the audit process

(*b*) To minimize changes in the business policy of the client

(*c*) To retain and enhance the utility of the audit programme

(*d*) To discourage assistants from observing salient features of client accounting functions

62. What feature does the audit programme typically include besides listing tasks to be carried out?

(*a*) Business policy changes

(*b*) Sampling plan and instructions on the extent of checking

(*c*) Detailed financial statements

(*d*) Legal consequences for non-compliance

63. How can an audit programme avoid becoming rigid?

(*a*) By strictly adhering to the original instructions

(*b*) By discouraging assistants from observing salient features of client accounting functions

(*c*) By periodically reviewing and updating the programme

(*d*) By minimizing communication with the client

64. What factors should the auditor consider while developing an audit programme?

(*a*) Only the internal control's effectiveness

(*b*) The availability of assistants and involvement of other auditors

(*c*) Timing of procedures and availability of internal controls

(*d*) Relying solely on internal controls

65. Under what circumstances might the auditor decide not to rely on internal controls?

(*a*) When internal controls are weak

(*b*) When there are more efficient ways of obtaining sufficient appropriate audit evidence

(*c*) When the client requests not to rely on internal controls

(*d*) When internal controls are not documented

66. In some cases, when may the auditor have no discretion as to timing of audit procedures?

(*a*) When observing the taking of inventories

(*b*) When reviewing internal controls

(*c*) When verifying securities and cash balances

(*d*) When assessing inherent risks

67. What points should be kept in mind for the purpose of constructing an audit programme?

(*a*) Apply all steps and procedures available

(*b*) Coordinate procedures with unrelated items

(*c*) Consider only the most likely possibilities of error

(*d*) Stay within the scope and limitation of the assignment

68. What is the purpose of preparing a written audit programme?

(*a*) To expedite the audit process

(*b*) To control the proper execution of work by providing instructions to assistants

(*c*) To limit the evidence available to the auditor

(*d*) To increase the complexity of audit procedures

69. What should the audit programme include for each area?

(*a*) Only audit objectives

(*b*) Only procedures

(*c*) Only the scope and limitation of the assignment

(*d*) Audit objectives and sufficient details serving as instructions

70. When does the auditor normally have flexibility in deciding when to perform audit procedures?

(*a*) Only during the audit engagement

(*b*) Only when internal controls are strong

(*c*) In most cases, except when there is no discretion as to timing

(*d*) Only when the client requests a specific timing

71. What is the purpose of coordinating procedures for related items in the audit programme?

(*a*) To expedite the audit process

(*b*) To limit the evidence available to the auditor

(*c*) To increase the complexity of audit procedures

(*d*) To avoid duplication and ensure completeness

72. What should the auditor consider when determining the evidence reasonably available?

(*a*) Only internal controls

(*b*) Only the audit objectives

(*c*) The best evidence for deriving the necessary satisfaction

(*d*) Only the availability of assistants

73. What is the primary task before the auditor when drawing up the audit programme?

(*a*) Determining the best evidence for testing assertions

(*b*) Designing internal controls

(*c*) Examining financial statements

(*d*) Interpreting accounting records

74. What is the best evidence for testing the accuracy of any assertion?

(*a*) Documentary examination

(*b*) Physical examination

(*c*) Expert knowledge and experience of the auditor

(*d*) Internal controls

75. What is the auditor's primary consideration when prescribing procedures in the audit programme?

(*a*) Transaction complexity

(*b*) Availability of evidence for each transaction

(*c*) The type of evidence preferred by the client

(*d*) Internal control effectiveness

76. What is the very basis for formulating the auditor's opinion?

(*a*) Internal controls

(*b*) Financial statements

(*c*) Expert knowledge and experience of the auditor

(*d*) Audit evidence

77. What is the auditor's role in using expert knowledge and experience?

(*a*) To rely solely on expert knowledge and experience

(*b*) To prescribe procedures in the audit programme based on expert knowledge

(*c*) To determine the best evidence for each transaction

(*d*) To delegate the evaluation of evidence to management

78. What is one advantage of using an audit programme?

(*a*) It limits the perspective of the work to be performed

(*b*) It increases the danger of overlooking certain books and records

(*c*) It provides clear instructions for the assistant carrying out the audit

(*d*) It complicates the selection of assistants for major audits

79. Why is an audit programme considered essential, particularly for major audits?

(*a*) It complicates the work to be performed

(*b*) It provides a total perspective of the work to be performed

(*c*) It limits the progress of various audits

(*d*) It increases the danger of negligence charges

80. How does an audit programme make the selection of assistants for jobs easier?

(*a*) By increasing the danger of negligence

(*b*) By limiting the perspective of the work

(*c*) By providing a mental plan for the work

(*d*) By rationally planning, defining, and segregating the work

81. What is the danger of not having a written and predetermined audit programme?

(*a*) It reduces the danger of overlooking certain books and records

(*b*) It limits the progress of various audits

(*c*) It increases the danger of ignoring or overlooking certain books and records

(*d*) It simplifies the selection of assistants

82. What responsibility do assistants accept by putting their signature on the audit programme?

(*a*) Responsibility for the negligence of the auditor
(*b*) Responsibility for the mental plan of the work
(*c*) Responsibility for the work carried out by them individually
(*d*) Responsibility for the progress of various audits

83. How does an audit programme serve as a guide for audits in the succeeding year?

(*a*) By limiting the progress of various audits
(*b*) By increasing the danger of negligence charges
(*c*) By providing clear instructions for the assistant
(*d*) By serving as evidence in case of negligence charges

84. What is one value of a properly drawn-up audit programme in the event of negligence charges?

(*a*) It complicates the selection of assistants
(*b*) It serves as a guide for audits in the succeeding year
(*c*) It increases the danger of negligence charges
(*d*) It may be of considerable value in establishing reasonable skill and care

85. What does the assistant's signature on the audit programme signify?

(*a*) Acceptance of responsibility for the mental plan of the work
(*b*) Acceptance of responsibility for negligence charges
(*c*) Acceptance of responsibility for the work carried out individually
(*d*) Acceptance of responsibility for the progress of various audits

86. How does an audit programme contribute to the principal's control of various audits?

(*a*) By limiting the progress of various audits
(*b*) By providing a mental plan for the work
(*c*) By serving as evidence in case of negligence charges
(*d*) By examination of audit programmes for completed work

87. What is an advantage of a properly drawn-up audit programme regarding negligence charges?

(*a*) It increases the danger of negligence charges
(*b*) It limits the perspective of the work to be performed
(*c*) It may be of considerable value in establishing reasonable skill and care
(*d*) It complicates the selection of assistants for major audits

88. What is a potential drawback of a rigid and inflexible audit programme?

(*a*) It encourages efficient and enterprising assistants
(*b*) It fosters understanding of the entire audit scheme
(*c*) It may become mechanical, with parts carried out without understanding
(*d*) It eliminates the need for imaginative supervision

89. What is one disadvantage of an audit programme becoming rigid and inflexible?
(*a*) It fosters initiative in efficient and enterprising assistants
(*b*) It renders precaution unnecessary at different points
(*c*) It may still be carried on despite changes in staff or internal control
(*d*) It encourages imaginative supervision

90. How might inefficient assistants defend deficiencies in their work?
(*a*) By observing matters objectively
(*b*) By bringing significant matters to the notice of the supervisor
(*c*) By taking shelter behind the audit programme
(*d*) By fostering understanding of the entire audit scheme

91. What is a potential consequence of a hard and fast audit programme?
(*a*) It fosters initiative in efficient and enterprising assistants
(*b*) It encourages imaginative supervision
(*c*) It kills the understanding of the object of different parts in the whole audit scheme
(*d*) It eliminates the need for receptive attitudes in the auditor

92. How can the potential disadvantages of a rigid audit programme be eliminated?
(*a*) By fostering understanding of the entire audit scheme
(*b*) By eliminating the need for imaginative supervision
(*c*) By encouraging efficient and enterprising assistants
(*d*) By imaginative supervision and encouraging assistants to observe matters objectively

Answer Key

1. (*c*)	**2.** (*c*)	**3.** (*b*)	**4.** (*c*)	**5.** (*c*)	**6.** (*d*)	**7.** (*c*)	**8.** (*a*)	**9.** (*b*)	**10.** (*d*)
11. (*c*)	**12.** (*c*)	**13.** (*d*)	**14.** (*b*)	**15.** (*c*)	**16.** (*c*)	**17.** (*d*)	**18.** (*b*)	**19.** (*d*)	**20.** (*c*)
21. (*c*)	**22.** (*c*)	**23.** (*b*)	**24.** (*b*)	**25.** (*d*)	**26.** (*b*)	**27.** (*d*)	**28.** (*c*)	**29.** (*c*)	**30.** (*c*)
31. (*b*)	**32.** (*b*)	**33.** (*b*)	**34.** (*c*)	**35.** (*c*)	**36.** (*d*)	**37.** (*d*)	**38.** (*b*)	**39.** (*a*)	**40.** (*c*)
41. (*b*)	**42.** (*c*)	**43.** (*d*)	**44.** (*b*)	**45.** (*d*)	**46.** (*c*)	**47.** (*b*)	**48.** (*c*)	**49.** (*c*)	**50.** (*c*)
51. (*c*)	**52.** (*c*)	**53.** (*c*)	**54.** (*c*)	**55.** (*c*)	**56.** (*b*)	**57.** (*c*)	**58.** (*b*)	**59.** (*c*)	**60.** (*b*)
61. (*c*)	**62.** (*b*)	**63.** (*c*)	**64.** (*b*)	**65.** (*b*)	**66.** (*a*)	**67.** (*d*)	**68.** (*b*)	**69.** (*d*)	**70.** (*c*)
71. (*d*)	**72.** (*c*)	**73.** (*a*)	**74.** (*c*)	**75.** (*b*)	**76.** (*d*)	**77.** (*b*)	**78.** (*c*)	**79.** (*b*)	**80.** (*d*)
81. (*c*)	**82.** (*c*)	**83.** (*a*)	**84.** (*d*)	**85.** (*c*)	**86.** (*d*)	**87.** (*c*)	**88.** (*c*)	**89.** (*c*)	**90.** (*c*)
91. (*c*)	**92.** (*d*)								

SOLUTION

1. (*c*) To plan the audit so that it will be performed in an effective manner
2. (*c*) To comply with professional standards and perform the audit effectively
3. (*b*) Identifying potential problems on a timely basis
4. (*c*) By properly organizing and managing the audit engagement
5. (*c*) It facilitates the selection of team members with appropriate capabilities and competence
6. (*d*) By ensuring audit work is adequately and properly planned
7. (*c*) After the completion of the previous audit engagement
8. (*a*) Obtaining a general understanding of the legal and regulatory framework
9. (*b*) To identify and assess the risks of material misstatement
10. (*d*) To provide assistance based on their expertise in complex matters
11. (*c*) To allow for iterative consideration of risks and procedures
12. (*c*) Considering the need for experts based on business complexity
13. (*d*) At the completion of the current audit engagement
14. (*b*) To enhance the effectiveness and efficiency of the planning process
15. (*c*) To enhance the effectiveness of the planning process
16. (*c*) At any time during the audit engagement
17. (*d*) To avoid compromising the effectiveness of the audit
18. (*b*) Evaluating compliance with ethical requirements, including independence
19. (*d*) Checking whether the relationship with the client should be continued
20. (*c*) To obtain necessary information and reach appropriate conclusions
21. (*c*) The integrity of principal owners and key management
22. (*c*) Their ability to perform the audit engagement
23. (*b*) To guide the development of the audit plan
24. (*b*) The scope, timing, and direction of the audit
25. (*d*) The deployment of resources, such as using experienced team members for high-risk areas
26. (*b*) The number of team members for inventory count observation
27. (*d*) The schedule for team briefing and debriefing meetings
28. (*c*) Well-identified scope of the engagement
29. (*c*) Ascertainment of reporting objectives
30. (*c*) Matters that are significant in the auditor's professional judgment
31. (*b*) Changes in the financial reporting framework
32. (*b*) To identify and address deficiencies in internal control

33. (*b*) Timetable for reporting by the entity
34. (*c*) The expertise of the engagement team members
35. (*c*) To evaluate the operating effectiveness of internal control
36. (*d*) Assignment of audit work to team members
37. (*d*) To allocate resources appropriately for different audit areas
38. (*b*) Determining the scope, timing, and direction of the audit
39. (*a*) It is less detailed
40. (*c*) The nature, timing, and extent of audit procedures
41. (*b*) Concurrently with the development of the audit plan
42. (*c*) They are closely interrelated, and changes in one may result in consequential changes to the other
43. (*d*) The auditor
44. (*b*) In case of unexpected events, changes in conditions, or new audit evidence
45. (*d*) In response to unexpected events or changes in conditions
46. (*c*) As necessary during the course of the audit
47. (*b*) The size and complexity of the entity, the area of the audit, assessed risks of material misstatement, and the competence of team members
48. (*c*) Both the overall audit strategy and the audit plan
49. (*c*) The planned nature, timing, and extent of risk assessment procedures and further audit procedures
50. (*c*) To explain why the changes were made and the final audit strategy and plan adopted
51. (*c*) To list examination and verification steps for obtaining sufficient evidence
52. (*c*) It should be designed with a clear understanding of assertions
53. (*c*) A detailed plan of audit procedures with instructions for appropriate techniques
54. (*c*) Businesses vary in nature, size, and composition
55. (*c*) To prevent wasting time on irrelevant matters and address specific situations
56. (*b*) To provide for a minimum essential work, termed as a standard programme
57. (*c*) By dropping unnecessary or irrelevant work and addressing relevant situations
58. (*b*) To keep an open mind and note/report significant matters to seniors or partners
59. (*c*) To assess whether the programme is adequate for obtaining requisite knowledge and evidence
60. (*b*) Legal consequences and a negligently conducted audit
61. (*c*) To retain and enhance the utility of the audit programme
62. (*b*) Sampling plan and instructions on the extent of checking
63. (*c*) By periodically reviewing and updating the programme

64. (*b*) The availability of assistants and involvement of other auditors

65. (*b*) When there are more efficient ways of obtaining sufficient appropriate audit evidence

66. (*a*) When observing the taking of inventories

67. (*d*) Stay within the scope and limitation of the assignment

68. (*b*) To control the proper execution of work by providing instructions to assistants

69. (*d*) Audit objectives and sufficient details serving as instructions

70. (*c*) In most cases, except when there is no discretion as to timing

71. (*d*) To avoid duplication and ensure completeness

72. (*c*) The best evidence for deriving the necessary satisfaction

73. (*a*) Determining the best evidence for testing assertions

74. (*c*) Expert knowledge and experience of the auditor

75. (*b*) Availability of evidence for each transaction

76. (*d*) Audit evidence

77. (*b*) To prescribe procedures in the audit programme based on expert knowledge

78. (*c*) It provides clear instructions for the assistant carrying out the audit

79. (*b*) It provides a total perspective of the work to be performed

80. (*d*) By rationally planning, defining, and segregating the work

81. (*c*) It increases the danger of ignoring or overlooking certain books and records

82. (*c*) Responsibility for the work carried out by them individually

83. (*a*) By serving as evidence in case of negligence charges

84. (*d*) It may be of considerable value in establishing reasonable skill and care

85. (*c*) Acceptance of responsibility for the work carried out individually

86. (*d*) By examination of audit programmes for completed work

87. (*c*) It may be of considerable value in establishing reasonable skill and care

88. (*c*) It may become mechanical, with parts carried out without understanding

89. (*c*) It may still be carried on despite changes in staff or internal control

90. (*c*) By taking shelter behind the audit programme

91. (*c*) It kills the understanding of the object of different parts in the whole audit scheme

92. (*d*) By imaginative supervision and encouraging assistants to observe matters objectively

3

CHAPTER

Risk Assessment and Internal Control

MULTIPLE CHOICE QUESTIONS

1. What is audit risk?
- (*a*) The risk of financial statements being materially misstated
- (*b*) The risk of an inappropriate audit opinion when financial statements are materially misstated
- (*c*) The risk of regulatory action by professional bodies
- (*d*) The risk of facing legal action by intended users

2. How can an auditor reduce audit risk to an acceptably low level, according to SA-200?
- (*a*) By expressing a modified audit opinion
- (*b*) By obtaining sufficient appropriate audit evidence
- (*c*) By avoiding any audit procedures that involve risk
- (*d*) By relying solely on the management's representations

3. What factors contribute to audit risk?
- (*a*) Risks of material misstatement and legal risks
- (*b*) Detection risk and regulatory risks
- (*c*) Risks of material misstatement and detection risk
- (*d*) Reputation risk and financial risks

4. What does SA 200 state regarding the risk of material misstatement?
- (*a*) It is the risk that financial statements are misstated during the audit.
- (*b*) It is the risk that financial statements are misstated prior to the audit.
- (*c*) It is the risk that audit procedures may result in material misstatements.
- (*d*) It is the risk that errors in financial statements are not detected.

5. What does "misstatement" mean in the context of financial statements?
- (*a*) An error in the auditor's judgment.
- (*b*) A difference between reported financial statement items and their required presentation.
- (*c*) An intentional manipulation of audit evidence.
- (*d*) A discrepancy in the auditor's working papers.

6. Which of the following is an example of a misstatement?
   (*a*) Using appropriate accounting policies for financial reporting.
   (*b*) Booking fake expenses in the statement of profit and loss intentionally.
   (*c*) Accurately disclosing financial statement items as per the reporting framework.
   (*d*) Writing off irrecoverable debts in the statement of financial position.

7. What are the two levels at which risks of material misstatement may exist?
   (*a*) Transaction level and overall financial statement level.
   (*b*) Class level and disclosure level.
   (*c*) Financial statement level and assertion level.
   (*d*) Overall financial statement level and audit evidence level.

8. Risks of material misstatement at the overall financial statement level relate to:
   (*a*) Specific transactions or account balances.
   (*b*) Pervasive misstatements affecting the financial statements as a whole.
   (*c*) Disclosure of accounting policies.
   (*d*) Detection risk in individual assertions.

9. What is the purpose of assessing risks of material misstatement at the assertion level?
   (*a*) To express an opinion on the financial statements.
   (*b*) To determine the nature, timing, and extent of further audit procedures.
   (*c*) To evaluate the overall financial statement level risks.
   (*d*) To identify errors in the auditor's working papers.

10. Which of the following is NOT an example of a misstatement?
    (*a*) Overstating or understating inventories.
    (*b*) Charging an item of capital expenditure to revenue.
    (*c*) Writing off irrecoverable debts.
    (*d*) Selecting appropriate accounting policies.

11. What are the two components that make up the risk of material misstatement at the assertion level?
    (*a*) Audit risk and inherent risk
    (*b*) Detection risk and control risk
    (*c*) Inherent risk and control risk
    (*d*) Overall financial statement risk and engagement risk

12. What is inherent risk?
    (*a*) The risk of material misstatement after considering internal controls.
    (*b*) The risk that financial statements are not prepared in accordance with accounting standards.
    (*c*) The susceptibility of an assertion to a misstatement, either individually or when aggregated, before considering internal controls.
    (*d*) The risk that auditors may overlook certain external factors affecting financial statements.

13. Inherent risk is higher for some assertions, such as:

(*a*) Assertions related to simple calculations.

(*b*) Assertions related to low business failure industries.

(*c*) Assertions related to complex calculations.

(*d*) Assertions related to well-understood accounting standards.

14. How does the auditor use inherent risk in the audit process?

(*a*) Inherent risk is considered only in the design of tests of controls.

(*b*) Inherent risk is ignored when designing substantive procedures.

(*c*) Inherent risk is considered in both the design of tests of controls and substantive procedures.

(*d*) Inherent risk is considered after assessing control risk.

15. What may influence inherent risk related to a specific assertion?

(*a*) Control risk factors.

(*b*) Technological developments.

(*c*) The accuracy of internal controls.

(*d*) Auditor's assessment of engagement risk.

16. Which of the following is an example of an inherent risk external to the entity?

(*a*) Inadequate understanding of accounting standards by management.

(*b*) High turnover of key personnel in the organization.

(*c*) Strong internal controls implemented by the entity.

(*d*) Stringent regulatory oversight in the industry.

17. How does an auditor assess inherent risk?

(*a*) By solely relying on the management's representations.

(*b*) By considering external factors only.

(*c*) By evaluating the entity's internal controls.

(*d*) By considering both internal and external factors.

18. Why is it important for auditors to consider the reason for each identified inherent risk?

(*a*) To justify their assessment to the management.

(*b*) To comply with regulatory requirements.

(*c*) To understand the impact on the design of tests of controls and substantive procedures.

(*d*) To minimize the overall audit risk.

19. What is control risk, as defined in SA-200?

(*a*) The risk of material misstatement before considering internal controls.

(*b*) The risk that internal controls are not efficient in preventing or detecting material misstatements.

(*c*) The risk that auditors may overlook external factors affecting financial statements.

(*d*) The risk of misstatement occurring in financial statements due to inherent factors.

20. How does control risk relate to the efficiency of internal control in an entity?

(*a*) There is no relation between control risk and the efficiency of internal control.

(*b*) Control risk is directly proportional to the efficiency of internal control.

(*c*) There is an inverse relation between control risk and the efficiency of internal control.
(*d*) Control risk is independent of the efficiency of internal control.

21. What does control risk represent in the context of internal controls?
(*a*) The risk that management will override internal controls.
(*b*) The risk that internal controls are unnecessary.
(*c*) The risk that internal controls will not prevent or detect material misstatements.
(*d*) The risk that auditors will rely too heavily on internal controls.

22. Which of the following is an example of control risk?
(*a*) A company following strict internal controls for cash management.
(*b*) A control mechanism in place for the safety of fire extinguishers.
(*c*) A company having a comprehensive fraud detection system.
(*d*) A control not being followed for routing petty cash expenditures.

23. How is control risk assessed by auditors?
(*a*) Solely based on the entity's financial statements.
(*b*) Through evaluating the efficiency of management's oversight.
(*c*) By considering the effectiveness of internal controls.
(*d*) By ignoring the impact of internal controls on financial statements.

24. What does SA-200 define detection risk as?
(*a*) The risk that audit procedures will not be performed adequately.
(*b*) The risk that audit evidence obtained may not be reliable.
(*c*) The risk that procedures to reduce audit risk may not detect existing misstatements.
(*d*) The risk that auditors may overlook external factors affecting financial statements.

25. What does sampling risk relate to in the context of detection risk?
(*a*) The risk that auditors may rely too heavily on internal controls.
(*b*) The risk that the auditor's conclusion based on a sample may differ from the conclusion with the entire population.
(*c*) The risk that internal controls are not efficient in preventing or detecting material misstatements.
(*d*) The risk that management will override internal controls.

26. How does non-sampling risk differ from sampling risk?
(*a*) Non-sampling risk is related to errors in the application of inappropriate audit procedures, while sampling risk is related to the representativeness of the sample.
(*b*) Non-sampling risk is related to the representativeness of the sample, while sampling risk is related to errors in the application of inappropriate audit procedures.
(*c*) Non-sampling risk and sampling risk are synonymous terms.
(*d*) Non-sampling risk and sampling risk both relate to errors in the application of inappropriate audit procedures.

27. What can auditors do to reduce detection risk?

(*a*) Increase inherent risk and control risk.

(*b*) Decrease the area of checking and use smaller samples.

(*c*) Increase the area of checking, test larger samples, and include competent and experienced persons in the engagement team.

(*d*) Rely solely on alternative audit procedures.

28. Why is detection risk considered the only element of audit risk that auditors can influence?

(*a*) Inherent risk and control risk are inherent to the entity and cannot be influenced by auditors.

(*b*) Detection risk is independent of the effectiveness of internal controls.

(*c*) Auditors have no control over sampling and non-sampling risks.

(*d*) Inherent risk and control risk are influenced by external factors beyond the auditor's control.

29. How does audit risk, as defined in the SAs, differ from the auditor's business risks?

(*a*) Audit risk encompasses business risks, including loss from litigation and adverse publicity.

(*b*) Audit risk and business risks are synonymous terms in the context of auditing.

(*c*) Audit risk is a technical term specific to the auditing process, excluding business risks.

(*d*) Audit risk is primarily concerned with financial loss, while business risks focus on misstatements in financial statements.

30. What is the significance of the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not?

(*a*) This risk is a major component of audit risk.

(*b*) This risk is considered insignificant in the context of the SAs.

(*c*) This risk is equivalent to inherent risk.

(*d*) This risk is part of the auditor's business risks.

31. What is the distinguishing feature of the professional judgment expected of an auditor in assessing risks?

(*a*) Precise measurement

(*b*) Use of advanced technology

(*c*) Training, knowledge, and experience

(*d*) Dependence on external experts

32. How is the assessment of risks, as discussed in the context of audit risk, characterized?

(*a*) Precise measurement based on quantitative data

(*b*) Dependent on external experts' opinions

(*c*) A matter of professional judgment

(*d*) Relying solely on audit procedures

33. How do standards on auditing generally refer to the assessment of risks?

(*a*) Referring to inherent risk and control risk separately

(*b*) Focusing solely on detection risk

(*c*) Emphasizing the importance of audit risk only

(*d*) Referring to a combined assessment of the risks of material misstatement

34. What does the auditor have the flexibility to do in assessing inherent risk and control risk?

(*a*) Express them only in quantitative terms

(*b*) Combine them into a single assessment

(*c*) Make separate or combined assessments based on preferred techniques

(*d*) Rely solely on practical considerations

35. How may the assessment of risks of material misstatement be expressed?

(*a*) Only in quantitative terms

(*b*) Solely in percentages

(*c*) Either in quantitative or non-quantitative terms

(*d*) Exclusively in non-quantitative terms

36. What is emphasized as more important than the different approaches to risk assessments?

(*a*) Precision in risk measurement

(*b*) Flexibility in audit techniques

(*c*) The need for appropriate risk assessments

(*d*) Standardization in risk reporting

37. How can the relationship between audit risk, risks of material misstatement, and detection risk be expressed?

(*a*) Audit risk = Inherent risk + Control risk + Detection risk

(*b*) Audit risk = Risks of material misstatement - Detection risk

(*c*) Audit risk = Inherent risk × Control risk × Detection risk

(*d*) Audit risk = Detection risk - Risks of material misstatement

38. What is the primary objective of the auditor according to SA 315?

(*a*) Identifying and assessing risks of material misstatement at the assertion level.

(*b*) Designing and implementing responses to the assessed risks of material misstatement.

(*c*) Reducing the risk of material misstatement to an acceptably low level.

(*d*) Obtaining an understanding of the entity's environment.

39. According to SA 315, at which levels does the auditor identify and assess risks of material misstatement?

(*a*) Only at the financial statement level.

(*b*) Only at the assertion level for classes of transactions.

(*c*) At both the financial statement level and the assertion level.

(*d*) At the entity level and the disclosure level.

40. How does the auditor relate the identified risks to what can go wrong at the assertion level, according to SA 315?

(*a*) By focusing solely on controls related to the identified risks.

(*b*) By considering the likelihood of misstatement and evaluating potential misstatements.

(*c*) By assessing risks more pervasively to the financial statements as a whole.

(*d*) By testing relevant controls and evaluating their effectiveness.

41. What is the auditor required to consider when assessing the identified risks according to SA 315?
   (*a*) Only the pervasiveness of the risks throughout the financial statements.
   (*b*) The relevance of controls intended to be tested.
   (*c*) The likelihood of misstatement and the possibility of multiple misstatements.
   (*d*) The magnitude of potential misstatements without considering likelihood.

42. Which of the following is part of the auditor's process for identifying and assessing risks as per SA 315?
   (*a*) Focusing solely on transactions in the financial statements.
   (*b*) Evaluating the entity's internal control in isolation.
   (*c*) Assessing identified risks more pervasively to the financial statements as a whole.
   (*d*) Ignoring the potential for multiple misstatements in financial statements.

43. What is the primary purpose of risk assessment procedures in the audit process?
   (*a*) To provide sufficient audit evidence for forming an audit opinion.
   (*b*) To identify and assess risks of material misstatement at the financial statement and assertion levels.
   (*c*) To detect errors and fraud in financial statements.
   (*d*) To perform analytical procedures for internal control evaluation.

44. What is the role of risk assessment procedures in providing audit evidence?
   (*a*) They provide sufficient evidence on which to base the audit opinion.
   (*b*) They serve as the primary basis for designing and implementing responses to risks.
   (*c*) They solely rely on inquiries of management for evidence.
   (*d*) They focus on non-financial information only.

45. What types of risks are included in risk assessment procedures according to SA 315?
   (*a*) Only risks due to error.
   (*b*) Only risks due to fraud.
   (*c*) Both risks due to error and risks due to fraud.
   (*d*) Only risks related to internal control.

46. Who may the auditor make inquiries of, beyond management, to identify risks of material misstatement?
   (*a*) Internal audit personnel, legal counsel, and marketing personnel.
   (*b*) Only internal audit personnel.
   (*c*) Only marketing personnel.
   (*d*) External auditors of the entity.

47. How do analytical procedures contribute to risk assessment procedures?
   (*a*) By providing a broad initial indication of whether a material misstatement may exist.
   (*b*) By replacing the need for observation and inspection procedures.

(*c*) By solely focusing on financial information.
(*d*) By offering precise measurements of inherent and control risks.

48. Which of the following is an example of observation and inspection in risk assessment procedures?
(*a*) Reviewing management's responses to audit findings.
(*b*) Observing the entity's operations and plant facilities.
(*c*) Inquiring about the entity's marketing strategies.
(*d*) Analyzing financial ratios for trends.

49. How do observation and inspection procedures support the auditor's understanding of the entity?
(*a*) By replacing the need for analytical procedures.
(*b*) By solely relying on inquiries of management.
(*c*) By providing information about the entity's environment.
(*d*) By eliminating the need for risk assessment procedures.

50. How does the auditor utilize information obtained from risk assessment procedures as audit evidence?
(*a*) To replace the need for substantive procedures.
(*b*) To support assessments of the risks of material misstatement.
(*c*) To serve as the primary basis for the audit opinion.
(*d*) To solely focus on the operating effectiveness of controls.

51. What flexibility does the auditor have regarding the timing of substantive procedures or tests of controls in relation to risk assessment procedures?
(*a*) Substantive procedures must always precede risk assessment procedures.
(*b*) Tests of controls must always precede risk assessment procedures.
(*c*) The auditor may choose to perform them concurrently with risk assessment procedures.
(*d*) Substantive procedures and tests of controls must always be performed after risk assessment procedures.

52. According to SA 320, when are misstatements, including omissions, considered to be material?
(*a*) Only if they individually influence economic decisions of users.
(*b*) Only if they influence economic decisions when considered collectively.
(*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.
(*d*) If they have a significant impact on the auditor's opinion.

53. What is the primary objective of an independent auditor, as stated in SA 320?
(*a*) To identify all instances of fraud in the financial statements.
(*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.
(*c*) To solely focus on errors in the financial statements.
(*d*) To eliminate all risks of material misstatement.

54. How does SA 320 emphasize the significance of materiality in the audit process?
  (*a*) By highlighting the importance of identifying immaterial misstatements.
  (*b*) By requiring the auditor to focus solely on fraud risks.
  (*c*) By emphasizing that materiality is always a matter of relative size.
  (*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

55. Why is materiality not always a matter of relative size, according to the information provided?
  (*a*) Because materiality is always an absolute threshold set by regulators.
  (*b*) Because materiality depends solely on the auditor's judgment.
  (*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.
  (*d*) Because materiality is solely determined by the financial reporting framework.

56. According to SA 320, when does the auditor apply the concept of materiality in the audit process?
  (*a*) Only in planning the audit.
  (*b*) Only in evaluating the effect of identified misstatements.
  (*c*) Both in planning and performing the audit and in evaluating misstatements.
  (*d*) Only when forming the opinion in the auditor's report.

57. How do financial reporting frameworks generally define misstatements as material?
  (*a*) Misstatements are material if they significantly impact individual users.
  (*b*) Misstatements are material if they influence the economic decisions of users.
  (*c*) Misstatements are material if they affect specific individual users.
  (*d*) Misstatements are material solely based on their nature.

58. What is the impact of judgments about materiality on the audit process?
  (*a*) They only affect the risk assessment procedures.
  (*b*) They do not impact further audit procedures.
  (*c*) They provide a basis for determining risk assessment procedures and further audit procedures.
  (*d*) They are solely relevant in forming the opinion in the auditor's report.

59. How does SA 320 address the evaluation of uncorrected misstatements below the determined materiality?
  (*a*) Uncorrected misstatements are always considered immaterial.
  (*b*) The auditor evaluates uncorrected misstatements solely based on their size.
  (*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.
  (*d*) The materiality determined in planning the audit establishes an absolute threshold.

60. What forms the basis for the determination of audit scope and the levels of testing transactions?
  (*a*) Uncorrected misstatements.
  (*b*) The financial reporting framework.
  (*c*) Materiality.
  (*d*) Benchmarking.

61. How does the auditor apply professional judgment in determining materiality?

(*a*) By relying solely on quantitative benchmarks.

(*b*) By considering both the size and nature of misstatements.

(*c*) By setting an absolute threshold for materiality.

(*d*) By ignoring the specific circumstances of misstatements.

62. From what perspectives should the significance of an item be viewed when judging materiality?

(*a*) Only from the balance sheet perspective.

(*b*) Only from the profit and loss perspective.

(*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

(*d*) Solely from the perspective of the corresponding figure for the previous year.

63. When is an item considered material, even if its value is below the materiality threshold?

(*a*) When it significantly impacts the auditor's opinion.

(*b*) When it affects the profit and loss statement.

(*c*) When there is a statutory requirement of disclosure.

(*d*) When it affects specific individual users.

64. As per Division I of Schedule III of the Companies Act, 2013, when should an item be separately disclosed?

(*a*) If it exceeds 2 percent of the revenue from operations.

(*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

(*c*) If it exceeds ₹ 1,00,000, regardless of the revenue from operations.

(*d*) If it significantly impacts the balance sheet.

65. What aspect of a shareholder's holding in a company must be disclosed as per the requirements of Division I of Schedule III of the Companies Act, 2013?

(*a*) Only the percentage of shares held.

(*b*) Only the total number of shares held.

(*c*) Both the percentage and the total number of shares held.

(*d*) The shareholder's voting rights.

66. According to SA 320, when are misstatements, including omissions, considered to be material?

(*a*) Only if they individually influence economic decisions of users.

(*b*) Only if they influence economic decisions when considered collectively.

(*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.

(*d*) If they have a significant impact on the auditor's opinion.

67. What is the primary objective of an independent auditor, as stated in SA 320?

(*a*) To identify all instances of fraud in the financial statements.

(*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.

(*c*) To solely focus on errors in the financial statements.
(*d*) To eliminate all risks of material misstatement.

68. How does SA 320 emphasize the significance of materiality in the audit process?
(*a*) By highlighting the importance of identifying immaterial misstatements.
(*b*) By requiring the auditor to focus solely on fraud risks.
(*c*) By emphasizing that materiality is always a matter of relative size.
(*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

69. Why is materiality not always a matter of relative size, according to the information provided?
(*a*) Because materiality is always an absolute threshold set by regulators.
(*b*) Because materiality depends solely on the auditor's judgment.
(*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.
(*d*) Because materiality is solely determined by the financial reporting framework.

User:

The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. SA 320 deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements.

Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;

Judgments about materiality are made in the light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and

Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to above provide the auditor with such a frame of reference.

In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for:

(*a*) Determining the nature, timing and extent of risk assessment procedures;

(*b*) Identifying and assessing the risks of material misstatement; and

(*c*) Determining the nature, timing and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although, it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

The auditor has to apply his professional judgement in determining materiality, choosing appropriate benchmark and determining level of benchmark. Materiality forms the basis for determination of audit scope and the levels of testing the transactions.

While judging materiality, the significance of an item has to be viewed from different perspectives. Materiality of an item may be judged by considering the impact on the profit and loss, or on the balance sheet, or in the total of the category of expenditure or income to which it pertains, and on its comparison with the corresponding figure for the previous year.

If there is any statutory requirement of disclosure, it is to be considered material irrespective of the value of amount. Examples are given below:

As per Division I of schedule III of Companies Act, 2013, any item of income or expenditure which exceeds one percent of the revenue from operations or ` 1,00,000, whichever is higher, needs to be disclosed separately.

A company should disclose in notes to accounts, shares in the company held by each shareholder holding more than 5 per cent shares specifying the number of shares held as per requirements of Division I of Schedule III of Companies Act,2013.

70. According to SA 320, when does the auditor apply the concept of materiality in the audit process?

(*a*) Only in planning the audit.

(*b*) Only in evaluating the effect of identified misstatements.

(*c*) Both in planning and performing the audit and in evaluating misstatements.

(*d*) Only when forming the opinion in the auditor’s report.

71. How do financial reporting frameworks generally define misstatements as material?

(*a*) Misstatements are material if they significantly impact individual users.

(*b*) Misstatements are material if they influence the economic decisions of users.

(*c*) Misstatements are material if they affect specific individual users.

(*d*) Misstatements are material solely based on their nature.

72. What is the impact of judgments about materiality on the audit process?

(*a*) They only affect the risk assessment procedures.

(*b*) They do not impact further audit procedures.

(*c*) They provide a basis for determining risk assessment procedures and further audit procedures.

(*d*) They are solely relevant in forming the opinion in the auditor's report.

73. How does SA 320 address the evaluation of uncorrected misstatements below the determined materiality?

(*a*) Uncorrected misstatements are always considered immaterial.

(*b*) The auditor evaluates uncorrected misstatements solely based on their size.

(*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.

(*d*) The materiality determined in planning the audit establishes an absolute threshold.

74. What forms the basis for the determination of audit scope and the levels of testing transactions?

(*a*) Uncorrected misstatements.

(*b*) The financial reporting framework.

(*c*) Materiality.

(*d*) Benchmarking.

75. How does the auditor apply professional judgment in determining materiality?

(*a*) By relying solely on quantitative benchmarks.

(*b*) By considering both the size and nature of misstatements.

(*c*) By setting an absolute threshold for materiality.

(*d*) By ignoring the specific circumstances of misstatements.

76. From what perspectives should the significance of an item be viewed when judging materiality?

(*a*) Only from the balance sheet perspective.

(*b*) Only from the profit and loss perspective.

(*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

(*d*) Solely from the perspective of the corresponding figure for the previous year.

77. When is an item considered material, even if its value is below the materiality threshold?

(*a*) When it significantly impacts the auditor's opinion.

(*b*) When it affects the profit and loss statement.

(*c*) When there is a statutory requirement of disclosure.

(*d*) When it affects specific individual users.

78. As per Division I of Schedule III of the Companies Act, 2013, when should an item be separately disclosed?

(*a*) If it exceeds 2 percent of the revenue from operations.

(*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

(*c*) If it exceeds ₹ 1,00,000, regardless of the revenue from operations.

(*d*) If it significantly impacts the balance sheet.

79. What aspect of a shareholder's holding in a company must be disclosed as per the requirements of Division I of Schedule III of the Companies Act, 2013?

(*a*) Only the percentage of shares held.

(*b*) Only the total number of shares held.

(*c*) Both the percentage and the total number of shares held.

(*d*) The shareholder's voting rights.

User:

The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:

(*a*) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;

(*b*) Understand that financial statements are prepared, presented and audited to levels of materiality;

(*c*) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and

(*d*) Make reasonable economic decisions on the basis of the information in the financial statements.

Practically, it is difficult for auditors to design tests to identify individual misstatements. It is likely that misstatements are material in aggregate. It takes us to the concept of "performance materiality."

Performance materiality means the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

Performance materiality is set at a value lower than overall materiality. It lowers the risk that the auditor will not be able to identify misstatements that are material when added together.

80. What is the auditor's assumption about the financial information needs of users, as stated in the context of determining materiality?

(*a*) Users have limited knowledge of business and economic activities.

(*b*) Users do not recognize the uncertainties in financial statement measurement.

(*c*) Users make economic decisions solely based on individual financial statement items.

(*d*) Users have reasonable knowledge of business and economic activities and accounting.

81. What does the auditor reasonably assume about users' understanding regarding financial statements?

(*a*) Users expect financial statements to be prepared without any materiality considerations.

(*b*) Users are not aware that financial statements are audited to levels of materiality.

(*c*) Users understand that financial statements are prepared, presented, and audited to levels of materiality.

(*d*) Users do not recognize the uncertainties in the measurement of amounts.

82. What is performance materiality in the context of auditing?

(*a*) The materiality level set for the financial statements as a whole.

(*b*) The materiality level set for individual transactions.

(*c*) The aggregate of uncorrected and undetected misstatements.

(*d*) The amount set by the auditor at less than materiality to reduce the risk of aggregate misstatements.

83. How does performance materiality relate to overall materiality?

(*a*) Performance materiality is always set at the same level as overall materiality.

(*b*) Performance materiality is set at a higher value than overall materiality.

(*c*) Performance materiality is set at a lower value than overall materiality.

(*d*) Performance materiality is independent of overall materiality.

84. Why is it challenging for auditors to design tests to identify individual misstatements?

(*a*) Users have limited knowledge of accounting principles.

(*b*) Misstatements are never material in aggregate.

(*c*) Misstatements are likely material in aggregate.

(*d*) Users base their economic decisions solely on individual misstatements.

85. What is the purpose of setting performance materiality at a level lower than overall materiality?

(*a*) To increase the risk that aggregate misstatements exceed materiality.

(*b*) To decrease the risk that aggregate misstatements exceed materiality.

(*c*) To ensure that individual misstatements are always identified.

(*d*) To solely focus on individual transactional materiality.

86. If applicable, what can performance materiality also refer to?

(*a*) Only the materiality level for the financial statements as a whole.

(*b*) Only the materiality level for particular classes of transactions.

(*c*) Only the materiality level for account balances.

(*d*) The amount or amounts set by the auditor at less than the materiality level for particular classes of transactions, account balances, or disclosures.

87. How does performance materiality contribute to reducing risk in the audit process?

(*a*) By increasing the probability of identifying all misstatements.

(*b*) By setting a threshold for overall materiality.

(*c*) By lowering the risk of uncorrected and undetected misstatements exceeding materiality.

(*d*) By solely focusing on individual misstatements.

88. What is the primary objective of setting performance materiality?

(*a*) To eliminate all misstatements in the financial statements.

(*b*) To identify individual misstatements.

(*c*) To reduce the overall risk of material misstatement.

(*d*) To increase the likelihood of finding aggregate misstatements.

89. How does performance materiality impact the identification of misstatements?

(*a*) It ensures that all misstatements are identified.

(*b*) It has no impact on the identification of misstatements.

(*c*) It focuses solely on identifying individual misstatements.

(*d*) It lowers the risk of overlooking aggregate misstatements.

90. When establishing the overall audit strategy, what is the auditor's responsibility regarding materiality?

(*a*) The auditor is not required to consider materiality at the overall audit strategy stage.

(*b*) The auditor determines materiality only for particular classes of transactions.

(*c*) The auditor determines materiality for the financial statements as a whole.

(*d*) The auditor sets materiality levels after completing substantive procedures.

91. In what circumstances should the auditor determine materiality levels for particular classes of transactions, account balances, or disclosures?

(*a*) Only when mandated by the entity's management.

(*b*) If materiality for the financial statements as a whole is extremely high.

(*c*) If misstatements in certain classes could reasonably influence economic decisions.

(*d*) Only when conducting tests of controls.

92. When determining materiality for the financial statements as a whole, a percentage is often applied to a chosen benchmark. Which of the following is a factor influencing the selection of an appropriate benchmark?

(*a*) The number of employees in the entity.

(*b*) The entity's location.

(*c*) The elements of the financial statements.

(*d*) The entity's legal structure.

93. What is an example of a benchmark that may be appropriate for determining materiality?

(*a*) The entity's number of employees.

(*b*) The entity's location.

(*c*) Total equity or net asset value.

(*d*) The entity's legal structure.

94. In choosing a benchmark for determining materiality, why might users focus on specific items such as profit, revenue, or net assets?

(*a*) Users have a random preference for certain financial items.

(*b*) Certain items have legal significance for the entity.

(*c*) Users tend to focus on items that are relevant for evaluating financial performance.

(*d*) Specific items are mandated by accounting standards.

95. When choosing a benchmark, what should auditors consider regarding the volatility of the benchmark?

(*a*) The benchmark should always be highly volatile.

(*b*) Lower volatility is preferred for better audit planning.

(*c*) Higher volatility may require a more stable benchmark.

(*d*) The volatility of the benchmark is irrelevant to materiality.

96. In determining materiality, what is considered relevant financial data in relation to the chosen benchmark?

(*a*) Data from unrelated industries.

(*b*) Data only from the current period.

(*c*) Data adjusted for significant changes in the industry.

(*d*) Data that is not adjusted for any changes.

97. When determining materiality, what may lead auditors to conclude that a normalized figure is more appropriate than the actual figure?

(*a*) A decrease in profit due to normal business fluctuations.

(*b*) A significant increase in profit before tax from continuing operations.

(*c*) A significant business acquisition.

(*d*) Unchanged financial conditions.

98. What is the relationship between the percentage applied to profit before tax from continuing operations and the chosen benchmark?

(*a*) The percentage is always the same for any chosen benchmark.

(*b*) The percentage is inversely proportional to the chosen benchmark.

(*c*) The percentage is normally higher for profit before tax from continuing operations than for total revenue.

(*d*) The percentage is independent of the chosen benchmark.

99. In what circumstances might auditors consider a higher percentage for materiality?

(*a*) When the entity is not-for-profit.

(*b*) When profit before tax is volatile.

(*c*) When total revenue is the chosen benchmark.

(*d*) When the industry is stable.

100. What is the relationship between the percentage and the chosen benchmark in determining materiality?

(*a*) There is no consistent relationship between the two.

(*b*) The percentage is always higher for any chosen benchmark.

(*c*) The percentage is normally lower for profit before tax from continuing operations than for total revenue.

(*d*) The percentage is influenced by external factors.

101. Why might the auditor consider different percentages for materiality in different circumstances?

(*a*) To confuse users of the financial statements.

(*b*) To comply with legal requirements.

(*c*) Due to variations in industry and economic conditions.

(*d*) To increase the audit workload.

102. What does the auditor's judgment involve when determining materiality?

(*a*) Following a prescribed formula.

(*b*) Applying a fixed percentage to total assets.

(*c*) Professional judgment based on relevant factors.

(*d*) Reliance solely on management's input.

103. What does performance materiality aim to achieve in relation to the aggregate of uncorrected and undetected misstatements?

(*a*) Increase the probability of misstatements exceeding materiality.

(*b*) Keep the probability of misstatements below materiality.

(*c*) Only focus on detected misstatements.

(*d*) Reduce the overall audit risk.

104. What is a factor that may indicate the existence of particular classes of transactions, account balances, or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence users' economic decisions?

(*a*) The number of employees in the entity.

(*b*) The entity's location.

(*c*) Whether regulations affect users' expectations on certain items.

(*d*) The entity's legal structure.

105. In determining materiality levels for particular classes of transactions, account balances, or disclosures, what might be influenced by the key disclosures in relation to the industry in which the entity operates?

(*a*) The entity's location.

(*b*) The number of employees in the entity.

(*c*) Research and development costs.

(*d*) The entity's legal structure.

106. When might misstatements of lesser amounts than materiality for the financial statements as a whole be particularly significant?

(*a*) When regulations have no impact on users' expectations.

(*b*) When attention is focused on a specific aspect disclosed in the financial statements.

(*c*) When there are no industry-specific disclosures.

(*d*) When the entity's location is not a key factor.

107. What may trigger a revision of materiality for the financial statements as a whole during an audit?

(*a*) A change in the auditor's understanding of the entity and its operations.

(*b*) New information that becomes available.

(*c*) A decision to dispose of a major part of the entity's business.

(*d*) All of the above.

108. If it appears that actual financial results are substantially different from the anticipated period end financial results used initially to determine materiality, what action should the auditor take?

(*a*) Ignore the differences and proceed with the original materiality level.

(*b*) Revise materiality for the financial statements as a whole.

(*c*) Immediately issue an adverse opinion on the financial statements.

(*d*) Increase materiality to accommodate the differences.

109. When revising materiality for the financial statements as a whole, what additional consideration should the auditor make?

(*a*) Assess whether a higher materiality is more appropriate.

(*b*) Determine if a revision of performance materiality is necessary.

(*c*) Adjust the financial statements without further audit procedures.

(*d*) Rely solely on the initially determined materiality level.

110. What must the audit documentation include regarding materiality in an audit?

(*a*) Materiality for specific transactions only.

(*b*) Materiality for the financial statements as a whole, materiality levels for specific classes, and performance materiality.

(*c*) Materiality for the financial statements as a whole only.

(*d*) Materiality levels for specific classes only.

111. What is the overall objective of the auditor when conducting an audit of financial statements?

(*a*) To identify and assess the risks of material misstatement.

(*b*) To obtain absolute assurance about the absence of any misstatements.

(*c*) To express an opinion on whether the financial statements are prepared in accordance with any financial reporting framework.

(*d*) To eliminate all risks of material misstatement.

112. How does the auditor obtain reasonable assurance in the context of an audit?

(*a*) By eliminating all risks of material misstatement.

(*b*) By obtaining absolute certainty about the absence of any misstatements.

(*c*) By obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

(*d*) By relying solely on the client's representations.

113. What is audit risk, and what factors contribute to it?

(*a*) Audit risk is the risk of financial statement fraud only.

(*b*) Audit risk is the risk that the auditor may express an inappropriate audit opinion when the financial statements are materially misstated, and it is a function of the risks of material misstatement and detection risk.

(*c*) Audit risk is solely determined by the nature of the client's industry.
(*d*) Detection risk is the only factor contributing to audit risk.

114. What factors related to external factors, industry, and regulatory environment should the auditor consider in obtaining an understanding of an entity according to SA 315?
(*a*) Only industry conditions such as the competitive environment.
(*b*) Only regulatory factors such as the applicable financial reporting framework.
(*c*) Both industry conditions and regulatory factors, including general economic conditions and interest rates.
(*d*) Only technological developments in the industry.

115. Why is an understanding of the nature of the entity crucial for auditors according to SA 315?
(*a*) To ensure that the entity has a simple structure.
(*b*) To identify complex structures that may introduce risks of material misstatement.
(*c*) To determine the entity's competitors.
(*d*) To understand the ownership structure only.

116. In the context of SA 315, what does the auditor evaluate when considering the entity's accounting policies?
(*a*) Whether the entity's accounting policies comply with international standards only.
(*b*) Whether the entity's accounting policies are consistent with the applicable financial reporting framework and appropriate for its business.
(*c*) Only the reasons for changes in accounting policies.
(*d*) Whether the entity's accounting policies align with industry-specific practices only.

117. What is the purpose of understanding the entity's objectives and strategies, and related business risks according to SA 315?
(*a*) To identify all business risks faced by the entity.
(*b*) To determine if the entity has achieved its objectives.
(*c*) To evaluate the effectiveness of the entity's internal controls.
(*d*) To increase the likelihood of identifying risks of material misstatement in the financial statements.

118. How can understanding the measurement and review of the entity's financial performance assist the auditor?
(*a*) By ensuring the entity achieves all performance targets.
(*b*) By solely focusing on internal performance measures.
(*c*) By considering whether pressures to achieve performance targets may result in actions that increase the risks of material misstatement.
(*d*) By relying on external performance measures only.

119. What might be a potential related business risk when considering industry developments according to SA 315?
(*a*) Increased product liability.
(*b*) Lack of personnel or expertise to deal with industry changes.

(*c*) Inaccurately estimated demand.

(*d*) All of the above.

120. What type of information may be used by an auditor to measure and review an entity's financial performance?

(*a*) Only budget and variance analyses.

(*b*) Only credit rating agency reports.

(*c*) Both key performance indicators and period-on-period financial performance analyses.

(*d*) Only departmental performance reports.

121. What is the overall objective of obtaining an understanding of the entity's environment according to SA 315?

(*a*) To eliminate all business risks.

(*b*) To ensure compliance with industry-specific practices.

(*c*) To identify risks of material misstatement in the financial statements.

(*d*) To determine the entity's competitors.

122. What does business risk encompass according to SA 315?

(*a*) Only risks of material misstatement in the financial statements.

(*b*) Only risks arising from change or complexity.

(*c*) Risks of material misstatement in the financial statements and those arising from change or complexity.

(*d*) All risks faced by the entity.

123. How does understanding the entity's objectives and strategies assist the auditor in identifying risks of material misstatement?

(*a*) By assessing the entity's compliance with legal requirements.

(*b*) By determining the entity's ownership structure.

(*c*) By increasing the likelihood of identifying risks of material misstatement with financial consequences.

(*d*) By eliminating business risks.

124. Why is understanding the entity and its environment considered significant in audit planning?

(*a*) To eliminate the need for professional judgment during the audit.

(*b*) To gather, update, and analyze information continuously throughout the audit.

(*c*) To focus solely on internal control assessments.

(*d*) To replace the need for materiality assessments.

125. What is the role of gaining knowledge about the client's business in developing an overall audit plan?

(*a*) It is not important for developing an overall audit plan.

(*b*) It helps in replacing professional judgment during the audit.

(*c*) It is one of the important principles in developing an overall audit plan.

(*d*) It focuses on eliminating the need for assessing risks.

126. When is understanding the entity and its environment considered a continuous, dynamic process in the audit?

(*a*) Only during the assessment of risks of material misstatement.

(*b*) Only during the determination of materiality.

(*c*) Throughout the audit, including planning, execution, and evaluation of audit evidence.

(*d*) Only during the evaluation of management's oral representations.

127. In what ways does an understanding of the entity influence the auditor's professional judgment during the audit?

(*a*) By eliminating the need for professional judgment.

(*b*) By replacing materiality assessments.

(*c*) By establishing a frame of reference for planning and exercising professional judgment.

(*d*) By focusing solely on internal control assessments.

128. When considering the appropriateness of the selection and application of accounting policies, what role does understanding the entity play?

(*a*) It does not play a role in this context.

(*b*) It helps in replacing professional judgment during the audit.

(*c*) It is essential for assessing risks of material misstatement.

(*d*) It is critical in ensuring the appropriateness of accounting policies.

129. According to SA-315, how is internal control defined?

(*a*) The process is designed, implemented, and maintained by external auditors.

(*b*) The process is designed, implemented, and maintained by those charged with governance, management, and external personnel.

(*c*) The process designed, implemented, and maintained by those charged with governance, management, and other personnel.

(*d*) The process was designed, implemented, and maintained solely by management.

130. What does the term "controls" refer to in the context of internal control as per SA-315?

(*a*) Only the financial controls within an entity.

(*b*) Any aspects of one or more of the components of internal control.

(*c*) Only the controls implemented by management.

(*d*) Only controls related to compliance with applicable laws and regulations.

131. What are the primary objectives of internal control?

(*a*) Ensuring employee satisfaction, managing external relationships, and maximizing profits.

(*b*) Safeguarding of assets, compliance with applicable laws and regulations, and maintaining a positive public image.

(*c*) Reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

(*d*) Achieving customer satisfaction, minimizing expenses, and enhancing technological capabilities.

132. How does an understanding of internal control assist the auditor?

(*a*) Only by ensuring compliance with applicable laws and regulations.

(*b*) Only by maximizing profits for the entity.

(*c*) By identifying types of potential misstatements, factors affecting risks of material misstatement, and designing further audit procedures.

(*d*) Only by safeguarding assets within the entity.

133. How does the design, implementation, and maintenance of internal control vary among entities?

(*a*) It remains consistent across all entities, regardless of size and complexity.

(*b*) It is solely based on the entity's profitability.

(*c*) It varies with the entity's size and complexity.

(*d*) It is determined by external auditors.

134. According to the limitations of internal control, what level of assurance does internal control provide regarding achieving an entity's financial reporting objectives?

(*a*) Absolute assurance.

(*b*) Unlimited assurance.

(*c*) Reasonable assurance.

(*d*) Full assurance.

135. What is a potential limitation of internal control related to human judgment in decision-making?

(*a*) Internal control is always foolproof.

(*b*) Human judgment can lead to faulty decision-making and breakdowns in internal control.

(*c*) Internal control is not affected by human error.

(*d*) Human judgment in decision-making enhances the effectiveness of internal control.

136. What is a limitation of internal control related to the lack of understanding of the purpose of controls?

(*a*) Controls are always effective regardless of understanding.

(*b*) Controls may not be effective if information produced for internal control purposes is not understood or acted upon.

(*c*) Lack of understanding has no impact on internal control.

(*d*) Internal control is not affected by the purpose of controls.

137. How can controls be circumvented, according to the limitations of internal control?

(*a*) Controls are foolproof and cannot be circumvented.

(*b*) Collusion among two or more people or inappropriate management override.

(*c*) Controls are not affected by management decisions.

(*d*) Controls can only be circumvented in larger entities.

138. In designing and implementing controls, what role does management judgment play, according to the limitations of internal control?

(*a*) Management judgment has no impact on the effectiveness of controls.

(*b*) Management judgments determine the absolute effectiveness of controls.

(*c*) Management may make judgments on the nature and extent of controls and the risks it chooses to assume.

(*d*) Management judgments are not considered in the context of internal control.

139. Which component of internal control includes the overall attitude, awareness, and actions of management regarding the importance of internal control in the entity?

(*a*) The control environment.
(*b*) The entity's risk assessment process.
(*c*) The information system.
(*d*) Control activities.

140. What is a fundamental element of the control environment that sets the tone for an organization's control consciousness?

(*a*) Communication and enforcement of integrity and ethical values.
(*b*) Commitment to competence.
(*c*) Participation by those charged with governance.
(*d*) Management's philosophy and operating style.

141. What is the significance of the commitment to competence in the control environment?

(*a*) It determines the ethical values of the organization.
(*b*) It influences the control consciousness of the people in the organization.
(*c*) It solely focuses on the organization's financial reporting.
(*d*) It is not relevant to the control environment.

142. In the context of the control environment, what does "Participation by those charged with governance" refer to?

(*a*) Independence from management.
(*b*) Experience and stature of those charged with governance.
(*c*) The extent of their involvement and the information they receive.
(*d*) Scrutiny of activities.

143. What does "Management's philosophy and operating style" encompass in the control environment?

(*a*) Only the approach taken by management in selecting accounting policies.
(*b*) Only the approach of management in developing accounting estimates.
(*c*) A broad range of characteristics, including attitudes and actions towards financial reporting and risk management.
(*d*) Only the attitude of management towards information processing.

144. What does "Organisational structure" in the control environment encompass?

(*a*) The entity's approach to financial reporting.
(*b*) Lines of reporting within the organization.
(*c*) The enforcement of integrity and ethical values.
(*d*) The selection of accounting policies.

145. What does "Assignment of authority and responsibility" in the control environment address?

(*a*) Management's philosophy and operating style.

(*b*) How authority and responsibility for operating activities are assigned.

(*c*) Human resource policies and practices.

(*d*) Communication and enforcement of integrity and ethical values.

146. Why are "Human resource policies and practices" considered important in the context of the control environment?

(*a*) They determine the size of the organization.

(*b*) They solely focus on recruitment policies.

(*c*) They demonstrate an entity's commitment to competent and trustworthy individuals.

(*d*) They are irrelevant to the control consciousness of an entity.

147. How does management's attitude towards information processing and accounting function reflect in the control environment?

(*a*) It determines the ethical values of the organization.

(*b*) It is not relevant to the control environment.

(*c*) It is part of the organization's risk management.

(*d*) It reflects management's philosophy and operating style.

148. What does the appropriateness of an entity's "Organisational structure" depend on?

(*a*) The entity's financial reporting objectives.

(*b*) The size and nature of the entity's activities.

(*c*) The entity's risk assessment process.

(*d*) The communication of integrity and ethical values.

149. How do "Human resource policies and practices" often demonstrate the control consciousness of an entity?

(*a*) By focusing solely on recruitment practices.

(*b*) By emphasizing the entity's commitment to competent and trustworthy individuals.

(*c*) By determining the entity's financial reporting objectives.

(*d*) By enforcing integrity and ethical values.

150. What is the relationship between a satisfactory control environment and fraud, according to the provided information?

(*a*) A satisfactory control environment is an absolute deterrent to fraud.

(*b*) A satisfactory control environment reduces the risk of fraud but is not an absolute deterrent.

(*c*) A satisfactory control environment increases the risk of fraud.

(*d*) A satisfactory control environment has no impact on the risk of fraud.

151. How can deficiencies in the control environment impact the effectiveness of controls, especially in relation to fraud?

(*a*) Deficiencies in the control environment have no impact on control effectiveness.

(*b*) Deficiencies in the control environment can prevent fraud completely.

(*c*) Deficiencies may undermine the effectiveness of controls, allowing improper changes and unauthorized transactions.

(*d*) Deficiencies in the control environment only affect financial reporting.

152. Which of the following is a part of the entity's risk assessment process?

(*a*) Implementing controls.

(*b*) Deciding about actions to address risks.

(*c*) Capturing events and conditions significant to the financial statements.

(*d*) Reporting transactions in the financial statements.

153. What is an example of a factor that can cause risks to arise or change in an entity?

(*a*) Consistent operating environment.

(*b*) Stagnant technology.

(*c*) Static business models.

(*d*) New technology.

154. What areas does the auditor need to obtain an understanding of in the information system relevant to financial reporting?

(*a*) Only infrastructure and software.

(*b*) Only software and data.

(*c*) Classes of transactions, procedures, accounting records, and financial reporting process.

(*d*) Only financial reporting roles and responsibilities.

155. What is the primary purpose of control activities in an information system?

(*a*) Ensuring data privacy.

(*b*) Ensuring physical security of assets.

(*c*) Carrying out management directives.

(*d*) Monitoring internal control.

156. What do monitoring activities help assess?

(*a*) Effectiveness of controls on a timely basis.

(*b*) Effectiveness of controls as a one-time evaluation.

(*c*) Effectiveness of controls only during external audits.

(*d*) Effectiveness of controls through ongoing management activities.

157. Which of the following is a form that communication of financial reporting roles and responsibilities can take?

(*a*) Auditors' reports.

(*b*) Internal memos.

(*c*) Segregation of duties.

(*d*) Journal entries.

158. What is an example of an ongoing monitoring activity?

(*a*) Separate evaluations.

(*b*) Regular management and supervisory activities.

(*c*) Program change controls.

(*d*) Customer complaints.

159. What does the information system consist of?

(*a*) Only physical components.

(*b*) Only software and data.

(*c*) Infrastructure, software, people, procedures, and data.

(*d*) Only procedures and data.

160. What is the purpose of the entity's risk assessment process?

(*a*) To eliminate all business risks.

(*b*) To capture events and conditions for financial reporting.

(*c*) To assess the likelihood of fraud.

(*d*) To identify and manage risks relevant to financial reporting objectives.

161. How does the control environment impact the auditor's assessment of the risks of material misstatement?

(*a*) It provides absolute assurance against fraud.

(*b*) It is irrelevant to the risk assessment process.

(*c*) It influences the auditor's evaluation of the effectiveness of other controls.

(*d*) It is an absolute deterrent to fraud.

162. Which factor is relevant to the auditor's judgment about whether a control is relevant to the audit?

(*a*) Materiality.

(*b*) Size of the entity.

(*c*) Nature of the entity's business.

(*d*) All of the above.

163. What aspect is considered when determining the relevance of a control to the audit?

(*a*) Use of service organisations.

(*b*) Circumstances and applicable legal requirements.

(*c*) Complexity of the systems in the entity's internal control.

(*d*) The diversity of the entity's operations.

164. In the context of the auditor's judgment about control relevance, what is considered regarding the prevention, detection, and correction of material misstatement?

(*a*) The significance of the related risk.

(*b*) Applicable legal and regulatory requirements.

(*c*) Whether the control prevents, detects, and corrects material misstatement.

(*d*) The nature and complexity of the entity's operations.

165. In what situation would controls over the completeness and accuracy of information produced by the entity be relevant to the audit, according to the information provided?

(*a*) Controls are always relevant to the audit.

(*b*) When the auditor intends to use the information in designing and performing further procedures.

(*c*) Controls are never relevant to an audit.

(*d*) When the auditor is only focused on financial reporting controls.

166. What is an example of a situation where controls over operations and compliance objectives may be relevant to an audit?

(*a*) When controls relate to data used in financial reporting.
(*b*) When controls relate to the prevention of excessive use of materials in production.
(*c*) Controls over operations are never relevant to an audit.
(*d*) When controls are solely focused on compliance with legal requirements.

167. In the context of internal control over safeguarding assets, what is the auditor's primary consideration?

(*a*) Operations objectives.
(*b*) Controls relevant to the reliability of financial reporting.
(*c*) Controls related to compliance objectives.
(*d*) Controls that prevent excessive use of materials.

168. Which example illustrates a situation where safeguarding controls are relevant to a financial statement audit?

(*a*) Controls preventing excessive use of materials in production.
(*b*) Access controls limiting access to data for processing cash disbursements.
(*c*) Controls related to compliance with legal requirements.
(*d*) Controls unrelated to financial reporting.

169. Why might an entity's controls, such as an automated system for maintaining flight schedules in an airline, not be relevant to an audit?

(*a*) Automated controls are always relevant to an audit.
(*b*) Controls related to efficient and effective operations are generally not relevant.
(*c*) Only manual controls are relevant to an audit.
(*d*) The auditor is not required to consider any controls.

170. When might an understanding of internal control relating to each of the entity's operating units and business processes not be relevant to the audit?

(*a*) Understanding internal control is always relevant to an audit.
(*b*) It is never necessary to understand internal control for an audit.
(*c*) In certain circumstances, depending on the entity's structure and operations.
(*d*) Internal control is only relevant for financial reporting.

171. In what circumstances might the auditor's review of internal control be broader and more detailed?

(*a*) When internal controls are simple and straightforward.
(*b*) When the auditor has limited time for the audit.
(*c*) When the statute or regulation governing the entity requires reporting on compliance.
(*d*) Internal control reviews are always broad and detailed.

172. What is the general consideration when determining the relevance of controls for an audit?

(*a*) All controls are relevant to an audit.
(*b*) Controls related to business processes are always relevant.

(*c*) The auditor's review of internal control may be broader and more detailed.
(*d*) Relevance depends on the entity's size and complexity.

173. What is the primary consideration when evaluating the design of a control?
(*a*) Whether the control is automated.
(*b*) Whether the control is cost-effective.
(*c*) Whether the control is capable of preventing, detecting, and correcting material misstatements.
(*d*) Whether the control is observed consistently.

174. Which risk assessment procedures may be used to obtain audit evidence about the design and implementation of relevant controls?
(*a*) Asking entity personnel only.
(*b*) Inquiry, observation, inspection, and transaction tracing.
(*c*) Tracing transactions only.
(*d*) Inspection of documents only.

175. Why is inquiry alone not sufficient for testing the operating effectiveness of controls?
(*a*) Inquiry is time-consuming.
(*b*) Operating effectiveness depends on automation.
(*c*) Inquiry lacks consistency.
(*d*) It only provides evidence about design.

176. When might obtaining audit evidence about the implementation of a manual control at a point in time not provide sufficient evidence about its operating effectiveness?
(*a*) When the control is consistently observed.
(*b*) When the control is automated.
(*c*) When the control's operating effectiveness varies during the audit period.
(*d*) When the control is properly designed.

177. Under what condition may performing audit procedures to determine whether an automated control has been implemented serve as a test of its operating effectiveness?
(*a*) The auditor has not assessed and tested controls.
(*b*) The control is manual.
(*c*) The auditor's assessment and testing of controls, such as those over program changes, support it.
(*d*) Automation is inconsistent.

178. What is a key consideration when determining whether a risk is a significant risk in the audit process?
(*a*) Whether the risk is related to routine business operations.
(*b*) Whether the risk is identified by the management only.
(*c*) Whether the risk is a risk of fraud.
(*d*) Whether the risk is related to the regulatory environment.

179. In assessing significant risks, the auditor should consider the complexity of transactions. What does the complexity of transactions imply in this context?

(*a*) The simplicity of transactions.

(*b*) The level of difficulty in understanding and auditing the transactions.

(*c*) The frequency of transactions.

(*d*) The number of transactions.

180. Which factor is considered when determining whether a risk involves significant transactions with related parties?

(*a*) The overall size of the entity.

(*b*) The frequency of transactions with related parties.

(*c*) The importance of the transactions with related parties.

(*d*) Whether the transactions are routine.

181. What aspect of financial information measurement is relevant when assessing the degree of subjectivity in the context of significant risks?

(*a*) Precision of measurement.

(*b*) Consistency of measurement.

(*c*) The simplicity of measurement.

(*d*) The number of financial measurements.

182. What is a key characteristic of non-routine transactions in the context of significant risks?

(*a*) They occur frequently.

(*b*) They are small in size.

(*c*) They are unusual due to size or nature and occur infrequently.

(*d*) They are routine and predictable.

183. Why are significant risks considered inherent risks with both a higher likelihood of occurrence and a higher magnitude of potential misstatement?

(*a*) They are routine and predictable.

(*b*) They involve complex calculations.

(*c*) They are unusual and infrequent, leading to higher likelihood and magnitude.

(*d*) They are related to routine business operations.

184. Which of the following is always considered a significant risk, according to the information provided?

(*a*) Routine transactions with related parties.

(*b*) Risks related to routine business operations.

(*c*) Risks of material misstatement due to fraud.

(*d*) Routine non-judgmental matters.

185. What makes the risks of material misstatement greater for significant non-routine transactions, as per the information provided?

(*a*) Routine management intervention.

(*b*) Routine manual intervention.

(*c*) The infrequent occurrence and nature of the transactions.

(*d*) Routine controls over risks.

186. What factor contributes to the greater risks of material misstatement for significant judgmental matters involving accounting estimates?

(*a*) Routine judgment and assumptions.

(*b*) Simple interpretation of accounting principles.

(*c*) Complexity or subjectivity of accounting principles and assumptions.

(*d*) Routine implementation of controls.

187. What is a primary objective of the auditor's review of internal controls?

(*a*) Evaluating the effectiveness of the internal auditing department.

(*b*) Identifying errors and frauds in the ordinary course of business operations.

(*c*) Ensuring administrative controls are in place.

(*d*) Verifying the accuracy of financial reports.

188. What information does the auditor gain regarding the internal control system's operation through the review?

(*a*) The adequacy of administrative controls.

(*b*) The effectiveness of internal auditing.

(*c*) Whether controls safeguard assets adequately.

(*d*) Whether management is discharging its functions correctly.

189. Why is the knowledge of administrative control important for the auditor?

(*a*) It helps evaluate the effectiveness of the internal auditing department.

(*b*) It provides insights into areas where controls are weak.

(*c*) It determines the appropriate audit technique.

(*d*) It ensures reliability of reports and certificates.

190. What does the auditor learn about the management's function through the review of internal controls?

(*a*) Whether controls safeguard assets adequately.

(*b*) The depth of examination needed in different areas of accounting.

(*c*) The extent of errors and frauds in ordinary business operations.

(*d*) How management is discharging its function in recording transactions.

191. What is a potential outcome of the auditor's understanding of control weaknesses and excesses?

(*a*) Determining the appropriateness of audit techniques.

(*b*) Identifying errors and frauds in ordinary business operations.

(*c*) Evaluating the reliability of reports and certificates.

(*d*) Providing suggestions to improve the control system.

192. Which of the following steps is NOT involved in the initial process of reviewing internal controls according to the information provided?

(*a*) Determination of controls and procedures laid down by management.

(*b*) Reading company manuals and studying organization charts.

(*c*) Conducting financial statement audits.

(*d*) Making suitable inquiries from officers and employees.

193. What is a potential disadvantage of using a narrative record for internal control review, as mentioned in the information provided?

(*a*) Difficulty in comprehending the system in operation.

(*b*) Facilitation of information accumulation.

(*c*) Incorporating changes arising from reshuffling of manpower.

(*d*) Suited for large business organizations.

194. Which on-the-job requirement involves a series of instructions or questions for auditing staff to follow and **Correct Answer**, often initiated by initialing a space against each instruction?

(*a*) Narrative record. (*b*) Flow chart.

(*c*) Internal Control questionnaire. (*d*) CheckList.

195. What is an advantage of using an Internal Control questionnaire for collecting information about the existence, operation, and efficiency of internal control in an organization?

(*a*) Provides a bird's eye view of the system.

(*b*) Allows for easy integration of documentation.

(*c*) Minimizes the amount of narrative explanation.

(*d*) Facilitates oversight or omission of significant internal control review procedures.

196. What type of document is considered the most concise way of recording the auditor's review of the system and provides a bird's eye view of the internal control system?

(*a*) Narrative record. (*b*) Internal Control questionnaire.

(*c*) CheckList. (*d*) Flow chart.

197. Which of the following involves a graphic presentation of each part of the company's system of internal control, achieving a concise consideration or presentation?

(*a*) Internal Control questionnaire. (*b*) CheckList.

(*c*) Flow chart. (*d*) Narrative record.

198. What is a common drawback of using narrative records for internal control review?

(*a*) Suited for small businesses.

(*b*) Difficulty in incorporating changes arising from reshuffling of manpower.

(*c*) Facilitation of information accumulation.

(*d*) Provides an exhaustive description of the system.

199. In the context of internal control review, what does the term "check list" refer to?

(*a*) A graphic presentation of the system. (*b*) A comprehensive series of questions.

(*c*) An exhaustive description of the system. (*d*) A written procedure for verification.

200. Which on-the-job requirement is most suitable for small businesses and involves a complete and exhaustive description of the system in operation?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Flow chart.
(*d*) Narrative record.

201. What does an Internal Control questionnaire often use to denote a 'Yes' **Correct Answer** and a 'No' **Correct Answer**?

(*a*) Initials.
(*b*) Check marks.
(*c*) Explanatory notes.
(*d*) Numeric codes.

202. Which aspect is NOT typically covered by an Internal Control questionnaire?

(*a*) Satisfactory position denoted by a 'Yes' **Correct Answer**.
(*b*) Explanation for 'No' **Correct Answer**s.
(*c*) A checklist of items.
(*d*) Significance of non-routine transactions.

203. What is the primary purpose of using a flow chart in internal control review?

(*a*) To provide an exhaustive description of the system.
(*b*) To facilitate information accumulation.
(*c*) To achieve a concise consideration or presentation.
(*d*) To incorporate changes arising from reshuffling of manpower.

204. What is a significant advantage of using a flow chart in internal control review?

(*a*) Difficulty in identifying weaknesses or gaps in the system.
(*b*) Provides a bird's eye view of the system.
(*c*) Facilitates oversight or omission of significant review procedures.
(*d*) Minimizes the amount of narrative explanation.

205. Which document is considered the most suitable for large business organizations when reviewing internal controls?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Narrative record.
(*d*) Flow chart.

206. What is a potential drawback of using a checklist for internal control review?

(*a*) Minimizes the amount of narrative explanation.
(*b*) Difficulty in incorporating changes arising from reshuffling of manpower.
(*c*) Suited for small businesses.
(*d*) Provides an exhaustive description of the system.

207. Which method of reviewing internal control is generally issued to the client and filled by the concerned executives and employees, providing an orderly means of disclosing control defects?

(*a*) CheckList.
(*b*) Internal Control questionnaire.
(*c*) Flow chart.
(*d*) Narrative record.

208. What is a key characteristic of using a checklist for internal control review?

(*a*) Minimizes the amount of narrative explanation.

(*b*) Involves on-the-job requirement.

(*c*) Facilitates information accumulation.

(*d*) Provides an exhaustive description of the system.

209. What does the auditor primarily learn through the review of internal controls using a flow chart?

(*a*) Characteristics of the system.

(*b*) Complexity of transactions.

(*c*) Inconsistencies in control procedures.

(*d*) Weaknesses or gaps in the system.

210. What is a disadvantage of using an internal control questionnaire, as mentioned in the information provided?

(*a*) Oversight or omission of significant review procedures is likely.

(*b*) Facilitates an orderly means of disclosing control defects.

(*c*) Suited for small businesses.

(*d*) Difficulty in identifying weaknesses or gaps in the system.

211. What is the primary purpose of actual testing of the internal control system during an audit?

(*a*) To identify areas for improvement in the internal control system.

(*b*) To ensure the accuracy of financial statements.

(*c*) To examine whether and how far the internal control system is in operation.

(*d*) To confirm the effectiveness of the design of the accounting system.

212. Which of the following is NOT considered a type of test of controls?

(*a*) Inspection of documents.

(*b*) Re-performance.

(*c*) Confirmation of financial transactions.

(*d*) Inquiries about internal controls.

213. What does "re-performance" involve in the context of testing controls during an audit?

(*a*) Inspection of documents supporting transactions.

(*b*) Independent execution of procedures or controls by the auditor.

(*c*) Inquiries about internal controls.

(*d*) Observation of internal controls.

214. Which factor is NOT mentioned as a potential cause of deviations from prescribed controls during the effective operation of internal controls?

(*a*) Changes in key personnel.

(*b*) Significant seasonal fluctuations in transaction volume.

(*c*) Technological advancements.

(*d*) Human error.

215. How does the auditor evaluate the results of tests of control in relation to the preliminary assessment of control risk?

(*a*) By modifying the financial statements.

(*b*) By confirming the accuracy of financial transactions.

(*c*) By considering the implications of deviations and revising the assessment of control risk if necessary.

(*d*) By amending the audit plan.

216. What is the fundamental principle of an automated environment?

(*a*) Increased manual intervention for business operations.

(*b*) Less reliance on computer systems.

(*c*) System-driven processes with less manual intervention.

(*d*) Limited use of Information Technology.

217. Which of the following is a key feature of an automated environment?

(*a*) Manual intervention in business operations.

(*b*) Greater susceptibility to human errors.

(*c*) Slower business operations.

(*d*) Integration amongst business operations.

218. In the context of an audit of financial statements, what should an auditor consider when assessing the complexity of an automated environment?

(*a*) Level of automation.

(*b*) Use of off-the-shelf accounting software.

(*c*) Implementation of manual controls.

(*d*) Size of the entity.

219. What does the auditor need to understand about the company's automated environment during an audit?

(*a*) Location of IT systems.

(*b*) Use of an integrated enterprise resource planning system.

(*c*) Outsourced activities.

(*d*) All of the above.

220. Which of the following is NOT a risk that an auditor should consider in an automated environment?

(*a*) Inaccurate processing of data.

(*b*) Unauthorized access to data.

(*c*) Changes in market trends.

(*d*) Lack of adequate segregation of duties.

221. What is the purpose of General IT controls in an automated environment?

(*a*) To enhance the complexity of the business.

(*b*) To support the effective functioning of application controls.

(*c*) To increase manual intervention.

(*d*) To minimize the use of computer systems.

222. Which of the following is a component of General IT controls?

(*a*) Access security.

(*b*) Manual intervention procedures.

(*c*) Decreased reliance on backups.

(*d*) Program change.

223. What is the objective of controls over Data centre and network operations in an automated environment?

(*a*) To reduce batch jobs.

(*b*) To ensure the production systems meet financial reporting objectives.

(*c*) To eliminate the need for backups.

(*d*) To decrease performance monitoring.

224. What does "pervasive" controls refer to in the context of General IT controls?

(*a*) Controls implemented for specific applications.

(*b*) Controls that support the effective functioning of application controls.

(*c*) Controls with limited impact on financial reporting.

(*d*) Controls that exclude data security.

225. Which activities are covered by controls over program change in an automated environment?

(*a*) Batch job scheduling.

(*b*) Change management process.

(*c*) Overall management of computer operation activities.

(*d*) Monitoring and storage of backups.

226. What is the primary purpose of Automated Application Controls in an IT environment?

(*a*) To eliminate manual controls entirely.

(*b*) To ensure the completeness, accuracy, and integrity of data in IT applications.

(*c*) To reduce the reliance on General IT controls.

(*d*) To manage business processes manually.

227. Which of the following is an example of an Automated Application Control?

(*a*) Manual data entry.

(*b*) Edit checks and validation of input data.

(*c*) Paper-based record keeping.

(*d*) Human observation checks.

228. What is the key dependency for the effectiveness of IT dependent controls?

(*a*) Reliance on manual processes.

(*b*) Independence from IT systems.

(*c*) Inconsistency in source data.

(*d*) Reliability of source data produced from IT systems.

229. Which audit test is considered most effective but can be very time-consuming and least efficient most of the time?

(*a*) Inquiry

(*b*) Observation

(*c*) Inspection

(*d*) Reperformance

230. What is recommended when using inquiry as an audit test in an automated environment?

(*a*) Use inquiry alone for comprehensive audit evidence.

(*b*) Combine inquiry with observation for efficiency.

(*c*) Use inquiry in combination with any other audit testing method.
(*d*) Rely solely on inquiry for testing.

231. Which combination of audit tests is often considered the most effective and efficient in an automated environment?
(*a*) Inquiry and reperformance
(*b*) Inspection and observation
(*c*) Inquiry and observation
(*d*) Inspection and reperformance

232. When testing in an automated environment, what is a common method to obtain an understanding of how an automated transaction is processed?
(*a*) Relying solely on inquiry.
(*b*) Walkthrough of one end-to-end transaction using a combination of inquiry, observation, and inspection.
(*c*) Observing how users process transactions under different scenarios.
(*d*) Ignoring the configuration defined in an application.

233. What should the auditor assess when general IT controls are not existing or are ineffective in an automated environment?
(*a*) The history of errors/misstatements.
(*b*) The complexity of the business.
(*c*) The desired level of evidence.
(*d*) Impact of IT risks and complexity of the automated environment.

234. Which of the following is a characteristic of manual controls in an entity's system of internal control?
(*a*) Independence of control activities.
(*b*) Reliability higher than automated controls.
(*c*) Consistency of application.
(*d*) Resistance to errors.

235. In which circumstances are manual elements in internal control more suitable?
(*a*) High volume or recurring transactions.
(*b*) Situations where errors can be anticipated or predicted.
(*c*) Changing circumstances requiring a control response outside the scope of an existing automated control.
(*d*) Monitoring the effectiveness of automated controls.

236. What is a potential limitation of manual elements in internal control?
(*a*) Difficulty in bypassing or overriding.
(*b*) Higher reliability compared to automated elements.
(*c*) Prone to simple errors and mistakes.
(*d*) Consistent application.

237. In what situations may manual controls be less suitable?
(*a*) Monitoring the effectiveness of automated controls.
(*b*) Circumstances where errors are difficult to define, anticipate, or predict.

(*c*) Control activities with specific ways that can be adequately designed and automated.
(*d*) Large, unusual, or non-recurring transactions.

238. How does IT suggest an entity should respond to the risks arising from the use of IT or manual elements in internal control?
(*a*) Prioritize reliance on manual controls.
(*b*) Establish effective controls in light of the characteristics of the entity's information system.
(*c*) Increase dependence on automated controls.
(*d*) Standardize control parameters across all systems.

239. What do CAATs stand for in the context of data analytics?
(*a*) Computer Advanced Audit Tools.
(*b*) Comprehensive Audit and Analysis Techniques.
(*c*) Computer Assisted Auditing Techniques.
(*d*) Controlled Analysis of Audit Technology.

240. What is one of the uses of data analytics for auditors applying CAATs?
(*a*) Marketing analysis.
(*b*) Fraud investigation.
(*c*) Customer relationship management.
(*d*) Operational efficiency assessment.

241. Which of the following is NOT mentioned as a function of data analytics in the audit process using CAATs?
(*a*) Selection of audit samples.
(*b*) Analysis of journal entries.
(*c*) Customer service improvement.
(*d*) Re-computation of balances.

242. What is the purpose of using data analytics in testing electronic records and data residing in IT systems?
(*a*) To increase profitability.
(*b*) To gain competitive advantage.
(*c*) To check completeness of data and population.
(*d*) To perform marketing analysis.

243. What is a key element of digitization in today's business environment?
(*a*) Manual record-keeping.
(*b*) Restructuring business models.
(*c*) Avoiding technology.
(*d*) Ignoring automation.

244. How are auditors leveraging technology in the digital business?
(*a*) By avoiding technology.
(*b*) By using manual processes.
(*c*) Utilizing artificial intelligence and data analytics.
(*d*) Ignoring business processes.

245. Which of the following is one of the primary responsibilities of Internal Financial Controls (IFC) according to the Companies Act, 2013?

(*a*) Ensuring high employee satisfaction.
(*b*) Maximizing shareholder dividends.
(*c*) Safeguarding of assets.
(*d*) External marketing strategies.

246. As per the Companies Act, 2013, which type of company is exempt from the requirement of disclosing the adequacy and operating effectiveness of Internal Financial Controls (IFC) in its auditor's report?

(*a*) Large public company.
(*b*) Private company with a turnover less than ₹ 50 crore.
(*c*) One Person Company.
(*d*) Small public company.

247. According to the Companies Act, 2013, which section emphasizes the responsibility of the Directors of listed companies to lay down internal financial controls for the company?

(*a*) Section 134(5)(e).
(*b*) Section 143(3)(i).
(*c*) Section 177(4)(vii).
(*d*) Section 149(8).

248. What is one of the roles and functions of independent directors according to the Code specified in Schedule IV of the Companies Act, 2013?

(*a*) Maximizing short-term profits.
(*b*) Ensuring compliance with marketing regulations.
(*c*) Satisfying themselves on the integrity of financial information and robustness of financial controls.
(*d*) Managing day-to-day operations.

249. Which committee is responsible for the evaluation of internal financial controls and risk management systems according to the Companies Act, 2013?

(*a*) Nomination and Remuneration Committee.
(*b*) Stakeholder Relationship Committee.
(*c*) Audit Committee.
(*d*) Corporate Social Responsibility Committee.

250. Who has the primary responsibility for implementing and maintaining an effective internal controls framework according to the Companies Act, 2013?

(*a*) Shareholders.
(*b*) Auditors.
(*c*) Directors and management.
(*d*) Regulatory authorities.

251. What does the auditor's report, as per Section 143(3)(i) of the Companies Act, 2013, specifically state regarding Internal Financial Controls (IFC)?

(*a*) The auditor's opinion on the company's market position.
(*b*) Whether the company has effective advertising strategies.

(*c*) Whether the company has adequate Internal Financial Controls system in place and the operating effectiveness of such controls.

(*d*) The auditor's assessment of employee satisfaction.

252. What should the auditor document regarding the risks identified in the audit process?

(*a*) Only the discussion among the engagement team.

(*b*) Only the key elements of the understanding obtained.

(*c*) The identified and assessed risks of material misstatement and related controls.

(*d*) Only the significant decisions reached during the audit.

253. Which of the following is part of the documentation required for risk assessment in an audit, according to the auditor's responsibilities?

(*a*) The auditor's personal opinions on the entity's financial performance.

(*b*) Only the identified risks at the financial statement level.

(*c*) Key elements of the understanding obtained and the risk assessment procedures performed.

(*d*) Discussions held within the engagement team without recording the decisions.

254. When assessing findings or exceptions in the IT environment, what does a deficiency in internal control mean?

(*a*) Any observed deviation from standard industry practices.

(*b*) An exception that affects financial statements on a timely basis.

(*c*) Any control missing or unable to prevent, detect, and correct misstatements.

(*d*) Only significant deficiencies reported to those charged with governance.

255. What is the appropriate communication method for reporting deficiencies to the management or those charged with governance?

(*a*) Oral communication during the exit meeting.

(*b*) Verbal discussion during routine interactions.

(*c*) Internal controls memo or Management letter.

(*d*) Written communication via social media platforms.

256. What is the main objective of the auditor in designing and implementing overall responses to address the assessed risks of material misstatement at the financial statement level?

(*a*) To solely rely on substantive procedures.

(*b*) To obtain audit evidence about the assessed risks of material misstatement.

(*c*) To perform more persuasive audit evidence.

(*d*) To design and implement controls at the assertion level.

257. When designing further audit procedures at the assertion level, what factors should the auditor consider regarding the assessment of risks of material misstatement?

(*a*) Only the inherent risk associated with the relevant class of transactions.

(*b*) Control risk without considering the inherent risk.

(*c*) Inherent risk and control risk associated with the relevant class of transactions, account balance, or disclosure.

(*d*) Only the control risk associated with the relevant class of transactions.

258. Under what circumstances does the auditor perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls?

(*a*) When substantive procedures alone can provide sufficient appropriate audit evidence.

(*b*) When relying on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures.

(*c*) Only when controls are of high inherent risk.

(*d*) When there is no reliance on controls in the audit approach.

259. What additional audit procedures should the auditor perform in combination with inquiry when testing the operating effectiveness of controls?

(*a*) Inspection or reperformance.

(*b*) Observation or reperformance.

(*c*) Inquiry alone.

(*d*) Inspection or observation.

260. When more persuasive audit evidence is needed regarding the effectiveness of a control, what may be appropriate to increase?

(*a*) The number of substantive procedures.

(*b*) The reliance on controls.

(*c*) The length of the audit period.

(*d*) The frequency of control performance by the entity.

261. What matters may the auditor consider in determining the extent of tests of controls?

(*a*) The auditor's level of experience.

(*b*) The expected rate of deviation from a control.

(*c*) The relevance and reliability of audit evidence for all assertions.

(*d*) The number of audit team members.

262. When should the auditor test controls to provide an appropriate basis for intended reliance?

(*a*) At any point in time during the audit period.

(*b*) Only at the beginning of the audit period.

(*c*) At the end of the period.

(*d*) Throughout the period for which the auditor intends to rely on those controls.

263. What type of tests may be appropriate if the auditor intends to rely on a control over a period, and the control operated effectively at relevant times during that period?

(*a*) Substantive procedures.

(*b*) Tests of controls related to other assertions.

(*c*) Tests of controls capable of providing audit evidence over that period.

(*d*) Tests of the entity's monitoring of controls.

264. What does the auditor's responsibility include when obtaining audit evidence about the operating effectiveness of controls at relevant times during the period?

(*a*) Only examining the controls at a point in time.

(*b*) Only considering the controls' effectiveness during the audit period.

(*c*) Obtaining audit evidence throughout the period for the controls.

(*d*) Depending solely on the entity's monitoring of controls.

265. In the context of SA 330, what should the auditor consider regarding the approach adopted for testing controls?

(*a*) Primarily relying on substantive procedures.

(*b*) Primarily relying on tests of controls.

(*c*) Ignoring the expected rate of deviation.

(*d*) Not considering the length of the audit period.

266. What should the auditor consider when determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits?

(*a*) The auditor's personal preferences.

(*b*) The cost-effectiveness of controls.

(*c*) The weather conditions during the audit period.

(*d*) The effectiveness of other elements of internal control, risks arising from the characteristics of the control, and the risks of material misstatement.

267. When planning to use audit evidence from a previous audit about the operating effectiveness of specific controls, what must the auditor establish?

(*a*) The auditor's personal preferences.

(*b*) The continuing relevance of that evidence by obtaining audit evidence about significant changes in those controls.

(*c*) The auditor's personal opinions.

(*d*) The auditor's budget constraints.

268. How does the absence of misstatements detected by substantive procedures impact the evaluation of controls?

(*a*) It provides conclusive evidence that controls are effective.

(*b*) It indicates the effectiveness of controls related to the assertion being tested.

(*c*) It requires the auditor to retest all controls.

(*d*) It does not provide audit evidence that controls related to the assertion being tested are effective.

269. When deviations from controls are detected, what specific inquiries should the auditor make?

(*a*) Inquiries regarding the budget constraints of the entity.

(*b*) Inquiries to understand these matters and their potential consequences.

(*c*) Inquiries about the weather conditions during the audit.

(*d*) Inquiries about the auditor's personal opinions.

270. What may be appropriate when more persuasive audit evidence is needed regarding the effectiveness of a control?

(*a*) Reducing the extent of testing of the control.

(*b*) Increasing the reliance on controls.

(*c*) Ignoring the potential risks of misstatement.

(*d*) Relying solely on substantive procedures.

271. What does the auditor need to evaluate when deviations from controls are detected?

(*a*) Only the nature of deviations.

(*b*) The potential risks of misstatement and the extent of reliance on the control.

(*c*) Only the length of the audit period.

(*d*) The effectiveness of the control.

272. What does the term "substantive procedures" refer to in the context of auditing?

(*a*) Procedures that involve personal opinions of the auditor.

(*b*) Procedures designed to detect material misstatements at the assertion level.

(*c*) Procedures that involve budget constraints of the entity.

(*d*) Procedures only applicable to small entities.

273. What are "substantive analytical procedures"?

(*a*) Procedures involving the entity's monitoring of controls.

(*b*) Procedures designed to detect misstatements through inspection or reperformance.

(*c*) Procedures evaluating financial information through analysis of plausible relationships among financial and non-financial data.

(*d*) Procedures solely relying on the operating effectiveness of controls.

274. In what circumstances may the auditor determine that performing only substantive analytical procedures is sufficient to reduce audit risk to an acceptably low level?

(*a*) Only when there is no reliance on controls.

(*b*) When the audit risk is not judgmental.

(*c*) When the auditor's assessment of risk is supported by audit evidence from tests of controls.

(*d*) When relying on the operating effectiveness of controls.

275. What are "tests of details" in auditing?

(*a*) Procedures involving personal opinions of the auditor.

(*b*) Procedures only applicable to large entities.

(*c*) Procedures designed to detect material misstatements through inspection or reperformance.

(*d*) Procedures verifying significant changes in controls.

276. When assessing the extent of substantive procedures, what is relevant in addition to the sample size?

(*a*) Only the auditor's level of experience.

(*b*) The relevance and reliability of audit evidence.

(*c*) The weather conditions during the audit period.

(*d*) The length of the audit period.

277. When designing tests of details, what should the auditor consider regarding the extent of testing?

(*a*) Only the sample size.

(*b*) Whether it is more effective to use other selective means of testing.

(*c*) The auditor's budget constraints.

(*d*) Whether it is more effective to rely solely on substantive analytical procedures.

278. What should the auditor consider when evaluating the operating effectiveness of relevant controls?

(*a*) Only the auditor's personal preferences.

(*b*) The sample size of substantive procedures.

(*c*) Whether the entity's monitoring of controls is effective.

(*d*) Whether misstatements detected by substantive procedures indicate that controls are not operating effectively.

279. Why may the extent of substantive procedures need to be increased when the results from tests of controls are unsatisfactory?

(*a*) Only when there is no reliance on controls.

(*b*) Because of the inherent limitations to internal control, including management override.

(*c*) Only when the auditor's level of experience is low.

(*d*) When relying on the operating effectiveness of controls.

280. What is the purpose of substantive procedures in auditing?

(*a*) To solely rely on the operating effectiveness of controls.

(*b*) To detect material misstatements at the assertion level.

(*c*) To evaluate internal control.

(*d*) To perform additional tests of controls.

Answer Key

1. (*b*)	**2.** (*b*)	**3.** (*c*)	**4.** (*b*)	**5.** (*b*)	**6.** (*b*)	**7.** (*c*)	**8.** (*b*)	**9.** (*b*)	**10.** (*c*)
11. (*c*)	**12.** (*c*)	**13.** (*c*)	**14.** (*c*)	**15.** (*b*)	**16.** (*b*)	**17.** (*d*)	**18.** (*c*)	**19.** (*b*)	**20.** (*c*)
21. (*c*)	**22.** (*d*)	**23.** (*c*)	**24.** (*c*)	**25.** (*b*)	**26.** (*a*)	**27.** (*c*)	**28.** (*a*)	**29.** (*c*)	**30.** (*b*)
31. (*c*)	**32.** (*c*)	**33.** (*d*)	**34.** (*c*)	**35.** (*c*)	**36.** (*c*)	**37.** (*c*)	**38.** (*a*)	**39.** (*c*)	**40.** (*a*)
41. (*c*)	**42.** (*c*)	**43.** (*b*)	**44.** (*b*)	**45.** (*c*)	**46.** (*a*)	**47.** (*a*)	**48.** (*b*)	**49.** (*c*)	**50.** (*b*)
51. (*c*)	**52.** (*c*)	**53.** (*b*)	**54.** (*d*)	**55.** (*c*)	**56.** (*c*)	**57.** (*b*)	**58.** (*c*)	**59.** (*c*)	**60.** (*c*)
61. (*b*)	**62.** (*c*)	**63.** (*c*)	**64.** (*b*)	**65.** (*c*)	**66.** (*c*)	**67.** (*b*)	**68.** (*d*)	**69.** (*c*)	**70.** (*c*)
71. (*b*)	**72.** (*c*)	**73.** (*c*)	**74.** (*c*)	**75.** (*b*)	**76.** (*c*)	**77.** (*c*)	**78.** (*b*)	**79.** (*c*)	**80.** (*d*)
81. (*c*)	**82.** (*d*)	**83.** (*c*)	**84.** (*c*)	**85.** (*b*)	**86.** (*d*)	**87.** (*c*)	**88.** (*c*)	**89.** (*d*)	**90.** (*c*)
91. (*c*)	**92.** (*c*)	**93.** (*c*)	**94.** (*c*)	**95.** (*c*)	**96.** (*c*)	**97.** (*c*)	**98.** (*c*)	**99.** (*b*)	**100.** (*c*)
101. (*c*)	**102.** (*c*)	**103.** (*b*)	**104.** (*c*)	**105.** (*c*)	**106.** (*b*)	**107.** (*d*)	**108.** (*b*)	**109.** (*b*)	**110.** (*b*)
111. (*c*)	**112.** (*c*)	**113.** (*b*)	**114.** (*c*)	**115.** (*b*)	**116.** (*b*)	**117.** (*d*)	**118.** (*c*)	**119.** (*b*)	**120.** (*c*)
121. (*c*)	**122.** (*c*)	**123.** (*c*)	**124.** (*b*)	**125.** (*c*)	**126.** (*c*)	**127.** (*c*)	**128.** (*d*)	**129.** (*c*)	**130.** (*b*)

131. (*c*)	**132.** (*c*)	**133.** (*c*)	**134.** (*c*)	**135.** (*b*)	**136.** (*b*)	**137.** (*b*)	**138.** (*c*)	**139.** (*a*)	**140.** (*a*)
141. (*b*)	**142.** (*c*)	**143.** (*c*)	**144.** (*b*)	**145.** (*b*)	**146.** (*c*)	**147.** (*d*)	**148.** (*b*)	**149.** (*b*)	**150.** (*b*)
151. (*c*)	**152.** (*b*)	**153.** (*d*)	**154.** (*c*)	**155.** (*c*)	**156.** (*a*)	**157.** (*b*)	**158.** (*b*)	**159.** (*c*)	**160.** (*d*)
161. (*c*)	**162.** (*d*)	**163.** (*c*)	**164.** (*c*)	**165.** (*b*)	**166.** (*a*)	**167.** (*b*)	**168.** (*b*)	**169.** (*b*)	**170.** (*c*)
171. (*c*)	**172.** (*d*)	**173.** (*c*)	**174.** (*b*)	**175.** (*d*)	**176.** (*c*)	**177.** (*c*)	**178.** (*c*)	**179.** (*b*)	**180.** (*c*)
181. (*a*)	**182.** (*c*)	**183.** (*c*)	**184.** (*c*)	**185.** (*c*)	**186.** (*c*)	**187.** (*b*)	**188.** (*c*)	**189.** (*b*)	**190.** (*d*)
191. (*d*)	**192.** (*c*)	**193.** (*a*)	**194.** (*d*)	**195.** (*c*)	**196.** (*d*)	**197.** (*c*)	**198.** (*b*)	**199.** (*b*)	**200.** (*d*)
201. (*a*)	**202.** (*d*)	**203.** (*c*)	**204.** (*b*)	**205.** (*d*)	**206.** (*a*)	**207.** (*b*)	**208.** (*b*)	**209.** (*a*)	**210.** (*a*)
211. (*c*)	**212.** (*c*)	**213.** (*b*)	**214.** (*c*)	**215.** (*c*)	**216.** (*c*)	**217.** (*d*)	**218.** (*a*)	**219.** (*d*)	**220.** (*c*)
221. (*b*)	**222.** (*a*)	**223.** (*b*)	**224.** (*b*)	**225.** (*b*)	**226.** (*b*)	**227.** (*b*)	**228.** (*d*)	**229.** (*d*)	**230.** (*c*)
231. (*d*)	**232.** (*b*)	**233.** (*d*)	**234.** (*c*)	**235.** (*c*)	**236.** (*c*)	**237.** (*c*)	**238.** (*b*)	**239.** (*c*)	**240.** (*b*)
241. (*c*)	**242.** (*c*)	**243.** (*b*)	**244.** (*c*)	**245.** (*c*)	**246.** (*b*)	**247.** (*a*)	**248.** (*c*)	**249.** (*c*)	**250.** (*c*)
251. (*c*)	**252.** (*c*)	**253.** (*c*)	**254.** (*c*)	**255.** (*c*)	**256.** (*b*)	**257.** (*c*)	**258.** (*b*)	**259.** (*a*)	**360.** (*b*)
261. (*b*)	**262.** (*d*)	**263.** (*c*)	**264.** (*c*)	**265.** (*b*)	**266.** (*d*)	**267.** (*b*)	**268.** (*d*)	**269.** (*b*)	**270.** (*b*)
271. (*b*)	**272.** (*b*)	**273.** (*c*)	**274.** (*c*)	**275.** (*c*)	**276.** (*b*)	**277.** (*b*)	**278.** (*d*)	**279.** (*b*)	**280.** (*b*)

SOLUTION

1. (*b*) The risk of an inappropriate audit opinion when financial statements are materially misstated
2. (*b*) By obtaining sufficient appropriate audit evidence
3. (*c*) Risks of material misstatement and detection risk
4. (*b*) It is the risk that financial statements are misstated prior to the audit.
5. (*b*) A difference between reported financial statement items and their required presentation.
6. (*b*) Booking fake expenses in the statement of profit and loss intentionally.
7. (*c*) Financial statement level and assertion level.
8. (*b*) Pervasive misstatements affecting the financial statements as a whole.
9. (*b*) To determine the nature, timing, and extent of further audit procedures.
10. (*c*) Writing off irrecoverable debts.
11. (*c*) Inherent risk and control risk
12. (*c*) The susceptibility of an assertion to a misstatement, either individually or when aggregated, before considering internal controls.
13. (*c*) Assertions related to complex calculations.
14. (*c*) Inherent risk is considered in both the design of tests of controls and substantive procedures.
15. (*b*) Technological developments.
16. (*b*) High turnover of key personnel in the organization.
17. (*d*) By considering both internal and external factors.
18. (*c*) To understand the impact on the design of tests of controls and substantive procedures.
19. (*b*) The risk that internal controls are not efficient in preventing or detecting material misstatements.
20. (*c*) There is an inverse relation between control risk and the efficiency of internal control.
21. (*c*) The risk that internal controls will not prevent or detect material misstatements.
22. (*d*) A control not being followed for routing petty cash expenditures.
23. (*c*) By considering the effectiveness of internal controls.
24. (*c*) The risk that procedures to reduce audit risk may not detect existing misstatements.
25. (*b*) The risk that the auditor's conclusion based on a sample may differ from the conclusion with the entire population.
26. (*a*) Non-sampling risk is related to errors in the application of inappropriate audit procedures, while sampling risk is related to the representativeness of the sample.
27. (*c*) Increase the area of checking, test larger samples, and include competent and experienced persons in the engagement team.
28. (*a*) Inherent risk and control risk are inherent to the entity and cannot be influenced by auditors.

29. (*c*) Audit risk is a technical term specific to the auditing process, excluding business risks.

30. (*b*) This risk is considered insignificant in the context of the SAs.

31. (*c*) Training, knowledge, and experience

32. (*c*) A matter of professional judgment

33. (*d*) Referring to a combined assessment of the risks of material misstatement

34. (*c*) Make separate or combined assessments based on preferred techniques

35. (*c*) Either in quantitative or non-quantitative terms

36. (*c*) The need for appropriate risk assessments

37. (*c*) Audit risk = Inherent risk × Control risk × Detection risk

38. (*a*) Identifying and assessing risks of material misstatement at the assertion level.

39. (*c*) At both the financial statement level and the assertion level.

40. (*a*) By considering the likelihood of misstatement and evaluating potential misstatements.

41. (*c*) The likelihood of misstatement and the possibility of multiple misstatements.

42. (*c*) Assessing identified risks more pervasively to the financial statements as a whole.

43. (*b*) To identify and assess risks of material misstatement at the financial statement and assertion levels.

44. (*b*) They serve as the primary basis for designing and implementing responses to risks.

45. (*c*) Both risks due to error and risks due to fraud.

46. (*a*) Internal audit personnel, legal counsel, and marketing personnel.

47. (*a*) By providing a broad initial indication of whether a material misstatement may exist.

48. (*b*) Observing the entity's operations and plant facilities.

49. (*c*) By providing information about the entity's environment.

50. (*b*) To support assessments of the risks of material misstatement.

51. (*c*) The auditor may choose to perform them concurrently with risk assessment procedures.

52. (*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.

53. (*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.

54. (*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

55. (*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.

56. (*c*) Both in planning and performing the audit and in evaluating misstatements.

57. (*b*) Misstatements are material if they influence the economic decisions of users.

58. (*c*) They provide a basis for determining risk assessment procedures and further audit procedures.

59. (*c*) The auditor considers both the size and nature of uncorrected misstatements and their specific circumstances.

60. (*c*) Materiality.

61. (*b*) By considering both the size and nature of misstatements.

62. (*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

63. (*c*) When there is a statutory requirement of disclosure.

64. (*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

65. (*c*) Both the percentage and the total number of shares held.

66. (*c*) If they, individually or collectively, could reasonably be expected to influence economic decisions of users.

67. (*b*) To express an opinion on whether the financial statements are prepared in accordance with an applicable financial reporting framework.

68. (*d*) By stating that the auditor must obtain reasonable assurance that financial statements are free from material misstatement.

69. (*c*) Because small amounts lost by fraudulent practices can indicate a serious flaw in internal control.

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74. (*c*) Materiality.

75. (*b*) By considering both the size and nature of misstatements.

76. (*c*) From different perspectives, including impact on profit and loss, balance sheet, and category totals.

77. (*c*) When there is a statutory requirement of disclosure.

78. (*b*) If it exceeds 1 percent of the revenue from operations or ₹ 1,00,000, whichever is higher.

79. (*c*) Both the percentage and the total number of shares held.

80. (*d*) Users have reasonable knowledge of business and economic activities and accounting.

81. (*c*) Users understand that financial statements are prepared, presented, and audited to levels of materiality.

82. (*d*) The amount set by the auditor at less than materiality to reduce the risk of aggregate misstatements.

83. (*c*) Performance materiality is set at a lower value than overall materiality.

84. (*c*) Misstatements are likely material in aggregate.

85. (*b*) To decrease the risk that aggregate misstatements exceed materiality.

86. (*d*) The amount or amounts set by the auditor at less than the materiality level for particular classes of transactions, account balances, or disclosures.

87. (*c*) By lowering the risk of uncorrected and undetected misstatements exceeding materiality.

88. (*c*) To reduce the overall risk of material misstatement.

89. (*d*) It lowers the risk of overlooking aggregate misstatements.

90. (*c*) The auditor determines materiality for the financial statements as a whole.

91. (*c*) If misstatements in certain classes could reasonably influence economic decisions.

92. (*c*) The elements of the financial statements.

93. (*c*) Total equity or net asset value.

94. (*c*) Users tend to focus on items that are relevant for evaluating financial performance.

95. (*c*) Higher volatility may require a more stable benchmark.

96. (*c*) Data adjusted for significant changes in the industry.

97. (*c*) A significant business acquisition.

98. (*c*) The percentage is normally higher for profit before tax from continuing operations than for total revenue.

99. (*b*) When profit before tax is volatile.

100. (*c*) The percentage is normally lower for profit before tax from continuing operations than for total revenue.

101. (*c*) Due to variations in industry and economic conditions.

102. (*c*) Professional judgment based on relevant factors.

103. (*b*) Keep the probability of misstatements below materiality.

104. (*c*) Whether regulations affect users' expectations on certain items.

105. (*c*) Research and development costs.

106. (*b*) When attention is focused on a specific aspect disclosed in the financial statements.

107. (*d*) All of the above.

108. (*b*) Revise materiality for the financial statements as a whole.

109. (*b*) Determine if a revision of performance materiality is necessary.

110. (*b*) Materiality for the financial statements as a whole, materiality levels for particular classes, and performance materiality.

111. (*c*) To express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

112. (*c*) By obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

113. (*b*) Audit risk is the risk that the auditor may express an inappropriate audit opinion when the financial statements are materially misstated, and it is a function of the risks of material misstatement and detection risk.

114. (*c*) Both industry conditions and regulatory factors, including general economic conditions and interest rates.

115. (*b*) To identify complex structures that may introduce risks of material misstatement.

116. (*b*) Whether the entity's accounting policies are consistent with the applicable financial reporting framework and appropriate for its business.

117. (*d*) To increase the likelihood of identifying risks of material misstatement in the financial statements.

118. (*c*) By considering whether pressures to achieve performance targets may result in actions that increase the risks of material misstatement.

119. (*b*) Lack of personnel or expertise to deal with industry changes.

120. (*c*) Both key performance indicators and period-on-period financial performance analyses.

121. (*c*) To identify risks of material misstatement in the financial statements.

122. (*c*) Risks of material misstatement in the financial statements and those arising from change or complexity.

123. (*c*) By increasing the likelihood of identifying risks of material misstatement with financial consequences.

124. (*b*) To gather, update, and analyze information continuously throughout the audit.

125. (*c*) It is one of the important principles in developing an overall audit plan.

126. (*c*) Throughout the audit, including planning, execution, and evaluation of audit evidence.

127. (*c*) By establishing a frame of reference for planning and exercising professional judgment.

128. (*d*) It is critical in ensuring the appropriateness of accounting policies.

129. (*c*) The process designed, implemented, and maintained by those charged with governance, management, and other personnel.

130. (*b*) Any aspects of one or more of the components of internal control.

131. (*c*) Reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

132. (*c*) By identifying types of potential misstatements, factors affecting risks of material misstatement, and designing further audit procedures.

133. (*c*) It varies with the entity's size and complexity.

134. (*c*) Reasonable assurance.

135. (*b*) Human judgment can lead to faulty decision-making and breakdowns in internal control.

136. (*b*) Controls may not be effective if information produced for internal control purposes is not understood or acted upon.

137. (*b*) Collusion among two or more people or inappropriate management override.

138. (*c*) Management may make judgments on the nature and extent of controls and the risks it chooses to assume.

139. (*a*) The control environment.

140. (*a*) Communication and enforcement of integrity and ethical values.

141. (*b*) It influences the control consciousness of the people in the organization.

142. (*c*) The extent of their involvement and the information they receive.

143. (*c*) A broad range of characteristics, including attitudes and actions towards financial reporting and risk management.

144. (*b*) Lines of reporting within the organization.

145. (*b*) How authority and responsibility for operating activities are assigned.

146. (*c*) They demonstrate an entity's commitment to competent and trustworthy individuals.

147. (*d*) It reflects management's philosophy and operating style.

148. (*b*) The size and nature of the entity's activities.

149. (*b*) By emphasizing the entity's commitment to competent and trustworthy individuals.

150. (*b*) A satisfactory control environment reduces the risk of fraud but is not an absolute deterrent.

151. (*c*) Deficiencies may undermine the effectiveness of controls, allowing improper changes and unauthorized transactions.

152. (*b*) Deciding about actions to address risks.

153. (*d*) New technology.

154. (*c*) Classes of transactions, procedures, accounting records, and financial reporting process.

155. (*c*) Carrying out management directives.

156. (*a*) Effectiveness of controls on a timely basis.

157. (*b*) Internal memos.

158. (*b*) Regular management and supervisory activities.

159. (*c*) Infrastructure, software, people, procedures, and data.

160. (*d*) To identify and manage risks relevant to financial reporting objectives.

161. (*c*) It influences the auditor's evaluation of the effectiveness of other controls.

162. (*d*) All of the above.

163. (*c*) Complexity of the systems in the entity's internal control.

164. (*c*) Whether the control prevents, detects, and corrects material misstatement.

165. (*b*) When the auditor intends to use the information in designing and performing further procedures.

166. (*a*) When controls relate to data used in financial reporting.

167. (*b*) Controls relevant to the reliability of financial reporting.

168. (*b*) Access controls limiting access to data for processing cash disbursements.

169. (*b*) Controls related to efficient and effective operations are generally not relevant.

170. (*c*) In certain circumstances, depending on the entity's structure and operations.

171. (*c*) When the statute or regulation governing the entity requires reporting on compliance.

172. (*d*) Relevance depends on the entity's size and complexity.

173. (*c*) Whether the control is capable of preventing, detecting, and correcting material misstatements.

174. (*b*) Inquiry, observation, inspection, and transaction tracing.

175. (*d*) It only provides evidence about design.

176. (*c*) When the control's operating effectiveness varies during the audit period.

177. (*c*) The auditor's assessment and testing of controls, such as those over program changes, support it.

178. (*c*) Whether the risk is a risk of fraud.

179. (*b*) The level of difficulty in understanding and auditing the transactions.

180. (*c*) The importance of the transactions with related parties.

181. (*a*) Precision of measurement.

182. (*c*) They are unusual due to size or nature and occur infrequently.

183. (*c*) They are unusual and infrequent, leading to higher likelihood and magnitude.

184. (*c*) Risks of material misstatement due to fraud.

185. (*c*) The infrequent occurrence and nature of the transactions.

186. (*c*) Complexity or subjectivity of accounting principles and assumptions.

187. (*b*) Identifying errors and frauds in the ordinary course of business operations.

188. (*c*) Whether controls safeguard assets adequately.

189. (*b*) It provides insights into areas where controls are weak.

190. (*d*) How management is discharging its function in recording transactions.

191. (*d*) Providing suggestions to improve the control system.

192. (*c*) Conducting financial statement audits.

193. (*a*) Difficulty in comprehending the system in operation.

194. (*d*) CheckList.

195. (*c*) Minimizes the amount of narrative explanation.

196. (*d*) Flow chart.

197. (*c*) Flow chart.

198. (*b*) Difficulty in incorporating changes arising from reshuffling of manpower.

199. (*b*) A comprehensive series of questions.

200. (*d*) Narrative record.

201. (*a*) Initials.

202. (*d*) Significance of non-routine transactions.

203. (*c*) To achieve a concise consideration or presentation.

204. (*b*) Provides a bird's eye view of the system.

205. (*d*) Flow chart.

206. (*a*) Minimizes the amount of narrative explanation.

207. (*b*) Internal Control questionnaire.

208. (*b*) Involves on-the-job requirement.

209. (*a*) Characteristics of the system.

210. (*a*) Oversight or omission of significant review procedures is likely.

211. (*c*) To examine whether and how far the internal control system is in operation.

212. (*c*) Confirmation of financial transactions.

213. (*b*) Independent execution of procedures or controls by the auditor.

214. (*c*) Technological advancements.

215. (*c*) By considering the implications of deviations and revising the assessment of control risk if necessary.

216. (*c*) System-driven processes with less manual intervention.

217. (*d*) Integration amongst business operations.

218. (*a*) Level of automation.

219. (*d*) All of the above.

220. (*c*) Changes in market trends.

221. (*b*) To support the effective functioning of application controls.

222. (*a*) Access security.

223. (*b*) To ensure the production systems meet financial reporting objectives.

224. (*b*) Controls that support the effective functioning of application controls.

225. (*b*) Change management process.

226. (*b*) To ensure the completeness, accuracy, and integrity of data in IT applications.

227. (*b*) Edit checks and validation of input data.

228. (*d*) Reliability of source data produced from IT systems.

229. (*d*) Reperformance

230. (*c*) Use inquiry in combination with any other audit testing method.

231. (*d*) Inspection and reperformance

232. (*b*) Walkthrough of one end-to-end transaction using a combination of inquiry, observation, and inspection.

233. (*d*) Impact of IT risks and complexity of the automated environment.

234. (*c*) Consistency of application.

235. (*c*) Changing circumstances requiring a control response outside the scope of an existing automated control.

236. (*c*) Prone to simple errors and mistakes.

237. (*c*) Control activities with specific ways that can be adequately designed and automated.

238. (*b*) Establish effective controls in light of the characteristics of the entity's information system.

239. (*c*) Computer Assisted Auditing Techniques.

240. (*b*) Fraud investigation.

241. (*c*) Customer service improvement.

242. (*c*) To check completeness of data and population.

243. (*b*) Restructuring business models.

244. (*c*) Utilizing artificial intelligence and data analytics.

245. (*c*) Safeguarding of assets.

246. (*b*) Private company with a turnover less than ₹ 50 crore.

247. (*a*) Section 134(5)(e).

248. (*c*) Satisfying themselves on the integrity of financial information and robustness of financial controls.

249. (*c*) Audit Committee.

250. (*c*) Directors and management.

251. (*c*) Whether the company has adequate Internal Financial Controls system in place and the operating effectiveness of such controls.

252. (*c*) The identified and assessed risks of material misstatement and related controls.

253. (*c*) Key elements of the understanding obtained and the risk assessment procedures performed.

254. (*c*) Any control missing or unable to prevent, detect, and correct misstatements.

255. (*c*) Internal controls memo or Management letter.

256. (*b*) To obtain audit evidence about the assessed risks of material misstatement.

257. (*c*) Inherent risk and control risk associated with the relevant class of transactions, account balance, or disclosure.

258. (*b*) When relying on the operating effectiveness of controls in determining the nature, timing, and extent of substantive procedures.

259. (*a*) Inspection or reperformance.

260. (*b*) The reliance on controls.

261. (*b*) The expected rate of deviation from a control.

262. (*d*) Throughout the period for which the auditor intends to rely on those controls.

263. (*c*) Tests of controls capable of providing audit evidence over that period.

264. (*c*) Obtaining audit evidence throughout the period for the controls.

265. (*b*) Primarily relying on tests of controls.

266. (*d*) The effectiveness of other elements of internal control, risks arising from the characteristics of the control, and the risks of material misstatement.

267. (*b*) The continuing relevance of that evidence by obtaining audit evidence about significant changes in those controls.

268. (*d*) It does not provide audit evidence that controls related to the assertion being tested are effective.

269. (*b*) Inquiries to understand these matters and their potential consequences.

270. (*b*) Increasing the reliance on controls.

271. (*b*) The potential risks of misstatement and the extent of reliance on the control.

272. (*b*) Procedures designed to detect material misstatements at the assertion level.

273. (*c*) Procedures evaluating financial information through analysis of plausible relationships among financial and non-financial data.

274. (*c*) When the auditor's assessment of risk is supported by audit evidence from tests of controls.

275. (*c*) Procedures designed to detect material misstatements through inspection or reperformance.

276. (*b*) The relevance and reliability of audit evidence.

277. (*b*) Whether it is more effective to use other selective means of testing.

278. (*d*) Whether misstatements detected by substantive procedures indicate that controls are not operating effectively.

279. (*b*) Because of the inherent limitations to internal control, including management override.

280. (*b*) To detect material misstatements at the assertion level.

CHAPTER 4

Audit Evidence

MULTIPLE CHOICE QUESTIONS

1. How is audit evidence defined?
   (*a*) Information used by management
   (*b*) Information used by the auditor in arriving at conclusions for the financial statements
   (*c*) Financial statements themselves
   (*d*) Expert knowledge and experience of the auditor

2. What are the broad types of evidence mentioned in the text?
   (*a*) Only documentary examination
   (*b*) Only physical examination
   (*c*) A variety including documentary examination, physical examination, and statements
   (*d*) Only internal controls

3. What is an example of the best evidence for verifying cash in hand?
   (*a*) Documentary examination of cash transactions
   (*b*) Bank statement reconciliation
   (*c*) Counting cash
   (*d*) Auditor's arithmetical calculations

4. For verifying assertions about book debts, what are some examples of evidence mentioned in the text?
   (*a*) Only balance confirmation procedure
   (*b*) Only client's ledger invoices
   (*c*) A variety including client's ledger invoices, debit notes, credit notes, and monthly accounts statements
   (*d*) Only banker's certificates

5. What is the auditor's task regarding the weight of each piece of evidence?
   (*a*) To ignore any evidence that is available
   (*b*) To prioritize verification procedures based on evidence weight
   (*c*) To consider all evidence equally
   (*d*) To delegate the evaluation of evidence to management

6. What does the word "available" mean in the context of evidence?
   (*a*) Evidence available with the client is the only available evidence
   (*b*) Evidence available with the client is the most reliable evidence
   (*c*) Evidence that is easily accessible to the auditor
   (*d*) Evidence that is typically available in the context of the transaction

7. What should the auditor know about evidence availability?
   (*a*) Only evidence available with the client
   (*b*) Only evidence available through internal controls
   (*c*) What normally should be available in the context of the transaction
   (*d*) Evidence availability is not a relevant consideration

8. In the context of evidence, what is balance confirmation?
   (*a*) Only a variety of internal controls
   (*b*) A procedure for obtaining greater satisfaction about the reliability of an assertion
   (*c*) A type of documentary examination
   (*d*) An arithmetical calculation by the auditor

9. What is the purpose of internal controls and internal checks as evidence?
   (*a*) To limit the evidence available to the auditor
   (*b*) To expedite the audit process
   (*c*) To prove or disprove assertions
   (*d*) To increase the complexity of audit procedures

10. What does an auditor pick up evidence from?
   (*a*) Only client's ledger invoices
   (*b*) Only statements and explanations of management, officials, and employees
   (*c*) A variety of fields, including documentary examination, physical examination, and statements
   (*d*) Only arithmetical calculations by the auditor

11. What is considered part of the accounting records when gathering audit evidence?
   (*a*) Social media interactions
   (*b*) Minutes of the meetings
   (*c*) Invoices and contracts
   (*d*) Weather reports

12. Which of the following is an example of supporting records included in accounting records?
   (*a*) Diary entries
   (*b*) Cheques and records of electronic fund transfers
   (*c*) Personal emails
   (*d*) Movie tickets

13. What type of information supports the auditor's rationale behind the true and fair presentation of financial statements?
   (*a*) Fictional stories
   (*b*) Records of weather forecasts

(*c*) Manuals containing details of internal control
(*d*) Unrelated poetry

14. In addition to accounting records, what may the auditor use as evidence to authenticate financial statements?
(*a*) Personal diaries of employees
(*b*) Minutes of the meetings
(*c*) Unrelated cartoons
(*d*) Telephone directories

15. What type of evidence is obtained through observing the physical verification of inventory conducted by the client's staff?
(*a*) Visual evidence
(*b*) Oral evidence
(*c*) Documentary evidence
(*d*) External evidence

16. Which of the following is an example of internal evidence in an audit situation?
(*a*) Purchase invoice
(*b*) Supplier's challan
(*c*) Inspection report
(*d*) Quotations

17. External evidence is generally considered more reliable because it:
(*a*) Originates within the organization being audited
(*b*) Comes from third parties not interested in manipulation
(*c*) Is always accurate and truthful
(*d*) Requires less verification by the auditor

18. In an audit, what type of evidence is obtained through discussion with the management and various officers of the client?
(*a*) External evidence
(*b*) Visual evidence
(*c*) Oral evidence
(*d*) Documentary evidence

19. What is the auditor advised to be careful about when relying on internal evidence?
(*a*) External evidence is more reliable
(*b*) External evidence is less reliable
(*c*) Possibilities of manipulation and creation of false evidence
(*d*) Internal evidence is always accurate

20. What is the relationship between the auditor's opinion on financial statements and the relevance and reliability of audit evidence?
(*a*) Irrelevant to the opinion
(*b*) Directly impacts the opinion
(*c*) Reliability is more important than relevance
(*d*) Relevance is more important than reliability

21. How does relevance of information used as audit evidence relate to the purpose of the audit procedure?
(*a*) Irrelevant to the purpose
(*b*) Independently determined
(*c*) Logical connection with the purpose
(*d*) Unrelated to the assertion

22. What is the primary factor influencing the reliability of information used as audit evidence?

(*a*) Audit procedures (*b*) Direction of testing
(*c*) Source and nature of information (*d*) Assertion under consideration

23. When testing for overstatement in the existence or valuation of accounts payable, what is considered a relevant audit procedure?

(*a*) Testing subsequent disbursements (*b*) Inspecting unpaid invoices
(*c*) Verifying suppliers' statements (*d*) All of the above

24. In testing for understatement in the existence or valuation of accounts payable, which audit procedure is considered relevant?

(*a*) Inspecting unpaid invoices (*b*) Testing subsequent disbursements
(*c*) Verifying suppliers' statements (*d*) All of the above

25. When designing tests of controls, what is the purpose of identifying conditions that indicate performance of a control?

(*a*) Establishing irrelevant criteria (*b*) Demonstrating a lack of controls
(*c*) Evaluating operating effectiveness (*d*) Confirming financial statement amounts

26. What is the primary focus of substantive procedures in the audit process?

(*a*) Evaluating operating effectiveness (*b*) Detecting material misstatements
(*c*) Identifying conditions for controls (*d*) Confirming management assertions

27. Tests of details and substantive analytical procedures are components of which type of audit procedures?

(*a*) Tests of controls (*b*) Substantive procedures
(*c*) Compliance testing (*d*) Analytical controls

28. What does designing substantive procedures involve in the context of identifying conditions relevant to the purpose of the test?

(*a*) Confirming controls (*b*) Establishing irrelevant criteria
(*c*) Detecting material misstatements (*d*) Evaluating operating effectiveness

29. When performing tests of controls, what does the auditor identify to test the presence or absence of conditions indicating performance of a control?

(*a*) Assertions (*b*) Deviation in conditions
(*c*) Analytical procedures (*d*) Substantive evidence

30. Why is inspection of documents related to the collection of receivables after the period end considered relevant audit evidence?

(*a*) Confirms cut-off accuracy
(*b*) Supports existence and valuation
(*c*) Verifies the completeness of controls
(*d*) Substitutes for substantive analytical procedures

31. In terms of relevance, what is important to note about audit evidence from different sources or of different nature?

(*a*) It's irrelevant to the assertion (*b*) It's never considered reliable
(*c*) It's often relevant to the same assertion (*d*) It can't be used in the audit process

32. What is the primary focus of tests of details in substantive procedures?

(*a*) Confirming controls (*b*) Detecting material misstatements
(*c*) Evaluating operating effectiveness (*d*) Identifying conditions for controls

33. Why is it advised for the auditor to match internal and external evidence in an audit?

(*a*) Internal evidence is always reliable (*b*) External evidence is irrelevant
(*c*) To minimize reliance on internal evidence (*d*) To enhance the reliability of audit evidence

34. In terms of relevance, what is emphasized when testing for overstatement in the existence or valuation of accounts payable?

(*a*) Testing subsequent disbursements (*b*) Logical connection with the purpose
(*c*) Testing recorded accounts payable (*d*) Inspecting unpaid invoices

35. What factor significantly influences the reliability of audit evidence?

(*a*) The auditor's experience (*b*) The nature of the audit procedure
(*c*) The source and nature of the information (*d*) The length of the audit engagement

36. Under what circumstances might information obtained from an independent external source be unreliable?

(*a*) Lack of objectivity (*b*) Over-reliance on controls
(*c*) Enhanced knowledgeability (*d*) Lengthy audit procedures

37. When is the reliability of audit evidence generated internally increased?

(*a*) When controls are ineffective (*b*) When related controls are effective
(*c*) When external sources are involved (*d*) When the auditor is not directly involved

38. Which type of audit evidence is generally more reliable than evidence obtained orally?

(*a*) Contemporaneously written records (*b*) Verbal representations
(*c*) Inference-based evidence (*d*) Photocopied documents

39. In the context of documentary evidence, what is considered more reliable than evidence obtained orally?

(*a*) Electronic documents (*b*) Photocopies
(*c*) Subsequent oral representations (*d*) Contemporaneously written records

40. Why is audit evidence obtained as original documents considered more reliable than photocopies or facsimiles?

(*a*) Due to the length of the audit engagement
(*b*) Dependence on controls

(*c*) Enhanced knowledgeability
(*d*) Controls over preparation and maintenance

41. Which audit evidence is generally more reliable when transformed into electronic form?
(*a*) Original documents
(*b*) Photocopies
(*c*) Facsimiles
(*d*) Contemporaneously written records

42. What is the primary measure of the quantity of audit evidence?
(*a*) Appropriateness
(*b*) Sufficiency
(*c*) Reliability
(*d*) Quality

43. How does the auditor's assessment of risks of misstatement impact the quantity of audit evidence needed?
(*a*) Higher risks require less evidence
(*b*) Higher risks require more evidence
(*c*) Risks have no impact on evidence
(*d*) Evidence is unrelated to risk assessment

44. What influences the reliability of audit evidence?
(*a*) The auditor's experience
(*b*) The quantity of evidence
(*c*) The source and nature of evidence
(*d*) The assessed risks of misstatement

45. How does the quality of audit evidence impact the quantity required?
(*a*) Higher quality requires more evidence
(*b*) Higher quality requires less evidence
(*c*) Quality is unrelated to quantity
(*d*) Quality and quantity are inversely related

46. What is the primary purpose of obtaining audit evidence?
(*a*) Supporting management's assertions
(*b*) Contradicting management's assertions
(*c*) Forming the auditor's opinion
(*d*) Fulfilling regulatory requirements

47. In addition to audit procedures, where else can audit evidence be derived from?
(*a*) Only from inspection
(*b*) Only from external sources
(*c*) Previous audits and the entity's accounting records
(*d*) Exclusively from inquiry

48. What constitutes audit evidence in some cases, indicating management's refusal to provide a requested representation?
(*a*) Presence of information
(*b*) Contradictory information
(*c*) Absence of information
(*d*) External information

49. Which of the following is NOT a type of audit procedure used to obtain audit evidence?
(*a*) Recalculation
(*b*) Reperformance
(*c*) Supervision
(*d*) Confirmation

50. When is reasonable assurance obtained in an audit?

(*a*) When all audit procedures are completed

(*b*) When audit risk is reduced to an acceptably low level

(*c*) When no material misstatements are found

(*d*) When the audit is free from errors

51. How does materiality impact the amount of evidence required in an audit?

(*a*) More evidence is required for less material assertions

(*b*) Less evidence is required for less material assertions

(*c*) More evidence is required for more material assertions

(*d*) Evidence requirement is independent of materiality

52. What is inherent risk in the context of risk of material misstatement?

(*a*) The risk that internal controls will not prevent misstatements

(*b*) The risk that a misstatement could occur before considering controls

(*c*) The risk that auditors will not detect misstatements

(*d*) The risk that financial statements are materially misstated

53. How does the size and characteristics of a population affect the evidence requirement in an audit?

(*a*) Less evidence for larger, more heterogeneous populations

(*b*) More evidence for larger, more heterogeneous populations

(*c*) Less evidence for smaller, more homogeneous populations

(*d*) Evidence requirement is independent of population size

54. What is control risk in the context of risk of material misstatement?

(*a*) The risk that financial statements are materially misstated

(*b*) The risk that internal controls will not prevent misstatements

(*c*) The risk that auditors will not detect misstatements

(*d*) The risk that a misstatement could occur before considering controls

55. In the context of risk of material misstatement, what does less evidence imply about the risk level?

(*a*) Lower risk of material misstatement

(*b*) Higher risk of material misstatement

(*c*) Independent of risk of material misstatement

(*d*) Lower risk of detection

56. How does the auditor obtain audit evidence through testing accounting records?

(*a*) By analyzing and reviewing unrelated information

(*b*) By performing procedures like reperformance and reconciliation

(*c*) By relying solely on internal consistency

(*d*) By reviewing management representations

57. What is the significance of consistent audit evidence from different sources?

(*a*) Less assurance is obtained from consistent evidence

(*b*) More assurance is obtained from consistent evidence

(*c*) Consistency does not affect the level of assurance

(*d*) Consistency is irrelevant in audit evidence

58. How can the auditor increase assurance by using corroborating information?

(*a*) By relying solely on internal evidence

(*b*) By avoiding independent sources

(*c*) By using information from sources independent of the entity

(*d*) By relying on management representations

59. What is the primary source of audit evidence to draw reasonable conclusions for the auditor's opinion?

(*a*) Risk assessment procedures only

(*b*) Further audit procedures only

(*c*) Both risk assessment procedures and further audit procedures

(*d*) Substantive procedures only

60. Which audit procedure involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset?

(*a*) Inquiry (*b*) Observation

(*c*) External Confirmation (*d*) Inspection

61. What is an example of using observation as an audit procedure?

(*a*) Observing inventory counting

(*b*) Observing a bank reconciliation

(*c*) Observing management's response to an inquiry

(*d*) Observing the preparation of financial statements

62. Which audit procedure involves obtaining a direct written response from a third party to confirm certain account balances or other relevant details?

(*a*) Recalculation (*b*) Reperformance

(*c*) External Confirmation (*d*) Analytical Procedures

63. What does recalculation as an audit procedure involve?

(*a*) Checking the mathematical accuracy of documents or records

(*b*) Independently executing procedures originally performed by the entity

(*c*) Evaluating financial information by studying plausible relationships

(*d*) Seeking information from knowledgeable persons within or outside the entity

64. Reperformance as an audit procedure involves:

(*a*) Evaluating financial information by studying plausible relationships

(*b*) Checking the mathematical accuracy of documents or records

(*c*) Independently executing procedures originally performed by the entity
(*d*) Seeking information from knowledgeable persons within or outside the entity

65. Which audit procedure involves evaluations of financial information made by a study of plausible relationships among both financial and non-financial data?
(*a*) Recalculation (*b*) Analytical Procedures
(*c*) Inquiry (*d*) Inspection

66. Inquiry as an audit procedure consists of:
(*a*) Seeking information from knowledgeable persons
(*b*) Observing physical verification of assets
(*c*) Checking the mathematical accuracy of documents
(*d*) Reperforming procedures originally performed by the entity

67. When is inquiry alone generally insufficient as an audit procedure?
(*a*) When seeking information from knowledgeable persons
(*b*) When evaluating financial information by studying relationships
(*c*) When obtaining written responses from third parties
(*d*) When confirming certain account balances with external parties

68. What does inspection of tangible assets primarily provide reliable audit evidence about?
(*a*) Ownership and valuation (*b*) Existence, rights, and obligations
(*c*) Accuracy of financial statements (*d*) Compliance with ethical requirements

69. Which audit procedure may involve obtaining audit evidence about the absence of certain conditions?
(*a*) Inquiry (*b*) Recalculation
(*c*) External Confirmation (*d*) Analytical Procedures

70. How might the nature and timing of audit procedures be affected by the availability of accounting data in electronic form?
(*a*) It doesn't affect audit procedures
(*b*) Only affects the timing, not the nature of audit procedures
(*c*) May require additional procedures due to electronic data
(*d*) Reduces the need for audit procedures

71. In what situation may the auditor find it necessary to request retention of information for review?
(*a*) When files are changed and backup files exist
(*b*) When electronic information is retrievable after a specified period
(*c*) When the entity discards source documents after scanning
(*d*) When information is available during regular audit procedures

72. How can an entity's data retention policies impact the timing of audit procedures?

(*a*) They don't impact the timing of audit procedures

(*b*) They may require audit procedures to be performed at specific times

(*c*) They speed up the timing of audit procedures

(*d*) They eliminate the need for audit procedures

73. What might be a challenge for the auditor when dealing with electronic information that is not retrievable after a specified period?

(*a*) The need for fewer audit procedures

(*b*) A reduction in data security concerns

(*c*) The possibility of incomplete audit trails

(*d*) Increased reliance on automated audit tools

74. In the context of electronic commerce, what might exist only in electronic form, affecting the nature of audit procedures?

(*a*) Backup files

(*b*) Purchase orders and invoices

(*c*) Image processing systems

(*d*) Data retention policies

75. Which of the following best describes risk assessment procedures in an audit engagement?

(*a*) Procedures to obtain evidence on specific transactions and account balances.

(*b*) Procedures to express an opinion on the financial statements.

(*c*) Procedures to understand the entity and its environment, assess risks, and identify potential misstatements.

(*d*) Procedures to confirm the accuracy of internal controls.

76. What is the primary purpose of tests of controls in an audit engagement?

(*a*) To detect material misstatements at the assertion level.

(*b*) To evaluate the operating effectiveness of controls.

(*c*) To express an opinion on the financial statements.

(*d*) To identify potential fraud in the entity.

77. Substantive procedures in an audit engagement are designed to:

(*a*) Evaluate the operating effectiveness of controls.

(*b*) Confirm the accuracy of internal controls.

(*c*) Detect material misstatements at the assertion level.

(*d*) Assess risks of material misstatement.

78. What does the term "tests of details" refer to in an audit engagement?

(*a*) Procedures to understand the entity and its environment.

(*b*) Procedures to evaluate the operating effectiveness of controls.

(*c*) Detailed examinations of specific transactions, account balances, and disclosures.

(*d*) Analyzing trends and relationships in financial data.

79. In an audit engagement, substantive analytical procedures involve:

(*a*) Confirming the accuracy of internal controls.

(*b*) Identifying potential fraud in the entity.

(*c*) Evaluating the operating effectiveness of controls.
(*d*) Analyzing relationships and trends in financial data.

80. In the context of auditing, what do assertions represent?
(*a*) Financial projections provided by the auditor.
(*b*) Representations by management embodied in the financial statements.
(*c*) External opinions on the financial statements.
(*d*) Legal obligations of the audit firm.

81. What is the primary focus of assertions in financial statements?
(*a*) Future financial projections.
(*b*) Management's explicit opinions.
(*c*) Representations made by management regarding recognition, measurement, presentation, and disclosure.
(*d*) Auditor's opinions on compliance.

82. Which category of assertions is concerned with the existence, completeness, and accuracy of transactions and events during the audit period?
(*a*) Assertions about classes of transactions and events.
(*b*) Assertions about account balances at the period end.
(*c*) Assertions about presentation and disclosure.
(*d*) Assertions about valuation and allocation.

83. Which assertion is related to the disclosure of events, transactions, and other matters in the financial statements?
(*a*) Existence.
(*b*) Completeness.
(*c*) Presentation and disclosure.
(*d*) Accuracy and valuation.

84. In certain entities, especially where the Government is a major stakeholder, what additional assertions might be made by management?
(*a*) Assertions about transactions and events.
(*b*) Assertions about account balances.
(*c*) Assertions about compliance with legislation or proper authority.
(*d*) Assertions about the fair presentation of financial information.

85. How flexible is the auditor in expressing assertions?
(*a*) Strictly follow the assertions as outlined in the auditing standards.
(*b*) Flexibility is limited, and assertions cannot be expressed differently.
(*c*) May express assertions differently as long as all aspects are covered.
(*d*) The Auditor has no discretion in expressing assertions.

86. What is the primary purpose of an audit trail in the context of financial transactions?
(*a*) To create a detailed record of user log-on attempts.
(*b*) To reduce system expenditure.

(*c*) To track and document the flow of transactions, verifying their source and integrity.

(*d*) To analyze large volumes of data for audit purposes.

87. How do audit trails contribute to internal controls and data security?

(*a*) By increasing system expenditure.

(*b*) By reducing the need for automated tools.

(*c*) By documenting evidence of events and operations, reducing fraud and unauthorized use.

(*d*) By limiting the analysis of data made available by audit trails.

88. What is one potential drawback associated with audit trails?

(*a*) They inspire confidence in auditors.

(*b*) They reduce the reliability of audit evidence.

(*c*) They involve costs in terms of system expenditure and time for data analysis.

(*d*) They have no impact on internal controls.

89. How can audit trails aid auditors in verifying controls devised by management?

(*a*) By eliminating the need for audit procedures.

(*b*) By increasing the reliance on manual records.

(*c*) By inspiring confidence in users.

(*d*) By providing evidence on whether controls were operating effectively.

90. What role do audit trails play in fixing responsibility and analyzing problem areas?

(*a*) They have no impact on fixing responsibility.

(*b*) They reduce the need for problem analysis.

(*c*) They can track user activities, fixing responsibility and aiding in problem analysis.

(*d*) They are only used for system operations and not for problem-solving.

91. In auditing, how may the use of information prepared by a management's expert impact audit procedures?

(*a*) It has no effect on audit procedures.

(*b*) It may influence the nature, timing, and extent of audit procedures based on various factors.

(*c*) It simplifies audit procedures.

(*d*) It eliminates the need for alternative sources of audit evidence.

92. What is a relevant consideration when determining the impact of a management's expert on audit procedures?

(*a*) The cost of the expert's services.

(*b*) Whether the expert is employed by the entity.

(*c*) The availability of alternative sources of audit evidence.

(*d*) The auditor's knowledge of the entity's financial statements.

93. How might the auditor's knowledge and experience of the management's expert's field of expertise influence audit procedures?

(*a*) It has no impact on audit procedures.

(*b*) It may affect the timing but not the nature of audit procedures.

(*c*) It may influence the nature and extent of audit procedures.

(*d*) It eliminates the need for controls over the management's expert's work.

94. What steps should the auditor take when using information produced by the entity in the audit process?

(*a*) Trust the information without further verification.

(*b*) Obtain audit evidence about the accuracy and completeness of the information.

(*c*) Assume that the information is sufficiently precise for audit purposes.

(*d*) Bypass evaluation as it is the entity's responsibility.

95. When is 100% examination most likely to be appropriate in audit procedures?

(*a*) When the population is large and homogenous.

(*b*) When there is a low risk of material misstatement.

(*c*) When the population constitutes a small number of large value items.

(*d*) When the audit evidence required is minimal.

96. In which situation is 100% examination more common for tests of details?

(*a*) When dealing with a large and diverse population.

(*b*) When there is a low risk of material misstatement.

(*c*) When the population constitutes a small number of large value items.

(*d*) When using audit sampling.

97. What is a factor relevant to the judgmental selection of specific items?

(*a*) The population size.

(*b*) The auditor's understanding of the entity.

(*c*) The use of audit sampling.

(*d*) The risk of material misstatement.

98. When may the auditor decide to select specific items within a population?

(*a*) When the population is small and homogenous.

(*b*) When the items are of low value.

(*c*) When there is no risk of material misstatement.

(*d*) When items are suspicious, unusual, or have a history of error.

99. What is a situation where 100% examination may be cost-effective?

(*a*) Large and diverse population.

(*b*) Low-risk transactions.

(*c*) Repetitive nature of a calculation in an information system.

(*d*) Minimal audit evidence required.

100. When might the auditor decide to examine items whose recorded values exceed a certain amount?

(*a*) To save time in the audit process.

(*b*) To verify a small proportion of the total amount.

(*c*) To obtain information about the nature of the entity.

(*d*) To verify a large proportion of the total amount.

101. What is a potential drawback of judgmental selection of specific items?

(*a*) Reduced audit efficiency.

(*b*) Increased sampling risk.

(*c*) Lower materiality threshold.

(*d*) Decreased audit scope.

102. Why might the auditor decide to perform 100% examination in the case of tests of controls?

(*a*) To save time in the audit process.

(*b*) Because it is more common for tests of controls.

(*c*) When the population is large and homogenous.

(*d*) When there is a low risk of material misstatement.

103. What is a characteristic that might make 100% examination appropriate in tests of controls?

(*a*) High sampling risk.

(*b*) Significant risk and other means insufficient.

(*c*) Diverse population.

(*d*) Minimal audit evidence required.

104. In which situation may the auditor decide to select specific items to verify a large proportion of the total amount?

(*a*) Small and homogenous population.

(*b*) Low-risk transactions.

(*c*) The repetitive nature of a calculation.

(*d*) The population constitutes a small number of large value items.

105. What is the primary purpose of audit sampling?

(*a*) To test the entire population.

(*b*) To draw conclusions about an entire population based on a sample.

(*c*) To examine each individual item in the population.

(*d*) To analyze the entire population exhaustively.

106. What action should the auditor take if audit evidence from one source is inconsistent with that obtained from another source?

(*a*) Ignore the inconsistency as it may not be material.

(*b*) Modify or add to audit procedures to resolve the inconsistency.

(*c*) Conclude the audit immediately.

(*d*) Rely only on the evidence obtained from the more reliable source.

107. According to SA 230, what specific documentation requirement exists if the auditor identifies information inconsistent with the final conclusion on a significant matter?

(*a*) No specific documentation is required.

(*b*) Record the inconsistency in the management letter.

(*c*) Provide an oral explanation to the audit committee.

(*d*) Document the inconsistency and resolution.

108. How is a management's expert defined in this context?

(*a*) An internal auditor designated by management.

(*b*) An individual or organization with expertise in accounting.

(*c*) Any member of the management team.

(*d*) An expert in a field other than accounting or auditing, used by the entity to assist in preparing financial statements.

109. When the auditor decides to rely on the work of a management's expert, what must the auditor evaluate regarding the expert's competence, capabilities, and objectivity?

(*a*) Whether the expert is employed by the entity.

(*b*) The expert's salary and compensation structure.

(*c*) The expert's membership in professional organizations.

(*d*) The competence, capabilities, and objectivity of the expert.

110. What is one of the auditor's responsibilities when information is prepared using the work of a management's expert?

(*a*) Ignore the work of the management's expert if it seems reliable.

(*b*) Conduct a detailed background check on the management's expert.

(*c*) Evaluate the appropriateness of the expert's work as audit evidence.

(*d*) Delegate the evaluation of the expert's work to the internal audit team.

111. Which standard is applicable to all audit evidence obtained during the audit to enable the auditor to draw reasonable conclusions for the opinion?

(*a*) SA 230 - Audit Documentation

(*b*) SA 500 - Audit Evidence

(*c*) SA 330 - The Auditor's Responses to Assessed Risks

(*d*) SA 600 - Using the Work of Another Auditor

112. What is the auditor's responsibility concerning the sufficiency and appropriateness of audit evidence?

(*a*) Delegate the judgment to the audit team.

(*b*) Draw conclusions based on personal intuition.

(*c*) Conclude whether sufficient appropriate audit evidence has been obtained.

(*d*) Only consider audit evidence related to financial statements.

113. What is the primary purpose of the internal audit function in an entity?

(*a*) Conducting financial audits

(*b*) Evaluating and improving the effectiveness of governance, risk management, and internal control processes

(*c*) Preparing financial statements

(*d*) Managing external audit engagements

114. Which area is NOT typically within the scope of the internal audit function's objectives?

(*a*) Governance processes

(*b*) Risk management

(*c*) Financial reporting preparation

(*d*) Internal control processes

115. What activities might the internal audit function perform related to risk management?

(*a*) Preparing financial statements

(*b*) Identifying and evaluating significant exposures to risk

(*c*) Conducting external audits

(*d*) Classifying financial information

116. In the context of internal control, what does the internal audit function provide assurance on?

(*a*) Accuracy of financial statements

(*b*) Efficiency of operating activities

(*c*) Design, implementation, and operating effectiveness of internal control

(*d*) Compliance with tax regulations

117. What might the internal audit function review concerning compliance activities?

(*a*) Financial planning

(*b*) Operational efficiency

(*c*) Compliance with laws, regulations, and internal requirements

(*d*) External audit procedures

118. What is one of the objectives of the internal audit function in relation to governance processes?

(*a*) Preparing financial forecasts

(*b*) Evaluating performance management

(*c*) Conducting external financial audits

(*d*) Classifying financial transactions

119. What aspect might the internal audit function review concerning operating activities?

(*a*) Accuracy of financial statements

(*b*) Compliance with laws and regulations

(*c*) Design of internal controls

(*d*) Operational efficiency

120. In what way may the external auditor use the internal audit function to enhance the audit process?

(*a*) As a replacement for the external auditor in performing the entire audit

(*b*) To obtain information relevant to assessments of risks of material misstatement

(*c*) Only when explicitly required by law

(*d*) Only when the internal audit function has the same objectives as the external auditor

121. Under what circumstances may the external auditor decide to use work performed by the internal audit function in partial substitution for direct audit evidence?

(*a*) Always, regardless of the nature of the work performed

(*b*) When prohibited by law or regulation

(*c*) When the internal audit function has different objectives

(*d*) After appropriate evaluation

122. What is the term used when the external auditor utilizes internal auditors to perform audit procedures under their direction, supervision, and review?

(*a*) Internal substitution

(*b*) Direct replacement

(*c*) Indirect assistance

(*d*) Direct assistance

123. What is the primary focus of SA 610 regarding the use of internal audit functions by the external auditor?

(*a*) To mandate the use of internal audit function in all audit engagements

(*b*) To guide the external auditor on modifying the nature, timing, and extent of audit procedures

(*c*) To define the external auditor's responsibilities when using the work of internal auditors

(*d*) To restrict the external auditor from using internal audit function

124. According to SA 610, who has the ultimate decision-making authority in establishing the overall audit strategy, including the use of the internal audit function?

(*a*) Management of the entity

(*b*) Internal audit function

(*c*) External auditor

(*d*) Audit committee

125. In an audit engagement, who has the sole responsibility for the audit opinion expressed?

(*a*) Internal audit function

(*b*) Audit committee

(*c*) External auditor

(*d*) Management of the entity

126. What is the primary objective of the external auditor when using the work of the internal audit function or internal auditors in an audit engagement?

(*a*) To replace the external auditor's responsibilities

(*b*) To fulfill regulatory requirements

(*c*) To determine the adequacy of the work for audit purposes

(*d*) To shift responsibility to the internal audit function

127. Why does SA 610 emphasize defining conditions for the use of the work of internal auditors?

(*a*) To promote overuse of internal auditors' work

(*b*) To establish a framework for external auditor's judgments

(*c*) To shift responsibility to internal auditors

(*d*) To eliminate the need for external audit

128. According to SA 610, who is required to be independent of the entity in an audit of financial statements?

(*a*) Internal auditors
(*b*) External auditors
(*c*) Management of the entity
(*d*) Audit committee

129. When using internal auditors to provide direct assistance, what is the external auditor required to do?

(*a*) Delegate all responsibilities to internal auditors
(*b*) Rely solely on the internal auditors' judgment
(*c*) Direct, supervise, and review their work appropriately
(*d*) Reduce the extent of audit procedures

130. What is a crucial factor in determining whether the work of the internal audit function can be used for the external audit?

(*a*) Independence from the entity
(*b*) Organizational status and relevant policies
(*c*) Internal audit's alignment with management
(*d*) Regulatory compliance

131. According to SA 610, what is a key consideration in assessing the internal audit function's suitability for the external audit?

(*a*) Size of the internal audit team
(*b*) Independence from management
(*c*) Level of coordination with external auditors
(*d*) Quality control and systematic approach

132. What does the external auditor need to evaluate concerning the internal audit function's objectivity?

(*a*) The internal audit team's opinion on financial statements
(*b*) The extent to which organizational status supports objectivity
(*c*) Compliance with external regulations
(*d*) Independence from the audit committee

133. What is the primary concern of evaluating objectivity in the internal audit function?

(*a*) The size of the internal audit team
(*b*) Independence from the audit committee
(*c*) Ability to perform tasks without bias
(*d*) Compliance with external regulations

134. In assessing objectivity, what is a crucial factor related to the organizational status of the internal audit function?

(*a*) Direct access to those charged with governance
(*b*) Reporting to management
(*c*) Providing operational duties to the function
(*d*) Being subject to constraints by management

135. What is an example of a potential constraint on the internal audit function that might impact objectivity?

(*a*) Direct access to those charged with governance
(*b*) Lack of managerial responsibilities
(*c*) Constraints on communicating findings to the external auditor
(*d*) Independence from the audit committee

136. Why is the oversight of employment decisions related to the internal audit function relevant in assessing objectivity?

(*a*) To ensure compliance with internal policies
(*b*) To determine the appropriateness of remuneration
(*c*) To maintain independence from management
(*d*) To enhance coordination with external auditors

137. What does the competence of the internal audit function refer to?

(*a*) Independence from external influence
(*b*) Adequate and appropriate resourcing
(*c*) Knowledge and skills required for tasks
(*d*) Established policies for hiring only

138. What factor is crucial in assessing competence concerning internal audit engagements?

(*a*) Technical training and proficiency
(*b*) Organizational status
(*c*) Objectivity of internal auditors
(*d*) Size of the entity

139. Why is the resourcing of the internal audit function relevant to competence assessment?

(*a*) To establish policies for hiring
(*b*) To support objectivity
(*c*) To ensure independence
(*d*) To enable diligent task performance

140. What does the continuum of objectivity and competence imply for the external auditor?

(*a*) Strong organizational support compensates for low competence
(*b*) High competence compensates for a lack of organizational support
(*c*) Both are equally important and interchangeable
(*d*) Neither objectivity nor competence is crucial

141. What cannot compensate for a lack of sufficient competence of the internal audit function?

(*a*) High-level policies
(*b*) Objectivity of internal auditors
(*c*) Adequate resourcing
(*d*) Organizational status

142. What distinguishes the activities of the internal audit function from other monitoring control activities?

(*a*) Independence
(*b*) Objectivity
(*c*) Systematic and disciplined approach
(*d*) Adequate resourcing

143. What factor is crucial in assessing whether the internal audit function applies a systematic approach?

(*a*) Existence of quality control policies
(*b*) Appropriateness of internal audit procedures
(*c*) Independence of the internal auditors
(*d*) Size and circumstances of the entity

144. Under what conditions should the external auditor avoid using the work of the internal audit function?

(*a*) When internal auditors lack objectivity

(*b*) When the function applies a systematic approach

(*c*) When organizational status supports objectivity

(*d*) When the function lacks competence

145. What is a key consideration for the external auditor when determining the use of internal audit work?

(*a*) The size of the internal audit function

(*b*) The relevance to the overall audit strategy and plan

(*c*) The number of internal auditors

(*d*) The geographical location of the internal audit function

146. Which of the following is an example of work performed by the internal audit function that can be used by the external auditor?

(*a*) Management representation letters

(*b*) External confirmations

(*c*) Observations of inventory counts

(*d*) Bank reconciliation

147. When considering the use of internal audit work, what is a primary factor for the external auditor to assess?

(*a*) The internal audit budget

(*b*) The internal auditors' independence

(*c*) The nature and scope of the internal audit work

(*d*) The financial expertise of the internal audit team

148. In what situation can the external auditor use the work of the internal audit function?

(*a*) When it involves subjective judgments

(*b*) When it aligns with the overall audit strategy

(*c*) When it duplicates the external audit procedures

(*d*) When it lacks relevance to financial reporting

149. Under what circumstances should the external auditor plan to use less of the work of the internal audit function?

(*a*) When the internal audit function has a high level of competence

(*b*) When the external auditor wants to reduce workload

(*c*) When there is more judgment involved in planning and performing audit procedures

(*d*) When the internal audit function lacks objectivity

150. What is a key consideration for the external auditor in planning to use less of the work of the internal audit function?

(*a*) The external auditor's workload preference

(*b*) The level of competence of the internal audit function

(*c*) The size of the internal audit team
(*d*) The assessed risk of material misstatement

151. When should the external auditor plan to perform more of the work directly instead of relying on the internal audit function?
(*a*) When the internal audit function has a low level of competence
(*b*) When the external auditor wants to minimize judgment
(*c*) When the organizational status of the internal audit function supports objectivity
(*d*) When the assessed risk of material misstatement is low

152. What is a key step the external auditor should take if planning to use the work of the internal audit function?
(*a*) Skip coordination with the internal audit function
(*b*) Perform audit procedures directly without discussion
(*c*) Discuss the planned use of its work with the function
(*d*) Rely solely on the reports of the internal audit function

153. What information should the external auditor obtain by reading the reports of the internal audit function?
(*a*) Detailed financial statements
(*b*) Nature and extent of audit procedures performed
(*c*) Employee payroll information
(*d*) External auditor's findings

154. What is an essential step for the external auditor when planning to use the work of the internal audit function?
(*a*) Rely solely on the internal audit function's reports
(*b*) Skip performing audit procedures on the internal audit function's work
(*c*) Perform audit procedures on the body of work to determine its adequacy
(*d*) Conduct independent audit without considering internal audit findings

155. Effective coordination between the external auditor and the internal audit function involves discussions on various aspects. Which of the following is NOT typically discussed during coordination?
(*a*) Materiality for the financial statements
(*b*) Nature of the entity's products
(*c*) Proposed methods of item selection and sample sizes
(*d*) Timing of the work to be performed

156. What does "direct assistance" refer to in the context of using internal auditors during an audit?
(*a*) Providing financial assistance to the internal audit function
(*b*) Supervising and directing internal audit processes
(*c*) Using internal auditors to perform audit procedures under external auditor's direction
(*d*) External auditors taking over internal audit responsibilities

157. Under what circumstances may the external auditor be prohibited from obtaining direct assistance from internal auditors?

(*a*) If internal auditors lack objectivity
(*b*) If direct assistance is not significant
(*c*) If prohibited by law or regulation
(*d*) If internal auditors lack competence

158. What is a condition under which the external auditor shall not use internal auditors to provide direct assistance?

(*a*) When internal auditors have significant relationships with management
(*b*) When internal auditors are too competent
(*c*) When there are significant threats to the objectivity of internal auditors
(*d*) When internal auditors are not involved in the audit process

159. In what situations should the external auditor not use internal auditors to provide direct assistance for audit procedures?

(*a*) Situations involving low risks of material misstatement
(*b*) Situations already reported to management by the internal audit function
(*c*) Routine audit tasks without significant judgment
(*d*) Decisions made by the internal auditor regarding audit strategy

160. What agreements should the external auditor obtain before using internal auditors to provide direct assistance?

(*a*) Agreement from external auditors to supervise internal auditors
(*b*) Agreement from internal auditors to report directly to management
(*c*) Agreement from internal auditors to follow external auditor's instructions and maintain confidentiality
(*d*) Agreement from management to intervene in internal auditors' work

161. What does the term "Internal Financial Controls (IFC)" encompass?

(*a*) Only financial reporting policies
(*b*) Financial reporting, operational effectiveness, and compliance
(*c*) Only prevention and detection of fraud
(*d*) Compliance with applicable laws and regulations

162. What is the primary focus of "Internal Control over financial reporting"?

(*a*) Safeguarding of assets
(*b*) Prevention and detection of fraud
(*c*) Compliance with laws and regulations
(*d*) Effectiveness of internal controls over financial reporting

163. How does "internal controls over financial reporting" relate to the auditor's opinion?

(*a*) It is the same as the opinion on financial statements
(*b*) It is an additional and distinct opinion from the one on financial statements
(*c*) It is not required by auditors
(*d*) It is only applicable to operational effectiveness

164. What distinguishes "internal financial control" from "internal controls over financial reporting"?

(*a*) Internal financial control is narrower in scope

(*b*) Internal controls over financial reporting include prevention and detection of fraud

(*c*) Internal financial control is broader, covering financial reporting, compliance, and more

(*d*) Internal controls over financial reporting focus on efficiency of operations

165. Which term is considered the wider concept between "Internal Financial Controls" and "Internal Controls over financial reporting"?

(*a*) Internal Controls over financial reporting

(*b*) Both terms have the same scope

(*c*) Internal Financial Controls

(*d*) None of the above

166. What is the primary criticism of the traditional approach to auditing mentioned in the passage?

(*a*) It lacks emphasis on routine checking

(*b*) It is economically wasteful

(*c*) It involves too much sampling

(*d*) It neglects the role of internal controls

167. What is the purpose of internal controls in the management of organizations according to the passage?

(*a*) To complicate audit procedures

(*b*) To prevent detection and correction of frauds and errors

(*c*) To make routine checking more necessary

(*d*) To increase the cost of audit procedures

168. What distinguishes the shift in the audit approach mentioned in the passage?

(*a*) More emphasis on routine checking

(*b*) More attention towards questions of principles and controls

(*c*) Increased reliance on personal judgment

(*d*) Decreased importance of internal controls

169. According to the passage, what is the basis for determining the extent of checking in audit procedures?

(*a*) Regulatory requirements

(*b*) Personal preference of the auditor

(*c*) Statutory guidelines

(*d*) Auditor's judgment

170. What is the objective of audit sampling, as defined by SA 530?

(*a*) To examine 100% of items within a population

(*b*) To eliminate sampling risk

(*c*) To draw conclusions about the population based on a sample

(*d*) To ensure completeness of the population

171. When is SA 530 applicable?

(*a*) When auditors use non-statistical sampling only

(*b*) When auditors use statistical sampling only

(*c*) When auditors decide to use audit sampling in performing procedures
(*d*) When auditors conduct routine checking

172. What is the population in the context of audit sampling?
(*a*) Sample units
(*b*) Items selected for testing
(*c*) Entire set of data from which a sample is drawn
(*d*) Statistical parameters

173. What are the characteristics of a population, according to the passage?
(*a*) Inappropriateness, Completeness, and Unreliability
(*b*) Appropriateness, Completeness, and Reliability
(*c*) Completeness, Unreliability, and Unimportance
(*d*) Appropriateness, Completeness, and Unimportance

174. What is the purpose of audit sampling, according to the passage?
(*a*) To eliminate all errors in the population
(*b*) To measure sampling risk
(*c*) To provide a reasonable basis for the auditor to draw conclusions about the population
(*d*) To ensure 100% accuracy in the audit opinion

175. What distinguishes statistical sampling from non-statistical sampling?
(*a*) Complexity of operation
(*b*) Personal bias in selection
(*c*) Dependence on internal controls
(*d*) Reliability of audit objectives

176. What is a key consideration when designing an audit sample?
(*a*) Achieving a high level of sampling risk
(*b*) Reducing the characteristics of the population
(*c*) Ensuring that each sampling unit has a chance of selection
(*d*) Ignoring the purpose of the audit procedures

177. Why is it important for the auditor to have a clear understanding of what constitutes a deviation or misstatement?
(*a*) To increase sampling risk
(*b*) To include irrelevant conditions in the evaluation
(*c*) To assess the risk of fraud
(*d*) To use a smaller sample size

178. What is the auditor's consideration when performing audit sampling, according to SA 500?
(*a*) Ensuring 100% examination of the population
(*b*) Obtaining evidence that the audit sample is incomplete
(*c*) Reducing the expected misstatement in the population
(*d*) Assessing the characteristics of the population

179. When considering the purpose of an audit procedure, why might an auditor not treat a particular condition as a misstatement?

(*a*) It has a significant effect on other areas of the audit

(*b*) It affects the allowance for doubtful accounts

(*c*) It is irrelevant to the purpose of the audit procedure

(*d*) It increases the risk of fraud

180. How does the auditor assess the expected rate of deviation in tests of controls?

(*a*) By ignoring the relevant controls

(*b*) By examining the entire population

(*c*) Based on the examination of a small number of items

(*d*) By reducing the sample size

181. What is the auditor's assessment based on when determining the expected misstatement in the population for tests of details?

(*a*) 100% examination

(*b*) A high sampling risk

(*c*) The expected rate of deviation

(*d*) The expected misstatement in the population

182. In what situation might a 100% examination or a large sample size be appropriate in tests of details?

(*a*) When the expected misstatement is high

(*b*) When the expected rate of deviation is low

(*c*) When sampling risk is minimal

(*d*) When the population is incomplete

183. What is the overall goal of the auditor when selecting items for an audit sample?

(*a*) To increase the expected misstatement

(*b*) To achieve a high level of sampling risk

(*c*) To ensure 100% accuracy in the audit opinion

(*d*) To ensure that each sampling unit has a chance of selection

184. Why might it not be appropriate to consider a certain condition a misstatement in evaluating sample results?

(*a*) It increases sampling risk

(*b*) It affects the risk of fraud

(*c*) It is irrelevant to the purpose of the audit procedure

(*d*) It has a significant effect on other areas of the audit

185. What does the auditor's assessment of the expected rate of deviation assist in designing?

(*a*) A small sample size

(*b*) An incomplete population

(*c*) An assessment of the risk of fraud

(*d*) The audit sample and determining sample size

186. What is the objective of stratification in audit sampling?

(*a*) To increase the variability of items within each stratum

(*b*) To reduce the audit efficiency

(*c*) To increase sampling risk

(*d*) To reduce the variability of items within each stratum and allow for a smaller sample size

187. How is the population often stratified when performing tests of details?

(*a*) By alphabetical order

(*b*) By the age of the items

(*c*) By the size of the items

(*d*) By the number of items

188. What is one benefit of value-weighted selection in audit sampling?

(*a*) It directs audit effort to smaller value items

(*b*) It increases the sample size

(*c*) It reduces the variability of items

(*d*) It directs audit effort to larger value items and results in smaller sample sizes

189. How does stratification impact the sample results in audit sampling?

(*a*) The results are projected only to the stratum of the items selected

(*b*) The results are projected to the entire population without considering strata

(*c*) The variability of items is increased within each stratum

(*d*) The sample size remains constant across all strata

190. When might a population be stratified according to a particular characteristic?

(*a*) When selecting items randomly

(*b*) When testing for alphabetical order

(*c*) When the characteristic indicates a higher risk of misstatement

(*d*) When the population size is small

191. What does value-weighted selection focus on when defining the sampling unit?

(*a*) Random selection of items

(*b*) Individual monetary units within the population

(*c*) Items with alphabetical order

(*d*) Smaller value items

192. In value-weighted selection, why is audit effort directed to larger value items?

(*a*) Larger value items have a greater chance of selection

(*b*) Larger value items are less significant

(*c*) Smaller value items have a greater chance of selection

(*d*) The sample size is larger for larger value items

193. How does an increase in the tolerable rate of deviation affect the sample size in audit sampling?

(*a*) It increases the sample size

(*b*) It decreases the sample size

(*c*) It has no effect on the sample size

(*d*) It depends on other factors

194. What is the impact of an increase in the expected rate of deviation on the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

195. How does an increase in the auditor's desired level of assurance affect the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

196. What role does the actual size of the population play in determining the sample size in audit sampling?

(*a*) It significantly increases the sample size
(*b*) It significantly decreases the sample size
(*c*) It has no significant effect on the sample size
(*d*) It depends on other factors

197. When there is an increase in the extent to which the auditor's risk assessment takes into account relevant controls, how does it impact the sample size in audit sampling?

(*a*) It increases the sample size
(*b*) It decreases the sample size
(*c*) It has no effect on the sample size
(*d*) It depends on other factors

198. Which sampling method ensures that each item in the population has an equal chance of being selected, and is suitable for a homogeneous population with a similar range?

(*a*) Stratified Sampling
(*b*) Haphazard Sampling
(*c*) Block Sampling
(*d*) Simple Random Sampling

199. What is the primary characteristic of Stratified Sampling in audit sampling?

(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
(*b*) It selects items without following a structured technique.
(*c*) It selects contiguous items from within the population.
(*d*) It involves selecting a block of items from the population.

200. Which sampling method involves value-weighted selection, where sample size, selection, and evaluation result in a conclusion in monetary amounts?

(*a*) Haphazard Sampling
(*b*) Block Sampling
(*c*) Monetary Unit Sampling
(*d*) Simple Random Sampling

201. What is the key characteristic of Haphazard Sampling in audit sampling?

(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.
(*b*) It selects items without following a structured technique, avoiding conscious bias or predictability.

(*c*) It involves selecting a block of items from the population.

(*d*) It ensures that each item in the population has an equal chance of being selected.

202. Why is Block Sampling rarely an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample?

(*a*) It involves dividing the population into separate groups, and a sample is taken from each group.

(*b*) It selects items without following a structured technique.

(*c*) It involves selecting a block of items from the population.

(*d*) Most populations are structured such that items in a sequence can be expected to have similar characteristics.

203. In the case of tests of controls, what should the auditor treat a selected item as if the designed audit procedures cannot be applied or suitable alternative procedures are not available?

(*a*) Deviation (*b*) Exception

(*c*) Irregularity (*d*) Discrepancy

204. If a cancelled cheque is selected while testing for evidence of payment authorization and the auditor is satisfied it does not constitute a deviation, what should the auditor do?

(*a*) Ignore the selected cheque.

(*b*) Examine the cancelled cheque.

(*c*) Perform the procedure on a replacement cheque.

(*d*) Exclude the cheque from the audit scope.

205. What is an example of a suitable alternative procedure according to SA 505?

(*a*) Ignoring the selected item. (*b*) Replacing the item with a similar one.

(*c*) Seeking confirmation from the debtor. (*d*) Reviewing subsequent cash receipts.

206. When all transactions of computerized sales are being checked, and a sample of manual billing gets selected, what is the appropriate action for the auditor?

(*a*) Ignore the manual billing.

(*b*) Replace the manual billing with a computerized sale.

(*c*) Skip the audit procedure for that item.

(*d*) Replace the item after adequately checking its correctness.

207. If documentation related to a selected item is lost, what action should the auditor take according to SA 505?

(*a*) Assume the item is not material. (*b*) Seek confirmation from the debtor.

(*c*) Skip the audit procedure for that item. (*d*) Apply alternative audit procedures.

208. In the case of tests of details, what should the auditor treat a selected item as if the designed audit procedures cannot be applied or suitable alternative procedures are not available?

(*a*) Error (*b*) Deviation

(*c*) Misstatement (*d*) Irregularity

209. When the auditor observes that many deviations or misstatements have a common feature, what action may the auditor take according to auditing standards?

(*a*) Ignore the common feature.

(*b*) Extend audit procedures to items with the common feature.

(*c*) Exclude items with the common feature from the audit scope.

(*d*) Document the common feature without further investigation.

210. What may deviations or misstatements with a common feature indicate, according to auditing standards?

(*a*) Routine errors only.

(*b*) Intentional actions and the possibility of fraud.

(*c*) Inadequate audit planning.

(*d*) Acceptable variations in financial statements.

211. In the case of deviations or misstatements, what action is required of the auditor according to auditing standards?

(*a*) Ignore them if they are not material.

(*b*) Investigate the nature and causes.

(*c*) Assume they are routine errors.

(*d*) Rely solely on the client's explanation.

212. In extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, what is the auditor required to obtain?

(*a*) Approval from management.

(*b*) A confirmation from the external auditor.

(*c*) High certainty that it is representative of the population.

(*d*) A second sample for validation.

213. How should the auditor obtain a high degree of certainty that a misstatement or deviation discovered in a sample is not representative of the population?

(*a*) Accept the misstatement or deviation as an anomaly.

(*b*) Rely on the client's explanation.

(*c*) Perform additional audit procedures.

(*d*) Exclude the item from the audit report.

214. What is the auditor required to do regarding the projection of misstatements for the population according to auditing standards?

(*a*) Project misstatements only for material items.

(*b*) Project misstatements to determine the exact amount to be recorded.

(*c*) Project misstatements broadly for an overall view.

(*d*) Exclude projection for anomalous misstatements.

215. When a misstatement is established as an anomaly, what action may the auditor take when projecting misstatements to the population?

(*a*) Exclude the entire population from the projection.

(*b*) Include the misstatement in the projection without adjustment.

(*c*) Exclude the misstatement from the projection.
(*d*) Adjust the projection based on the nature of the misstatement.

216. For which type of audit procedures is the explicit projection of deviations to the population unnecessary according to auditing standards?
(*a*) Tests of controls.
(*b*) Analytical procedures.
(*c*) Substantive procedures.
(*d*) Compliance testing.

217. What is the purpose of stratification in audit sampling?
(*a*) To increase the variability within each stratum.
(*b*) To decrease the sample size within each stratum.
(*c*) To reduce the variability of items within each stratum.
(*d*) To increase the sample size within each stratum.

218. How does the auditor use the concept of "tolerable misstatement" in audit sampling?
(*a*) It defines the acceptable level of deviation in internal control procedures.
(*b*) It sets the monetary amount for which assurance is sought regarding the absence of actual misstatement in the population.
(*c*) It establishes the expected rate of deviation in the population.
(*d*) It determines the sample size for tests of controls.

219. What does the "tolerable rate of deviation" represent in audit sampling?
(*a*) The maximum rate of deviation that the auditor is willing to accept in the sample.
(*b*) The rate of deviation that is inherent in the population.
(*c*) The rate of deviation that is acceptable in the entire audit.
(*d*) The minimum rate of deviation that the auditor expects in the sample.

220. What is the objective of the auditor regarding specific considerations for inventory, litigation, and segment information under SA 501?
(*a*) To express an opinion on the entity's financial statements.
(*b*) To obtain assurance on the effectiveness of internal controls.
(*c*) To identify potential fraud in the financial statements.
(*d*) To obtain sufficient appropriate audit evidence related to specific aspects.

221. When inventory is material to the financial statements, what does the auditor need to do regarding attendance at physical inventory counting?
(*a*) It is optional for the auditor to attend physical inventory counting.
(*b*) The auditor should perform audit procedures over the entity's final inventory records.
(*c*) The auditor must attend physical inventory counting, unless impracticable.
(*d*) The auditor should rely solely on the entity's perpetual inventory system.

222. What is a relevant consideration for planning attendance at physical inventory counting?
(*a*) The convenience of the auditor.
(*b*) The nature of inventory.
(*c*) The size of the audit team.
(*d*) The auditor's personal preferences.

223. In case attendance at physical inventory counting is impracticable, what alternative audit procedures should the auditor perform?

(*a*) No alternative procedures are required.

(*b*) Rely on the entity's management representation.

(*c*) Modify the opinion in the auditor's report.

(*d*) Perform inspection of documentation of subsequent sales.

224. When inventory is under the custody and control of a third party, what should the auditor do to obtain sufficient appropriate audit evidence?

(*a*) Rely solely on the third party's confirmation.

(*b*) Perform inspection of documentation only.

(*c*) Ignore the third party's role and focus on internal controls.

(*d*) Request confirmation from the third party or perform inspection.

225. What is a relevant audit procedure for identifying litigation and claims involving the entity that may give rise to a risk of material misstatement?

(*a*) Inspection of inventory records.

(*b*) Inquiry of management and, where applicable, others within the entity.

(*c*) Reviewing bank statements.

(*d*) Observing physical inventory counting.

226. In addition to the procedures mentioned, what does SA 540 provide guidance on regarding litigation and claims involving the entity?

(*a*) Requirements for internal control assessment.

(*b*) Guidelines for financial statement presentation.

(*c*) Consideration of litigation and claims requiring accounting estimates or related disclosures.

(*d*) Procedures for fraud detection.

227. When the auditor assesses a risk of material misstatement related to litigation or claims, what is the auditor required to do regarding communication with the entity's external legal counsel?

(*a*) The auditor is not required to communicate with external legal counsel.

(*b*) Seek indirect communication through management.

(*c*) Seek direct communication through a letter of inquiry.

(*d*) Rely solely on internal audit reports.

228. If law or regulation prohibits the entity's external legal counsel from directly communicating with the auditor, what should the auditor do?

(*a*) Cease any further audit procedures related to litigation.

(*b*) Seek legal advice before proceeding with communication.

(*c*) Modify the opinion in the auditor's report.

(*d*) Perform alternative audit procedures.

229. In what circumstances might the auditor judge it necessary to meet with the entity's external legal counsel regarding litigation or claims?

(*a*) For routine matters with minimal financial implications.

(*b*) If the matter is not complex.

(*c*) When there is disagreement between management and legal counsel.

(*d*) Only when required by regulatory authorities.

230. What does segment information refer to in the context of an enterprise's financial reporting?

(*a*) Information about the company's shareholders.

(*b*) Information about the enterprise's internal structure and hierarchy.

(*c*) Information about different types of products and services and operations in different geographical areas.

(*d*) Information about the enterprise's employees.

231. Regarding segment information, what is the auditor's responsibility in relation to the financial statements?

(*a*) The auditor is solely responsible for preparing segment information.

(*b*) The auditor must express a separate opinion on the segment information.

(*c*) The auditor's responsibility is only for stand-alone segment information.

(*d*) The auditor's responsibility is in relation to the financial statements taken as a whole.

232. What is one of the auditor's tasks concerning segment information, as per SA 501?

(*a*) Developing segment reporting standards.

(*b*) Evaluating the profitability of each segment.

(*c*) Obtaining an understanding of the methods used by management in determining segment information.

(*d*) Preparing segment information summaries.

233. In relation to segment information, what does the auditor evaluate concerning the methods used by management?

(*a*) The profitability of each segment.

(*b*) Whether the methods result in disclosure in accordance with the applicable financial reporting framework.

(*c*) The total revenue of the enterprise.

(*d*) The market share of each segment.

234. Is the auditor required to express an opinion on the segment information presented on a stand-alone basis?

(*a*) Yes, it is a mandatory requirement.

(*b*) No, the auditor's responsibility is in relation to the financial statements taken as a whole.

(*c*) Only if requested by the entity's management.

(*d*) Only if there are significant variations in segment information.

235. When obtaining an understanding of the methods used by management in determining segment information, what is a relevant matter to consider?

(*a*) Operating profits as a percentage of sales.

(*b*) Consistency with prior periods and disclosure adequacy.

(*c*) Comparison with industry benchmarks.

(*d*) Employee satisfaction.

236. In the context of determining segment information, what is a matter relevant for evaluation according to SA 501?

(*a*) Number of employees in each segment.

(*b*) Allocation of assets and costs among segments.

(*c*) Total revenue of the enterprise.

(*d*) The popularity of the products in different segments.

237. What is considered a relevant matter in evaluating the methods used for segment information disclosure?

(*a*) Adherence to industry-specific regulations.

(*b*) Consistency with prior periods.

(*c*) The geographic location of the enterprise.

(*d*) Employee turnover rate.

238. According to SA 500, which statement is true regarding the reliability of audit evidence?

(*a*) Audit evidence obtained indirectly is always more reliable than evidence obtained directly.

(*b*) Audit evidence is equally reliable, irrespective of its source.

(*c*) Audit evidence obtained from independent sources outside the entity is generally more reliable.

(*d*) Documentary form of audit evidence is always less reliable.

239. What is the primary focus of SA 505 "External Confirmations"?

(*a*) Guidelines for internal control assessment.

(*b*) Use of statistical sampling techniques.

(*c*) Designing and performing external confirmation procedures.

(*d*) Treatment of related party transactions.

240. How does SA 505 define external confirmation?

(*a*) Any evidence received directly from the entity.

(*b*) Direct written response from a third party to the auditor.

(*c*) Evidence generated internally by the entity.

(*d*) Indirect response from a related party.

241. What is a positive confirmation request?

(*a*) A request for the auditor to confirm information directly.

(*b*) A request for the entity to confirm information.

(c) A request for the confirming party to respond only if they disagree.
(d) A request for a non-response.

242. What is a negative confirmation request?
(a) A request for the auditor to confirm information directly.
(b) A request for the entity to confirm information.
(c) A request for the confirming party to respond only if they disagree.
(d) A request for a non-response.

243. How is "non-response" defined in the context of confirmation requests?
(a) An acknowledgment of the confirmation request.
(b) A failure to respond, or fully respond, to a positive confirmation request.
(c) A response indicating agreement with the information.
(d) A response indicating a difference between information requested and provided.

244. What does the term "exception" refer to in the context of confirmation responses?
(a) A response that indicates a difference between requested information and that in the entity's records.
(b) A positive confirmation response.
(c) Any information provided by the confirming party.
(d) A non-response to a negative confirmation request.

245. What is the auditor's responsibility regarding external confirmation requests?
(a) Determine whether the confirming party agrees or disagrees.
(b) Select confirming parties and request information.
(c) Evaluate confirmation responses.
(d) Analyze confirmation risk factors.

246. What is a key consideration when determining the information to be confirmed or requested?
(a) Management's encouragement to confirm parties.
(b) The assertion being addressed.
(c) The method of communication.
(d) The auditor's authorization.

247. Why might a positive confirmation request be considered more reliable?
(a) It provides less information to the confirming party.
(b) It is sent electronically.
(c) It allows confirming parties to disagree without providing information.
(d) It asks the confirming party to reply in all cases.

248. How can the auditor reduce the risk associated with positive confirmation requests?
(a) Use blank confirmation requests.
(b) Request information only from management.
(c) Send fewer confirmation requests.
(d) State the amount on the confirmation request.

249. What does "properly addressed requests" involve?

(*a*) Ensuring that the auditor's address is correct.

(*b*) Checking the validity of addresses on confirmation requests before sending.

(*c*) Verifying management's authorization.

(*d*) Confirming parties' agreement with the information.

250. When might the auditor send a follow-up confirmation request?

(*a*) Immediately after the initial request.

(*b*) Only if the confirming party disagrees.

(*c*) When a reply to the previous request is not received within a reasonable time.

(*d*) If the auditor wants more information.

251. What should the auditor do if management refuses to allow the auditor to send a confirmation request?

(*a*) Proceed with other audit procedures without inquiry.

(*b*) Document the refusal and ignore its implications.

(*c*) Inquire as to management's reasons, evaluate implications, and perform alternative procedures.

(*d*) Conclude the audit without further action.

252. If the auditor determines that management's refusal is unreasonable, what action is required?

(*a*) Continue with the audit without any modifications.

(*b*) Communicate with those charged with governance and determine implications for the audit and opinion.

(*c*) Ignore the refusal and proceed with confirmation requests.

(*d*) Request additional audit evidence from management.

253. What is a common reason for management to refuse the auditor to send a confirmation request?

(*a*) Inability to locate confirming parties.

(*b*) Ongoing legal dispute or negotiation with the confirming party.

(*c*) Auditor's lack of authorization.

(*d*) Routine company policy.

254. Why is the auditor required to seek audit evidence about the validity and reasonableness of management's refusal reasons?

(*a*) To accuse management of fraud.

(*b*) To revise the financial statements.

(*c*) Due to the risk of management denying access to evidence revealing fraud or error.

(*d*) As a routine procedure in every audit.

255. In case of a refusal, what could be an example of an alternative audit procedure for accounts payable balances?

(*a*) Sending confirmation requests to suppliers.

(*b*) Examining specific subsequent cash receipts.

(*c*) Reviewing purchase orders.
(*d*) Examining subsequent cash disbursements or correspondence from third parties.

256. In what circumstances can the auditor use negative confirmation requests as the sole substantive audit procedure?
(*a*) The risk of material misstatement is high.
(*b*) The population comprises a small number of large, heterogeneous items.
(*c*) The auditor has not assessed the operating effectiveness of controls.
(*d*) The risk of material misstatement is assessed as low, and specific conditions are met.

257. When is a failure to receive a response to a negative confirmation request less persuasive as audit evidence?
(*a*) When the confirming party agrees with the information in the request.
(*b*) When the auditor has assessed a high risk of material misstatement.
(*c*) When the information in the request is unfavorable to the confirming party.
(*d*) When the confirming party is unaware of the audit.

258. What is a condition that would allow the auditor to use negative confirmation requests as the sole substantive audit procedure?
(*a*) High expected exception rate.
(*b*) Small and heterogeneous population.
(*c*) Lack of controls in the entity.
(*d*) Presence of circumstances causing recipients to disregard the requests.

259. What is the auditor's response category when the confirming party agrees with the information in the confirmation request without exception?
(*a*) Unreliable response
(*b*) Exceptional response
(*c*) Non-response
(*d*) Reliable response

260. How does the auditor categorize a response that is deemed unreliable during external confirmation procedures?
(*a*) Exceptional response
(*b*) Unreliable response
(*c*) Non-response
(*d*) Reliable response

261. What does the auditor consider when evaluating the results of external confirmation procedures?
(*a*) Only the response categories
(*b*) Other audit procedures performed
(*c*) Only the non-response category
(*d*) Results of internal control assessments

262. What does a non-response during external confirmation procedures indicate?
(*a*) Agreement with the information in the request
(*b*) Unreliable response
(*c*) Disagreement with the information in the request
(*d*) Lack of response from the confirming party

263. What is the definition of an "initial audit engagement"?

(*a*) An engagement where the financial statements for the prior period were audited by a predecessor auditor.

(*b*) An engagement where the financial statements for the prior period were audited by the current auditor.

(*c*) An engagement where the financial statements for the prior period were not audited.

(*d*) An engagement where the financial statements for the prior period were audited by the same auditor.

264. What do "opening balances" represent in the context of an audit?

(*a*) Balances that exist at the end of the period.

(*b*) Balances that reflect the effects of transactions and events of the current period.

(*c*) Balances that exist at the beginning of the period.

(*d*) Balances that are adjusted during the audit.

265. Who is a "predecessor auditor"?

(*a*) The current auditor from a different audit firm.

(*b*) The current auditor from the same audit firm.

(*c*) The auditor who audits the financial statements in the current period.

(*d*) The auditor from a different audit firm who audited the financial statements in the prior period.

266. What is one of the auditor's responsibilities in obtaining sufficient appropriate audit evidence regarding opening balances?

(*a*) Determining whether the opening balances reflect the application of inappropriate accounting policies.

(*b*) Ensuring that adjustments to opening balances are not disclosed as prior period items.

(*c*) Determining whether the prior period's closing balances have been brought forward correctly to the current period.

(*d*) Focusing on adjustments disclosed as prior period items in the current year's Statement of Profit and Loss.

267. What does the auditor need to evaluate concerning the opening balances?

(*a*) Whether audit procedures performed in the prior period provide evidence relevant to the opening balances.

(*b*) Whether the opening balances reflect inappropriate accounting policies.

(*c*) Whether adjustments disclosed as prior period items have been appropriately accounted for.

(*d*) Whether the prior period's closing balances are consistent with the current year's Statement of Profit and Loss.

268. In the context of opening balances, what does the auditor do if misstatements are found that could materially affect the current period's financial statements?

(*a*) Conclude the audit without further investigation.

(*b*) Communicate the misstatements with appropriate management and governance.

(*c*) Ignore the misstatements if they are immaterial.

(*d*) Adjust the opening balances in the current year's financial statements.

269. Which of the following is a specific action the auditor may take regarding prior year financial statements during the audit of opening balances?

(*a*) Ignoring the prior year financial statements as they are not relevant.

(*b*) Perusing copies of the audited financial statements from the prior year.

(*c*) Relying solely on the current year's Statement of Profit and Loss.

(*d*) Requesting a complete restatement of the prior year financial statements.

270. What is a factor that influences the nature and extent of audit procedures related to opening balances?

(*a*) The location of the entity's offices.

(*b*) The color scheme used in the financial statements.

(*c*) The accounting policies followed by the entity.

(*d*) The popularity of the entity's products.

271. What aspect of the current period's financial statements affects the nature and extent of audit procedures for opening balances?

(*a*) The entity's budget for the current year.

(*b*) The significance of the opening balances relative to the current period's financial statements.

(*c*) The number of shareholders in the entity.

(*d*) The entity's market share.

272. What consideration is important in determining the extent of audit procedures for opening balances?

(*a*) The entity's current financial performance.

(*b*) Whether the predecessor auditor's opinion was modified.

(*c*) The popularity of the entity's products.

(*d*) The geographical distribution of the entity's customers.

273. In the context of opening balances, what action can the auditor take if the prior period's financial statements were audited by a predecessor auditor?

(*a*) Ignore the prior period's financial statements.

(*b*) Obtain copies of the audited financial statements and relevant documents.

(*c*) Assume all opening balances are correct.

(*d*) Contact the predecessor auditor for predictions about the current period.

274. In the case of inventories, what additional audit procedures may be necessary to obtain sufficient appropriate audit evidence about opening balances?

(*a*) Rely solely on the current period's audit procedures for closing inventory.

(*b*) Observe a current physical inventory count and reconcile it to opening inventory quantities.

(*c*) Assume that the opening inventory is the same as the closing inventory of the prior period.
(*d*) Only perform audit procedures on the valuation of the opening inventory items.

275. How might the auditor obtain audit evidence about opening balances for non-current assets and liabilities such as property, plant and equipment?
(*a*) Rely on the closing balances without further audit procedures.
(*b*) Confirm with third parties.
(*c*) Assume opening balances for non-current assets and liabilities remain unchanged.
(*d*) Ignore non-current assets and liabilities in the opening balances.

276. What action should the auditor take if the current period's accounting policies are not consistently applied in relation to opening balances, or if a change in accounting policies is not properly accounted for or adequately presented and disclosed?
(*a*) Ignore the inconsistency and continue the audit.
(*b*) Express an unmodified opinion.
(*c*) Express a qualified or adverse opinion, as appropriate.
(*d*) Request management to modify the financial reporting framework.

277. What should the auditor do if they are unable to obtain sufficient appropriate audit evidence regarding the opening balances?
(*a*) Express an unmodified opinion.
(*b*) Request management to provide additional evidence.
(*c*) Express a qualified opinion or a disclaimer of opinion, as appropriate.
(*d*) Ignore the issue and proceed with the audit.

278. What action should the auditor take if the opening balances contain a misstatement that materially affects the current period's financial statements and is not properly accounted for or adequately presented and disclosed?
(*a*) Express an unmodified opinion.
(*b*) Request management to rectify the misstatement.
(*c*) Express a qualified or adverse opinion, as appropriate.
(*d*) Ignore the misstatement and proceed with the audit.

279. How does the Standard on Auditing (SA) 550 define a related party in the absence of specific requirements in the financial reporting framework?
(*a*) Any entity mentioned in the financial statements.
(*b*) Any entity with which the reporting entity has contractual agreements.
(*c*) Only entities that share common controlling ownership.
(*d*) A person or entity that has control or significant influence over the reporting entity.

280. Which of the following is NOT considered a related party, even if there is common control?
(*a*) Entities with common controlling ownership.
(*b*) Entities owned by close family members.

(*c*) Entities under common control by a state (national, regional, or local government).
(*d*) Entities engaged in significant transactions with one another.

281. What is the key difference between control and significant influence according to financial reporting frameworks?
(*a*) Control involves power over financial and operating policies, while significant influence involves ownership of a significant percentage of shares.
(*b*) Control allows participation in financial and operating policy decisions, while significant influence involves the ability to govern an entity's activities.
(*c*) Control implies ownership of a majority of shares, while significant influence requires ownership of a minority interest.
(*d*) Control provides benefits from entity activities, while significant influence is limited to financial policy decisions.

282. What relationship may indicate the presence of control or significant influence?
(*a*) Having a significant business relationship with a close family member.
(*b*) Holding direct or indirect equity or other financial interests in the entity.
(*c*) Being a close family member of someone with no financial interests in the entity.
(*d*) Being part of those charged with governance or key management.

283. Considering the ability of related parties to exert dominant influence over the entity or its management is relevant when:
(*a*) Evaluating the effectiveness of internal controls.
(*b*) Determining appropriate audit procedures.
(*c*) Identifying and assessing risks of material misstatement due to fraud.
(*d*) Assessing the accuracy of financial statements.

284. Regarding related party transactions and relationships, the auditor is required to inquire about:
(*a*) The entity's related parties and any changes from the prior period.
(*b*) The nature of relationships between the entity and related parties.
(*c*) Whether the entity engaged in transactions with related parties during the period and details of those transactions.
(*d*) All of the above.

285. How might the control environment in smaller entities differ from larger entities in terms of governance and control activities?
(*a*) Smaller entities always have a more formal control environment.
(*b*) Governance in smaller entities is similar to larger entities.
(*c*) Control activities in smaller entities are typically more formalized.
(*d*) The role of governance in smaller entities may be undertaken directly by the owner-manager, and control activities are likely to be less formal.

286. In smaller entities, how might an owner-manager's involvement affect the risks associated with related party transactions?
(*a*) Owner-manager involvement has no impact on risks.
(*b*) Owner-managers decrease all risks.

(*c*) Owner-managers may mitigate or increase risks through active involvement.
(*d*) Owner-managers only increase risks.

287. When auditing related party relationships and transactions in smaller entities, what procedures can the auditor use to understand controls?
(*a*) Only inquiry of management is sufficient.
(*b*) Observation of management's oversight and review activities.
(*c*) Inspection of available relevant documentation.
(*d*) Both (*b*) and (*c*).

288. How can an auditor verify the existence of related party relationships and transactions during the audit?
(*a*) Only by reviewing income tax returns.
(*b*) Inspecting shareholder registers is the most reliable method.
(*c*) Limited to documents associated with securities regulator filings.
(*d*) Reviewing various records and documents, including income tax returns, regulatory submissions, shareholder registers, contracts, and agreements.

289. Which of the following is NOT suggested as a document to inspect for related party information?
(*a*) Entity income tax returns.
(*b*) Shareholder registers.
(*c*) Employee handbook.
(*d*) Statements of conflicts of interest.

290. What are "overall tests" in the context of auditing?
(*a*) Routine checks applied to all accounts.
(*b*) Procedures like comparisons, trend and ratio analysis, and reasonable tests collectively.
(*c*) Limited to analytical procedures.
(*d*) In-depth tests for a specific account only.

291. According to SA-520, what is the meaning of "analytical procedures"?
(*a*) Basic audit tests for financial information.
(*b*) Only evaluations of financial data.
(*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.
(*d*) Strictly limited to the investigation of inconsistencies.

292. How does SA-520 define the term "analytical procedures"?
(*a*) Strictly evaluations of financial data.
(*b*) Limited to routine checks.
(*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.
(*d*) Only analysis of financial ratios.

293. What do analytical procedures encompass, according to SA-520?
(*a*) Only analysis of financial data.
(*b*) Investigations of fluctuations or relationships consistent with other information.

(*c*) Analysis of plausible relationships among non-financial data only.
(*d*) Evaluations of financial and non-financial data through analysis of plausible relationships and necessary investigations of identified fluctuations.

294. Why have analytical procedures gained significance as substantive audit procedures?
(*a*) Due to their routine nature.
(*b*) As a replacement for overall tests.
(*c*) Because they are limited to financial data.
(*d*) In addition to reasonable tests, they provide valuable insights and can detect inconsistencies or significant deviations.

295. What are the main objectives of the auditor when using substantive analytical procedures, according to SA-520?
(*a*) To replace overall tests.
(*b*) To assist in forming an overall conclusion on the financial statements.
(*c*) To obtain irrelevant audit evidence.
(*d*) To compare account balances only.

296. How does SA-520 define analytical procedures?
(*a*) Limited to routine comparisons.
(*b*) Strictly based on financial data.
(*c*) Use comparisons and relationships to assess whether account balances or other data appear reasonable.
(*d*) Only applicable at the beginning of the audit.

297. What is the purpose of establishing relationships and comparisons in analytical procedures, as mentioned in SA-520?
(*a*) To create a complex financial model.
(*b*) To complicate audit processes.
(*c*) To detect unusual states of affairs and mistakes in accounts.
(*d*) To replace substantive audit procedures.

298. In the context of analytical procedures, what does the auditor do when abnormalities are found?
(*a*) Ignore them as immaterial.
(*b*) Assess whether the accounts have been manipulated to inflate or suppress profits.
(*c*) Immediately conclude the audit.
(*d*) Document them without further investigation.

299. When an abnormal fall in the cost of manufacture is suspected, what should the auditor do, according to the information provided?
(*a*) Ignore the suspicion.
(*b*) Compare entries only with the current year.

(*c*) Compare the entries in the outstanding book with those in the previous year and check vouchers for one month before the close of the following years.

(*d*) Rely solely on the client's explanation.

300. How can independently verifying the correctness of certain items in the Statement of Profit and Loss be achieved?

(*a*) By relying on the client's assertion.

(*b*) Through analytical procedures only.

(*c*) By comparing entries with the previous year.

(*d*) By using external confirmations.

301. What does analytical review encompass, as mentioned in the context of the provided information?

(*a*) Strictly based on financial data.

(*b*) Limited to physical balances.

(*c*) Calculation of ratios, trends, and comparisons.

(*d*) Application only at the beginning of the audit.

302. According to SA-520, what may analytical procedures help identify?

(*a*) Routine transactions.

(*b*) Unusual transactions or events, and amounts, ratios, and trends.

(*c*) Only material misstatements.

(*d*) Fraud risks exclusively.

303. What does SA-520 highlight as the potential significance of unusual or unexpected relationships identified through analytical procedures?

(*a*) No significance.

(*b*) They indicate routine financial activities.

(*c*) They assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.

(*d*) They are not relevant to the audit process.

304. Why are analytical procedures considered significant as substantive audit procedures?

(*a*) Due to their routine nature.

(*b*) Because they replace overall tests.

(*c*) They provide valuable insights and can detect inconsistencies or significant deviations.

(*d*) Limited to financial data.

305. In which stage of the audit are analytical procedures required to assist the auditor in understanding the client's business and identifying areas of potential risk?

(*a*) Testing phase.

(*b*) Completion phase.

(*c*) Both planning and testing phases.

(*d*) Only in the completion phase.

306. What is the primary purpose of using analytical procedures in the planning stage of the audit?

(*a*) To replace other audit procedures.

(*b*) To identify areas of potential risk and understand the client's business.

(*c*) To confirm financial data.

(*d*) To complete the audit.

307. What type of information is used in analytical procedures during the planning phase of the audit?

(*a*) Financial data only.

(*b*) Non-financial information only.

(*c*) Both financial data and non-financial information.

(*d*) No information is used.

308. During the planning stage, how do analytical procedures assist the auditor in determining the nature, timing, and extent of other audit procedures?

(*a*) By replacing other audit procedures.

(*b*) By confirming client assertions.

(*c*) By indicating aspects of and developments in the entity's business.

(*d*) By focusing only on non-financial information.

309. When are analytical procedures typically performed in the testing phase of the audit?

(*a*) At the beginning of the audit.

(*b*) Only during the completion phase.

(*c*) Throughout the entire audit process.

(*d*) Only during the planning phase.

310. What is the basis for the auditor's decision on which audit procedures to perform at the assertion level?

(*a*) Client's preferences.

(*b*) Auditor's experience.

(*c*) Auditor's judgment about the expected effectiveness and efficiency.

(*d*) Random selection.

311. When using analytical data prepared by management for substantive analytical procedures, what is a crucial consideration for the auditor?

(*a*) The speed of data preparation.

(*b*) Whether the data is properly prepared.

(*c*) Whether the data is extensive.

(*d*) The cost of data preparation.

312. Which factor is relevant for the effectiveness of substantive analytical procedures?

(*a*) Lack of data availability.

(*b*) Extensive disaggregation in available data.

(*c*) Limited predictability in relationships.

(*d*) Non-routine and estimation SCOTs.

313. Why are income statement accounts considered more predictable for substantive analytical procedures compared to balance sheet accounts?

(*a*) Balance sheet accounts have routing processes.

(*b*) Income statement accounts reflect accumulated transactions over a period.

(*c*) Balance sheet accounts are subject to greater management judgment.

(*d*) Income statement accounts represent the net effect of transactions at a point in time.

314. When might substantive analytical procedures be more effective in providing evidence for certain assertions?

(*a*) For assertions related to rights and obligations.

(*b*) For assertions related to existence.

(*c*) For assertions related to completeness or valuation.

(*d*) For assertions related to presentation and disclosure.

315. What type of analytical procedures can be used to address completeness, valuation/measurement, and occurrence?

(*a*) Predictive analytical procedures.

(*b*) Descriptive analytical procedures.

(*c*) Diagnostic analytical procedures.

(*d*) Confirmatory analytical procedures.

316. In designing audit procedures for higher inherent risk, what approach may the auditor take?

(*a*) Rely solely on substantive analytical procedures.

(*b*) Design tests of details to address the higher inherent risk.

(*c*) Use only random sampling techniques.

(*d*) Rely on client-provided data.

317. What is trend analysis in the context of substantive analytical procedures?

(*a*) Analysis of unrelated data points.

(*b*) Comparison of current data with unrelated prior data.

(*c*) Comparison of current data with the prior period balance or trend in two or more prior period balances.

(*d*) Analysis of non-financial data only.

318. What does trend analysis involve when comparing account fluctuations?

(*a*) Comparing the account to unrelated data points.

(*b*) Analyzing account fluctuations with non-financial data.

(*c*) Comparing current year information with information derived over several years.

(*d*) Ignoring prior period information.

319. Why is ratio analysis useful for substantive analytical procedures?

(*a*) It helps analyze non-financial data.

(*b*) It is applicable only to income statement accounts.

(*c*) It provides insights into individual balance sheet accounts.

(*d*) It relies solely on unrelated data.

320. What is the focus of reasonableness tests in substantive analytical procedures?

(*a*) Events of prior periods.

(*b*) Unpredictable fluctuations.

(*c*) Non-financial data for the audit period under consideration.

(*d*) Data unrelated to the audit period.

321. What is structural modeling in the context of substantive analytical procedures?

(*a*) Analysis of structural elements of financial statements.

(*b*) Creating a statistical model to predict current account balances based on prior data.

(*c*) Examining the structure of unrelated data points.

(*d*) Ignoring non-financial data.

322. What is the auditor required to determine when designing and performing substantive analytical procedures?

(*a*) Suitability of particular procedures for management's assertions.

(*b*) The necessity of using tests of details.

(*c*) The effectiveness of planned analytical procedures.

(*d*) The auditor's level of expertise in analytical procedures.

323. When evaluating the reliability of data for developing expectations, what factors should the auditor consider?

(*a*) The auditor's expectations.

(*b*) The complexity of the data.

(*c*) Source, comparability, nature, and relevance of information, and controls over preparation.

(*d*) The volume of transactions.

324. What is the auditor required to develop when performing substantive analytical procedures?

(*a*) Predictive models.

(*b*) Expectations of recorded amounts or ratios.

(*c*) An understanding of management's assertions.

(*d*) Comprehensive data analysis.

325. How does the auditor evaluate the precision of the developed expectation in substantive analytical procedures?

(*a*) By using unsophisticated predictive models.

(*b*) By determining the acceptable amount of difference without further investigation.

(*c*) By relying on management's assertions.

(*d*) By performing extensive tests of details.

326. What influences the determination of the suitability of particular substantive analytical procedures?

(*a*) Nature of the auditor's expectations.

(*b*) Auditor's assessment of the risk of material misstatement.

(*c*) Reliability of management's assertions.

(*d*) Volume of transactions.

327. What is relevant when determining the reliability of data for designing substantive analytical procedures?

(*a*) Auditor's expectations.

(*b*) Complexity of the information.

(*c*) Volume of data.
(*d*) Source, comparability, nature, and relevance of information, and controls over preparation.

328. When considering the source of information for reliability, which is considered more reliable?
(*a*) Information obtained from independent sources outside the entity.
(*b*) Information obtained from internal management reports.
(*c*) Information based on industry averages.
(*d*) Information gathered from subjective estimates.

329. In assessing the comparability of information, what factor may influence the need for supplementation?
(*a*) The reliability of information.
(*b*) The scope of the audit.
(*c*) Industry data may need supplementation for comparability.
(*d*) Volume of transactions.

330. What does the auditor consider when evaluating the nature and relevance of information for designing substantive analytical procedures?
(*a*) Whether budgets are achieved.
(*b*) The comprehensiveness of financial data.
(*c*) The entity's financial goals.
(*d*) Whether budgets are established as expected results.

331. Why might the auditor test the operating effectiveness of controls over the entity's preparation of information for analytical procedures?
(*a*) To ensure compliance with regulatory requirements.
(*b*) To identify errors in the financial statements.
(*c*) To enhance the efficiency of audit procedures.
(*d*) To increase confidence in the reliability of the information.

332. What is relevant to the auditor's evaluation of whether the expectation can be developed sufficiently precisely to identify a misstatement?
(*a*) Consistency in comparing discretionary expenses.
(*b*) Accuracy of historical data.
(*c*) The auditor's knowledge of the industry.
(*d*) The accuracy with which expected results can be predicted.

333. When considering the degree to which information can be disaggregated for analytical procedures, what may be more effective?
(*a*) Applying analytical procedures to the entity as a whole.
(*b*) Disaggregating financial information on individual sections of an operation.
(*c*) Relying on non-financial information only.
(*d*) Ignoring components of a diversified entity.

334. What factor influences the auditor's determination of the amount of difference from the expectation that can be accepted without further investigation?

(*a*) The availability of financial forecasts.

(*b*) The level of disaggregation in the financial data.

(*c*) Materiality and the desired level of assurance.

(*d*) The auditor's personal judgment.

335. As the assessed risk increases, what happens to the amount of difference considered acceptable without investigation according to SA 330?

(*a*) It remains constant.

(*b*) It decreases.

(*c*) It increases.

(*d*) It depends on the nature of the assertion.

336. When analytical procedures identify fluctuations inconsistent with other relevant information, what should the auditor do?

(*a*) Accept the fluctuations without investigation.

(*b*) Inquire of management and obtain appropriate audit evidence relevant to management's responses.

(*c*) Ignore the inconsistencies and proceed with other audit procedures.

(*d*) Rely solely on non-financial information.

337. What is the primary purpose of the conclusions drawn from the results of analytical procedures performed in accordance with SA 520?

(*a*) To replace the need for testing individual components.

(*b*) To independently form an overall conclusion on the financial statements.

(*c*) To corroborate conclusions formed during the audit of individual components.

(*d*) To provide a standalone opinion on the financial statements.

338. If the results of analytical procedures identify a previously unrecognized risk of material misstatement, what does SA 315 require the auditor to do?

(*a*) Ignore the identified risk.

(*b*) Revise the auditor's assessment of risks and modify planned audit procedures.

(*c*) Proceed with the audit without any modifications.

(*d*) Seek external validation of the analytical procedures.

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*c*)	**4.** (*c*)	**5.** (*b*)	**6.** (*d*)	**7.** (*c*)	**8.** (*b*)	**9.** (*c*)	**10.** (*c*)
11. (*c*)	**12.** (*b*)	**13.** (*c*)	**14.** (*b*)	**15.** (*a*)	**16.** (*c*)	**17.** (*b*)	**18.** (*c*)	**19.** (*c*)	**20.** (*b*)
21. (*c*)	**22.** (*c*)	**23.** (*d*)	**24.** (*a*)	**25.** (*c*)	**26.** (*b*)	**27.** (*b*)	**28.** (*c*)	**29.** (*b*)	**30.** (*b*)
31. (*c*)	**32.** (*b*)	**33.** (*d*)	**34.** (*c*)	**35.** (*c*)	**36.** (*a*)	**37.** (*b*)	**38.** (*a*)	**39.** (*d*)	**40.** (*d*)
41. (*a*)	**42.** (*b*)	**43.** (*b*)	**44.** (*c*)	**45.** (*c*)	**46.** (*c*)	**47.** (*c*)	**48.** (*c*)	**49.** (*c*)	**50.** (*b*)
51. (*c*)	**52.** (*b*)	**53.** (*b*)	**54.** (*b*)	**55.** (*a*)	**56.** (*b*)	**57.** (*b*)	**58.** (*c*)	**59.** (*c*)	**60.** (*d*)
61. (*a*)	**62.** (*c*)	**63.** (*a*)	**64.** (*c*)	**65.** (*b*)	**66.** (*a*)	**67.** (*b*)	**68.** (*b*)	**69.** (*c*)	**70.** (*c*)
71. (*c*)	**72.** (*b*)	**73.** (*c*)	**74.** (*b*)	**75.** (*c*)	**76.** (*b*)	**77.** (*c*)	**78.** (*c*)	**79.** (*d*)	**80.** (*b*)
81. (*c*)	**82.** (*a*)	**83.** (*c*)	**84.** (*c*)	**85.** (*c*)	**86.** (*c*)	**87.** (*c*)	**88.** (*c*)	**89.** (*d*)	**90.** (*c*)
91. (*b*)	**92.** (*c*)	**93.** (*c*)	**94.** (*b*)	**95.** (*c*)	**96.** (*c*)	**97.** (*b*)	**98.** (*d*)	**99.** (*c*)	**100.** (*d*)
101. (*b*)	**102.** (*c*)	**103.** (*b*)	**104.** (*d*)	**105.** (*b*)	**106.** (*b*)	**107.** (*d*)	**108.** (*d*)	**109.** (*d*)	**110.** (*c*)
111. (*b*)	**112.** (*c*)	**113.** (*b*)	**114.** (*c*)	**115.** (*b*)	**116.** (*c*)	**117.** (*c*)	**118.** (*b*)	**119.** (*d*)	**120.** (*b*)
121. (*d*)	**122.** (*d*)	**123.** (*c*)	**124.** (*c*)	**125.** (*c*)	**126.** (*c*)	**127.** (*b*)	**128.** (*b*)	**129.** (*c*)	**130.** (*b*)
131. (*d*)	**132.** (*b*)	**133.** (*c*)	**134.** (*a*)	**135.** (*c*)	**136.** (*b*)	**137.** (*c*)	**138.** (*a*)	**139.** (*d*)	**140.** (*c*)
141. (*b*)	**142.** (*c*)	**143.** (*b*)	**144.** (*d*)	**145.** (*b*)	**146.** (*c*)	**147.** (*c*)	**148.** (*b*)	**149.** (*c*)	**150.** (*d*)
151. (*a*)	**152.** (*c*)	**153.** (*b*)	**154.** (*c*)	**155.** (*b*)	**156.** (*c*)	**157.** (*c*)	**158.** (*c*)	**159.** (*b*)	**160.** (*c*)
161. (*b*)	**162.** (*d*)	**163.** (*b*)	**164.** (*c*)	**165.** (*c*)	**166.** (*b*)	**167.** (*b*)	**168.** (*b*)	**169.** (*d*)	**170.** (*c*)
171. (*c*)	**172.** (*c*)	**173.** (*b*)	**174.** (*c*)	**175.** (*a*)	**176.** (*c*)	**177.** (*c*)	**178.** (*b*)	**179.** (*c*)	**180.** (*c*)
181. (*d*)	**182.** (*a*)	**183.** (*d*)	**184.** (*c*)	**185.** (*d*)	**186.** (*d*)	**187.** (*c*)	**188.** (*d*)	**189.** (*a*)	**190.** (*c*)
191. (*b*)	**192.** (*a*)	**193.** (*b*)	**194.** (*a*)	**195.** (*a*)	**196.** (*c*)	**197.** (*a*)	**198.** (*d*)	**199.** (*a*)	**200.** (*c*)
201. (*b*)	**202.** (*d*)	**203.** (*a*)	**204.** (*c*)	**205.** (*d*)	**206.** (*d*)	**207.** (*d*)	**208.** (*c*)	**209.** (*b*)	**210.** (*b*)
211. (*b*)	**212.** (*c*)	**213.** (*c*)	**214.** (*c*)	**215.** (*c*)	**216.** (*a*)	**217.** (*c*)	**218.** (*b*)	**219.** (*a*)	**220.** (*d*)
221. (*c*)	**222.** (*b*)	**223.** (*d*)	**224.** (*d*)	**225.** (*b*)	**226.** (*c*)	**227.** (*c*)	**228.** (*d*)	**229.** (*c*)	**230.** (*c*)
231. (*d*)	**232.** (*c*)	**233.** (*b*)	**234.** (*b*)	**235.** (*a*)	**236.** (*b*)	**237.** (*b*)	**238.** (*c*)	**239.** (*c*)	**240.** (*b*)
241. (*a*)	**242.** (*c*)	**243.** (*b*)	**244.** (*a*)	**245.** (*b*)	**246.** (*b*)	**247.** (*d*)	**248.** (*a*)	**249.** (*b*)	**250.** (*c*)
251. (*c*)	**252.** (*b*)	**253.** (*b*)	**254.** (*c*)	**255.** (*d*)	**256.** (*d*)	**257.** (*c*)	**258.** (*d*)	**259.** (*d*)	**260.** (*b*)
261. (*b*)	**262.** (*d*)	**263.** (*c*)	**264.** (*c*)	**265.** (*d*)	**266.** (*c*)	**267.** (*b*)	**268.** (*b*)	**269.** (*b*)	**270.** (*c*)
271. (*b*)	**272.** (*b*)	**273.** (*b*)	**274.** (*b*)	**275.** (*b*)	**276.** (*c*)	**277.** (*c*)	**278.** (*c*)	**279.** (*b*)	**280.** (*c*)
281. (*b*)	**282.** (*d*)	**283.** (*c*)	**284.** (*d*)	**285.** (*d*)	**286.** (*c*)	**287.** (*d*)	**288.** (*d*)	**289.** (*c*)	**290.** (*b*)
291. (*c*)	**292.** (*c*)	**293.** (*d*)	**294.** (*d*)	**295.** (*b*)	**296.** (*c*)	**297.** (*c*)	**298.** (*b*)	**299.** (*c*)	**300.** (*c*)
301. (*c*)	**302.** (*b*)	**303.** (*c*)	**304.** (*c*)	**305.** (*c*)	**306.** (*b*)	**307.** (*c*)	**308.** (*c*)	**309.** (*c*)	**310.** (*c*)
311. (*b*)	**312.** (*c*)	**313.** (*b*)	**314.** (*c*)	**315.** (*a*)	**316.** (*b*)	**317.** (*c*)	**318.** (*c*)	**319.** (*c*)	**320.** (*c*)
321. (*b*)	**322.** (*a*)	**323.** (*c*)	**324.** (*b*)	**325.** (*b*)	**326.** (*b*)	**327.** (*d*)	**328.** (*a*)	**329.** (*c*)	**330.** (*d*)
331. (*d*)	**332.** (*d*)	**333.** (*b*)	**334.** (*c*)	**335.** (*b*)	**336.** (*b*)	**337.** (*c*)	**338.** (*b*)		

SOLUTION

1. (*b*) Information used by the auditor in arriving at conclusions for the financial statements
2. (*c*) A variety including documentary examination, physical examination, and statements
3. (*c*) Counting cash
4. (*c*) A variety including client's ledger invoices, debit notes, credit notes, and monthly accounts statements
5. (*b*) To prioritize verification procedures based on evidence weight
6. (*d*) Evidence that is typically available in the context of the transaction
7. (*c*) What normally should be available in the context of the transaction
8. (*b*) A procedure for obtaining greater satisfaction about the reliability of an assertion
9. (*c*) To prove or disprove assertions
10. (*c*) A variety of fields, including documentary examination, physical examination, and statements
11. (*c*) Invoices and contracts
12. (*b*) Cheques and records of electronic fund transfers
13. (*c*) Manuals containing details of internal control
14. (*b*) Minutes of the meetings
15. (*a*) Visual evidence
16. (*c*) Inspection report
17. (*b*) Comes from third parties not interested in manipulation
18. (*c*) Oral evidence
19. (*c*) Possibilities of manipulation and creation of false evidence
20. (*b*) Directly impacts the opinion
21. (*c*) Logical connection with the purpose
22. (*c*) Source and nature of information
23. (*d*) All of the above
24. (*a*) Inspecting unpaid invoices
25. (*c*) Evaluating operating effectiveness
26. (*b*) Detecting material misstatements
27. (*b*) Substantive procedures
28. (*c*) Detecting material misstatements
29. (*b*) Deviation in conditions
30. (*b*) Supports existence and valuation
31. (*c*) It's often relevant to the same assertion
32. (*b*) Detecting material misstatements

33. (*d*) To enhance the reliability of audit evidence
34. (*c*) Testing recorded accounts payable
35. (*c*) The source and nature of the information
36. (*a*) Lack of objectivity
37. (*b*) When related controls are effective
38. (*a*) Contemporaneously written records
39. (*d*) Contemporaneously written records
40. (*d*) Controls over preparation and maintenance
41. (*a*) Original documents
42. (*b*) Sufficiency
43. (*b*) Higher risks require more evidence
44. (*c*) The source and nature of evidence
45. (*b*) Higher quality requires less evidence
46. (*c*) Forming the auditor's opinion
47. (*c*) Previous audits and the entity's accounting records
48. (*c*) Absence of information
49. (*c*) Supervision
50. (*b*) When audit risk is reduced to an acceptably low level
51. (*c*) More evidence is required for more material assertions
52. (*b*) The risk that a misstatement could occur before considering controls
53. (*b*) More evidence for larger, more heterogeneous populations
54. (*b*) The risk that internal controls will not prevent misstatements
55. (*a*) Lower risk of material misstatement
56. (*b*) By performing procedures like reperformance and reconciliation
57. (*b*) More assurance is obtained from consistent evidence
58. (*c*) By using information from sources independent of the entity
59. (*c*) Both risk assessment procedures and further audit procedures
60. (*d*) Inspection
61. (*a*) Observing inventory counting
62. (*c*) External Confirmation
63. (*a*) Checking the mathematical accuracy of documents or records
64. (*c*) Independently executing procedures originally performed by the entity
65. (*b*) Analytical Procedures
66. (*a*) Seeking information from knowledgeable persons

67. (*b*) When evaluating financial information by studying relationships

68. (*b*) Existence, rights, and obligations

69. (*c*) External Confirmation

70. (*c*) May require additional procedures due to electronic data

71. (*c*) When the entity discards source documents after scanning

72. (*b*) They may require audit procedures to be performed at specific times

73. (*c*) The possibility of incomplete audit trails

74. (*b*) Purchase orders and invoices

75. (*c*) Procedures to understand the entity and its environment, assess risks, and identify potential misstatements.

76. (*b*) To evaluate the operating effectiveness of controls.

77. (*c*) Detects material misstatements at the assertion level.

78. (*c*) Detailed examinations of specific transactions, account balances, and disclosures.

79. (*d*) Analyzing relationships and trends in financial data.

80. (*b*) Representations by management embodied in the financial statements.

81. (*c*) Representations made by management regarding recognition, measurement, presentation, and disclosure.

82. (*a*) Assertions about classes of transactions and events.

83. (*c*) Presentation and disclosure.

84. (*c*) Assertions about compliance with legislation or proper authority.

85. (*c*) May express assertions differently as long as all aspects are covered.

86. (*c*) To track and document the flow of transactions, verifying their source and integrity.

87. (*c*) By documenting evidence of events and operations, reducing fraud and unauthorized use.

88. (*c*) They involve costs in terms of system expenditure and time for data analysis.

89. (*d*) By providing evidence on whether controls were operating effectively.

90. (*c*) They can track user activities, fixing responsibility and aiding in problem analysis.

91. (*b*) It may influence the nature, timing, and extent of audit procedures based on various factors.

92. (*c*) The availability of alternative sources of audit evidence.

93. (*c*) It may influence the nature and extent of audit procedures.

94. (*b*) Obtain audit evidence about the accuracy and completeness of the information.

95. (*c*) When the population constitutes a small number of large value items.

96. (*c*) When the population constitutes a small number of large value items.

97. (*b*) The auditor's understanding of the entity.

98. (*d*) When items are suspicious, unusual, or have a history of error.

99. (*c*) Repetitive nature of a calculation in an information system.

100. (*d*) To verify a large proportion of the total amount.

101. (*b*) Increased sampling risk.

102. (*c*) When the population is large and homogenous.

103. (*b*) Significant risk and other means insufficient.

104. (*d*) The population constitutes a small number of large value items.

105. (*b*) To draw conclusions about an entire population based on a sample.

106. (*b*) Modify or add to audit procedures to resolve the inconsistency.

107. (*d*) Document the inconsistency and resolution.

108. (*d*) An expert in a field other than accounting or auditing, used by the entity to assist in preparing financial statements.

109. (*d*) The competence, capabilities, and objectivity of the expert.

110. (*c*) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion.

111. (*b*) SA 500 - Audit Evidence

112. (*c*) Conclude whether sufficient appropriate audit evidence has been obtained.

113. (*b*) Evaluating and improving the effectiveness of governance, risk management, and internal control processes

114. (*c*) Financial reporting preparation

115. (*b*) Identifying and evaluating significant exposures to risk

116. (*c*) Design, implementation, and operating effectiveness of internal control

117. (*c*) Compliance with laws, regulations, and internal requirements

118. (*b*) Evaluating performance management

119. (*d*) Operational efficiency

120. (*b*) To obtain information relevant to assessments of risks of material misstatement

121. (*d*) After appropriate evaluation

122. (*d*) Direct assistance

123. (*c*) To define the external auditor's responsibilities when using the work of internal auditors

124. (*c*) External auditor

125. (*c*) External auditor

126. (*c*) To determine whether the work is adequate for purposes of the audit

127. (*b*) To establish a framework for external auditor's judgments

128. (*b*) External auditors

129. (*c*) Direct, supervise, and review their work appropriately

130. (*b*) Organizational status and relevant policies

131. (*d*) Quality control and systematic approach

132. (*b*) The extent to which organizational status supports objectivity

133. (*c*) Ability to perform tasks without bias

134. (*a*) Direct access to those charged with governance

135. (*c*) Constraints on communicating findings to the external auditor

136. (*b*) To determine the appropriateness of remuneration

137. (*c*) Knowledge and skills required for tasks

138. (*a*) Technical training and proficiency

139. (*d*) To enable diligent task performance

140. (*c*) Both are equally important and interchangeable

141. (*b*) Objectivity of internal auditors

142. (*c*) Systematic and disciplined approach

143. (*b*) Appropriateness of internal audit procedures

144. (*d*) When the function lacks competence

145. (*b*) The relevance to the overall audit strategy and plan

146. (*c*) Observations of inventory counts

147. (*c*) The nature and scope of the internal audit work

148. (*b*) When it aligns with the overall audit strategy

149. (*c*) When there is more judgment involved in planning and performing relevant audit procedures

150. (*d*) The assessed risk of material misstatement

151. (*a*) When the internal audit function has a low level of competence

152. (*c*) Discuss the planned use of its work with the function

153. (*b*) Nature and extent of audit procedures performed

154. (*c*) Perform sufficient audit procedures on the body of work of the internal audit function

155. (*b*) Nature of the entity's products

156. (*c*) Using internal auditors to perform audit procedures under the direction, supervision, and review of the external auditor

157. (*c*) If prohibited by law or regulation

158. (*c*) There are significant threats to the objectivity of the internal auditor

159. (*b*) Situations already reported to management by the internal audit function

160. (*c*) Agreement from internal auditors to follow external auditor's instructions and maintain confidentiality

161. (*b*) Financial reporting, operational effectiveness, and compliance

162. (*d*) Effectiveness of internal controls over financial reporting

163. (*b*) It is an additional and distinct opinion from the one on financial statements

164. (*c*) Internal financial control is broader, covering financial reporting, compliance, and more

165. (*c*) Internal Financial Controls

166. (*b*) It is economically wasteful

167. (*b*) To prevent detection and correction of frauds and errors

168. (*b*) More attention towards questions of principles and controls

169. (*d*) Auditor's judgment

170. (*c*) To draw conclusions about the population based on a sample

171. (*c*) When auditors decide to use audit sampling in performing procedures

172. (*c*) Entire set of data from which a sample is drawn

173. (*b*) Appropriateness, Completeness, and Reliability

174. (*c*) To provide a reasonable basis for the auditor to draw conclusions about the population

175. (*a*) Complexity of operation

176. (*c*) Ensuring that each sampling unit has a chance of selection

177. (*c*) To assess the risk of fraud

178. (*b*) Obtaining evidence that the audit sample is incomplete

179. (*c*) It is irrelevant to the purpose of the audit procedure

180. (*c*) Based on the examination of a small number of items

181. (*d*) The expected misstatement in the population

182. (*a*) When the expected misstatement is high

183. (*d*) To ensure that each sampling unit has a chance of selection

184. (*c*) It is irrelevant to the purpose of the audit procedure

185. (*d*) The audit sample and determining sample size

186. (*d*) To reduce the variability of items within each stratum and allow for a smaller sample size

187. (*c*) By the size of the items

188. (*d*) It directs audit effort to larger value items and results in smaller sample sizes

189. (*a*) The results are projected only to the stratum of the items selected

190. (*c*) When the characteristic indicates a higher risk of misstatement

191. (*b*) Individual monetary units within the population

192. (*a*) Larger value items have a greater chance of selection

193. (*b*) It decreases the sample size

194. (*a*) It increases the sample size

195. (*a*) It increases the sample size

196. (*c*) It has no significant effect on the sample size

197. (*a*) It increases the sample size

198. (*d*) Simple Random Sampling

199. (*a*) It involves dividing the population into separate groups, and a sample is taken from each group.

200. (*c*) Monetary Unit Sampling

201. (*b*) It selects items without following a structured technique, avoiding conscious bias or predictability.

202. (*d*) Most populations are structured such that items in a sequence can be expected to have similar characteristics.

203. (*a*) Deviation

204. (*c*) Perform the procedure on a replacement cheque.

205. (*d*) Reviewing subsequent cash receipts.

206. (*d*) Replace the item after adequately checking its correctness.

207. (*d*) Apply alternative audit procedures.

208. (*c*) Misstatement

209. (*b*) Extend audit procedures to items with the common feature.

210. (*b*) Intentional actions and the possibility of fraud.

211. (*b*) Investigate the nature and causes.

212. (*c*) High certainty that it is not representative of the population.

213. (*c*) Perform additional audit procedures.

214. (*c*) Project misstatements broadly for an overall view.

215. (*c*) Exclude the misstatement from the projection.

216. (*a*) Tests of controls.

217. (*c*) To reduce the variability of items within each stratum.

218. (*b*) It sets the monetary amount for which assurance is sought regarding the absence of actual misstatement in the population.

219. (*a*) The maximum rate of deviation that the auditor is willing to accept in the sample.

220. (*d*) To obtain sufficient appropriate audit evidence related to specific aspects.

221. (*c*) The auditor must attend physical inventory counting, unless impracticable.

222. (*b*) The nature of inventory.

223. (*d*) Perform inspection of documentation of subsequent sales.

224. (*d*) Request confirmation from the third party or perform inspection.

225. (*b*) Inquiry of management and, where applicable, others within the entity.

226. (*c*) Consideration of litigation and claims requiring accounting estimates or related disclosures.

227. (*c*) Seek direct communication through a letter of inquiry.

228. (*d*) Perform alternative audit procedures.

229. (*c*) When there is disagreement between management and the entity's external legal counsel.

230. (*c*) Information about different types of products and services and operations in different geographical areas.

231. (*d*) The auditor's responsibility is in relation to the financial statements taken as a whole.

232. (*c*) Obtaining an understanding of the methods used by management in determining segment information.

233. (*b*) Whether the methods result in disclosure in accordance with the applicable financial reporting framework.

234. (*b*) No, the auditor's responsibility is in relation to the financial statements taken as a whole.

235. (*a*) Operating profits as a percentage of sales.

236. (*b*) Allocation of assets and costs among segments.

237. (*b*) Consistency with prior periods.

238. (*c*) Audit evidence obtained from independent sources outside the entity is generally more reliable.

239. (*c*) Designing and performing external confirmation procedures.

240. (*b*) Direct written response from a third party to the auditor.

241. (*a*) A request that the confirming party respond directly to the auditor indicating agreement or disagreement with the information.

242. (*c*) A request for the confirming party to respond directly only if they disagree with the information provided.

243. (*b*) A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

244. (*a*) A response that indicates a difference between information requested to be confirmed and information provided by the confirming party.

245. (*b*) Select confirming parties and request information.

246. (*b*) The assertion being addressed.

247. (*d*) It asks the confirming party to reply in all cases.

248. (*a*) Use blank confirmation requests.

249. (*b*) Checking the validity of addresses on confirmation requests before sending.

250. (*c*) When a reply to the previous request is not received within a reasonable time.

251. (*c*) Inquire as to management's reasons, evaluate implications, and perform alternative procedures.

252. (*b*) Communicate with those charged with governance and determine implications for the audit

and opinion.

253. (*b*) Ongoing legal dispute or negotiation with the confirming party.

254. (*c*) Due to the risk of management denying access to evidence revealing fraud or error.

255. (*d*) Examining subsequent cash disbursements or correspondence from third parties.

256. (*d*) The risk of material misstatement is assessed as low, and specific conditions are met.

257. (*c*) When the information in the request is unfavorable to the confirming party.

258. (*d*) Presence of circumstances causing recipients to disregard the requests.

259. (*d*) Reliable response

260. (*b*) Unreliable response

261. (*b*) Other audit procedures performed

262. (*d*) Lack of response from the confirming party

263. (*c*) An engagement where the financial statements for the prior period were not audited.

264. (*c*) Balances that exist at the beginning of the period.

265. (*d*) The auditor from a different audit firm who audited the financial statements in the prior period.

266. (*c*) Determining whether the prior period's closing balances have been brought forward correctly to the current period.

267. (*b*) Determining whether the opening balances reflect the application of appropriate accounting policies.

268. (*b*) Communicate the misstatements with appropriate management and governance.

269. (*b*) Perusing copies of the audited financial statements from the prior year.

270. (*c*) The accounting policies followed by the entity.

271. (*b*) The significance of the opening balances relative to the current period's financial statements.

272. (*b*) Whether the predecessor auditor's opinion was modified.

273. (*b*) Obtain copies of the audited financial statements and relevant documents.

274. (*b*) Observe a current physical inventory count and reconcile it to opening inventory quantities.

275. (*b*) Confirm with third parties.

276. (*c*) Express a qualified or adverse opinion, as appropriate: Expressing a qualified or adverse opinion is the appropriate response when there are issues with the consistent application of accounting policies or inadequate presentation and disclosure of changes in policies.

277. (*c*) Express a qualified opinion or a disclaimer of opinion, as appropriate.

278. (*c*) Express a qualified or adverse opinion, as appropriate.

279. (*d*) A person or entity that has control or significant influence over the reporting entity.

280. (*c*) Entities under common control by a state (national, regional, or local government).

281. (*b*) Control allows participation in financial and operating policy decisions, while significant influence involves the ability to govern an entity's activities.

282. (*d*) Being part of those charged with governance or key management.

283. (*c*) Identifying and assessing risks of material misstatement due to fraud.

284. (*d*) All of the above.

285. (*d*) The role of governance in smaller entities may be undertaken directly by the owner-manager, and control activities are likely to be less formal.

286. (*c*) Owner-managers may mitigate or increase risks through active involvement.

287. (*d*) Both (*b*) and (*c*).

288. (*d*) Reviewing various records and documents, including income tax returns, regulatory submissions, shareholder registers, contracts, and agreements.

289. (*c*) Employee handbook.

290. (*b*) Procedures like comparisons, trend and ratio analysis, and reasonable tests collectively.

291. (*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.

292. (*c*) Evaluations of financial and non-financial information through analysis of plausible relationships.

293. (*d*) Evaluations of financial and non-financial data through analysis of plausible relationships and necessary investigations of identified fluctuations.

294. (*d*) In addition to reasonable tests, they provide valuable insights and can detect inconsistencies or significant deviations.

295. (*b*) To assist in forming an overall conclusion on the financial statements.

296. (*c*) Use comparisons and relationships to assess whether account balances or other data appear reasonable.

297. (*c*) To detect unusual states of affairs and mistakes in accounts.

298. (*b*) Assess whether the accounts have been manipulated to inflate or suppress profits.

299. (*c*) Compare the entries in the outstanding book with those in the previous year and check vouchers for one month before the close of the following years.

300. (*c*) By comparing entries with the previous year.

301. (*c*) Calculation of ratios, trends, and comparisons.

302. (*b*) Unusual transactions or events, and amounts, ratios, and trends.

303. (*c*) They assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.

304. (*c*) They provide valuable insights and can detect inconsistencies or significant deviations.

305. (*c*) Both planning and testing phases.

306. (*b*) To identify areas of potential risk and understand the client's business.

307. (*c*) Both financial data and non-financial information.

308. (*c*) By indicating aspects of and developments in the entity's business.

309. (*c*) Throughout the entire audit process.

310. (*c*) Auditor's judgment about the expected effectiveness and efficiency.

311. (*b*) Whether the data is properly prepared.

312. (*c*) Limited predictability in relationships.

313. (*b*) Income statement accounts reflect accumulated transactions over a period.

314. (*c*) For assertions related to completeness or valuation.

315. (*a*) Predictive analytical procedures.

316. (*b*) Design tests of details to address the higher inherent risk.

317. (*c*) Comparison of current data with the prior period balance or trend in two or more prior period balances.

318. (*c*) Comparing current year information with information derived over several years.

319. (*c*) It provides insights into individual balance sheet accounts.

320. (*c*) Non-financial data for the audit period under consideration.

321. (*b*) Creating a statistical model to predict current account balances based on prior data.

322. (*a*) Suitability of particular procedures for management's assertions.

323. (*c*) Source, comparability, nature, and relevance of information, and controls over preparation.

324. (*b*) Expectations of recorded amounts or ratios.

325. (*b*) By determining the acceptable amount of difference without further investigation.

326. (*b*) Auditor's assessment of the risk of material misstatement.

327. (*d*) Source, comparability, nature, and relevance of information, and controls over preparation.

328. (*a*) Information obtained from independent sources outside the entity.

329. (*c*) Industry data may need supplementation for comparability.

330. (*d*) Whether budgets are established as expected results.

331. (*d*) To increase confidence in the reliability of the information.

332. (*d*) The accuracy with which expected results can be predicted.

333. (*b*) Disaggregating financial information on individual sections of an operation.

334. (*c*) Materiality and the desired level of assurance.

335. (*b*) It decreases.

336. (*b*) Inquire of management and obtain appropriate audit evidence relevant to management's responses.

337. (*c*) To corroborate conclusions formed during the audit of individual components.

338. (*b*) Revise the auditor's assessment of risks and modify planned audit procedures.

5

CHAPTER

Audit of Items of Financial Statements

MULTIPLE CHOICE QUESTIONS

1. The representations by management explicit or otherwise that are embodied in the financial statements as used by the auditor to consider the different types of potential misstatements that may occur.
   (*a*) Assertions
   (*b*) Captions
   (*c*) Management Representation
   (*d*) Disclosure Requirements

2. Which of the following is are not the assertions used by management in preparation of financial statements:-
   (*a*) Presentation and disclosure
   (*b*) Completeness
   (*c*) Measurement
   (*d*) Audit evidence

3. If company X's balance sheet shows a building with a carrying amount of ₹ 100 lacs, management has asserted that "Company X ones and control search building". Which type of assertion is claimed by management?
   (*a*) Existence
   (*b*) Rights and obligations
   (*c*) Valuation
   (*d*) Completeness

4. Transactions for correct accounting have been recorded in the books. Which assertion is present?
   (*a*) Occurrence
   (*b*) Completeness
   (*c*) Cut off
   (*d*) Valuation

5. Employee benefit expenses in respect of all personnel have been fully accounted for, represents which assertion?
   (*a*) Occurrence
   (*b*) Completeness
   (*c*) Cut off
   (*d*) Valuation

6. Recorded sales represent goods which were ordered by valid customers and were dispatched and invoiced in the period, represents which assertion?
   (*a*) Occurrence
   (*b*) Completeness
   (*c*) Cut off
   (*d*) Valuation

7. Any adjustment, such as text deduction at source has been correctly reconciled and accounted for employee benefit expenses, represents which assertion?

(*a*) Measurement (*b*) Completeness

(*c*) Cut off (*d*) Valuation

8. Which of the following represents presentation and disclosure assertions?

(1) Transactions and events are appropriately segregated or disaggregated

(2) Transactions has been classified and presented fairly in the financial statements

(3) Audit team access the completeness and accuracy of disclosures by determining that the disclosures provide information in a manner that does not materially omit destroyed or mislead the user.

(4) The description and disclosure of transactions are relevant for users.

(*a*) (1),(2) (*b*) (2),(3)

(*c*) (1),(3),(4) (*d*) (1),(2),(3),(4)

9. Inventory balance as at the year-end does not include any element of next financial year. Which assertion is followed by management?

(*a*) Measurement (*b*) Completeness

(*c*) Cut off (*d*) Valuation

10. Any calls that could not be reasonably allocated to the cost of protection and any abnormal waste has been excluded from the cost of inventory has to be valued as per AS 2 at period end

(*a*) Measurement (*b*) Completeness

(*c*) Cut off (*d*) Valuation

11. .... whether the entity has ownership and legal title to assets and the liabilities recognized in the financial statements represent all the entity's obligation to the payment as at a given date.

(*a*) Measurement (*b*) Completeness

(*c*) Cut off (*d*) Rights & Obligations

12. Which document defines the conditions on which allotment will be made? The project on which the amount raised shall be spent and to specify limits on certain expenses initial to raising of capital.

(*a*) Memorandum of association (*b*) Prospectus

(*c*) Abridged Form (*d*) Statement of Allotment

13. What is not to be checked in case of fresh issues made in the current year?

(*a*) Compliance of the Companies Act 2013, with regard to return of allotment

(*b*) Minimum subscription

(*c*) Maintenance of separate bank account

(*d*) Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled

14. Which document has to be checked by an auditor in case of any change in authorized capital?

(*a*) Article of association (*b*) Memorandum of association

(*c*) Prospectus (*d*) Financial statements

15. Which form is to be filed with the MCA, in case of notice to the registrar of any alteration of share capital?

(*a*) SH-7 (*b*) SH-6

(*c*) PAS-2 (*d*) PAS-3

16. The securities premium account may not be applied by the company:-

(*a*) Bonus shares (*b*) Premium on redemption of preference shares

(*c*) Buyback of shares (*d*) Writing off all expenses

17. The securities premium account may be applied by such classes of companies as may be prescribed and whose financial statement complied with the accounting standards prescribed for such class of companies under section ....

(*a*) 52 (*b*) 68

(*c*) 133 (*d*) 8

18. The penalty in case of non compliance u/s 52 of the Companies Act 2013.

(*a*) Refund all money

(*b*) Interest @ 6% p.a

(*c*) Rs. 5,00,000

(*d*) Amount raised by issuing shares at discount

19. According to Sub-section (1) and (2) of Section 53(2A) of the Companies Act 2013, A company may issue shares at a discount to its creditors. When its debt is converted into shares in pursuance of any .... in accordance with any guidelines or directions or regulations specified by the RBI under RBI act, 1934 or the Banking (Regulation) Act 1949.

(*a*) Statutory resolution plan (*b*) Debt Plan

(*c*) Restructuring Plan (*d*) Commercial Plan

20. .... means equity shares issued by the company to employees or the directors at a discount or for consideration other than cash for making know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called

(*a*) Equity Shares (*b*) Shares issued at discount

(*c*) Sweat Equity shares (*d*) Preference Shares

21. Which of the following is not true about compliances under section 66 reduction of capital?

(*a*) Revaluation of assets are properly disclosed

(*b*) No default in repayment of deposits

(*c*) No default in repayment of payment of interest on deposits

(*d*) Special resolution passed in meeting of BOD

22. What is the exemption for compliances of section 66 of the Company Act, 2013?

(*a*) Sweat Equity Shares (*b*) Buyback of shares

(*c*) Shares issued at premium (*d*) Shares issued at discount

23. As per the disclosure requirement of share capital percentage change with respect to shall be computed as under:-

(1) Number at the beginning of the year

(2) Shares issued during the year for the first time then with respect to the date of issue.

(*a*) (1)
(*b*) (2)
(*c*) (1) or (2)
(*d*) Both (1) and (2)

24. In case of additional regulatory information disclosure requirement for utilisation of borrowed funds and share premium; Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries; the company shall disclose the following:-

(*a*) Date and amount of fund advanced or loan or invested in intermediaries with complete detail of each intermediary.

(*b*) Date and amount of guarantee, security or the like provided to or on behalf of the ultimate beneficiaries.

(*c*) Declaration that relevant provisions of FEMA Act, 1999 and Companies act has been complied with for such transactions and transactions are not violated of the Prevention of Money Laundering Act, 2002.

(*d*) Date and amount of fund further advance or loaned by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries.

25. In accordance with requirements of Schedule III of Companies Act, 2013, the company shall explain the terms included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio .... as compared to the preceding year.

(*a*) by more than 25%
(*b*) by more than 15%
(*c*) by less than 25%
(*d*) by less than 15%

26. Reserves are the amount appropriated out of profits that are not indented to

(*a*) Meet any liability
(*b*) Contingency
(*c*) Commitment
(*d*) Expansion in the value of assets known to exist at as the date of the balance sheet

27. A reserve specifically represented by earmarked investment shall be termed as a ....

(*a*) Capital reserve
(*b*) Revenue reserve
(*c*) Surplus
(*d*) Fund

28. If dividends to shareholders of equity instruments are proposed or declared after the balanced date, an entity should not recognize those dividends as a .... as at the balance sheet date.

(*a*) Asset
(*b*) Liability
(*c*) Capital
(*d*) Surplus

29. The existence of borrowing should not follow audit procedures:-

(*a*) Review board minutes for approval
(*b*) Verify loan agreement details
(*c*) Balance confirmation as per SA 505
(*d*) Not obtain written representation

30. Which document is the core document during the audit procedure of debentures?

(*a*) Debenture Certificate
(*b*) Trust Deed
(*c*) Bank Account
(*d*) Debenture agreement

31. An auditor should carefully review the borrowings from related parties and ensure compliance with AS 18 or IND AS ....

(*a*) 21
(*b*) 22
(*c*) 23
(*d*) 24

32. The company has not contravened the restrictions laid down by ...., related to restrictions on power of board of the Companies Act in respect of the borrowings of the company.

(*a*) Section 180
(*b*) Section 185
(*c*) Section 186
(*d*) Section 181

33. As per schedule III (Part I) of the Companies Act long term borrowings shall be classified as:-

(*a*) Bonds
(*b*) Term Loans
(*c*) Deferred payment liabilities
(*d*) Current Maturities of LTB

34. As per the additional regulatory disclosure requirement of the borrowings taken from the banks or financial institutions, if they are not in the agreement with the books, what is to be a check during the audit procedure from auditor:-

(*a*) Quarterly Return
(*b*) Bank statements
(*c*) Summary of return
(*d*) Summary of Reconciliation Statement

35. If any wilful defaulter is declared by bank financial institutional, other lender than both nature and amount of details of default is to be disclosed with which date details:-

(*a*) Date of declaration as wilful default
(*b*) Date of declaration as balance sheet
(*c*) Date of declaration as per RBI
(*d*) Date of declaration as per lender

36. What are the regulatory disclosure requirements under trade receivables?

(*a*) AS 11
(*b*) AS 18
(*c*) Section 188
(*d*) CARO, 2020

37. Following are the audit procedures for Valuation of trade receivables:-

(*a*) Open ageing report
(*b*) List of debtors under litigation
(*c*) Schedule of movement of bad debts
(*d*) Check the right of a receivable balances has been approved by shareholders in case of a company

38. Additional procedures to be followed, if no reply received on 100% bank account balance confirmation

(*a*) Agree with the balance of bank statement
(*b*) Check with online statement

(*c*) Checking with bank branch in personnel
(*d*) Relying on management

39. For all cases where cheque has become stale, the same should appear in ....

(*a*) Bank Reconciliation Statement
(*b*) Liabilities
(*c*) Assets
(*d*) Bank balance

40. Following analytical processor is to be performed during audit procedure of completeness of inventories:-

(*a*) Inventory turnover ratio
(*b*) Vertical analysis
(*c*) Checking of budgetary expectations with actuals
(*d*) Ensuring proper tags

41. Test counts of inventory by auditor should include:-

(*a*) Ensuring that all items are properly tagged
(*b*) Observing employees are adhering to the agreed plan
(*c*) Reconciliation of test counts
(*d*) Ensuring the accounting of raw stock sheets only

42. Inventories does not include following:-

(*a*) Raw materials
(*b*) Finished goods
(*c*) Stock in trade
(*d*) Tools

43. Example of cost that are not cost of an item of PPE are:-

(*a*) Cost of opening a new facility
(*b*) Inauguration cost
(*c*) Cost of promotional activities of new product
(*d*) Cost of site preparation

44. Under additional regulatory information aging schedule of intangible assets are as follows:-

(*a*) 1-2 years
(*b*) 2-3 years
(*c*) Less than 3 years
(*d*) Less than 1 year

45. The amount of following heads will be disclosed under other current liabilities:-

(*a*) Current the maturities of finance lease obligations
(*b*) Interest accrued but not due on borrowings
(*c*) Interest accrued but due on borrowings
(*d*) Income received in unpaid dividends

46. Foreign currency loans will be valued as per ....

(*a*) AS 8
(*b*) AS 9
(*c*) AS 10
(*d*) AS 11

47. The disclosure requirement for benami property held

(*a*) Details of property
(*b*) Year of sell
(*c*) Status of proceedings
(*d*) Details of beneficiaries

48. A liability that can be measured only by using a substantial degree of estimation.

(*a*) Loans and advances
(*b*) Contingent Liabilities
(*c*) Provision
(*d*) Current Liabilities

49. Commitment shall be classified as

(*a*) Estimated amount of contracts remaining to be executed on capital account and not provided for
(*b*) Uncalled liability on shares and other investments partly paid
(*c*) Guarantees
(*d*) Other commitments

50. As per SA 315, the risk of material misstatement in case of revenue items is generally ....

(*a*) High
(*b*) Low
(*c*) Moderate
(*d*) Optimistic

51. Any deficiencies in the internal control of the sales cycle shall be communicated as per ....

(*a*) SA 265
(*b*) SA 266
(*c*) SA 267
(*d*) SA 268

52. Ensure revenue is not overstated by performing following procedures:

(*a*) Test check few invoices with their relevant entries in sales journal
(*b*) Obtain confirmation from few customers to ensure the genuineness of sales transaction
(*c*) Whether any shipments were done without the concern and agreement of the customer
(*d*) Whether any substantial certainty exists about collectively

53. Disclosure requirement under section 135:-

(*a*) Expenditure incurred
(*b*) Shortfall at the end
(*c*) Previous year shortfall
(*d*) No requirement

54. The amount of cryptocurrency details are required to be shown as per

(*a*) Investing date
(*b*) Reporting date
(*c*) Transaction date
(*d*) Trading date

Answer Key

1. (*a*)	**2.** (*d*)	**3.** (*b*)	**4.** (*c*)	**5.** (*b*)	**6.** (*a*)	**7.** (*a*)	**8.** (*d*)	**9.** (*c*)	**10.** (*d*)
11. (*d*)	**12.** (*b*)	**13.** (*d*)	**14.** (*b*)	**15.** (*a*)	**16.** (*d*)	**17.** (*c*)	**18.** (*b*)	**19.** (*a*)	**20.** (*c*)
21. (*d*)	**22.** (*b*)	**23.** (*c*)	**24.** (*d*)	**25.** (*a*)	**26.** (*d*)	**27.** (*d*)	**28.** (*b*)	**29.** (*d*)	**30.** (*b*)
31. (*d*)	**32.** (*a*)	**33.** (*d*)	**34.** (*d*)	**35.** (*a*)	**36.** (*c*)	**37.** (*d*)	**38.** (*d*)	**39.** (*b*)	**40.** (*d*)
41. (*d*)	**42.** (*d*)	**43.** (*d*)	**44.** (*c*)	**45.** (*d*)	**46.** (*d*)	**47.** (*b*)	**48.** (*c*)	**49.** (*c*)	**50.** (*a*)
51. (*a*)	**52.** (*d*)	**53.** (*d*)	**54.** (*b*)						

SOLUTION

1. (*a*) Assertions: Assertions are the representations by management, explicit or otherwise, that are embodied in the financial statements as used by the auditor to consider the different types of potential misstatements that may occur.

2. (*d*) Audit evidence: In preparing financial statements, company's management makes various implicit or explicit claims i.e. assertions regarding:-

- Completeness
- Cut off
- Existence or occurrence
- Valuation or measurement
- Rights and obligations
- Presentations and disclosures of assets liabilities equity income expenses and disclosures in accordance with the applicable accounting standards.

3. (*b*) Rights and obligations: If company X balance sheet shows building with carrying amount of ₹100 Lacs the auditor shall assume that the management has asserted that:-

- The building recognized in the balance sheet exists as at the period end (Existence assertion)
- Company X owns and control such building (Right and obligations assertion)
- The building has been valued accurately in occurrence with the management principles (Valuation assertions)
- All building owned and controlled by the company X included within the carrying amount of ₹ 100 lacs (Completeness assertion)

4. (*c*) Cut off: Whether all income and expenses are reported in the correct accounting. Cut off is a separate assertion because the substantive procedures to verify it are typically different from those applied to other components of completeness.

5. (*b*) Completeness: All transactions that were supposed to be recorded have been recognized in the financial statement. Transactions have not been omitted.

6. (*a*) Occurrence: Transactions recognized in the financial statements have occurred and relate to the entity.

7. (*a*) Measurement: Transactions have been recorded accurately at their appropriate amounts in the financial statements. There has been no error in preparing documents or in posting transactions to the ledger. The figures and explanations are not misstated.

8. (*d*) (1),(2),(3),(4):

9. (*c*) Cut off: Whether all assets and abilities are reported in the appropriate period is determined in cut off assertion.

10. (*d*) Valuation: Assets liabilities and equity balances have been valued appropriately ie there has been no overstatement or under the statement.

11. (*d*) Rights & Obligations:

12. (*b*) Prospectus: The Prospectus defines the conditions on which allotment will be made. The project on which the amount raised shall be spent and to specify limits on certain expenses initial to raising of capital.

13. (*d*) Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled: Compliance u/s 52 of the Companies Act, 2013 is mandatory to be fulfilled in case of shares issued at premium.

14. (*b*) Memorandum of association: In case there is any change in share capital, verify whether the paid up capital as at the year end is within the limits of authorized capital and authorized capital should be verified by examining memorandum of association.

15. (*a*) SH-7: Form SH-7, Notice to registrar of any alteration of share capital is to be filed with the MCA.

16. (*d*) Writing off all expenses: The securities premium account may be applied by the company as per section 52 of the Companies Act 2013.

17. (*c*) Section 133: The securities premium account may be applied by such classes of companies as may be prescribed and whose financial statement complied with the accounting standards prescribed for such class of companies under Section 133.

18. (*b*) Interest @ 6% p.a: Where any company fails to comply with the provisions of section 52, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or 5 lacs rupees, whichever is less and the company shall also be liable to refund all monies received with interest @ 12% per annum, from the date of issue of such shares to the persons to whom such shares has been issued.

19. (*a*) Statutory resolution plan: According to Sub-section (1) and (2) of Section 53(2A) of the Companies Act 2013, A company may issue shares at a discount to its creditors. When its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the RBI under RBI act, 1934 or the Banking (Regulation) Act 1949.

20. (*c*) Sweat Equity shares: Sweat equity shares means equity shares issued by the company to employees or the directors at a discount or for consideration other than cash for making know-how or making available rights in the nature of intellectual property rights or value additions by whatever name is called.

21. (*d*) Special resolution passed in meeting of BOD: For verifying the reduction of capital, the auditor needs to examine whether the company has followed the specific requirements as required by section 66 of the Company Act, 2013.

22. (*b*) Buy back of shares: According to section 66(6), nothing in this section shall apply to buy back of its own security by a company under section 68.

23. (*c*) (1) or (2): As per the disclosure requirement of share capital percentage change with respect to shall be computed as number at the beginning of the year or issued during the year for the first time then with respect to the date of issue.

24. (*d*) Date and amount of fund further advance or loaned by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries: Provide any guarantee, security or the like to or on behalf of the ultimate beneficiaries; the company shall disclose the following:-

- Date and amount of fund advanced or loan or invested in intermediaries with complete detail of each intermediary.
- Date and amount of guarantee, security or the like provided to or on behalf of the ultimate

beneficiaries

- Declaration that relevant provisions of FEMA Act, 1999 and Companies act has been complied with for such transactions and transactions are not violated of the Prevention of Money Laundering Act, 2002
- Date and amount of fund further advance or loaned or invested by such intermediaries to other intermediaries or ultimate beneficiaries along with complete detail of ultimate beneficiaries

25. (*a*) by more than 25%: In accordance with requirements of Schedule III of Companies Act, 2013, the company shall explain the terms included in numerator and denominator for computing the above ratios. Further explanation shall be provided for any change in the ratio by more than 25% as compared to the preceding year.

26. (*d*) Expansion in the value of assets known to exist at as the date of the balance sheet: Reserves are the amount appropriated out of profits that are not indented to

- Meet any liability,
- Contingency,
- Commitment or
- Diminution in the value of assets known to exist at as the date of the balance sheet.

27. (*d*) Fund: A reserve specifically represented by earmarked investment shall be termed as a fund.

28. (*b*) Liability: If dividends to shareholders of equity instruments are proposed or declared after the balanced date, an entity should not recognize those dividends as a liability as at the balance sheet date.

29. (*d*) Not obtain written representation: The existence of borrowing should follow audit procedures:-

- Review board minutes for approval
- Verify loan agreement details
- Balance confirmation as per SA 505
- Obtain written representation

30. (*b*) Trust Deed: In case of debentures examine trust deed for various terms and dates of redemption, borrowing restrictions and compliance with covenants.

31. (*d*) 24: An auditor should carefully review the borrowings from related parties and ensure compliance with AS 18 or IND AS 24.

32. (*a*) Section 180: The company has not contravened the restrictions laid down by Section 180, related to restrictions on power of board of the Companies Act in respect of the borrowings of the company.

33. (*d*) Current Maturities of LTB: As per schedule III (Part I) of the Companies Act long term borrowings shall be classified as:-

- Bonds
- Term Loans
- Deferred payment liabilities

34. (*d*) Summary of Reconciliation Statement:

35. (*a*) Date of declaration as wilful default: If any wilful defaulter is declared by a bank financial institution, other lender than both nature and amount of details of default is to be disclosed with Date of declaration as wilful default.

36. (*c*) Section 188: The regulatory disclosure requirements under trade receivables:-

- AS 11
- AS 18
- Section 189
- CARO, 2020

37. (*d*) Check the right of a receivable balances has been approved by shareholders in case of a company: Check the right of receivable balances has been approved by an appropriate authority ie the BOD in case of a company.

38. (*d*) Relying on management: Additional procedures to be followed, if no reply received on 100% bank account balance confirmation

- Agree with the balance of bank statement
- Check with online statement
- Checking with bank branch in personnel

39. (*b*) Liabilities: For all cases where cheque has become stale, the same should appear in liabilities.

40. (*d*) Ensuring proper tags

41. (*d*) Ensuring the accounting of raw stock sheets only: Test counts of inventory by auditor should include:-

- Ensuring that all items are properly tagged
- Observing employees are adhering to the agreed plan
- Reconciliation of test counts
- Ensuring the accounting of all stock sheets.

42. (*d*) Tools: Inventory should be classified as

- Raw materials
- Finished goods
- Stock in trade
- Loose Tools

43. (*d*) Cost of site preparation

44. (*c*) Less than 3 years: Under additional regulatory information aging schedule of intangible assets are as follows:-

- Less than 1 year
- 1-2 years
- 2-3 years
- More than 3 years

45. (*d*) Income received in unpaid dividends: The amount of following heads will be disclosed under other current liabilities:-

- Current the maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued but due on borrowings
- Income received in advance unpaid dividends

46. (*d*) AS 11: Foreign currency loans will be valued as per AS 11.

47. (*b*) Year of sell: The disclosure requirement for benami property held
    - Details of property
    - Year of acquisition
    - Status of proceedings
    - Details of beneficiaries

48. (*c*) Provision: A provision is a liability that can be measured only by using a substantial degree of estimation.

49. (*c*) Guarantees: Commitment shall be classified as
    - Estimated amount of contracts remaining to be executed on capital account and not provided for
    - Uncalled liability on shares and other investments partly paid
    - Other commitments (specific nature)

50. (*a*) High: As per SA 315, the risk of material misstatement in case of revenue items is generally high.

51. (*a*) SA 265: Any deficiencies in the internal control of sales cycle shall be communicated as per SA 265.

52. (*d*) Whether any substantial certainty exists about collectively

53. (*d*) No requirement

54. (*b*) Reporting date: The amount of cryptocurrency details are required to be shown as per reporting date.

CHAPTER 6

Audit Documentation

MULTIPLE CHOICE QUESTIONS

1. According to SA 230, what is the primary focus of the auditor's responsibility in relation to audit documentation?

(*a*) Reviewing financial statements
(*b*) Preparing audit documentation
(*c*) Assessing internal controls
(*d*) Conducting substantive procedures

2. Which of the following statements is true regarding the application of SA 230 to audits of other historical financial information?

(*a*) SA 230 is not applicable to audits of other historical financial information.
(*b*) SA 230 applies without adaptation to audits of other historical financial information.
(*c*) SA 230 may be adapted as necessary in the circumstances when applied to audits of other historical financial information.
(*d*) The specific documentation requirements of other SAs limit the application of SA 230 to audits of other historical financial information.

3. What does Audit Documentation primarily encompass, according to SA 230?

(*a*) Financial statements reviewed
(*b*) Audit procedures performed, audit evidence obtained, and auditor's conclusions
(*c*) Internal control assessments
(*d*) Substantive procedure outcomes

4. Which term is commonly used interchangeably with "Audit Documentation" as per SA 230?

(*a*) Audit findings
(*b*) Examination records
(*c*) Working papers or work papers
(*d*) Financial summaries

5. What is the primary objective of audit documentation according to SA 230?

(*a*) Providing evidence of the financial statements' accuracy
(*b*) Demonstrating compliance with legal and regulatory requirements
(*c*) Offering a comprehensive record for the auditor's report basis
(*d*) Facilitating communication within the engagement team

6. According to SA 230, what does audit documentation primarily provide evidence of?
   (*a*) Auditor's personal conclusions
   (*b*) Legal and regulatory requirements
   (*c*) Achievement of overall audit objectives
   (*d*) Client's financial performance

7. Which purpose does audit documentation serve in assisting the engagement team, as per SA 230?
   (*a*) Identifying internal control weaknesses
   (*b*) Documenting financial statements
   (*c*) Planning and performing the audit
   (*d*) Conducting external inspections

8. What role does audit documentation play in enabling the engagement team to be accountable for its work?
   (*a*) Ensuring compliance with tax regulations
   (*b*) Facilitating quality control reviews
   (*c*) Documenting client interactions
   (*d*) Record of matters of continuing significance

9. Which purpose does audit documentation serve by retaining a record of matters of continuing significance to future audits?
   (*a*) Facilitating external inspections
   (*b*) Enhancing client communication
   (*c*) Assisting in planning and performing the audit
   (*d*) Supporting quality control reviews

10. What does audit documentation enable in accordance with applicable legal, regulatory, or other requirements?
   (*a*) Client communication
   (*b*) External inspections
   (*c*) Financial statement preparation
   (*d*) Quality control reviews

11. According to SA 230, what is one of the key purposes of audit documentation in relation to assisting members of the engagement team?
   (*a*) Documenting client interactions
   (*b*) Facilitating external inspections
   (*c*) Directing and supervising audit work
   (*d*) Recording financial transactions

12. According to SA 230, what should audit documentation be sufficient to enable an experienced auditor, with no previous connection to the audit, to understand?
   (*a*) Financial statements reviewed
   (*b*) Nature, timing, and extent of audit procedures performed
   (*c*) Size and complexity of the entity
   (*d*) Significant matters discussed with management

13. In documenting the nature, timing, and extent of audit procedures performed, what does the auditor need to record, according to SA 230?
   (*a*) Size and complexity of the entity
   (*b*) Identifying characteristics of specific items or matters tested
   (c) Results of audit procedures
   (*d*) Financial misstatements identified

14. According to SA 230, what is a requirement when documenting discussions of significant matters with management or those charged with governance?

(*a*) Record only the conclusions reached

(*b*) Omit the nature of significant matters discussed

(*c*) Document when and with whom the discussions took place

(*d*) Exclude discussions with others

15. What factor(s) determine the form, content, and extent of audit documentation, as per SA 230?

(*a*) Audit methodology and tools used (*b*) Size and complexity of the entity

(*c*) Nature of audit procedures performed (*d*) All of the above

16. When the auditor identifies information inconsistent with the final conclusion on a significant matter, what does SA 230 require the auditor to do?

(*a*) Ignore the inconsistency

(*b*) Document how the inconsistency was addressed

(*c*) Discuss the inconsistency with management

(*d*) Revise the final conclusion

User

Examples of Audit Documentation: Audit documentation may be recorded on paper or on electronic or other media.

Audit Documentation include:

Audit programmes.

Analyses.

Issues memoranda.

Summaries of significant matters.

Letters of confirmation and representation. Checklists.

Correspondence (including e-mail) concerning significant matters. The auditor may include copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation is not a substitute for the entity's accounting records.

The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

17. Which of the following is considered a part of audit documentation as per SA 230?

(*a*) Superseded drafts of working papers (*b*) Preliminary thinking notes

(*c*) Letters of confirmation (*d*) Duplicates of documents

18. What types of records may be included in audit documentation, according to SA 230?

(*a*) Superseded drafts of working papers

(*b*) Previous copies of documents corrected for errors

(*c*) Copies of the entity's significant contracts and agreements

(*d*) Duplicates of documents

19. According to SA 230, what is NOT considered a part of audit documentation?

(*a*) Preliminary thinking notes
(*b*) Superseded drafts of working papers
(*c*) Summaries of significant matters
(*d*) Copies of financial statements

20. What is the auditor not required to include in audit documentation, according to SA 230?

(*a*) Copies of financial statements
(*b*) Superseded drafts of working papers
(*c*) Preliminary thinking notes
(*d*) Summaries of significant matters

21. Which media can be used to record audit documentation according to SA 230?

(*a*) Only paper
(*b*) Only electronic
(*c*) Paper, electronic, or other media
(*d*) None of the above

22. What is the primary purpose of preparing audit documentation on a timely basis, according to SA 230?

(*a*) Facilitating administrative processes
(*b*) Enhancing the quality of the audit
(*c*) Reducing the retention period
(*d*) Initiating new audit procedures

23. How is an audit file defined in SA 230?

(*a*) A single storage medium only
(*b*) In electronic form only
(*c*) One or more folders or other storage media, in physical or electronic form
(*d*) A collection of financial statements

24. According to SA 230, what is an appropriate time limit for completing the assembly of the final audit file after the date of the auditor's report?

(*a*) 30 days
(*b*) 45 days
(*c*) 60 days
(*d*) 90 days

25. During the final assembly process of the audit file, what changes may be made if they are administrative in nature?

(*a*) Adding new audit procedures
(*b*) Deleting superseded documentation
(*c*) Revising significant audit conclusions
(*d*) Changing the audit methodology

26. What does SA 230 require regarding the retention of audit documentation after the completion of the final audit file?

(*a*) Documents can be discarded after 2 years
(*b*) Documents can be retained for a minimum of 5 years
(*c*) Documents can be discarded after the end of the engagement
(*d*) Documents must be retained for a minimum of 7 years from the date of the auditor's report

27. What factor(s) influence the form, content, and extent of audit documentation for significant matters?

(*a*) The size of the entity
(*b*) The complexity of audit procedures
(*c*) The extent of professional judgment exercised
(*d*) The completion of administrative processes

28. What is an example of a circumstance that may cause the auditor significant difficulty in applying necessary audit procedures, according to SA 230?

(*a*) Routine examination of bank statements

(*b*) Smooth execution of audit procedures

(*c*) Circumstances leading to potential material misstatements

(*d*) Completion of the final audit file

29. According to SA 230, what does the documentation of professional judgments aim to achieve?

(*a*) Expedite the audit process

(*b*) Reinforce the quality of judgments

(*c*) Limit the scope of audit procedures

(*d*) Reduce the retention period

30. In what situations is it appropriate to prepare audit documentation related to the use of professional judgment, as per SA 230?

(*a*) When the auditor is preparing financial statements

(*b*) When there are no significant matters identified

(*c*) When the matters and judgments are significant

(*d*) When there is no need for further investigation

31. According to SA 230, what does the completion of the assembly of the final audit file involve?

(*a*) Drawing new conclusions

(*b*) Initiating new audit procedures

(*c*) Administrative processes

(*d*) Applying additional professional judgments

32. What role does the rationale for the auditor's conclusion play in documentation related to the use of professional judgment?

(*a*) Supports the need for new audit procedures

(*b*) Clarifies the auditor's previous conclusions

(*c*) Reinforces the quality of the judgment

(*d*) Accelerates the completion of audit documentation

33. What circumstance might require the auditor to document the authenticity of a document?

(*a*) Routine execution of audit procedures

(*b*) Completion of the final audit file

(*c*) Findings that could result in a modification to the audit opinion

(*d*) Absence of any material misstatements

34. What does SA 230 state regarding documentation of significant matters and related professional judgments?

(*a*) It is optional and left to the auditor's discretion

(*b*) It is not applicable to audits of financial statements

(*c*) It is necessary for matters related to financial statements only

(*d*) It is essential to explain the auditor's conclusions and reinforce the quality of judgments

35. What is the primary purpose of documenting significant matters and related professional judgments?

(*a*) Reducing the retention period of audit documentation
(*b*) Enhancing the quality of financial statements
(*c*) Explaining the auditor's conclusions and reinforcing the quality of judgments
(*d*) Initiating new audit procedures

36. What examples of changes during the final assembly process are considered administrative in nature, according to SA 230?

(*a*) Implementing new audit procedures
(*b*) Discarding superseded documentation
(*c*) Changing significant audit conclusions
(*d*) Revising the audit methodology

37. What is the purpose of preparing a completion memorandum or audit documentation summary, as suggested by SA 230?

(*a*) To create a formal report for stakeholders
(*b*) To facilitate effective and efficient review of audit documentation
(*c*) To replace the need for detailed audit documentation
(*d*) To minimize the significance of matters identified during the audit

38. According to SA 230, what may the preparation of a completion memorandum assist the auditor in considering?

(*a*) Client's financial position
(*b*) The auditor's independence
(*c*) Whether individual SA objectives are achieved
(*d*) Compliance with audit methodologies

39. Who is typically considered the owner of audit documentation according to Standard on Quality Control (SQC) 1?

(*a*) Audit firm's clients
(*b*) Audit partner in charge
(*c*) Engagement team members
(*d*) Auditor

40. Under what conditions may an auditor make portions of, or extracts from, audit documentation available to clients, according to Standard on Quality Control (SQC) 1?

(*a*) Only if required by law
(*b*) At the auditor's discretion, provided it doesn't undermine the validity of the work
(*c*) Only if approved by the audit committee
(*d*) If requested by regulatory authorities

41. What is the primary consideration for making portions of, or extracts from, audit documentation available to clients, as per SA 230?

(*a*) Compliance with client requests
(*b*) Maintaining auditor independence
(*c*) Enhancing transparency of the audit process
(*d*) Avoiding any potential impact on the validity of the work

42. According to SA 230, what aspect does the ownership of audit documentation relate to?

(*a*) Legal requirements
(*b*) Auditor's independence
(*c*) Audit firm's policies
(*d*) Standard on Quality Control (SQC) 1

43. What does Standard on Quality Control (SQC) 1 state about the conditions under which audit documentation is the property of the auditor?

(*a*) It is the client's property by default
(*b*) It is the property of the audit committee
(*c*) It is the property of the auditor, unless specified by law or regulation
(*d*) It is the property of the audit firm

44. What does the auditor need to consider when making portions of, or extracts from, audit documentation available to clients?

(*a*) Client's preferences
(*b*) Independence of the auditor or personnel
(*c*) Ensuring complete transparency
(*d*) Compliance with audit methodologies

45. What role does the completion memorandum or audit documentation summary play in large and complex audits, according to SA 230?

(*a*) Replacing the need for detailed audit documentation
(*b*) Enhancing the validity of the audit work
(*c*) Facilitating effective and efficient review of audit documentation
(*d*) Minimizing the significance of audit matters

46. What is the primary condition for the auditor to make portions of, or extracts from, audit documentation available to clients, as per Standard on Quality Control (SQC) 1?

(*a*) Approval by the audit committee
(*b*) Compliance with regulatory authorities
(*c*) At the auditor's discretion, without conditions
(*d*) Provided it doesn't undermine the validity of the work

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*b*)	**4.** (*c*)	**5.** (*c*)	**6.** (*c*)	**7.** (*c*)	**8.** (*b*)	**9.** (*d*)	**10.** (*b*)
11. (*c*)	**12.** (*b*)	**13.** (*b*)	**14.** (*c*)	**15.** (*d*)	**16.** (*b*)	**17.** (*c*)	**18.** (*c*)	**19.** (*d*)	**20.** (*b*)
21. (*c*)	**22.** (*b*)	**23.** (*c*)	**24.** (*c*)	**25.** (*b*)	**26.** (*d*)	**27.** (*c*)	**28.** (*c*)	**29.** (*b*)	**30.** (*c*)
31. (*c*)	**32.** (*c*)	**33.** (*c*)	**34.** (*d*)	**35.** (*c*)	**36.** (*b*)	**37.** (*b*)	**38.** (*c*)	**39.** (*d*)	**40.** (*b*)
41. (*d*)	**42.** (*d*)	**43.** (*c*)	**44.** (*b*)	**45.** (*c*)	**46.** (*d*)				

SOLUTION

1. (*b*) Preparing audit documentation
2. (*c*) SA 230 may be adapted as necessary in the circumstances when applied to audits of other historical financial information.
3. (*b*) Audit procedures performed, audit evidence obtained, and auditor's conclusions
4. (*c*) Working papers or work papers
5. (*c*) Offering a comprehensive record for the auditor's report basis
6. (*c*) Achievement of overall audit objectives
7. (*c*) Planning and performing the audit
8. (*b*) Facilitating quality control reviews
9. (*d*) Supporting quality control reviews
10. (*b*) External inspections
11. (*c*) Directing and supervising audit work
12. (*b*) Nature, timing, and extent of audit procedures performed
13. (*b*) Identifying characteristics of specific items or matters tested
14. (*c*) Document when and with whom the discussions took place
15. (*d*) All of the above
16. (*b*) Document how the inconsistency was addressed
17. (*c*) Letters of confirmation
18. (*c*) Copies of the entity's significant contracts and agreements
19. (*d*) Copies of financial statements
20. (*b*) Superseded drafts of working papers
21. (*c*) Paper, electronic, or other media
22. (*b*) Enhancing the quality of the audit
23. (*c*) One or more folders or other storage media, in physical or electronic form
24. (*c*) 60 days
25. (*b*) Deleting superseded documentation
26. (*d*) Documents must be retained for a minimum of 7 years from the date of the auditor's report
27. (*c*) The extent of professional judgment exercised
28. (*c*) Circumstances leading to potential material misstatements
29. (*b*) Reinforce the quality of judgments
30. (*c*) When the matters and judgments are significant
31. (*c*) Administrative processes

32. (*c*) Reinforces the quality of the judgment

33. (*c*) Findings that could result in a modification to the audit opinion

34. (*d*) It is essential to explain the auditor's conclusions and reinforce the quality of judgments

35. (*c*) Explaining the auditor's conclusions and reinforcing the quality of judgments

36. (*b*) Discarding superseded documentation

37. (*b*) To facilitate effective and efficient review of audit documentation

38. (*c*) Whether individual SA objectives are achieved

39. (*d*) Auditor

40. (*b*) At the auditor's discretion, provided it doesn't undermine the validity of the work

41. (*d*) Avoiding any potential impact on the validity of the work

42. (*d*) Standard on Quality Control (SQC) 1

43. (*c*) It is the property of the auditor, unless specified by law or regulation

44. (*b*) Independence of the auditor or personnel

45. (*c*) Facilitating effective and efficient review of audit documentation

46. (*d*) Provided it doesn't undermine the validity of the work

CHAPTER 7

Completion and Review

MULTIPLE CHOICE QUESTIONS

1. What is the term used to describe events occurring between the date of the financial statements and the date of the auditor's report?
   (*a*) Preceding events
   (*b*) Subsequent events
   (*c*) Concurrent events
   (*d*) Ongoing events

2. Which type of subsequent events provides evidence of conditions that existed at the date of the financial statements?
   (*a*) Events arising after the financial statements
   (*b*) Events requiring adjustment or disclosure
   (*c*) Planned mergers
   (*d*) Declaration of insolvency

3. What is one of the objectives of the auditor in accordance with SA 560?
   (*a*) Making financial forecasts
   (*b*) Responding to events before the financial statements
   (*c*) Obtaining sufficient appropriate audit evidence about subsequent events
   (*d*) Predicting future financial conditions

4. What is the primary focus of SA 560, according to the objectives of SA 560?
   (*a*) Anticipating future financial trends
   (*b*) Ensuring the accuracy of financial forecasts
   (*c*) Responding appropriately to facts that become known after the auditor's report
   (*d*) Assessing the financial statements' compliance with regulatory requirements

5. Which of the following is an example of an event providing evidence of conditions that arose after the date of the financial statements?
   (*a*) Settlement of a legal claim at a reduced amount
   (*b*) Declaration of insolvency of a major debtor
   (*c*) Destruction of substantial inventories due to fire
   (*d*) Issue of new share capital

6. In the context of subsequent events, what is the focus of events providing evidence of conditions that existed at the date of the financial statements?
   (*a*) Adjustment or disclosure in the financial statements
   (*b*) Planned mergers
   (*c*) Declaration of insolvency
   (*d*) Destruction of inventories

7. What is the primary responsibility of the auditor regarding subsequent events, according to SA 560?
   (*a*) Predicting future financial conditions
   (*b*) Responding appropriately to facts that become known after the date of the auditor's report
   (*c*) Issuing an updated auditor's report
   (*d*) Preventing the occurrence of subsequent events

8. Which SA specifically deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements?
   (*a*) SA 230
   (*b*) SA 240
   (*c*) SA 560
   (*d*) SA 580

9. What type of events may require adjustment of, or disclosure in, the financial statements, according to the objectives of the auditor in SA 560?
   (*a*) Preceding events
   (*b*) Subsequent events
   (*c*) Concurrent events
   (*d*) Ongoing events

10. What is the objective of obtaining sufficient appropriate audit evidence about subsequent events, as per SA 560?
   (*a*) Predicting future financial conditions
   (*b*) Ensuring compliance with legal requirements
   (*c*) Assessing the accuracy of financial forecasts
   (*d*) Appropriately reflecting events in the financial statements

11. What is the auditor's expectation regarding the performance of audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions?
   (*a*) The auditor should perform additional audit procedures to reevaluate previously concluded matters.
   (*b*) The auditor is expected to rely solely on the conclusions of previously applied audit procedures.
   (*c*) The auditor is not expected to perform additional audit procedures on matters with satisfactory conclusions.
   (*d*) The auditor should repeat all previously applied audit procedures for validation.

12. According to SA 560, what period should be covered by audit procedures relating to events occurring between the date of the financial statements and the date of the auditor's report?
   (*a*) From the beginning of the financial year to the date of the financial statements
   (*b*) From the date of the financial statements to the date of the auditor's report

(*c*) From the date of the financial statements to the date of the entity's annual meeting

(*d*) From the date of the financial statements to the date of the auditor's report or as near as practicable thereto.

13. In the context of audit procedures for subsequent events, what does the auditor take into account in determining the nature and extent of such procedures?

(*a*) Regulatory requirements

(*b*) Financial reporting framework

(*c*) Auditor's risk assessment

(*d*) Management's risk assessment

14. What is the primary purpose of inquiring management and, where appropriate, those charged with governance, about subsequent events?

(*a*) To challenge management's decision-making process

(*b*) To gather information about the auditor's risk assessment

(*c*) To identify events that might affect the financial statements

(*d*) To assess the entity's compliance with regulatory requirements

15. When does the date the financial statements are issued generally depend on?

(*a*) Date of the entity's annual meeting

(*b*) Date filed with a regulatory authority

(*c*) Date of the auditor's report

(*d*) Date of management's representation

16. What is the meaning of the "Date the financial statements are issued," as per the provided information?

(*a*) Date of the entity's annual meeting

(*b*) Date of the auditor's report

(*c*) Date audited financial statements are made available to third parties

(*d*) Date of the entity's incorporation

17. In the context of subsequent events, what is the auditor's responsibility when events requiring adjustment or disclosure are identified?

(*a*) To ignore such events and proceed with the audit report

(*b*) To determine whether each event is appropriately reflected in the financial statements

(*c*) To request management's opinion on the events

(*d*) To delay the issuance of the auditor's report until all events are resolved

18. What is the auditor's obligation regarding audit procedures on the financial statements after the date of the auditor's report?

(*a*) The auditor must perform additional audit procedures on all financial statements.

(*b*) The auditor has no obligation to perform any audit procedures after the date of the auditor's report.

(*c*) The auditor should repeat all audit procedures previously applied.

(*d*) The auditor must reissue the auditor's report for each financial statement.

19. What is the auditor's first step when a fact becomes known after the date of the auditor's report but before the date the financial statements are issued that may have caused the auditor to amend the auditor's report?

(*a*) Discuss the matter with management and those charged with governance.

(*b*) Issue a revised auditor's report immediately.

(*c*) Notify regulatory authorities.

(*d*) Perform additional audit procedures.

20. When management amends the financial statements in response to a fact identified after the date of the auditor's report but before the date of issuance, what should the auditor do?

(*a*) Perform the same audit procedures again.

(*b*) Carry out the audit procedures necessary on the amendment.

(*c*) Issue a new auditor's report without further procedures.

(*d*) Restrict the audit procedures solely to the amendment.

21. When is the auditor required to extend the audit procedures to the date of the new auditor's report, according to the circumstances discussed?

(*a*) Always

(*b*) Only when the financial statements are materially misstated

(*c*) Unless specific circumstances apply

(*d*) Only when requested by management

22. When management does not amend the financial statements despite the auditor's belief that amendments are necessary, what should the auditor do?

(*a*) Issue a modified opinion in the initial auditor's report.

(*b*) Notify regulatory authorities immediately.

(*c*) Take appropriate action to seek to prevent reliance on the auditor's report.

(*d*) Suspend the audit engagement until amendments are made.

23. When a fact becomes known to the auditor after the financial statements have been issued that may have caused the auditor to amend the auditor's report, what is the auditor's initial step?

(*a*) Issue a revised auditor's report immediately.

(*b*) Discuss the matter with management and those charged with governance.

(*c*) Notify regulatory authorities.

(*d*) Perform additional audit procedures.

24. What is the auditor's responsibility regarding steps taken by management after amending the financial statements?

(*a*) Issue a new auditor's report without further procedures.

(*b*) Extend the audit procedures to the date of the new auditor's report.

(*c*) Review the steps taken by management to inform recipients of the previously issued financial statements.

(*d*) Ignore the steps taken by management.

25. In what circumstances is the auditor permitted to restrict audit procedures on subsequent events to that amendment, as discussed in the information provided?

(*a*) Always

(*b*) When requested by management

(*c*) When law or regulation prohibits unrestricted procedures

(*d*) When management decides to limit the audit scope

26. If management restricts the amendment of the financial statements to the effects of subsequent events, what options does the auditor have regarding the auditor's report?

(*a*) Issue a new auditor's report without mentioning the restriction.

(*b*) Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph.

(*c*) Amend the auditor's report to include an additional date restricted to that amendment.

(*d*) Both (*b*) and (*c*).

27. When management does not take necessary steps to inform recipients of the previously issued financial statements and refuses to amend the financial statements, what should the auditor do?

(*a*) Issue a new auditor's report.

(*b*) File a complaint with regulatory authorities.

(*c*) Modify the opinion in the initial auditor's report.

(*d*) Take appropriate action to seek to prevent reliance on the auditor's report.

28. What is the fundamental assumption related to an enterprise's continuity in operation?

(*a*) Continuity Principle

(*b*) The Necessity Principle

(*c*) Going Concern

(*d*) Liquidation Assumption

29. Under what basis are general-purpose financial statements typically prepared?

(*a*) Liquidation basis

(*b*) Accrual basis

(*c*) Cash basis

(*d*) Going concern basis

30. When is the going concern basis of accounting inappropriate for financial statement preparation?

(*a*) When management intends to liquidate the entity

(*b*) When the entity has no realistic alternative but to cease operations

(*c*) Both (*a*) and (*b*)

(*d*) Never

31. What is the significance of the going concern assumption on the preparation of financial statements?

(*a*) It affects the entity's tax obligations.

(*b*) It determines the fair value of assets.

(*c*) It influences the recording of assets and liabilities based on the entity's ability to continue operating.

(*d*) It impacts the classification of expenses.

32. According to SA 570, what are the objectives of the auditor in relation to the going concern basis of accounting?

(*a*) To assess the entity's tax liability.

(*b*) To evaluate management's effectiveness in running the business.

(*c*) To obtain sufficient appropriate audit evidence on the appropriateness of management's use of the going concern basis.

(*d*) To determine the entity's profitability.

33. What does SA 570 require auditors to consider when performing risk assessment procedures?

(*a*) The market value of the entity's assets.

(*b*) Whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

(*c*) The number of employees in the entity.

(*d*) The entity's historical financial performance.

34. Which of the following is not an example of an event or condition that may cast significant doubt on the entity's ability to continue as a going concern?

(*a*) Loss of a major market

(*b*) Compliance with statutory requirements

(*c*) Negative operating cash flows

(*d*) Substantial operating losses

35. What is the responsibility of management in relation to the going concern assumption?

(*a*) To guarantee the entity's continuous operation.

(*b*) To assess the entity's ability to continue as a going concern.

(*c*) To ignore any uncertainties about the future.

(*d*) To liquidate the entity in case of any financial distress.

36. In the context of SA 570, what is the auditor required to conclude based on the audit evidence obtained?

(*a*) The entity's future profitability.

(*b*) Whether there is a material uncertainty about the entity's ability to continue as a going concern.

(*c*) Management's ability to make accurate financial projections.

(*d*) The entity's compliance with tax regulations.

37. What should the auditor do if events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern?

(*a*) Provide a new auditor's report without further procedures.

(*b*) Ignore the identified events or conditions.

(*c*) Adjust financial statements without discussing them with management.

(*d*) Remain alert throughout the audit for audit evidence of such events.

38. What is the primary responsibility of the auditor regarding management's assessment of the entity's ability to continue as a going concern?

(*a*) Rectifying any lack of analysis by management

(*b*) Verifying the accuracy of the financial statements (*c*) Evaluating management's assessment

(*d*) Directing management's future actions

39. In what circumstance might the lack of detailed analysis by management not prevent the auditor from concluding on the appropriateness of the going concern basis?

(*a*) When there is a history of profitable operations and ready access to financial resources

(*b*) When there is a lack of historical financial data

(*c*) When the entity is facing financial distress

(*d*) When management refuses to provide information

40. What may be part of the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern?

(*a*) Ignoring management's plans for future actions

(*b*) Focusing only on historical financial data

(*c*) Evaluating the process management followed, assumptions, and feasibility of plans

(*d*) Avoiding any inquiry into management's intentions

41. How long should the auditor cover when evaluating management's assessment of the entity's ability to continue as a going concern?

(*a*) A period of six months

(*b*) A period of at least three months

(*c*) The same period as used by management or at least twelve months

(*d*) The last fiscal year

42. When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, what additional audit procedures should the auditor perform?

(*a*) Rely solely on management's assessment

(*b*) Requesting management to skip its assessment

(*c*) Considering the situation as normal business volatility

(*d*) Performing additional audit procedures, including consideration of mitigating factors

43. Which of the following is an example of an audit procedure when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern?

(*a*) Ignoring the entity's latest available interim financial statements

(*b*) Analyzing and discussing cash flow, profit, and other relevant forecasts with management

(*c*) Avoiding inquiries about financing difficulties

(*d*) Disregarding the terms of debentures and loan agreements

44. What is one of the additional audit procedures suggested by SA 570 when evaluating management's plans for future actions?

(*a*) Ignoring any cash flow forecasts prepared by the entity

(*b*) Evaluating the reliability of underlying data for the cash flow forecast

(*c*) Assuming the feasibility of management's plans

(*d*) Relying solely on written representations from management

45. When assessing management's assessment of the entity's ability to continue as a going concern, what should the auditor do if management's assessment period is less than twelve months?

(*a*) Accept management's assessment period as sufficient

(*b*) Extend the assessment period to at least twelve months

(*c*) Ignore the duration of the assessment period

(*d*) Request management to skip the assessment

46. If the entity has prepared a cash flow forecast, what should the auditor consider in the evaluation of management's plans for future actions?

(*a*) Assume the forecast is accurate

(*b*) Disregard the assumptions underlying the forecast

(*c*) Evaluate the reliability of underlying data and support for assumptions

(*d*) Ignore the existence of the cash flow forecast

47. What is the auditor required to do if management has not yet performed an assessment of the entity's ability to continue as a going concern?

(*a*) Assume the entity will continue as a going concern

(*b*) Request management to make its assessment

(*c*) Disregard the lack of assessment

(*d*) Proceed with audit procedures as planned

48. What is the auditor's responsibility when a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern?

(*a*) Ignore the material uncertainty in the auditor's report

(*b*) Express an unmodified opinion without any additional disclosures

(*c*) Adequately disclose the material uncertainty in the financial statements

(*d*) Exclude any mention of the uncertainty in the auditor's report

49. When a material uncertainty exists related to going concern, and adequate disclosure is made in the financial statements, what is the appropriate action for the auditor?

(*a*) Express a modified opinion without any additional disclosure

(*b*) Express an unmodified opinion with a separate section in the auditor's report

(*c*) Express a qualified opinion without mentioning the uncertainty

(*d*) Ignore the material uncertainty in the auditor's report

50. What does the auditor do if management's use of the going concern basis of accounting is deemed inappropriate?

(*a*) Express an unmodified opinion

(*b*) Express a qualified or adverse opinion, as appropriate

(*c*) Exclude any mention of the inappropriate use in the auditor's report

(*d*) Recommend changes to management's financial decisions

51. If a material uncertainty exists, but management fails to adequately disclose it in the financial statements, what action should the auditor take?
(*a*) Ignore the inadequate disclosure in the auditor's report
(*b*) Express an unmodified opinion with a separate section in the auditor's report
(*c*) Express a qualified or adverse opinion, as appropriate
(*d*) Provide additional information in the financial statements

52. In the auditor's report, what heading should be used to draw attention to a material uncertainty related to going concern when adequate disclosure is made in the financial statements?
(*a*) "Qualified Opinion"
(*b*) "Material Uncertainty Related to Going Concern"
(*c*) "Unmodified Opinion"
(*d*) "Basis for Qualified (Adverse) Opinion"

53. If management is unwilling to make or extend its assessment of going concern when requested, what may be an appropriate action for the auditor?
(*a*) Express an unmodified opinion
(*b*) Provide additional information in the financial statements
(*c*) Consider a qualified opinion or a disclaimer of opinion
(*d*) Ignore the lack of management's assessment in the auditor's report

54. What should the auditor include in the Basis for Qualified (Adverse) Opinion section of the auditor's report when there is a material uncertainty related to going concern, but adequate disclosure is not made in the financial statements?
(*a*) State that the financial statements are accurate despite the uncertainty
(*b*) Mention the material uncertainty and note the inadequate disclosure
(*c*) Exclude any reference to the material uncertainty
(*d*) Request management to revise the financial statements

55. In the context of going concern, when might a disclaimer of opinion be appropriate?
(*a*) When there is clear evidence of management's competence
(*b*) When the financial statements include adequate disclosure
(*c*) When management refuses to provide additional information
(*d*) When there is no uncertainty related to going concern

56. What is the primary consideration for the auditor when determining the appropriateness of management's use of the going concern basis of accounting?
(*a*) The auditor's personal judgment
(*b*) The clarity of financial statements
(*c*) Adequate disclosure of all events
(*d*) The sufficiency of appropriate audit evidence

57. What action should the auditor take if a material uncertainty exists, but management does not disclose it adequately in the financial statements?
(*a*) Express an unmodified opinion
(*b*) Ignore the inadequate disclosure in the auditor's report
(*c*) Request management to extend the assessment period
(*d*) Express a qualified or adverse opinion, as appropriate

58. What is the primary objective of the auditor, as per SA 450?

(*a*) Identify all misstatements in the financial statements.

(*b*) Evaluate the effect of identified misstatements on the audit.

(*c*) Determine the overall audit strategy.

(*d*) Communicate all misstatements to regulatory authorities.

59. When accumulating misstatements identified during the audit, what should the auditor consider?

(*a*) Only consider misstatements that are clearly trivial.

(*b*) Include all misstatements, regardless of materiality.

(*c*) Exclude misstatements related to data processing errors.

(*d*) Request management to determine the materiality of each misstatement.

60. What might trigger a revision of the overall audit strategy and plan during the audit?

(*a*) The occurrence of any misstatement.

(*b*) Identification of misstatements that are clearly trivial.

(*c*) Aggregation of identified misstatements approaching materiality.

(*d*) Completion of audit procedures without identifying any misstatements.

61. If, during the audit, the auditor identifies misstatements that may indicate the existence of other material misstatements, what action should the auditor take?

(*a*) Ignore the potential existence of other misstatements.

(*b*) Revise the overall audit strategy and plan.

(*c*) Request management to correct the misstatements immediately.

(*d*) Exclude the misstatements from the audit report.

62. When the auditor requests management to examine a class of transactions, account balance, or disclosure, what is the objective?

(*a*) Delegate audit responsibilities to management.

(*b*) Ensure management approves the auditor's findings.

(*c*) Determine the cause of a misstatement and correct it.

(*d*) Request management to adjust financial statements.

63. What should the auditor do if, after management examines a class of transactions and corrects misstatements, the auditor believes there might be remaining misstatements?

(*a*) Ignore the remaining misstatements.

(*b*) Document the misstatements and conclude the audit.

(*c*) Perform additional audit procedures to determine if misstatements remain.

(*d*) Request management to adjust the financial statements immediately.

64. What is the importance of timely communication of misstatements to the appropriate level of management?

(*a*) To expedite the completion of the audit.

(*b*) To avoid any further audit procedures.

(*c*) To enable management to evaluate, disagree, and take necessary action.
(*d*) To fulfill regulatory reporting requirements.

65. If management refuses to correct some or all of the misstatements communicated by the auditor, what should the auditor do?
(*a*) Proceed with issuing the audit report without modification.
(*b*) Document the refusal and proceed without further action.
(*c*) Obtain an understanding of management's reasons and consider it during the evaluation.
(*d*) Request regulatory intervention against management.

66. Why is the correction by management of all misstatements, including those communicated by the auditor, important?
(*a*) To avoid legal consequences for management.
(*b*) To maintain accurate accounting books and records.
(*c*) To delegate responsibility to the auditor.
(*d*) To accelerate the completion of the audit.

67. In the context of SA 450, when might a disclaimer of opinion be appropriate?
(*a*) When management agrees to correct all identified misstatements.
(*b*) When there is clear evidence of management's competence.
(*c*) When management refuses to provide additional information.
(*d*) When all misstatements are deemed clearly trivial.

68. What is the first step the auditor should take before evaluating the effect of uncorrected misstatements?
(*a*) Request a written representation from management.
(*b*) Communicate with regulatory authorities.
(*c*) Reassess materiality determined in accordance with SA 320.
(*d*) Correct all identified misstatements.

69. When evaluating the effect of uncorrected misstatements, what factors should the auditor consider?
(*a*) Only the size of the misstatements in relation to the financial statements as a whole.
(*b*) The effect of uncorrected misstatements on prior periods only.
(*c*) The size and nature of the misstatements and the particular circumstances of their occurrence.
(*d*) Only the effect of uncorrected misstatements on individual transactions.

70. What is the auditor's responsibility regarding communication with those charged with governance regarding uncorrected misstatements?
(*a*) Prohibit communication with those charged with governance.
(*b*) Communicate only if uncorrected misstatements are individually material.
(*c*) Communicate the effect of uncorrected misstatements only on prior periods.
(*d*) Communicate regarding uncorrected misstatements and their individual materiality.

71. What should the auditor request from management and those charged with governance regarding uncorrected misstatements?

(*a*) Request regulatory intervention.

(*b*) Request correction of all misstatements.

(*c*) Request a written representation on the materiality of uncorrected misstatements.

(*d*) Request exclusion of uncorrected misstatements from the financial statements.

72. What should be included in the audit documentation regarding misstatements identified during the audit?

(*a*) Only the amount of clearly trivial misstatements.

(*b*) All misstatements accumulated during the audit, whether corrected, and the auditor's conclusion on their materiality.

(*c*) Only the conclusion on whether uncorrected misstatements are material.

(*d*) The auditor's recommendation for correcting all identified misstatements.

73. Why does the auditor request a written representation from management and those charged with governance?

(*a*) To delegate responsibility for correcting misstatements.

(*b*) To fulfill regulatory reporting requirements.

(*c*) To obtain their belief on the materiality of uncorrected misstatements.

(*d*) To exclude uncorrected misstatements from the audit report.

74. What is the purpose of reassessing materiality before evaluating uncorrected misstatements?

(*a*) To expedite the completion of the audit.

(*b*) To adjust the financial statements based on management's representation.

(*c*) To confirm whether materiality remains appropriate in the context of the entity's actual financial results.

(*d*) To increase the threshold for misstatements.

75. What is the significance of including a summary of uncorrected misstatements in the written representation?

(*a*) To emphasize management's responsibility for correcting misstatements.

(*b*) To fulfill a regulatory requirement for written representations.

(*c*) To provide a comprehensive overview of the audit findings to regulatory authorities.

(*d*) To inform management and those charged with governance of the identified misstatements.

76. If uncorrected misstatements are deemed immaterial to the financial statements, what action should be taken?

(*a*) Request immediate correction of all misstatements.

(*b*) Conclude the audit without further action.

(*c*) Document the misstatements without informing management.

(*d*) Include a qualified opinion in the audit report.

77. What should be communicated to those charged with governance regarding uncorrected misstatements related to prior periods?

(*a*) No communication is necessary for prior-period misstatements.

(*b*) Communicate only if prior-period misstatements are individually material.

(*c*) Communicate the effect of prior-period misstatements on relevant classes and the financial statements.

(*d*) Communicate that prior-period misstatements are inconsequential.

78. What is the primary purpose of obtaining written representations from management?

(*a*) To shift responsibility for financial statements preparation to management.

(*b*) To fulfill regulatory reporting requirements.

(*c*) To confirm that management believes it has fulfilled its responsibilities and to support other audit evidence.

(*d*) To request correction of all identified misstatements.

79. Which of the following is NOT considered a part of written representations?

(*a*) Financial statements.

(*b*) Assertions within financial statements.

(*c*) Supporting books and records.

(*d*) Correspondence between auditor and regulatory authorities.

80. What alert might the auditor consider if management modifies or does not provide requested written representations?

(*a*) A need for additional audit procedures.

(*b*) An indication of successful audit completion.

(*c*) A confirmation of no misstatements.

(*d*) A signal to conclude the audit without further action.

81. What is the significance of requesting written, rather than oral, representations from management?

(*a*) It fulfills regulatory requirements.

(*b*) It increases the burden on management.

(*c*) It may prompt management to consider matters more rigorously.

(*d*) It reduces the quality of the representations.

82. Which SA specifically deals with the auditor's responsibility to obtain written representations?

(*a*) SA 315 - Identifying and Assessing the Risks of Material Misstatement.

(*b*) SA 580 - Written Representations.

(*c*) SA 320 - Materiality in Planning and Performing an Audit.

(*d*) SA 450 - Evaluation of Misstatements Identified during the Audit.

83. From whom should the auditor request written representations?

(*a*) Regulatory authorities.

(*b*) External auditors.

(*c*) Management with appropriate responsibilities for the financial statements.

(*d*) Shareholders.

84. What is the purpose of obtaining a written representation about management's responsibilities regarding the preparation of financial statements?

(*a*) To shift responsibility to the auditor.
(*b*) To exclude management from the audit process.
(*c*) To confirm that management has made inquiries and understands its responsibilities.
(*d*) To fulfill regulatory requirements.

85. Why might management include qualifying language in the written representations?

(*a*) To shift responsibility to the auditor.
(*b*) To indicate that representations are made to the best of its knowledge and belief.
(*c*) To deny responsibility for the financial statements.
(*d*) To request regulatory intervention.

86. When may the auditor request that management reconfirms its acknowledgment and understanding of its responsibilities?

(*a*) Only when regulatory authorities require it.
(*b*) When management refuses to provide written representations.
(*c*) When the terms of the audit engagement were prepared in a previous year.
(*d*) Only when there is an indication of fraudulent activities.

87. What does the auditor evaluate through written representations?

(*a*) The correctness of financial statements.
(*b*) Whether management believes it has fulfilled its responsibilities and supports other audit evidence.
(*c*) The compliance of the financial statements with all regulatory requirements.
(*d*) The need for additional audit procedures.

88. What may the auditor request from management beyond the written representation about management's responsibilities regarding the preparation of financial statements?

(*a*) A request for correction of identified misstatements.
(*b*) Additional financial statements for comparative analysis.
(*c*) A representation about the selection and application of accounting policies.
(*d*) A written statement from external auditors.

89. In addition to confirming that management has fulfilled its responsibilities, what might be included in other written representations?

(*a*) Only financial forecasts.
(*b*) Only information on internal control deficiencies.
(*c*) Representations about the completeness of transactions.
(*d*) Matters such as plans affecting the carrying value of assets and liabilities.

90. Why does the auditor request a written representation regarding information provided to the auditor?

(*a*) To shift responsibility to management.
(*b*) To exclude management from the audit process.

(*c*) To confirm that management communicated all deficiencies in internal control.

(*d*) To ensure that the auditor receives all relevant information agreed upon in the terms of the audit engagement.

91. What does the auditor communicate through written representations about information provided to the auditor?

(*a*) Only information on internal control deficiencies.

(*b*) Deficiencies in internal control that management is unaware of.

(*c*) All deficiencies in internal control of which management is aware.

(*d*) That all internal control systems are effective.

92. What should the audit documentation include regarding written representations?

(*a*) Only the auditor's conclusion on the materiality of written representations.

(*b*) The amount of clearly trivial misstatements.

(*c*) The auditor's request for written representations.

(*d*) All misstatements accumulated during the audit and whether they have been corrected.

93. What action should the auditor take if management refuses to correct some or all of the misstatements communicated by the auditor?

(*a*) Conclude the audit without further action.

(*b*) Accept management's decision without any further inquiries.

(*c*) Obtain an understanding of management's reasons and consider the implications for the auditor's report.

(*d*) Request regulatory intervention.

94. What may be the outcome if management modifies or refuses to provide written representations?

(*a*) It does not affect the nature or extent of other audit evidence.

(*b*) It indicates the absence of significant issues.

(*c*) It eliminates the need for additional audit procedures.

(*d*) It may alert the auditor to the possibility of significant issues.

95. What is the primary benefit of including a summary of uncorrected misstatements in the written representation?

(*a*) To shift responsibility to management.

(*b*) To comply with regulatory reporting requirements.

(*c*) To inform management and those charged with governance of the identified misstatements.

(*d*) To eliminate the need for additional audit procedures.

96. What is the primary purpose of obtaining written representations from management about specific assertions in the financial statements?

(*a*) To shift responsibility for specific assertions to the auditor.

(*b*) To fulfill regulatory reporting requirements.

(*c*) To support an understanding obtained from other audit evidence of management's judgment or intent.

(*d*) To request correction of all identified misstatements.

97. Which of the following is NOT a factor the auditor may consider when evaluating judgments and intentions related to specific assertions?

(*a*) The entity's past history in carrying out its stated intentions.

(*b*) The entity's reasons for choosing a particular course of action.

(*c*) The auditor's personal judgments about management.

(*d*) The existence or lack of any other information obtained during the audit inconsistent with management's judgment or intent.

98. Why is it important for the date of written representations to be as near as practicable to the date of the auditor's report?

(*a*) To fulfill regulatory requirements.

(*b*) To shift responsibility to management.

(*c*) To ensure the reliability of written representations.

(*d*) To exclude management from the audit process.

99. What is the significance of the written representations being for all financial statements and periods referred to in the auditor's report?

(*a*) It is a regulatory requirement.

(*b*) It confirms that management's previous representations remain appropriate.

(*c*) It eliminates the need for additional audit procedures.

(*d*) It shifts responsibility to management.

100. In situations where current management was not present during all periods referred to in the auditor's report, what is the auditor's responsibility regarding written representations?

(*a*) The auditor is not required to request written representations from current management.

(*b*) The auditor should request written representations from current management covering the whole relevant periods.

(*c*) The auditor should exclude current management from the written representations.

(*d*) The auditor's responsibility does not change.

101. What is the form of written representations, and to whom are they addressed?

(*a*) Verbal statements addressed to the auditor.

(*b*) A memorandum addressed to regulatory authorities.

(*c*) A representation letter addressed to the auditor.

(*d*) A summary of financial statements addressed to shareholders.

102. In situations where the auditor has concerns about the competence, integrity, or ethical values of management, what is the appropriate action?

(*a*) Disregard written representations and shift responsibility to management.

(*b*) Perform additional audit procedures to confirm concerns.

(*c*) Consider the effect of concerns on the reliability of representations and audit evidence.

(*d*) Immediately disclaim an opinion on the financial statements.

103. If written representations are inconsistent with other audit evidence, what action should the auditor take?

(*a*) Ignore the inconsistency to avoid conflict with management.

(*b*) Perform audit procedures to attempt to resolve the inconsistency.

(*c*) Request regulatory intervention.

(*d*) Exclude written representations from the audit report.

104. What action should the auditor take if management does not provide one or more of the requested written representations?

(*a*) Exclude management's responsibilities from the audit report.

(*b*) Conclude the audit without further action.

(*c*) Disclose the issue to shareholders without further evaluation.

(*d*) Discuss the matter with management, re-evaluate integrity, and take appropriate actions.

105. When should the auditor disclaim an opinion on the financial statements according to SA 705?

(*a*) When management refuses to provide any written representations.

(*b*) When the auditor concludes that there is sufficient doubt about the integrity of management.

(*c*) When the auditor has concerns about the reliability of written representations.

(*d*) When the written representations are consistent with other audit evidence.

106. Who are considered "those charged with governance" in the context of an audit?

(*a*) Regulatory authorities overseeing financial reporting.

(*b*) External auditors responsible for reviewing financial statements.

(*c*) The engagement team responsible for conducting the audit.

(*d*) Persons or organizations with responsibility for overseeing the strategic direction and accountability of the entity.

107. What is the primary purpose of effective two-way communication between the auditor and those charged with governance?

(*a*) To shift responsibility from the auditor to those charged with governance.

(*b*) To maintain auditor independence and objectivity.

(*c*) To replace the need for audit evidence.

(*d*) To fulfill regulatory reporting requirements.

108. Why is it necessary for the auditor to obtain information from those charged with governance?

(*a*) To fulfill regulatory requirements.

(*b*) To shift responsibility to those charged with governance.

(*c*) To assist the auditor in understanding the entity and obtaining relevant audit evidence.

(*d*) To exclude those charged with governance from the audit process.

109. What is the scope of SA 260 - Communication with Those Charged with Governance?

(*a*) It specifies communication only with external regulatory authorities.

(*b*) It outlines communication only within the engagement team.

(*c*) It covers communication with those charged with governance in an audit of financial statements.

(*d*) It addresses communication solely with management personnel.

110. What is one of the objectives of the auditor according to SA 260?

(*a*) To minimize communication with those charged with governance.

(*b*) To provide those charged with governance with misleading information.

(*c*) To promote effective two-way communication between the auditor and those charged with governance.

(*d*) To avoid obtaining information from those charged with governance.

111. Who is responsible for overseeing the financial reporting process in entities with diverse governance structures?

(*a*) The regulatory authorities.

(*b*) The external auditors.

(*c*) The engagement team.

(*d*) The governing body, such as a board of directors.

112. Which matters are required to be communicated by the auditor with those charged with governance?

(*a*) Only matters related to auditor independence.

(*b*) Only significant difficulties encountered during the audit.

(*c*) Matters such as the planned scope and timing of the audit, significant findings, and circumstances affecting the auditor's report.

(*d*) Matters related to the engagement team's responsibilities.

113. In the context of SA 260, what does the auditor need to communicate regarding auditor independence for listed entities?

(*a*) Total fees charged during the period for audit services only.

(*b*) The relationship between the audit firm and regulatory authorities.

(*c*) The auditor's opinion on the financial statements.

(*d*) Total fees charged during the period for audit and non-audit services and related safeguards applied.

114. When should the auditor communicate with those charged with governance regarding significant findings in writing?

(*a*) When the auditor wants to emphasize minor issues.

(*b*) When the auditor believes oral communication is adequate.

(*c*) When the auditor's professional judgment deems oral communication insufficient.

(*d*) When the auditor is communicating matters related to auditor independence.

115. What is the significance of evaluating the adequacy of the communication process between the auditor and those charged with governance?

(*a*) To fulfill regulatory reporting requirements.

(*b*) To assess the effectiveness of the audit team.

(c) To determine if the auditor has shifted responsibility to those charged with governance.
(d) To evaluate its impact on the auditor's assessment of risks and ability to obtain sufficient appropriate audit evidence.

116. Why is it important for the auditor to communicate the planned scope and timing of the audit with those charged with governance?
(a) To fulfill regulatory requirements.
(b) To demonstrate control over the audit process.
(c) To receive instructions on how to conduct the audit.
(d) To provide an overview and seek feedback on significant risks identified.

117. What is the primary objective of the auditor according to SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management?
(a) To express an opinion on the effectiveness of internal control.
(b) To design audit procedures for assessing internal control.
(c) To communicate appropriately to those charged with governance and management identified deficiencies in internal control.
(d) To prevent or detect fraud within the entity.

118. How does SA 265 define a "deficiency in internal control"?
(a) When a control is designed, implemented, or operated effectively.
(b) When a control is missing.
(c) When a control detects misstatements on a timely basis.
(d) When a control is designed, implemented, or operated in a way that is unable to prevent, or detect and correct, misstatements on a timely basis.

119. What constitutes a "significant deficiency in internal control" according to SA 265?
(a) Any identified deficiency in internal control.
(b) A deficiency that leads to a material misstatement in the financial statements.
(c) A deficiency that management is financially interested in.
(d) A deficiency or combination of deficiencies that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

120. In the context of SA 265, what does the auditor need to communicate regarding deficiencies in internal control?
(a) All deficiencies, regardless of their importance.
(b) Only those deficiencies that have led to a material misstatement.
(c) Only those deficiencies that have caused financial loss to the entity.
(d) Deficiencies that the auditor has identified and that, in the auditor's professional judgment, are of sufficient importance to merit attention.

121. When is it necessary for the auditor to communicate significant deficiencies in internal control in writing?
(a) Whenever there is any deficiency in internal control.
(b) Only when those charged with governance request written communication.

(*c*) When the auditor's professional judgment deems oral communication inadequate.
(*d*) If the deficiencies have led to fraud within the entity.

122. What does the significance of a deficiency in internal control depend on?
(*a*) The auditor's professional judgment only.
(*b*) Whether a misstatement has actually occurred.
(*c*) The likelihood of a misstatement occurring, potential magnitude, and other factors.
(*d*) The frequency of communication with those charged with governance.

123. Which of the following is an example of an indicator of a significant deficiency in internal control?
(*a*) Effective aspects of the control environment.
(*b*) Absence of a risk assessment process.
(*c*) Detection of immaterial misstatements by the auditor.
(*d*) Identification of management fraud regardless of materiality.

124. What is one of the examples of indicators of significant deficiencies in internal control mentioned in SA 265?
(*a*) Absence of a risk assessment process.
(*b*) Implementation of effective entity risk assessment.
(*c*) Detection of minor misstatements by the auditor.
(*d*) Successful management oversight of financial statement preparation.

125. In the context of SA 265, what is the auditor's responsibility regarding internal control?
(*a*) To express an opinion on the effectiveness of internal control.
(*b*) To design audit procedures for assessing internal control.
(*c*) To identify deficiencies in internal control during the risk assessment process.
(*d*) To design and implement effective internal control for the entity.

126. When considering the significance of a deficiency in internal control, what does the auditor take into account?
(*a*) Only the actual occurrence of a misstatement.
(*b*) The likelihood of the deficiencies leading to material misstatements in the financial statements, among other factors.
(*c*) The financial statement amounts exposed to the deficiencies.
(*d*) The entity's legal structure.

127. What is the auditor's responsibility if one or more deficiencies in internal control are identified during the audit?
(*a*) Design and implement effective internal control for the entity.
(*b*) Ignore the deficiencies if they are not material to the financial statements.
(*c*) Determine whether, individually or in combination, they constitute significant deficiencies.
(*d*) Express an opinion on the effectiveness of internal control.

128. How should the auditor communicate significant deficiencies in internal control identified during the audit?

(*a*) Verbally to those charged with governance and in writing to management.

(*b*) In writing to both those charged with governance and management on a timely basis.

(*c*) In the audit report along with the opinion on internal control.

(*d*) Through internal memos shared within the audit team.

129. What should be included in the written communication of significant deficiencies in internal control?

(*a*) Only a list of deficiencies without further explanation.

(*b*) A description of the deficiencies and an explanation of their potential effects.

(*c*) A summary of financial statements.

(*d*) A list of all deficiencies, regardless of their significance.

130. When communicating deficiencies in internal control to management, what information should the auditor provide?

(*a*) Only deficiencies that other parties have not communicated to management.

(*b*) Any deficiencies identified during the audit, irrespective of their importance.

(*c*) Only deficiencies that are material to the financial statements.

(*d*) Deficiencies that the auditor has communicated or intends to communicate to those charged with governance.

131. In the written communication of significant deficiencies, what information should be provided to enable those charged with governance and management to understand the context?

(*a*) Only a general reference to the deficiencies.

(*b*) A summary of audit procedures performed.

(*c*) A description of the deficiencies and an explanation of their potential effects.

(*d*) Information on the entity's internal control policies.

132. Why does the auditor need to explain the purpose of the audit in the written communication of significant deficiencies?

(*a*) To criticize management for ineffective internal control.

(*b*) To emphasize the importance of internal control over financial reporting.

(*c*) To clarify that the purpose of the audit was not to express an opinion on the effectiveness of internal control.

(*d*) To justify the audit fees charged to the entity.

133. When communicating significant deficiencies in internal control, what limitation should the auditor highlight?

(*a*) That all deficiencies, regardless of significance, are being reported.

(*b*) That the audit only considered internal control relevant to financial statements.

(*c*) That the deficiencies will be addressed in the next audit cycle.

(*d*) That management is solely responsible for internal control.

134. If a deficiency in internal control has not been communicated to management by other parties and, in the auditor's professional judgment, is of sufficient importance, what should the auditor do?

(*a*) Include it in the communication to those charged with governance only.

(*b*) Ignore it, as it was not communicated by other parties.

(*c*) Communicate it to management and those charged with governance.

(*d*) Report it in the auditor's internal records only.

135. What is the auditor's responsibility regarding internal control in the context of SA 265?

(*a*) To express an opinion on the effectiveness of internal control.

(*b*) To design and implement internal control policies for the entity.

(*c*) To identify and communicate deficiencies in internal control during the audit.

(*d*) To override internal control in case of significant deficiencies.

136. When determining if deficiencies in internal control constitute significant deficiencies, what does the auditor take into account?

(*a*) Only the actual occurrence of a misstatement.

(*b*) The likelihood of the deficiencies leading to material misstatements, among other factors.

(*c*) The entity's legal structure.

(*d*) The auditor's professional judgment without considering any specific factors.

Answer Key

1. (*b*)	**2.** (*d*)	**3.** (*c*)	**4.** (*c*)	**5.** (*d*)	**6.** (*a*)	**7.** (*b*)	**8.** (*c*)	**9.** (*b*)	**10.** (*d*)
11. (*c*)	**12.** (*d*)	**13.** (*c*)	**14.** (*c*)	**15.** (*b*)	**16.** (*c*)	**17.** (*b*)	**18.** (*b*)	**19.** (*a*)	**20.** (*b*)
21. (*c*)	**22.** (*c*)	**23.** (*b*)	**24.** (*c*)	**25.** (*c*)	**26.** (*d*)	**27.** (*d*)	**28.** (*c*)	**29.** (*d*)	**30.** (*c*)
31. (*c*)	**32.** (*c*)	**33.** (*b*)	**34.** (*b*)	**35.** (*b*)	**36.** (*b*)	**37.** (*d*)	**38.** (*c*)	**39.** (*a*)	**40.** (*c*)
41. (*c*)	**42.** (*d*)	**43.** (*b*)	**44.** (*b*)	**45.** (*b*)	**46.** (*c*)	**47.** (*b*)	**48.** (*c*)	**49.** (*b*)	**50.** (*b*)
51. (*c*)	**52.** (*b*)	**53.** (*c*)	**54.** (*b*)	**55.** (*c*)	**56.** (*d*)	**57.** (*d*)	**58.** (*b*)	**59.** (*a*)	**60.** (*c*)
61. (*b*)	**62.** (*c*)	**63.** (*c*)	**64.** (*c*)	**65.** (*c*)	**66.** (*b*)	**67.** (*c*)	**68.** (*c*)	**69.** (*c*)	**70.** (*d*)
71. (*c*)	**72.** (*b*)	**73.** (*c*)	**74.** (*c*)	**75.** (*d*)	**76.** (*b*)	**77.** (*c*)	**78.** (*c*)	**79.** (*d*)	**80.** (*a*)
81. (*c*)	**82.** (*b*)	**83.** (*c*)	**84.** (*c*)	**85.** (*b*)	**86.** (*c*)	**87.** (*b*)	**88.** (*c*)	**89.** (*d*)	**90.** (*d*)
91. (*c*)	**92.** (*c*)	**93.** (*c*)	**94.** (*d*)	**95.** (*c*)	**96.** (*c*)	**97.** (*c*)	**98.** (*c*)	**99.** (*b*)	**100.** (*b*)
101. (*c*)	**102.** (*c*)	**103.** (*b*)	**104.** (*d*)	**105.** (*b*)	**106.** (*d*)	**107.** (*b*)	**108.** (*c*)	**109.** (*c*)	**110.** (*c*)
111. (*d*)	**112.** (*c*)	**113.** (*d*)	**114.** (*c*)	**115.** (*d*)	**116.** (*d*)	**117.** (*c*)	**118.** (*d*)	**119.** (*d*)	**120.** (*d*)
121. (*c*)	**122.** (*c*)	**123.** (*b*)	**124.** (*a*)	**125.** (*c*)	**126.** (*b*)	**127.** (*c*)	**128.** (*b*)	**129.** (*b*)	**130.** (*d*)
131. (*c*)	**132.** (*c*)	**133.** (*b*)	**134.** (*c*)	**135.** (*c*)	**136.** (*b*)				

SOLUTION

1. (*b*) Subsequent events
2. (*d*) Declaration of insolvency
3. (*c*) Obtaining sufficient appropriate audit evidence about subsequent events
4. (*c*) Responding appropriately to facts that become known after the auditor's report
5. (*d*) Issue of new share capital
6. (*a*) Adjustment or disclosure in the financial statements
7. (*b*) Responding appropriately to facts that become known after the date of the auditor's report
8. (*c*) SA 560
9. (*b*) Subsequent events
10. (*d*) Appropriately reflecting events in the financial statements
11. (*c*) The auditor is not expected to perform additional audit procedures on matters with satisfactory conclusions.
12. (*d*) From the date of the financial statements to the date of the auditor's report or as near as practicable thereto.
13. (*c*) Auditor's risk assessment
14. (*c*) To identify events that might affect the financial statements
15. (*b*) Date filed with a regulatory authority
16. (*c*) Date audited financial statements are made available to third parties
17. (*b*) To determine whether each event is appropriately reflected in the financial statements
18. (*b*) The auditor has no obligation to perform any audit procedures after the date of the auditor's report.
19. (*a*) Discuss the matter with management and those charged with governance.
20. (*b*) Carry out the audit procedures necessary on the amendment.
21. (*c*) Unless specific circumstances apply
22. (*c*) Take appropriate action to seek to prevent reliance on the auditor's report.
23. (*b*) Discuss the matter with management and those charged with governance.
24. (*c*) Review the steps taken by management to inform recipients of the previously issued financial statements.
25. (*c*) When law or regulation prohibits unrestricted procedures
26. (*d*) Both (*b*) and (*c*).
27. (*d*) Take appropriate action to seek to prevent reliance on the auditor's report.
28. (*c*) Going Concern
29. (*d*) Going concern basis

30. (*c*) Both (*a*) and (*b*)

31. (*c*) It influences the recording of assets and liabilities based on the entity's ability to continue operating.

32. (*c*) To obtain sufficient appropriate audit evidence on the appropriateness of management's use of the going concern basis.

33. (*b*) Whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.

34. (*b*) Compliance with statutory requirements

35. (*b*) To assess the entity's ability to continue as a going concern.

36. (*b*) Whether there is a material uncertainty about the entity's ability to continue as a going concern.

37. (*d*) Remain alert throughout the audit for audit evidence of such events.

38. (*c*) Evaluating management's assessment

39. (*a*) When there is a history of profitable operations and ready access to financial resources

40. (*c*) Evaluating the process management followed, assumptions, and feasibility of plans

41. (*c*) The same period as used by management or at least twelve months

42. (*d*) Performing additional audit procedures, including consideration of mitigating factors

43. (*b*) Analyzing and discussing cash flow, profit, and other relevant forecasts with management

44. (*b*) Evaluating the reliability of underlying data for the cash flow forecast

45. (*b*) Extend the assessment period to at least twelve months

46. (*c*) Evaluate the reliability of underlying data and support for assumptions

47. (*b*) Request management to make its assessment

48. (*c*) Adequately disclose the material uncertainty in the financial statements

49. (*b*) Express an unmodified opinion with a separate section in the auditor's report

50. (*b*) Express a qualified or adverse opinion, as appropriate

51. (*c*) Express a qualified or adverse opinion, as appropriate

52. (*b*) "Material Uncertainty Related to Going Concern"

53. (*c*) Consider a qualified opinion or a disclaimer of opinion

54. (*b*) Mention the material uncertainty and note the inadequate disclosure

55. (*c*) When management refuses to provide additional information

56. (*d*) The sufficiency of appropriate audit evidence

57. (*d*) Express a qualified or adverse opinion, as appropriate

58. (*b*) Evaluate the effect of identified misstatements on the audit.

59. (*a*) Only consider misstatements that are clearly trivial.

60. (*c*) Aggregation of identified misstatements approaching materiality.

61. (*b*) Revise the overall audit strategy and plan.

62. (*c*) Determine the cause of a misstatement and correct it.

63. (*c*) Perform additional audit procedures to determine if misstatements remain.

64. (*c*) To enable management to evaluate, disagree, and take necessary action.

65. (*c*) Obtain an understanding of management's reasons and consider it during the evaluation.

66. (*b*) To maintain accurate accounting books and records.

67. (*c*) When management refuses to provide additional information.

68. (*c*) Reassess materiality determined in accordance with SA 320.

69. (*c*) The size and nature of the misstatements and the particular circumstances of their occurrence.

70. (*d*) Communicate regarding uncorrected misstatements and their individual materiality.

71. (*c*) Request a written representation on the materiality of uncorrected misstatements.

72. (*b*) All misstatements accumulated during the audit, whether corrected, and the auditor's conclusion on their materiality.

73. (*c*) To obtain their belief on the materiality of uncorrected misstatements.

74. (*c*) To confirm whether materiality remains appropriate in the context of the entity's actual financial results.

75. (*d*) To inform management and those charged with governance of the identified misstatements.

76. (*b*) Conclude the audit without further action.

77. (*c*) Communicate the effect of prior-period misstatements on relevant classes and the financial statements.

78. (*c*) To confirm that management believes it has fulfilled its responsibilities and to support other audit evidence.

79. (*d*) Correspondence between auditor and regulatory authorities.

80. (*a*) A need for additional audit procedures.

81. (*c*) It may prompt management to consider matters more rigorously.

82. (*b*) SA 580 - Written Representations.

83. (*c*) Management with appropriate responsibilities for the financial statements.

84. (*c*) To confirm that management has made inquiries and understands its responsibilities.

85. (*b*) To indicate that representations are made to the best of its knowledge and belief.

86. (*c*) When the terms of the audit engagement were prepared in a previous year.

87. (*b*) Whether management believes it has fulfilled its responsibilities and supports other audit evidence.

88. (*c*) A representation about the selection and application of accounting policies.

89. (*d*) Matters such as plans affecting the carrying value of assets and liabilities.

90. (*d*) To ensure that the auditor receives all relevant information agreed upon in the terms of the audit engagement.

91. (*c*) All deficiencies in internal control of which management is aware.

92. (*c*) The auditor's request for written representations.

93. (*c*) Obtain an understanding of management's reasons and consider the implications for the auditor's report.

94. (*d*) It may alert the auditor to the possibility of significant issues.

95. (*c*) To inform management and those charged with governance of the identified misstatements.

96. (*c*) To support an understanding obtained from other audit evidence of management's judgment or intent.

97. (*c*) The auditor's personal judgments about management.

98. (*c*) To ensure the reliability of written representations.

99. (*b*) It confirms that management's previous representations remain appropriate.

100. (*b*) The auditor should request written representations from current management covering the whole relevant periods.

101. (*c*) A representation letter addressed to the auditor.

102. (*c*) Consider the effect of concerns on the reliability of representations and audit evidence.

103. (*b*) Perform audit procedures to attempt to resolve the inconsistency.

104. (*d*) Discuss the matter with management, re-evaluate integrity, and take appropriate actions.

105. (*b*) When the auditor concludes that there is sufficient doubt about the integrity of management.

106. (*d*) Persons or organizations with responsibility for overseeing the strategic direction and accountability of the entity.

107. (*b*) To maintain auditor independence and objectivity.

108. (*c*) To assist the auditor in understanding the entity and obtaining relevant audit evidence.

109. (*c*) It covers communication with those charged with governance in an audit of financial statements.

110. (*c*) To promote effective two-way communication between the auditor and those charged with governance.

111. (*d*) The governing body, such as a board of directors.

112. (*c*) Matters such as the planned scope and timing of the audit, significant findings, and circumstances affecting the auditor's report.

113. (*d*) Total fees charged during the period for audit and non-audit services and related safeguards applied.

114. (*c*) When the auditor's professional judgment deems oral communication insufficient.

115. (*d*) To evaluate its impact on the auditor's assessment of risks and ability to obtain sufficient appropriate audit evidence.

116. (*d*) To provide an overview and seek feedback on significant risks identified.

117. (*c*) To communicate appropriately to those charged with governance and management identified deficiencies in internal control.

118. (*d*) When a control is designed, implemented, or operated in a way that is unable to prevent, or detect and correct, misstatements on a timely basis.

119. (*d*) A deficiency or combination of deficiencies that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

120. (*d*) Deficiencies that the auditor has identified and that, in the auditor's professional judgment, are of sufficient importance to merit attention.

121. (*c*) When the auditor's professional judgment deems oral communication inadequate.

122. (*c*) The likelihood of a misstatement occurring, potential magnitude, and other factors.

123. (*b*) Absence of a risk assessment process.

124. (*a*) Absence of a risk assessment process.

125. (*c*) To identify deficiencies in internal control during the risk assessment process.

126. (*b*) The likelihood of the deficiencies leading to material misstatements in the financial statements, among other factors.

127. (*c*) Determine whether, individually or in combination, they constitute significant deficiencies.

128. (*b*) In writing to both those charged with governance and management on a timely basis.

129. (*b*) A description of the deficiencies and an explanation of their potential effects.

130. (*d*) Deficiencies that the auditor has communicated or intends to communicate to those charged with governance.

131. (*c*) A description of the deficiencies and an explanation of their potential effects.

132. (*c*) To clarify that the purpose of the audit was not to express an opinion on the effectiveness of internal control.

133. (*b*) That the audit only considered internal control relevant to financial statements.

134. (*c*) Communicate it to management and those charged with governance.

135. (*c*) To identify and communicate deficiencies in internal control during the audit.

136. (*b*) The likelihood of the deficiencies leading to material misstatements, among other factors.

8 CHAPTER

Audit Report

MULTIPLE CHOICE QUESTIONS

1. What is the primary purpose of an audit report?

(*a*) To provide a detailed analysis of financial statements
(*b*) To express an opinion on the financial statements
(*c*) To highlight insignificant matters for transparency
(*d*) To ensure compliance with tax regulations

2. According to SA 700 (Revised), what is the primary responsibility of the auditor in the auditor's report?

(*a*) To provide assurance on the future prospects of the audited entity
(*b*) To confirm the accuracy of individual transactions
(*c*) To express an opinion on the financial statements
(*d*) To guarantee future financial performance

3. In an auditor's report, what is the purpose of the introductory paragraph?

(*a*) To describe the auditor's responsibility
(*b*) To communicate the auditor's opinion
(*c*) To highlight key audit matters
(*d*) To disclose material misstatements

4. Under SA 700 (Revised), which section of the auditor's report includes a statement about the auditor's independence?

(*a*) Introductory paragraph
(*b*) Opinion paragraph
(*c*) Basis for Opinion paragraph
(*d*) Emphasis of Matter paragraph

5. What does the auditor's opinion in the auditor's report represent?

(*a*) A conclusion regarding the overall fairness of the financial statements
(*b*) A guarantee of the accuracy of individual transactions
(*c*) An assessment of the entity's market value
(*d*) An opinion on the entity's future prospects

6. In the opinion paragraph, what term does the auditor use to express that the financial statements are free from material misstatements?
   (*a*) True and fair view
   (*b*) Unqualified opinion
   (*c*) Adverse opinion
   (*d*) Disclaimer of opinion

7. What is the purpose of the "Emphasis of Matter" paragraph in an auditor's report?
   (*a*) To highlight insignificant matters for transparency
   (*b*) To express a qualified opinion on the financial statements
   (*c*) To emphasize matters that are of fundamental importance
   (*d*) To provide additional information to the entity's competitors

8. In the "Basis for Opinion" paragraph, what does the auditor provide insights into?
   (*a*) The entity's marketing strategy
   (*b*) The auditor's independence
   (*c*) The audit procedures performed and evidence obtained
   (*d*) The entity's future financial performance

9. When does an auditor include an "Other Matter" paragraph in the auditor's report?
   (*a*) To express a qualified opinion on the financial statements
   (*b*) To provide assurance on the entity's future financial performance
   (*c*) To communicate additional information that is relevant to users
   (*d*) To confirm compliance with tax regulations

10. What is the purpose of the "Key Audit Matters" (KAM) section in the auditor's report?
   (*a*) To highlight insignificant matters for transparency
   (*b*) To communicate matters that, in the auditor's professional judgment, were of most significance in the audit
   (*c*) To provide a detailed analysis of financial statements
   (*d*) To express an opinion on the entity's future prospects

11. In the auditor's report, what is the auditor required to evaluate regarding the entity's ability to continue as a going concern?
   (*a*) The entity's past profitability
   (*b*) The entity's compliance with tax regulations
   (*c*) The appropriateness of management's use of the going concern assumption
   (*d*) The entity's market share

12. What does the auditor's report include in relation to the auditor's responsibilities for the financial statements?
   (*a*) A detailed analysis of the auditor's fees
   (*b*) A comprehensive review of the entity's internal controls
   (*c*) A statement about the auditor's independence
   (*d*) A description of the audit procedures performed and evidence obtained

13. What is the significance of the "Opinion on Other Matters" section in an auditor's report?
    (*a*) It provides an opinion on the entity's future prospects
    (*b*) It expresses an opinion on the accuracy of individual transactions
    (*c*) It communicates the auditor's opinion on matters outside the financial statements
    (*d*) It highlights insignificant matters for transparency

14. Under the "Emphasis of Matter" paragraph, what does the auditor typically communicate?
    (*a*) Matters that are of fundamental importance
    (*b*) Insignificant matters for transparency
    (*c*) A qualified opinion on the financial statements
    (*d*) The auditor's independence

15. What is the purpose of the "Other Matter" paragraph in an auditor's report?
    (*a*) To express a qualified opinion on the financial statements
    (*b*) To highlight insignificant matters for transparency
    (*c*) To communicate additional information that is relevant to users
    (*d*) To provide assurance on the entity's future financial performance

16. What does the "Key Audit Matters" (KAM) section aim to enhance in the auditor's report?
    (*a*) The auditor's independence
    (*b*) The communicative value of the auditor's report
    (*c*) The entity's market value
    (*d*) The significance of insignificant matters

17. In the opinion paragraph, what term is used when the auditor concludes that the financial statements are not presented fairly?
    (*a*) Unqualified opinion (*b*) Disclaimer of opinion
    (*c*) Adverse opinion (*d*) Qualified opinion

18. What is the primary focus of the "Basis for Opinion" paragraph in an auditor's report?
    (*a*) Confirming the accuracy of individual transactions
    (*b*) Providing a detailed analysis of financial statements
    (*c*) Describing the auditor's responsibility
    (*d*) Explaining the auditor's opinion on other matters

19. Under SA 700 (Revised), what is the overarching objective of the auditor's communication of key audit matters (KAM)?
    (*a*) To minimize the importance of significant audit findings
    (*b*) To express an opinion on the entity's future prospects
    (*c*) To enhance the communicative value of the auditor's report
    (*d*) To guarantee future financial performance

20. What is the significance of the "Key Audit Matters" (KAM) section in the context of transparency in financial reporting?

(*a*) It highlights insignificant matters

(*b*) It communicates matters that were of least significance in the audit

(*c*) It provides additional information to the entity's competitors

(*d*) It provides insights into matters that were of most significance in the audit

21. What is the primary purpose of including an "Emphasis of Matter" paragraph in the auditor's report?

(*a*) To highlight insignificant matters

(*b*) To express a qualified opinion on the financial statements

(*c*) To draw attention to matters that are appropriately presented or disclosed

(*d*) To guarantee future financial performance

22. When would an auditor include an "Emphasis of Matter" paragraph in the auditor's report?

(*a*) To express an opinion on the financial statements

(*b*) To communicate key audit matters

(*c*) To highlight significant uncertainties or events

(*d*) When the financial statements are presented fairly

23. What distinguishes an "Emphasis of Matter" paragraph from a "Qualified Opinion" in the auditor's report?

(*a*) It expresses a more severe level of concern

(*b*) It draws attention to specific matters but does not affect the auditor's opinion

(*c*) It indicates a limitation in the scope of the audit

(*d*) It provides additional information on the entity's future business plans

24. Which of the following statements regarding the "Emphasis of Matter" paragraph is correct?

(*a*) It guarantees the accuracy of individual transactions

(*b*) It expresses an adverse opinion on the financial statements

(c) It draws attention to fundamental matters and affects the auditor's opinion

(*d*) It is optional and rarely included in auditor's reports

25. In the "Emphasis of Matter" paragraph, what language does the auditor typically use to communicate the identified matter?

(*a*) Strongly recommend corrective action

(*b*) Express certainty about the matter's impact

(*c*) Use neutral and factual language

(*d*) Provide a detailed analysis of the matter

26. What impact does an "Emphasis of Matter" paragraph have on the overall audit opinion?

(*a*) It always leads to a qualified opinion

(*b*) It automatically results in an adverse opinion

(*c*) It does not affect the auditor's opinion on the financial statements
(*d*) It requires the auditor to express an unmodified opinion

27. What type of information might be included in an "Emphasis of Matter" paragraph?
(*a*) Routine and insignificant matters
(*b*) Matters that have been adequately disclosed in the financial statements
(*c*) Matters that significantly affect the auditor's opinion
(*d*) Details of the auditor's independence

28. How does an "Emphasis of Matter" paragraph contribute to transparency in financial reporting?
(*a*) By highlighting insignificant matters
(*b*) By expressing a guarantee of future financial performance
(*c*) By drawing attention to fundamental matters that may be overlooked
(*d*) By minimizing the importance of significant audit findings

29. Under what circumstances would an auditor choose to include an "Emphasis of Matter" paragraph?
(*a*) To express an unmodified opinion
(*b*) To highlight the entity's marketing strategy
(*c*) To draw attention to a significant uncertainty or event
(*d*) When the financial statements are presented fairly

30. What is the primary objective of an audit of financial statements?
(*a*) Guaranteeing the accuracy of financial statements
(*b*) Expressing an opinion on the financial statements' fairness
(*c*) Ensuring compliance with tax regulations
(*d*) Maximizing the entity's profitability

31. Under Indian auditing standards, what term is commonly used to describe the auditor's responsibility to obtain reasonable assurance about whether the financial statements are free from material misstatements?
(*a*) Absolute assurance
(*b*) Limited assurance
(*c*) Reasonable assurance
(*d*) Guaranteed assurance

32. What is the significance of the auditor's responsibility to assess the entity's ability to continue as a going concern?
(*a*) Determining the entity's past profitability
(*b*) Confirming the accuracy of individual transactions
(*c*) Assessing the appropriateness of the going concern assumption
(*d*) Evaluating the entity's marketing strategy

33. Which statement is correct regarding the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements?
(*a*) The auditor is only responsible for assessing risks related to fraud.
(*b*) The auditor assesses risks solely based on historical financial performance.

(*c*) The auditor is responsible for identifying and assessing both fraud and error risks.
(*d*) The auditor is not required to consider risks associated with internal controls.

34. What is the auditor's responsibility regarding the selection and application of accounting policies by management?
(*a*) Recommending specific accounting policies to management
(*b*) Confirming the accuracy of accounting policies chosen by management
(*c*) Assessing the appropriateness of accounting policies selected by management
(*d*) Prescribing accounting policies to be used by the entity

35. According to Indian auditing standards, what does the auditor communicate to those charged with governance regarding significant deficiencies in internal control?
(*a*) A detailed analysis of internal control weaknesses
(*b*) An express guarantee of future improvements in internal control
(*c*) Significant deficiencies do not require communication to those charged with governance.
(*d*) Information about the nature and implications of significant deficiencies

36. What is the auditor's responsibility regarding the detection of fraud during an audit of financial statements?
(*a*) The auditor is not responsible for detecting fraud; it is solely the management's responsibility.
(*b*) The auditor is responsible for detecting all instances of fraud, regardless of materiality.
(*c*) The auditor is responsible for obtaining reasonable assurance about the absence of fraud that is material to the financial statements.
(*d*) The auditor is responsible for guaranteeing the absence of fraud in the financial statements.

37. As per Indian auditing standards, what is the auditor's responsibility when the financial statements are prepared using an accounting framework that is not widely recognized?
(*a*) The auditor must insist on the use of a recognized accounting framework.
(*b*) The auditor should disclaim an opinion on the financial statements.
(*c*) The auditor must refuse to perform the audit.
(*d*) The auditor can proceed with the audit without any modification.

38. Regarding the auditor's responsibility to maintain professional skepticism, which statement is correct?
(*a*) Professional skepticism is not required in the audit process.
(*b*) Professional skepticism is only necessary when dealing with large organizations.
(*c*) The auditor must maintain professional skepticism throughout the audit, considering the possibility of material misstatements.
(*d*) Professional skepticism is only relevant when assessing internal control.

39. What does the auditor communicate when there is a material inconsistency between the auditor's opinion and other information in documents containing the audited financial statements?
(*a*) The auditor has no responsibility for other information.
(*b*) The auditor disclaims an opinion on the financial statements.

(*c*) The auditor includes an explanatory paragraph in the report.
(*d*) The auditor revises the opinion to align with other information.

40. In a group audit engagement, which statement accurately describes the responsibilities of the component auditors?
(*a*) Component auditors are solely responsible for forming an opinion on the group financial statements.
(*b*) Component auditors are responsible for the entire group audit, including consolidation.
(*c*) Component auditors are responsible for the audit of individual components only.
(*d*) Component auditors are responsible for ensuring compliance with tax regulations.

41. What is the primary responsibility of the group engagement partner in a group audit engagement as per SA 600?
(*a*) To perform the audit procedures for all components.
(*b*) To supervise and review the work of the component auditors.
(*c*) To prepare the group financial statements.
(*d*) To issue an unmodified opinion on the group financial statements.

42. According to SA 600, what should the group engagement partner do if a component auditor's work is not up to the required standard?
(*a*) Accept the component auditor's work to maintain professional courtesy.
(*b*) Amend the component auditor's work without informing them.
(*c*) Evaluate the impact on the group audit and consider the need for additional procedures or using the work of another auditor.
(*d*) Disregard the component auditor's work and perform the entire audit independently.

43. What does SA 600 emphasize regarding the group engagement team's understanding of the component auditors?
(*a*) The group engagement team is not required to have an understanding of the component auditors.
(*b*) The group engagement team should have a detailed understanding of the component auditors' professional qualifications.
(*c*) The group engagement team should obtain an understanding of the methods used by component auditors and the significance of their findings.
(*d*) The group engagement team is responsible for all aspects of the component auditors' work.

44. What is the significance of the group engagement partner's review of the component auditor's report as per SA 600?
(*a*) To criticize the component auditor's approach.
(*b*) To ensure that the component auditor's report is identical to the group engagement partner's report.
(*c*) To evaluate the appropriateness of the component auditor's report in the context of the group audit.
(*d*) To issue a separate opinion on the component auditor's work.

45. According to SA 600, in a group audit engagement, when should the group engagement partner communicate significant matters to those charged with governance?

(*a*) Only if the matters relate to the group engagement partner's work.

(*b*) Only if the matters are related to individual components.

(*c*) Only if the matters are significant in the context of the group audit.

(*d*) Regardless of whether the matters are significant in the context of the group audit.

46. What is the role of the group engagement partner in assessing the objectivity and competence of the component auditor?

(*a*) The group engagement partner is not responsible for assessing the objectivity and competence of the component auditor.

(*b*) The group engagement partner should rely on the representation letter from the component auditor.

(*c*) The group engagement partner should perform an independent assessment of the objectivity and competence of the component auditor.

(*d*) The assessment of the component auditor's objectivity and competence is the sole responsibility of the entity's management.

47. What is the purpose of the group engagement partner's communication with the component auditor regarding the terms of the engagement?

(*a*) To dictate the terms of the engagement to the component auditor.

(*b*) To confirm that the component auditor's fees are reasonable.

(*c*) To ensure that the component auditor is aware of the scope and objectives of the group audit.

(*d*) To delegate all responsibilities to the component auditor.

48. In a group audit engagement, what does the group engagement partner do if the component auditor is unwilling to allow access to relevant information?

(*a*) Accept the limitation in accessing information without taking further action.

(*b*) Consult legal counsel to take legal action against the component auditor.

(*c*) Disregard the work of the component auditor entirely.

(*d*) Assess the impact on the group audit and consider modifying the audit opinion.

49. What responsibility does the group engagement partner have regarding the documentation of the group audit engagement?

(*a*) The group engagement partner is solely responsible for documenting the entire group audit.

(*b*) The group engagement partner is not required to maintain any documentation.

(*c*) The group engagement partner is responsible for documenting the work performed, significant matters, and conclusions reached.

(*d*) The group engagement partner delegates the documentation responsibility to the component auditors.

50. What is the primary objective of SA 560 regarding events and transactions after the date of the auditor's report?

(*a*) To require the auditor to predict future events.

(*b*) To ensure that the auditor's report remains accurate and relevant after the report date.

(*c*) To mandate a complete re-audit of the financial statements.
(*d*) To assess the entity's future business plans.

51. Under SA 560, what is the auditor's responsibility for subsequent events after the date of the auditor's report?
(*a*) The auditor has no responsibility for subsequent events.
(*b*) The auditor is required to predict the impact of subsequent events on the financial statements.
(*c*) The auditor should perform procedures to identify events that may require adjustment of or disclosure in the financial statements.
(*d*) The auditor is responsible for preparing updated financial statements.

52. When performing procedures for subsequent events, what is the auditor primarily concerned with according to SA 560?
(*a*) Predicting future economic conditions.
(*b*) Identifying events that may impact the auditor's reputation.
(*c*) Evaluating the impact on the auditor's fees.
(*d*) Discovering events that may affect the financial statements.

53. According to SA 560, what is the distinction between Type 1 and Type 2 subsequent events?
(*a*) Type 1 events are more significant than Type 2 events.
(*b*) Type 1 events occurred before the report date, while Type 2 events occurred after the report date.
(*c*) Type 1 events are predictable, while Type 2 events are unforeseeable.
(*d*) Type 1 events require disclosure, while Type 2 events may require adjustment.

54. Under SA 560, what action should the auditor take if a Type 2 subsequent event is identified that requires adjustment to the financial statements?
(*a*) Issue a revised auditor's report with a new opinion.
(*b*) Prepare a separate report specifically addressing the subsequent event.
(*c*) Communicate the matter to those charged with governance and adjust the financial statements.
(*d*) Ignore the subsequent event if it is not material.

55. What is the auditor's responsibility if a subsequent event is identified after the date of the auditor's report, but before the financial statements are issued?
(*a*) Ignore the subsequent event as it is beyond the auditor's reporting period.
(*b*) Communicate the event to those charged with governance and consider the need for an adjustment to the financial statements.
(*c*) Include the subsequent event in the next year's financial statements.
(*d*) Revise the auditor's report for the prior year.

56. What is the purpose of the auditor's dual date in the auditor's report as per SA 560?
(*a*) To indicate the auditor's birthday.
(*b*) To emphasize the significance of subsequent events.

(*c*) To address events occurring after the report date but before the financial statements are issued.

(*d*) To provide two separate opinions on the financial statements.

57. How does SA 560 guide the auditor when a subsequent event is identified after the financial statements are issued?

(*a*) The auditor is not required to take any action as the report has already been issued.

(*b*) The auditor should immediately issue a revised report with the updated information.

(*c*) The auditor should consider the need to inform the regulatory authorities.

(*d*) The auditor should assess the impact and communicate as necessary.

58. In a subsequent event, what is the auditor's primary concern regarding management representations made after the date of the auditor's report?

(*a*) Management's attempts to manipulate financial results.

(*b*) Confirming that management does not alter the financial statements.

(*c*) Assessing the accuracy of management's future predictions.

(*d*) The appropriateness of management's actions in response to the event.

59. What is the significance of a "Type 2" subsequent event that is not adequately disclosed in the financial statements as per SA 560?

(*a*) It is acceptable as long as it is not material.

(*b*) It requires the auditor to issue an adverse opinion.

(*c*) It may indicate a limitation in the scope of the audit.

(*d*) It suggests a violation of ethical standards by the auditor.

60. In India, which regulatory body prescribes the format and content of the auditor's report for companies listed on stock exchanges?

(*a*) Securities and Exchange Board of India (SEBI)

(*b*) Institute of Chartered Accountants of India (ICAI)

(*c*) Ministry of Corporate Affairs (MCA)

(*d*) Reserve Bank of India (RBI)

61. As per the Companies Act in India, what is the primary purpose of the auditor's report?

(*a*) To express an opinion on the effectiveness of internal controls

(*b*) To communicate additional information for transparency

(*c*) To provide assurance on the entity's future financial performance

(*d*) To express an opinion on the true and fair view of the financial statements

62. Under Indian law, which section of the Companies Act mandates the requirements for the auditor's report?

(*a*) Section 143 (*b*) Section 129

(*c*) Section 211 (*d*) Section 184

63. What information must be included in the auditor's report for a company in India, as required by the Companies Act?
(*a*) Detailed analysis of the entity's marketing strategy
(*b*) Management's explanation for any qualification or adverse remark
(*c*) Auditor's recommendations for improving profitability
(*d*) Forecasts of the entity's future financial performance

64. In India, if the auditor disagrees with a fundamental accounting principle adopted by the company, what action should be taken in the auditor's report?
(*a*) The auditor should express a disclaimer of opinion.
(*b*) The auditor should communicate the disagreement in an explanatory paragraph.
(*c*) The auditor should modify the opinion to express disagreement.
(*d*) The auditor is not allowed to disagree with accounting principles.

65. What is the primary purpose of the "Basis for Opinion" paragraph in the auditor's report?
(*a*) To provide detailed financial analysis
(*b*) To highlight insignificant matters for transparency
(*c*) To express the auditor's opinion on the financial statements
(*d*) To explain the auditor's responsibility and the scope of the audit

66. In the "Basis for Opinion" paragraph, what does the auditor typically address regarding the financial statements?
(*a*) The entity's future business plans
(*b*) The significance of insignificant matters
(*c*) The auditor's independence
(*d*) The auditor's responsibility for expressing an opinion

67. According to auditing standards, what does the "Basis for Opinion" paragraph confirm about the financial statements?
(*a*) That they are presented fairly, in all material respects
(*b*) That they guarantee future financial performance
(*c*) That they include all possible disclosures
(*d*) That they comply with tax regulations

68. If there is a limitation in the scope of the audit, how is it typically addressed in the "Basis for Opinion" paragraph?
(*a*) By expressing a disclaimer of opinion
(*b*) By stating the auditor's disagreement with management
(*c*) By emphasizing the auditor's independence
(*d*) By providing a detailed analysis of internal controls

69. What information might the "Basis for Opinion" paragraph include if there is a significant uncertainty about the entity's ability to continue as a going concern?

(*a*) A detailed analysis of internal controls

(*b*) An unmodified opinion on the financial statements

(*c*) An emphasis of matter paragraph

(*d*) A guarantee of future financial performance

70. If a Key Audit Matter involves a significant risk, what information should be included in the description in the auditor's report?

(*a*) A guarantee that the risk will not materialize

(*b*) A detailed analysis of internal controls to mitigate the risk

(*c*) The specific risk identified, how it was addressed in the audit, and the auditor's response

(*d*) An emphasis of matter paragraph addressing the risk

71. How does the inclusion of Key Audit Matters in the auditor's report enhance transparency in financial reporting?

(*a*) By highlighting insignificant matters

(*b*) By communicating matters that were least significant in the audit

(*c*) By providing insights into matters that were of most significance in the audit

(*d*) By guaranteeing the entity's future financial performance

72. Which entity is primarily responsible for the preparation of standalone financial statements?

(*a*) External Auditors

(*b*) Regulatory Authorities

(*c*) Board of Directors

(*d*) Shareholders

73. What specific responsibilities of the Board of Directors are mentioned in section 134(5) of the Companies Act, 2013?

(*a*) Compliance with tax regulations

(*b*) Preparation of financial statements that present a true and fair view

(*c*) Maximizing shareholder dividends

(*d*) Prediction of future financial performance

74. According to the statement, what is the objective of the standalone financial statements prepared by the Board of Directors?

(*a*) Guaranteeing future financial performance

(*b*) Maximizing the entity's profitability

(*c*) Presenting a true and fair view of financial position, performance, and cash flows

(*d*) Achieving compliance with international accounting standards

75. In accordance with the statement, what accounting principles should be followed for the preparation of financial statements?

(*a*) Principles specified by external auditors

(*b*) Principles adopted by the industry competitors

(*c*) Accounting principles generally accepted in India
(*d*) Principles determined by the government

76. Which section of the Companies Act, 2013, specifies the accounting standards that should be followed in the preparation of financial statements?
(*a*) Section 132
(*b*) Section 134(5)
(*c*) Section 133
(*d*) Section 135

77. What components of the company's financial position are mentioned in the statement?
(*a*) Financial performance and changes in equity
(*b*) Financial position and changes in equity
(*c*) Financial position and cash flows
(*d*) Financial performance and cash flows

78. According to the statement, what is the responsibility of the Board of Directors regarding the true and fair view of financial statements?
(*a*) To manipulate financial data for a positive outlook
(*b*) To present a true and fair view without considering changes in equity
(*c*) To ensure the true and fair view of financial position, performance, and cash flows
(*d*) To delegate the responsibility to external auditors

79. What regulatory act governs the mentioned responsibilities of the Board of Directors in the statement?
(*a*) Companies Act, 1956
(*b*) Income Tax Act, 1961
(*c*) Goods and Services Tax (GST) Act
(*d*) Companies Act, 2013

80. In the statement, what is the significance of the phrase "including the accounting Standards specified under section 133 of the Act"?
(*a*) It emphasizes the exclusion of accounting standards.
(*b*) It highlights the application of specific accounting standards mandated by the Act.
(*c*) It suggests flexibility in choosing any accounting standards.
(*d*) It implies that accounting standards are irrelevant.

81. Which of the following is NOT mentioned as a component of the standalone financial statements in the statement?
(*a*) Financial position
(*b*) Financial performance
(*c*) Changes in equity
(*d*) Market share analysis

82. According to Paragraph 40(b) of the SA mentioned, where can the appropriate reference be made within the body of the auditor's report, referring to additional information, be located?
(*a*) In the auditor's opinion
(*b*) In the auditor's report appendix
(*c*) On the entity's website
(*d*) In the financial statements

83. As per the information provided, why is the risk of not detecting a material misstatement resulting from fraud considered higher than that resulting from error?

(*a*) Fraud typically involves complex financial transactions.

(*b*) Fraud may involve intentional actions and deception.

(*c*) Error is easier to detect through routine audit procedures.

(*d*) Error usually requires collusion among employees.

84. In accordance with the statement, when can a reference be made to a website for the description of the auditor's responsibilities instead of including it in the auditor's report?

(*a*) When the website contains irrelevant information

(*b*) When the auditor prefers online disclosure

(*c*) When permitted by law, regulation, or auditing standards, and the website's description is consistent with the material in the report

(*d*) Only if the entity explicitly requests it

85. In accordance with section 143(3)(i) of the Companies Act, 2013, what is the auditor's responsibility regarding internal financial controls?

(*a*) Providing consulting services for the development of internal controls

(*b*) Ensuring the implementation of internal controls after the audit

(*c*) Expressing an opinion on the adequacy and operating effectiveness of the company's internal financial controls

(*d*) Delegating internal control assessments to management

86. What is the primary purpose of evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates during the audit?

(*a*) To challenge and contradict management's decisions

(*b*) To identify errors in financial statements

(*c*) To ensure compliance with tax regulations

(*d*) To form a basis for expressing an opinion on the financial statements

87. As part of the audit, when evaluating the appropriateness of management's use of the going concern basis of accounting, what is the auditor primarily concerned with?

(*a*) Predicting future economic conditions

(*b*) Confirming that management does not manipulate financial results

(*c*) Assessing the entity's profitability

(*d*) Determining whether events or conditions may cast significant doubt on the company's ability to continue as a going concern

88. According to the information provided, when is the auditor required to draw attention to a material uncertainty related to going concern in the auditor's report?

(*a*) If the uncertainty is disclosed adequately by management

(*b*) If the auditor anticipates future uncertainties

(*c*) If the uncertainty is related to routine business operations

(*d*) If the auditor concludes that a material uncertainty exists and is inadequately disclosed by management

89. How does the information provided acknowledge the potential impact of future events on the auditor's conclusions regarding going concern?

(*a*) By suggesting that the auditor's opinion is final and not subject to change

(*b*) By emphasizing that future events cannot impact the going concern assessment

(*c*) By stating that conclusions are based on evidence up to the date of the auditor's report, but future events may cause the company to cease as a going concern

(*d*) By indicating that the auditor's conclusions are solely based on management's representations

90. What is the primary consideration for determining whether to describe matters as key audit matters (KAMs) in the auditor's report, as per the information provided?

(*a*) The complexity of the financial statements

(*b*) The significance of the matters in the audit

(*c*) The preferences of those charged with governance

(*d*) The auditor's personal judgment and preference

91. As per the Companies (Auditor's Report) Order, 2020, what is the primary purpose of the Annexure to the auditor's report?

(*a*) Provide additional financial information

(*b*) Explain the audit procedures in detail

(*c*) Present matters specified in paragraphs 3 and 4 of the Order, to the extent applicable

(*d*) Include a summary of the auditor's opinion

92. According to Section 143(3) of the Companies Act, 2013, what is the auditor's responsibility regarding seeking information and explanations from the company's management?

(*a*) Seek information only if the management requests it

(*b*) Seek information and explanations necessary for the audit

(*c*) Rely solely on information provided by the company's management

(*d*) Seek information only if there is a suspicion of fraud

93. What is the auditor's role concerning branch offices, as mentioned in the provided information?

(*a*) The auditor is not responsible for branch offices' reports.

(*b*) The auditor consolidates branch office reports independently.

(*c*) The auditor incorporates branch office reports received from branch auditors.

(*d*) The auditor relies on branch offices for financial information.

94. According to the information, what must be consistent for the auditor to conclude that the financial statements are in agreement with the books of account?

(*a*) Compliance with international accounting standards

(*b*) Consistency with branch office reports

(*c*) Consistency with the returns received from the branches not visited

(*d*) Compliance with tax regulations

95. What is the basis for concluding that the standalone financial statements comply with Accounting Standards, as per the information provided?

(*a*) Compliance with international accounting standards

(*b*) Compliance with local tax regulations

(*c*) Compliance with Accounting Standards specified under Section 133 of the Companies Act, 2013

(*d*) The auditor's personal judgment

96. In the context of director disqualification under Section 164(2) of the Act, what does the auditor rely on for information?

(*a*) Publicly available databases

(*b*) Written representations received from the directors

(*c*) The auditor's personal judgment

(*d*) The company's board meeting minutes

97. According to the information, what is the auditor's stance on the adequacy of internal financial controls over financial reporting?

(*a*) The auditor expresses an opinion in the main report.

(*b*) The auditor provides a separate report in "Annexure A."

(*c*) The auditor does not address internal financial controls.

(*d*) The auditor's opinion is solely based on management's representations.

98. Regarding long-term contracts, what does the auditor report in the auditor's report?

(*a*) Material foreseeable losses on long-term contracts

(*b*) Only the existence of long-term contracts

(*c*) The management's strategy on long-term contracts

(*d*) The auditor's opinion on the necessity of long-term contracts

99. In the context of funds advanced or loaned by the company, what does the auditor primarily assess?

(*a*) The profitability of the entities receiving funds

(*b*) Whether funds are invested in foreign entities

(*c*) The understanding with intermediaries and ultimate beneficiaries

(*d*) The amount of funds advanced compared to share premium

100. In the context of Standard on Auditing (Sa) 705, when would the auditor issue a modified opinion on the financial statements?

(*a*) Whenever there is a significant change in market conditions

(*b*) Only when fraud is detected during the audit

(*c*) When the auditor concludes, in accordance with SA 700 (Revised), that a modification to the opinion is necessary

(*d*) At the auditor's discretion to highlight minor discrepancies

101. Under what circumstances would the auditor express a qualified opinion on the financial statements, according to the provided information?

(*a*) When the misstatements are immaterial to the financial statements

(*b*) When the misstatements are pervasive, regardless of materiality

(*c*) When misstatements are material but not pervasive

(*d*) When there is a complete absence of misstatements

102. In which situation would the auditor be inclined to issue a qualified opinion based on the inability to obtain sufficient appropriate audit evidence?

(*a*) The auditor cannot obtain any audit evidence

(*b*) The possible effects of undetected misstatements are immaterial

(*c*) The possible effects of undetected misstatements could be material but not pervasive

(*d*) The misstatements are pervasive throughout the financial statements

103. In the context of misstatements, what does the term "pervasive" signify, according to the definition provided?

(*a*) Misstatements that are widespread and present in every financial statement element

(*b*) Misstatements that have a minimal impact on financial statements

(*c*) Misstatements that are confined to specific elements, accounts, or items

(*d*) Misstatements that only affect disclosures

104. According to the definition, when are the effects of misstatements considered pervasive in the auditor's judgment?

(*a*) Only when they represent a substantial proportion of the financial statements

(*b*) When they are confined to specific elements, accounts, or items

(*c*) When they have a minimal impact on disclosures

(*d*) When they are fundamental to users' understanding of the financial statements

105. Under what circumstances would the auditor disclaim an opinion, according to the information provided?

(*a*) When there are no uncertainties in the financial statements

(*b*) When uncertainties are pervasive but not material

(*c*) When the possible effects of undetected misstatements are both material and pervasive

(*d*) When uncertainties exist, but their effects are immaterial

106. In what situation would the auditor disclaim an opinion due to multiple uncertainties?

(*a*) When uncertainties are immaterial individually

(*b*) When uncertainties are related to routine business operations

(*c*) When uncertainties have a material and pervasive effect individually

(*d*) In extremely rare circumstances involving uncertainties that, despite being individually addressed, collectively prevent the formation of an opinion

107. According to the provided information, what is a key consideration for disclaiming an opinion due to multiple uncertainties?

(*a*) The likelihood of uncertainties occurring

(*b*) The materiality of each individual uncertainty

(*c*) The auditor's preference for a clean opinion

(*d*) The potential interaction of uncertainties and their possible cumulative effect on the financial statements

108. When determining the appropriate type of modified opinion, what factors does the auditor consider, according to the information provided?

(*a*) The complexity of the financial statements

(*b*) The auditor's personal preferences

(*c*) The nature of the matter giving rise to the modification and the auditor's judgment about the pervasiveness of the effects

(*d*) The extent of public interest in the financial statements

109. What action should the auditor take if, after accepting the engagement, management imposes a limitation on the scope of the audit that is likely to result in the need for a qualified or disclaimer opinion?

(*a*) Accept the limitation and proceed with the audit as planned

(*b*) Request that management removes the limitation and proceed with the audit

(*c*) Disqualify the opinion immediately without further investigation

(*d*) Consult legal counsel before taking any action

110. If management refuses to remove a limitation on the scope of the audit, what is the auditor's next course of action?

(*a*) Immediately issue a qualified opinion on the financial statements

(*b*) Communicate the matter to those charged with governance and proceed with the audit

(*c*) Withdraw from the audit, if possible, or disclaim an opinion if withdrawal is not practicable

(*d*) Ignore the limitation and express an unmodified opinion

111. What action should the auditor take if, after withdrawal from the audit, misstatements are identified that would have led to a modification of the opinion?

(*a*) Disclose the misstatements only in the communication to those charged with governance

(*b*) Include the misstatements in the withdrawal communication to those charged with governance

(*c*) Proceed to issue a qualified opinion based on the identified misstatements

(*d*) Ignore the misstatements as they are no longer the auditor's concern

112. When withdrawing from the audit is not practicable or possible, and the auditor concludes that possible effects of undetected misstatements could be both material and pervasive, what action should the auditor take?

(*a*) Proceed to issue a qualified opinion to communicate the gravity of the situation

(*b*) Disclaim an opinion on the financial statements

(*c*) Seek legal advice before making a decision
(*d*) Ignore the limitation and issue an unmodified opinion

113. In the context of withdrawing from the audit, what is the auditor's primary consideration according to the information provided?
(*a*) The convenience of withdrawal for the auditor
(*b*) The gravity of the situation and the inability to communicate it adequately through a qualified opinion
(*c*) The availability of alternative audit procedures
(*d*) The potential legal consequences of withdrawal

114. What is the auditor's responsibility regarding the inclusion of the financial effects of a material misstatement in the Basis for Opinion section?
(*a*) Include the effects only if they are immaterial
(*b*) Quantify the effects unless prohibited by law
(*c*) Quantify the effects unless impracticable
(*d*) Describe the effects in a separate communication to those charged with governance

115. When there is a material misstatement related to narrative disclosures, what is the auditor required to include in the Basis for Opinion section?
(*a*) Quantification of the misstatement
(*b*) An explanation of how the disclosures are misstated
(*c*) Omitted disclosures
(*d*) Any non-material misstatements

116. In the case of non-disclosure of information required to be disclosed, what action should the auditor take, provided it is practicable?
(*a*) Omit the information without disclosure
(*b*) Discuss the non-disclosure with those charged with governance
(*c*) Include the omitted disclosures regardless of practicability
(*d*) Quantify the omitted information in a separate communication

117. When expressing a qualified or adverse opinion, what amendment is required in the statement about the sufficiency and appropriateness of audit evidence, as per SA 700 (Revised)?
(*a*) Include the word "modified"
(*b*) Include the word "qualified" or "adverse," as appropriate
(*c*) Omit the statement about audit evidence
(*d*) Use a disclaimer instead of an opinion

118. What elements are excluded from the auditor's report when disclaiming an opinion on the financial statements, as per SA 700 (Revised)?
(*a*) A reference to the section of the auditor's report describing responsibilities and a statement about audit evidence
(*b*) A description of the reasons for other matters requiring modification

(*c*) Inclusion of the word "disclaimer"
(*d*) A summary of financial misstatements

119. When disclaiming an opinion due to an inability to obtain sufficient appropriate audit evidence, what amendment is required in the description of the auditor's responsibilities according to SA 700 (Revised)?
(*a*) Include a detailed explanation of the audit procedures conducted
(*b*) Retain the original description without any amendments
(*c*) Include only a statement about the auditor's responsibility to conduct an audit and issue a report
(*d*) Include a summary of financial misstatements

120. What specific information is required to be included in the amended description of the auditor's responsibilities when disclaiming an opinion?
(*a*) Details of the entity's financial statements
(*b*) A summary of audit findings
(*c*) A statement about auditor independence and other ethical responsibilities
(*d*) A list of limitations encountered during the audit

121. When including an Emphasis of Matter paragraph in the auditor's report, what is a required action by the auditor, according to the provided information?
(*a*) Integrate the paragraph into the main body of the auditor's report
(*b*) Include the paragraph within a separate section with an appropriate heading
(*c*) Provide a detailed analysis of the emphasized matter
(*d*) Modify the auditor's opinion in respect of the matter emphasized

122. What is an Emphasis of Matter paragraph not intended to substitute for, according to the provided information?
(*a*) A detailed analysis of financial misstatements
(*b*) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement
(*c*) An unmodified opinion in all audit engagements
(*d*) A comprehensive review of management's ethical responsibilities

123. In the context of an Emphasis of Matter paragraph, what is it not meant to replace in the auditor's report?
(*a*) Disclosures in the financial statements required by law
(*b*) Reporting in accordance with SA 570 (Revised) when a material uncertainty exists
(*c*) Auditor's responsibilities in evaluating internal controls
(*d*) The detailed analysis of financial ratios

124. Under what conditions is the inclusion of an Other Matter paragraph in the auditor's report permitted, according to the provided information?
(*a*) Prohibited by law or regulation
(*b*) When the matter has been determined to be a key audit matter

(*c*) Relevant to users' understanding of the audit, and not prohibited by law or regulation
(*d*) Irrelevant to users' understanding of the audit

125. What is a required action when including an Other Matter paragraph in the auditor's report, according to the provided information?
(*a*) Integrate the paragraph into the main body of the auditor's report
(*b*) Exclude the paragraph if SA 701 is applicable
(*c*) Include the paragraph without a separate section or heading
(*d*) Include the paragraph within a separate section with the heading "Other Matter" or other appropriate heading

126. What is the auditor required to do if there is an expectation to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, according to the provided information?
(*a*) Include the paragraph without any prior communication
(*b*) Consult legal counsel before communicating with those charged with governance
(*c*) Communicate with those charged with governance regarding the expectation and wording of the paragraph
(*d*) Include the paragraph only if those charged with governance request it

127. What does SA 710 primarily address in an audit of financial statements?
(*a*) Auditor's responsibilities for detecting fraud
(*b*) Auditor's reporting responsibilities for comparative information
(*c*) Procedures for testing internal controls
(*d*) Requirements for inventory valuation

128. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, which standard's requirements also apply according to SA 710?
(*a*) SA 560 - Subsequent Events
(*b*) SA 510 - Opening Balances
(*c*) SA 701 - Communicating Key Audit Matters
(*d*) SA 600 - Using the Work of Another Auditor

129. What is the key difference in the auditor's reporting responsibilities between corresponding figures and comparative financial statements, as outlined in SA 710?
(*a*) The need for forensic audit procedures
(*b*) The inclusion of a Management Discussion and Analysis (MD&a) section
(*c*) The scope of the auditor's opinion, referring to the current period only for corresponding figures and to each period for comparative financial statements
(*d*) The application of analytical procedures

130. What is the auditor's responsibility regarding the inclusion of comparative information in the financial statements, according to SA 710?
(*a*) Verify the accuracy of the prior period information only
(*b*) Determine whether the comparative information is appropriately classified

(*c*) Evaluate the consistency of accounting policies and disclosure changes
(*d*) All of the above

131. In evaluating the comparative information, what does the auditor need to assess regarding accounting policies, as per SA 710?
(*a*) Ensure that accounting policies in the comparative information match exactly with the current period
(*b*) Verify that no changes in accounting policies have occurred
(*c*) Assess whether changes in accounting policies have been properly accounted for and disclosed
(*d*) Ignore changes in accounting policies as they are not relevant to the audit

132. If the auditor identifies a possible material misstatement in the comparative information during the current period audit, what action should the auditor take?
(*a*) Ignore the misstatement as it relates to the prior period
(*b*) Perform additional audit procedures to determine whether a material misstatement exists
(*c*) Wait until the next audit period to address the misstatement
(*d*) Report the misstatement without further investigation

133. According to SA 580, what does the auditor need to request for all periods referred to in the auditor's opinion?
(*a*) Additional financial statements
(*b*) Written representations
(*c*) Comparative financial statements
(*d*) Management discussion and analysis

134. What specific written representation is required regarding any prior period item separately disclosed in the current year's statement of profit and loss, as per SA 710?
(*a*) Confirmation of the prior period item's accuracy
(*b*) Assurance that no changes have occurred since the prior period
(*c*) An explanation of the reasons for the prior period item
(*d*) A specific written representation regarding the prior period item

135. In what circumstances should the auditor modify the opinion on the current period's financial statements when corresponding figures are presented, as per SA 710?
(*a*) Whenever there is an unresolved matter from the prior period
(*b*) Only if the prior period's opinion was qualified or modified
(*c*) If the corresponding figures are unaudited
(*d*) If a material misstatement exists in the prior period financial statements

136. What action should the auditor take if audit evidence reveals a material misstatement in the prior period financial statements, as per SA 710?
(*a*) Ignore the misstatement and issue an unmodified opinion
(*b*) Express a qualified or adverse opinion in the current period's report
(*c*) Issue a disclaimer of opinion
(*d*) Inform the predecessor auditor about the misstatement

137. What disclosure is required if the prior period financial statements were not audited, as per SA 710?

(*a*) Include an Emphasis of Matter paragraph

(*b*) State that the corresponding figures are unaudited in an Other Matter paragraph

(*c*) Modify the opinion to reflect the unaudited status

(*d*) Disclose the reasons for not auditing the prior period

138. If the financial statements of the prior period were audited by a predecessor auditor, what information should be disclosed in the auditor's report, according to SA 710?

(*a*) Only mention the predecessor auditor's name

(*b*) State that the prior period figures are reliable

(*c*) Disclose the type of opinion expressed by the predecessor auditor and the date of that report

(*d*) Provide a detailed analysis of the predecessor auditor's work

139. What should the auditor do if the matter giving rise to a modification in the prior period is unresolved, according to SA 710?

(*a*) Ignore the matter in the current period's report

(*b*) Modify the opinion without referring to the corresponding figures

(*c*) Refer to both the current period's figures and the corresponding figures in the description of the matter

(*d*) Request the predecessor auditor to resolve the matter

140. What is the auditor's responsibility when the prior period financial statements were not audited, according to SA 710?

(*a*) State in an Emphasis of Matter paragraph that the comparative financial statements are unaudited

(*b*) Include a modified opinion in the current period's report

(*c*) State in an Other Matter paragraph that the comparative financial statements are unaudited

(*d*) Disregard the unaudited status of the prior period financial statements

141. As per section 128(1) of the Companies Act, 2013, where can a company keep its books of account and relevant papers?

(*a*) Only at its registered office

(*b*) At any place in India decided by the Board of Directors

(*c*) Only at its branch office

(*d*) In electronic mode outside India

142. What is the requirement for a company with a branch office as per section 128(2) of the Companies Act, 2013?

(*a*) The branch office must keep separate books of account

(*b*) The branch office must send its books of account to the registered office

(*c*) Proper books of account at the branch and periodic summarized returns to the registered office

(*d*) The branch office must appoint a separate auditor

143. According to sub-section (8) of section 143 of the Companies Act, 2013, who can audit the accounts of a branch office situated in a country outside India?

(*a*) Only the company's auditor

(*b*) Only an accountant appointed by the branch office

(*c*) Either the company's auditor or an accountant

(*d*) The branch auditor appointed under section 139

144. What is the duty of the branch auditor as per sub-section (8) of section 143?

(*a*) Prepare a report and send it to the Registrar

(*b*) Prepare a report and send it to the company's auditor

(*c*) Submit the report directly to the shareholders

(*d*) File a separate audit report for the branch office

145. According to rule 12 of the Companies (Audit and Auditors) Rules, 2014, what is the branch auditor required to do in case of reporting fraud?

(*a*) Report directly to the shareholders

(*b*) Submit a report to the Registrar

(*c*) Report to the company's auditor

(*d*) Keep the information confidential

146. What does the term "Principal auditor" refer to, as defined in the given text?

(*a*) The main auditor responsible for the entire audit process

(*b*) The auditor appointed by the Board of Directors

(*c*) The auditor of the branch office

(*d*) The auditor with responsibility for reporting on the financial information of the entity

147. What is the primary advantage of joint audit in big companies and corporations, as mentioned in the passage?

(*a*) Increased workload for auditors

(*b*) Higher staff development costs

(*c*) Sharing of expertise and resources

(*d*) Increased fees for auditors

148. According to the passage, what is one of the general disadvantages of joint audit?

(*a*) Enhanced coordination of work

(*b*) Sharing of fees

(*c*) Increased workload

(*d*) Improved service to the client

149. Which standard issued by the Institute of Chartered Accountants of India provides principles for effective conduct of joint audit?

(*a*) SA 580 (Revised)

(*b*) SA 299 (Revised)

(*c*) SA 200 (Overall Objectives)

(*d*) SA 570 (Revised)

150. According to SA 299 (Revised), what is a responsibility of joint auditors in planning the audit?

(*a*) Develop individual audit strategies

(*b*) Discuss and develop a joint audit plan

(*c*) Work independently without coordination

(*d*) Share common engagement letters

151. When issuing a separate audit report due to disagreement, what does SA 299 (Revised) require joint auditors to do?

(*a*) Include only positive opinions

(*b*) Issue separate reports without reference to each other

(*c*) Reference each other's audit reports

(*d*) Communicate disagreement directly to the client

152. What is the primary duty of the auditor under Section 143(1) of the Companies Act, 2013?

(*a*) Confirming the company's profitability

(*b*) Ensuring all loans are repaid

(*c*) Inquiring into specific matters related to the company's financial transactions

(*d*) Verifying employee salaries

153. According to Section 143(2) of the Companies Act, 2013, what does the auditor have to report to the members of the company?

(*a*) Future financial projections

(*b*) Findings on financial transactions

(*c*) The impact of pending litigations

(*d*) Report on the accounts examined by the auditor

154. What is the auditor required to report under Section 143(3)(i) of the Companies Act, 2013?

(*a*) Confirmation of proper bookkeeping

(*b*) Proper returns from branches visited

(*c*) Seeking and obtaining necessary information for the audit

(*d*) Compliance with accounting standards

155. Which class of companies may be directed by the Central Government to include additional statements in the auditor's report under Section 143(11)?

(*a*) Private companies

(*b*) Public companies

(*c*) Listed companies

(*d*) Companies specified in the order

156. According to Section 143(12), if the auditor has reason to believe an offence of fraud involving ₹1 crore or above has been committed, to whom should the auditor report?

(*a*) Local Police

(*b*) Registrar of Companies

(*c*) Central Government

(*d*) Audit Committee

157. In case of fraud involving less than ₹1 crore, where should the auditor report the matter?

(*a*) Police Department

(*b*) Registrar of Companies

(*c*) Audit Committee or Board

(*d*) Ministry of Corporate Affairs

158. What is the auditor's responsibility regarding reporting on frauds as per Section 143(12)?

(*a*) Reporting only to the Central Government

(*b*) Reporting only to the Audit Committee

(*c*) Reporting to both the Central Government and Audit Committee

(*d*) Reporting to the Board

159. As per Section 143(3)(f), what does the auditor need to report regarding internal financial controls in a private company?

(*a*) Existence of internal financial controls
(*b*) Compliance with accounting standards
(*c*) Adequacy of internal financial controls
(*d*) Operating effectiveness of internal financial controls

160. Which rule specifies the matters to be included in the audit report under Section 143(3)(j) of the Companies Act, 2013?

(*a*) Rule 12 of the Companies (Audit and Auditors) Rules, 2014
(*b*) Rule 11 of the Companies (Audit and Auditors) Rules, 2014
(*c*) Rule 15 of the Companies (Audit and Auditors) Rules, 2014
(*d*) Rule 14 of the Companies (Audit and Auditors) Rules, 2014

161. What is the consequence if the auditor finds any of the matters required to be included in the audit report Answered negatively or with a qualification under Section 143(4)?

(*a*) The auditor has fulfilled their duty
(*b*) The auditor has to issue a separate opinion
(*c*) The auditor may ignore it
(*d*) No consequence

162. Under Section 143(3)(e), what does the auditor report on regarding financial statements?

(*a*) Existence of internal controls
(*b*) Compliance with accounting standards
(*c*) Observations on financial transactions
(*d*) Compliance with section 123 of the Companies Act, 2013

163. What does Section 143(3)(f) require the auditor to report regarding accounting software used by the company?

(*a*) The cost of the software
(*b*) The brand of the software
(*c*) Whether it has a feature of recording audit trail
(*d*) Whether it is cloud-based or on-premise

164. Under Section 143(3)(j)(a), what does the auditor report regarding pending litigations?

(*a*) Whether the company has disclosed the impact on its financial position
(*b*) Whether the company has won all litigations
(*c*) Whether the litigations are criminal or civil
(*d*) Whether the litigations are disclosed in the annual report

165. According to Section 143(3)(j)(b), what does the auditor report regarding provisions for foreseeable losses on long-term contracts?

(*a*) Whether the company has made any provisions
(*b*) Whether the company has won any contracts
(*c*) Whether the company has followed proper tendering procedures
(*d*) Whether the company has made provisions for material foreseeable losses

166. What is the auditor's responsibility regarding the reporting requirement on adequacy of internal financial controls for certain private companies?

(*a*) It is applicable to all private companies

(*b*) It is not applicable to any private company

(*c*) It is applicable only to private companies with a turnover of more than ₹ 50 crore

(*d*) It is applicable only to private companies with a turnover less than ₹ 50 crore

167. What is the primary legal basis for the Companies (Auditor's Report) Order, 2020?

(*a*) Section 2 of the Companies Act, 2013

(*b*) Section 143(11) of the Companies Act, 2013

(*c*) Section 5 of the Banking Regulation Act, 1949

(*d*) Section 8 of the Insurance Act, 1938

168. What does "supersession" in the passage imply?

(*a*) Amendment (*b*) Abolishment

(*c*) Replacement (*d*) Enactment

169. What document does the Companies (Auditor's Report) Order, 2020 replace?

(*a*) Companies Act, 2013 (*b*) Insurance Act, 1938

(*c*) Banking Regulation Act, 1949 (*d*) Companies (Auditor's Report) Order, 2016

170. When was the Companies (Auditor's Report) Order, 2016, published?

(*a*) 29th March, 2016 (*b*) 1st April, 2013

(*c*) 18th March, 2016 (*d*) 29th March, 2020

171. Who is consulted before making the Companies (Auditor's Report) Order, 2020?

(*a*) Reserve Bank of India (RBI)

(*b*) National Financial Reporting Authority (NFRA)

(*c*) Securities and Exchange Board of India (SEBI)

(*d*) Ministry of Corporate Affairs

172. What is the short title of the Companies (Auditor's Report) Order, 2020?

(*a*) Order 2020 (*b*) Auditor's Report Order, 2020

(*c*) Companies Act, 2013 (*d*) CARO 2020

173. To which companies does the Order NOT apply?

(*a*) Banking companies (*b*) Insurance companies

(*c*) One Person Companies (*d*) All of the above

174. What is the application of the Order based on?

(*a*) Revenue only (*b*) Paid-up capital only

(*c*) Both paid-up capital and revenue (*d*) Total borrowings only

175. Which section defines a One Person Company in the Companies Act, 2013?

(*a*) Section 2 (*b*) Section 8
(*c*) Section 62 (*d*) Section 85

176. What is the financial criterion for a private limited company to be exempted under the Order?

(*a*) Paid-up capital not more than one crore rupees
(*b*) Total borrowings not more than one crore rupees
(*c*) Total revenue not exceeding ten crore rupees
(*d*) All of the above

177. Under what circumstances does the Companies (Auditor's Report) Order, 2020 apply to a private limited company?

(*a*) If it is a subsidiary of a public company
(*b*) If it is a holding company of a public company
(*c*) If it has total borrowings exceeding one crore rupees
(*d*) If it has total revenue exceeding ten crore rupees

178. What is the relevance of Scheduled III to the Companies Act, 2013, in the context of the Order?

(*a*) It defines the short title of the Order (*b*) It outlines the reporting requirements
(*c*) It specifies the exclusion criteria (*d*) It provides the effective date

179. What does the passage mean by "except as respects things done or omitted to be done before such supersession"?

(*a*) The Order is effective retrospectively
(*b*) The Order is not applicable to past actions
(*c*) The 2016 Order is still in effect for past actions
(*d*) The 2020 Order only applies to future actions

180. What role does the National Financial Reporting Authority (NFRa) play in the context of the Order?

(*a*) Consultation authority (*b*) Regulatory body
(*c*) Advisory board (*d*) Enforcing agency

181. What is the significance of a company licensed to operate under section 8 of the Companies Act, in the context of the Order?

(*a*) It is exempt from the Order (*b*) It must comply with the Order
(*c*) It is subject to a separate order (*d*) It is regulated by the Reserve Bank of India

182. What term does the passage use to describe the Companies (Auditor's Report) Order, 2020?

(*a*) Amendment (*b*) Regulation
(*c*) Supersession (*d*) Implementation

183. Which clause of the Companies Act, 2013, defines a small company?

(*a*) Clause (42) of section 2 (*b*) Clause (85) of section 2
(*c*) Clause (62) of section 2 (*d*) Clause (c) of section 5

184. What is the purpose of mentioning "except as respects things done or omitted to be done before such supersession"?

(*a*) To emphasize the importance of the new Order

(*b*) To clarify that the 2016 Order still applies in some cases

(*c*) To indicate the retrospective nature of the Order

(*d*) To specify the effective date of the Order

185. What does the auditor's report under section 143 of the Companies Act need to contain for companies audited for financial years commencing on or after 1st April, 2019?

(*d*) Matters specified in paragraphs 1 and 2

(*c*) Matters specified in paragraphs 3 and 4

(*c*) Matters specified in paragraphs 5 and 6

(*d*) Matters specified in paragraphs 7 and 8

186. When does this Order apply to the auditor's report on the accounts of a company?

(*a*) For financial years commencing before 1st April, 2019

(*b*) For financial years commencing on or after 1st April, 2019

(*c*) For financial years ending before 1st April, 2019

(*d*) For financial years ending on or after 1st April, 2019

187. To which type of financial statements does this Order not apply, except for clause (xxi) of paragraph 3?

(*a*) Standalone financial statements (*b*) Consolidated financial statements

(*c*) Interim financial statements (*d*) Comparative financial statements

188. What is the specific clause in paragraph 3 that applies to the auditor's report on consolidated financial statements?

(*a*) Clause (i) (*b*) Clause (v)

(*c*) Clause (xiv) (*d*) Clause (xxi)

189. In which section of the Companies Act does the requirement for the auditor's report, as mentioned in the passage, fall under?

(*a*) Section 132 (*b*) Section 143

(*c*) Section 144 (*d*) Section 145

190. What is the effective date for the application of this Order to the auditor's report?

(*a*) 1st April, 2018 (*b*) 1st April, 2019

(*c*) 1st April, 2020 (*d*) 1st April, 2021

191. Which provision of the Companies Act empowers the auditor to make a report under the mentioned section?

(*a*) Section 132(1) (*b*) Section 143(2)

(*c*) Section 144(3) (*d*) Section 145(4)

192. What is the primary purpose of requiring the auditor's report to contain matters specified in paragraphs 3 and 4 of CARO 2020?

(*a*) To increase the length of the report

(*b*) To provide a summary of financial statements

(*c*) To enhance the quality and transparency of the report

(*d*) To simplify the audit process

193. What does the auditor need to verify regarding Property, Plant, and Equipment (PPE)?

(*a*) The market value of PPE

(*b*) Quantitative details and situation of PPE

(*c*) The historical cost of PPE

(*d*) The fair value of PPE

194. In addition to Property, Plant, and Equipment, what other assets' records should the auditor examine?

(*a*) Financial assets

(*b*) Intangible assets

(*c*) Current assets

(*d*) Investments

195. How often should Property, Plant, and Equipment be physically verified by the management?

(*a*) Annually

(*b*) Monthly

(*c*) Biennially

(*d*) Quarterly

196. What is the auditor required to report if material discrepancies are noticed during the physical verification of Property, Plant, and Equipment?

(*a*) Ignore the discrepancies

(*b*) Report them in the books of account

(*c*) Notify the regulatory authorities

(*d*) Seek legal advice

197. Regarding immovable properties, what should the auditor verify about their title deeds?

(*a*) Whether they are pledged as collateral

(*b*) Whether they are leased

(*c*) Whether they are disclosed in financial statements

(*d*) Whether they are owned by the company

198. Under what circumstances would the auditor inquire about lease agreements related to immovable properties?

(*a*) When the company is the lessor

(*b*) When the company is the lessee

(*c*) When the lease agreements are executed in favor of the lessee

(*d*) When the company owns the immovable properties

199. What is the primary objective of verifying the title deeds of immovable properties?

(*a*) Ensuring compliance with tax regulations

(*b*) Confirming ownership of the properties

(*c*) Determining fair value of the properties

(*d*) Evaluating market conditions

200. What is the overarching purpose of including these statements in the auditor's report?

(*a*) Legal compliance
(*b*) Enhancing transparency and accountability
(*c*) Minimizing tax liabilities
(*d*) Improving shareholder value

201. When does this Order apply to the auditor's report on the accounts of a company?

(*a*) For financial years commencing before 1st April, 2019
(*b*) For financial years commencing on or after 1st April, 2019
(*c*) For financial years ending before 1st April, 2019
(*d*) For financial years ending on or after 1st April, 2019

202. What statement is required in the auditor's report regarding the revaluation of assets?

(*a*) Confirmation of revaluation by the company
(*b*) Disclosure of the revaluation amount
(*c*) Identification of Registered Valuer
(*d*) (*a*) and (*b*)

203. In case of revaluation, what is the auditor required to specify regarding the change in the carrying value of assets?

(*a*) Percentage change only
(*b*) Absolute change only
(*c*) Both percentage and absolute change
(*d*) Change in fair value

204. What assets are specifically mentioned in the context of revaluation in the provided information?

(*a*) Only Property, Plant, and Equipment
(*b*) Only intangible assets
(*c*) Both Property, Plant, and Equipment and intangible assets
(*d*) Only Right of Use assets

205. What legislation is referred to concerning benami property in the auditor's report?

(*a*) Income Tax Act, 1961
(*b*) Companies Act, 2013
(*c*) Benami Transactions (Prohibition) Act, 1988
(*d*) Indian Penal Code, 1860

206. What disclosure is expected from the company in its financial statements if there are proceedings related to benami property?

(*a*) No disclosure is required
(*b*) Disclosure of the fact only
(*c*) Detailed disclosure of the proceedings
(*d*) Disclosure of legal advice received

207. Under what circumstances would the auditor inquire about benami property proceedings in the company?

(*a*) Only if the company is involved in legal proceedings
(*b*) Only if the company is engaged in real estate activities
(*c*) If the company has initiated proceedings against others
(*d*) If proceedings have been initiated or are pending against the company

208. What does the auditor's report include statements on, according to the CARO 2020?

(*a*) Financial statements only
(*b*) Inventory and working capital limits
(*c*) Loans and advances only
(*d*) All of the above

209. According to the CARO 2020, Regarding physical verification of inventory, what does the auditor assess?

(*a*) The quantity of inventory only
(*b*) The coverage and procedure of verification by management
(*c*) The market value of inventory
(*d*) The historical cost of inventory

210. According to the CARO 2020, When reporting discrepancies in inventory, what threshold does the auditor consider?

(*a*) 5%
(*b*) 8%
(*c*) 10%
(*d*) 15%

211. According to the CARO 2020, For working capital limits exceeding five crore rupees, what does the auditor examine?

(*a*) Security of fixed assets
(*b*) Security of current assets
(*c*) Quarterly returns or statements filed
(*d*) All of the above

212. According to the CARO 2020, In the context of loans, what does the auditor verify about repayments?

(*a*) Repayment terms and schedules
(*b*) Only overdue amounts
(*c*) Repayments to related parties
(*d*) Repayments made on public holidays

213. Under what circumstances does the auditor inquire about the renewal or extension of loans?

(*a*) When loans are granted to subsidiaries
(*b*) When loans have fallen due during the year
(*c*) When loans are unsecured
(*d*) When loans are given for short durations

214. According to the CARO 2020, In the context of preferential allotment, what does the auditor assess?

(*a*) Compliance with Companies Act, 2013
(*b*) Usage of funds raised
(*c*) Whether preferential allotment occurred
(*d*) All of the above

215. According to the CARO 2020, In the context of statutory dues, what does the auditor assess?

(*a*) Only income tax payments
(*b*) Timely deposit of statutory dues
(*c*) Legal compliance with Goods and Services Tax
(*d*) None of the above

216. What is the primary objective of including these statements in the auditor's report?

(*a*) Legal compliance
(*b*) Enhancing transparency and accountability
(*c*) Minimizing tax liabilities
(*d*) Improving shareholder value

217. What section of the Companies Act deals with non-cash transactions with directors?

(*a*) Section 192 (*b*) Section 177

(*c*) Section 186 (*d*) Section 188

218. What aspect does the auditor examine under section 185 and 186 of the Companies Act?

(*a*) Director's loans and investments

(*b*) Loans to subsidiaries

(*c*) Loans, investments, guarantees, and security

(*d*) Loans from financial institutions

219. Regarding the Nidhi Company, what ratio is mentioned for Net Owned Funds to Deposits?

(*a*) 1:10 (*b*) 1:15

(*c*) 1:20 (*d*) 1:25

220. What provision is referred to concerning ongoing projects and unspent amounts?

(*a*) Section 135(5) (*b*) Section 135(6)

(*c*) Schedule VII (*d*) Section 186

221. Regarding the Core Investment Company (CIC), what criteria does the auditor assess?

(*a*) Size of assets (*b*) Fulfilment of RBI criteria

(*c*) Profitability (*d*) All of the above

222. What does the auditor verify regarding the internal audit system?

(*a*) Only existence of an internal audit system (*b*) Reports of the Internal Auditors

(*c*) Compliance with Companies Act (*d*) Audit committee meetings

223. According to the CARO 2020, In the context of cash losses, what amount does the auditor state?

(*a*) Net cash losses only

(*b*) Cash losses for the financial year

(*c*) Any cash losses exceeding one crore rupees

(*d*) Amount of cash losses

224. What does the auditor examine regarding the resignation of statutory auditors?

(*a*) Only the reasons for resignation

(*b*) Consideration of issues raised by outgoing auditors

(*c*) Compliance with Companies Act, 2013

(*d*) Only the timing of resignation

225. Under what section of the Companies Act does the auditor assess material uncertainty?

(*a*) Section 143(11) (*b*) Section 186

(*c*) Section 135(6) (*d*) Section 192

226. In the auditor's report, if the Answer to any of the questions in paragraph 3 is unfavorable or qualified, what is the auditor required to do?

(*a*) Omit the unfavorable details

(*b*) Provide an explanation for such Answer

(*c*) Submit a separate report to the management

(*d*) Seek legal advice

227. If the auditor is unable to express an opinion on a specified matter, what is the auditor expected to do in the report?

(*a*) Provide an unfavorable opinion

(*b*) Disclose the limitation and reasons for the inability

(*c*) Ignore the matter in the report

(*d*) Report it in a separate confidential document

228. What is the purpose of stating the basis for an unfavorable or qualified Answer in the auditor's report?

(*a*) To criticize the management

(*b*) To fulfill a regulatory requirement

(*c*) To confuse the readers

(*d*) To avoid legal consequences

229. When should the auditor provide reasons for being unable to express an opinion on a specified matter?

(*a*) Only when the matter is critical

(*b*) When the auditor chooses to do so

(*c*) Always, as it is a mandatory disclosure

(*d*) Only if requested by the company's management

230. What is the primary objective of disclosing the basis for an unfavourable or qualified Answer in the auditor's report?

(*a*) To shift blame to the management

(*b*) To clarify the auditor's position and reasoning

(*c*) To criticize the regulatory authority

(*d*) To undermine the credibility of the financial statements

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*a*)	**4.** (*c*)	**5.** (*a*)	**6.** (*b*)	**7.** (*c*)	**8.** (*c*)	**9.** (*c*)	**10.** (*b*)
11. (*c*)	**12.** (*d*)	**13.** (*c*)	**14.** (*a*)	**15.** (*c*)	**16.** (*b*)	**17.** (*c*)	**18.** (*c*)	**19.** (*c*)	**20.** (*d*)
21. (*c*)	**22.** (*c*)	**23.** (*b*)	**24.** (*d*)	**25.** (*c*)	**26.** (*c*)	**27.** (*c*)	**28.** (*c*)	**29.** (*c*)	**30.** (*b*)
31. (*c*)	**32.** (*c*)	**33.** (*c*)	**34.** (*c*)	**35.** (*d*)	**36.** (*c*)	**37.** (*b*)	**38.** (*c*)	**39.** (*c*)	**40.** (*c*)
41. (*b*)	**42.** (*c*)	**43.** (*c*)	**44.** (*c*)	**45.** (*d*)	**46.** (*c*)	**47.** (*c*)	**48.** (*d*)	**49.** (*c*)	**50.** (*b*)
51. (*c*)	**52.** (*d*)	**53.** (*b*)	**54.** (*c*)	**55.** (*b*)	**56.** (*c*)	**57.** (*d*)	**58.** (*b*)	**59.** (*c*)	**60.** (*c*)
61. (*d*)	**62.** (*a*)	**63.** (*b*)	**64.** (*c*)	**65.** (*d*)	**66.** (*d*)	**67.** (*a*)	**68.** (*a*)	**69.** (*c*)	**70.** (*c*)

71. (*c*)	**72.** (*c*)	**73.** (*b*)	**74.** (*c*)	**75.** (*c*)	**76.** (*c*)	**77.** (*b*)	**78.** (*c*)	**79.** (*d*)	**80.** (*b*)
81. (*d*)	**82.** (*b*)	**83.** (*b*)	**84.** (*c*)	**85.** (*c*)	**86.** (*d*)	**87.** (*d*)	**88.** (*d*)	**89.** (*c*)	**90.** (*b*)
91. (*c*)	**92.** (*b*)	**93.** (*c*)	**94.** (*c*)	**95.** (*c*)	**96.** (*b*)	**97.** (*b*)	**98.** (*a*)	**99.** (*c*)	**100.** (*c*)
101. (*c*)	**102.** (*c*)	**103.** (*c*)	**104.** (*d*)	**105.** (*c*)	**106.** (*d*)	**107.** (*d*)	**108.** (*c*)	**109.** (*b*)	**110.** (*c*)
111. (*b*)	**112.** (*b*)	**113.** (*b*)	**114.** (*c*)	**115.** (*b*)	**116.** (*b*)	**117.** (*b*)	**118.** (*a*)	**119.** (*c*)	**120.** (*c*)
121. (*b*)	**122.** (*b*)	**123.** (*b*)	**124.** (*c*)	**125.** (*d*)	**126.** (*c*)	**127.** (*b*)	**128.** (*b*)	**129.** (*c*)	**130.** (*d*)
131. (*c*)	**132.** (*b*)	**133.** (*b*)	**134.** (*d*)	**135.** (*a*)	**136.** (*b*)	**137.** (*b*)	**138.** (*c*)	**139.** (*c*)	**140.** (*c*)
141. (*b*)	**142.** (*c*)	**143.** (*c*)	**144.** (*b*)	**145.** (*c*)	**146.** (*d*)	**147.** (*c*)	**148.** (*b*)	**149.** (*b*)	**150.** (*b*)
151. (*c*)	**152.** (*c*)	**153.** (*d*)	**154.** (*c*)	**155.** (*d*)	**156.** (*c*)	**157.** (*c*)	**158.** (*c*)	**159.** (*c*)	**160.** (*b*)
161. (*b*)	**162.** (*d*)	**163.** (*c*)	**164.** (*a*)	**165.** (*d*)	**166.** (*d*)	**167.** (*b*)	**168.** (*c*)	**169.** (*d*)	**170.** (*a*)
171. (*b*)	**172.** (*d*)	**173.** (*d*)	**174.** (*c*)	**175.** (*c*)	**176.** (*d*)	**177.** (*c*)	**178.** (*b*)	**179.** (*b*)	**180.** (*b*)
181. (*a*)	**182.** (*c*)	**183.** (*b*)	**184.** (*b*)	**185.** (*b*)	**186.** (*b*)	**187.** (*b*)	**188.** (*d*)	**189.** (*b*)	**190.** (*b*)
191. (*b*)	**192.** (*c*)	**193.** (*b*)	**194.** (*b*)	**195.** (*a*)	**196.** (*b*)	**197.** (*d*)	**198.** (*c*)	**199.** (*b*)	**200.** (*b*)
201. (*b*)	**202.** (*c*)	**203.** (*c*)	**204.** (*c*)	**205.** (*c*)	**206.** (*c*)	**207.** (*d*)	**208.** (*d*)	**209.** (*b*)	**210.** (*c*)
211. (*d*)	**212.** (*a*)	**213.** (*b*)	**214.** (*d*)	**215.** (*b*)	**216.** (*b*)	**217.** (*a*)	**218.** (*c*)	**219.** (*c*)	**220.** (*b*)
221. (*b*)	**222.** (*b*)	**223.** (*b*)	**224.** (*b*)	**225.** (*a*)	**226.** (*b*)	**227.** (*b*)	**228.** (*b*)	**229.** (*c*)	**230.** (*b*)

SOLUTION

1. (*b*) To express an opinion on the financial statements
2. (*c*) To express an opinion on the financial statements
3. (*a*) To describe the auditor's responsibility
4. (*c*) Basis for Opinion paragraph
5. (*a*) A conclusion regarding the overall fairness of the financial statements
6. (*b*) Unqualified opinion
7. (*c*) To emphasize matters that are of fundamental importance
8. (*c*) The audit procedures performed and evidence obtained
9. (*c*) To communicate additional information that is relevant to users
10. (*b*) To communicate matters that, in the auditor's professional judgment, were of most significance in the audit
11. (*c*) The appropriateness of management's use of the going concern assumption
12. (*d*) A description of the audit procedures performed and evidence obtained
13. (*c*) It communicates the auditor's opinion on matters outside the financial statements
14. (*a*) Matters that are of fundamental importance
15. (*c*) To communicate additional information that is relevant to users
16. (*b*) The communicative value of the auditor's report
17. (*c*) Adverse opinion
18. (*c*) Describing the auditor's responsibility
19. (*c*) To enhance the communicative value of the auditor's report
20. (*d*) It provides insights into matters that were of most significance in the audit
21. (*c*) To draw attention to matters that are appropriately presented or disclosed
22. (*c*) To highlight significant uncertainties or events
23. (*b*) It draws attention to specific matters but does not affect the auditor's opinion
24. (*d*) It is optional and rarely included in auditor's reports
25. (*c*) Use neutral and factual language
26. (*c*) It does not affect the auditor's opinion on the financial statements
27. (*c*) Matters that significantly affect the auditor's opinion
28. (*c*) By drawing attention to fundamental matters that may be overlooked
29. (*c*) **To draw attention to a significant uncertainty or event:** If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with SA 706 (Revised), drawing attention to the disclosure.
30. (*b*) Expressing an opinion on the financial statements' fairness
31. (*c*) Reasonable assurance
32. (*c*) Assessing the appropriateness of the going concern assumption
33. (*c*) The auditor is responsible for identifying and assessing both fraud and error risks.

34. (*c*) Assessing the appropriateness of accounting policies selected by management

35. (*d*) Information about the nature and implications of significant deficiencies

36. (*c*) The auditor is responsible for obtaining reasonable assurance about the absence of fraud that is material to the financial statements.

37. (*b*) The auditor should disclaim an opinion on the financial statements.

38. (*c*) The auditor must maintain professional skepticism throughout the audit, considering the possibility of material misstatements.

39. (*c*) The auditor includes an explanatory paragraph in the report.

40. (*c*) Component auditors are responsible for the audit of individual components only.

41. (*b*) To supervise and review the work of the component auditors.

42. (*c*) Evaluate the impact on the group audit and consider the need for additional procedures or using the work of another auditor.

43. (*c*) The group engagement team should obtain an understanding of the methods used by component auditors and the significance of their findings.

44. (*c*) To evaluate the appropriateness of the component auditor's report in the context of the group audit.

45. (*d*) Regardless of whether the matters are significant in the context of the group audit.

46. (*c*) The group engagement partner should perform an independent assessment of the objectivity and competence of the component auditor.

47. (*c*) To ensure that the component auditor is aware of the scope and objectives of the group audit.

48. (*d*) Assess the impact on the group audit and consider modifying the audit opinion.

49. (*c*) The group engagement partner is responsible for documenting the work performed, significant matters, and conclusions reached.

50. (*b*) To ensure that the auditor's report remains accurate and relevant after the report date.

51. (*c*) The auditor should perform procedures to identify events that may require adjustment of or disclosure in the financial statements.

52. (*d*) Discovering events that may affect the financial statements.

53. (*b*) Type 1 events occurred before the report date, while Type 2 events occurred after the report date.

54. (*c*) Communicate the matter to those charged with governance and adjust the financial statements.

55. (*b*) Communicate the event to those charged with governance and consider the need for an adjustment to the financial statements.

56. (*c*) To address events occurring after the report date but before the financial statements are issued.

57. (*d*) The auditor should assess the impact and communicate as necessary.

58. (*b*) Confirming that management does not alter the financial statements.

59. (*c*) It may indicate a limitation in the scope of the audit.

60. (*c*) Ministry of Corporate Affairs (MCA)

61. (*d*) To express an opinion on the true and fair view of the financial statements

62. (*a*) Section 143

63. (*b*) Management's explanation for any qualification or adverse remark

64. (*c*) The auditor should modify the opinion to express disagreement.

65. (*d*) To explain the auditor's responsibility and the scope of the audit

66. (*d*) The auditor's responsibility for expressing an opinion

67. (*a*) That they are presented fairly, in all material respects

68. (*a*) By expressing a disclaimer of opinion

69. (*c*) An emphasis of matter paragraph

70. (*c*) The specific risk identified, how it was addressed in the audit, and the auditor's response

71. (*c*) By providing insights into matters that were of most significance in the audit

72. (*c*) Board of Directors

73. (*b*) Preparation of financial statements that present a true and fair view

74. (*c*) Presenting a true and fair view of financial position, performance, and cash flows

75. (*c*) Accounting principles generally accepted in India

76. (*c*) Section 133

77. (*b*) Financial position and changes in equity

78. (*c*) To ensure the true and fair view of financial position, performance, and cash flows

79. (*d*) Companies Act, 2013

80. (*b*) It highlights the application of specific accounting standards mandated by the Act.

81. (*d*) Market share analysis

82. (*b*) **In the auditor's report appendix:** Paragraph 40 permits the auditor to include the statements required by paragraphs 38-39 describing the auditor's responsibilities for the audit of the financial statements in an appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the appendix.

83. (*b*) Fraud may involve intentional actions and deception.

84. (*c*) When permitted by law, regulation, or auditing standards, and the website's description is consistent with the material in the report

85. (*c*) Expressing an opinion on the adequacy and operating effectiveness of the company's internal financial controls

86. (*d*) To form a basis for expressing an opinion on the financial statements

87. (*d*) Determining whether events or conditions may cast significant doubt on the company's ability to continue as a going concern

88. (*d*) If the auditor concludes that a material uncertainty exists and is inadequately disclosed by management

89. (*c*) By stating that conclusions are based on evidence up to the date of the auditor's report, but future events may cause the company to cease as a going concern

90. (*b*) The significance of the matters in the audit

91. (*c*) Present matters specified in paragraphs 3 and 4 of the Order, to the extent applicable
92. (*b*) Seek information and explanations necessary for the audit
93. (*c*) The auditor incorporates branch office reports received from branch auditors.
94. (*c*) Consistency with the returns received from the branches not visited
95. (*c*) Compliance with Accounting Standards specified under Section 133 of the Companies Act, 2013
96. (*b*) Written representations received from the directors
97. (*b*) The auditor provides a separate report in "Annexure A."
98. (*a*) Material foreseeable losses on long-term contracts
99. (*c*) The understanding with intermediaries and ultimate beneficiaries
100. (*c*) When the auditor concludes, in accordance with SA 700 (Revised), that a modification to the opinion is necessary
101. (*c*) When misstatements are material but not pervasive
102. (*c*) The possible effects of undetected misstatements could be material but not pervasive
103. (*c*) Misstatements that are confined to specific elements, accounts, or items
104. (*d*) When they are fundamental to users' understanding of the financial statements
105. (*c*) When the possible effects of undetected misstatements are both material and pervasive
106. (*d*) In extremely rare circumstances involving uncertainties that, despite being individually addressed, collectively prevent the formation of an opinion
107. (*d*) The potential interaction of uncertainties and their possible cumulative effect on the financial statements
108. (*c*) The nature of the matter giving rise to the modification and the auditor's judgment about the pervasiveness of the effects
109. (*b*) Request that management removes the limitation and proceed with the audit
110. (*c*) Withdraw from the audit, if possible, or disclaim an opinion if withdrawal is not practicable
111. (*b*) Include the misstatements in the withdrawal communication to those charged with governance
112. (*b*) Disclaim an opinion on the financial statements
113. (*b*) The gravity of the situation and the inability to communicate it adequately through a qualified opinion
114. (*c*) Quantify the effects unless impracticable
115. (*b*) An explanation of how the disclosures are misstated
116. (*b*) Discuss the non-disclosure with those charged with governance
117. (*b*) Include the word "qualified" or "adverse," as appropriate
118. (*a*) A reference to the section of the auditor's report describing responsibilities and a statement about audit evidence
119. (*c*) Include only a statement about the auditor's responsibility to conduct an audit and issue a report
120. (*c*) A statement about auditor independence and other ethical responsibilities

121. (*b*) Include the paragraph within a separate section with an appropriate heading

122. (*b*) A modified opinion in accordance with SA 705 (Revised) when required by the circumstances of a specific audit engagement

123. (*b*) Reporting in accordance with SA 570 (Revised) when a material uncertainty exists

124. (*c*) Relevant to users' understanding of the audit, and not prohibited by law or regulation

125. (*d*) Include the paragraph within a separate section with the heading "Other Matter" or other appropriate heading

126. (*c*) Communicate with those charged with governance regarding the expectation and wording of the paragraph

127. (*b*) Auditor's reporting responsibilities for comparative information

128. (*b*) SA 510 - Opening Balances

129. (*c*) The scope of the auditor's opinion, referring to the current period only for corresponding figures and to each period for comparative financial statements

130. (*d*) All of the above

131. (*c*) Assess whether changes in accounting policies have been properly accounted for and disclosed

132. (*b*) Perform additional audit procedures to determine whether a material misstatement exists

133. (*b*) Written representations

134. (*d*) A specific written representation regarding the prior period item

135. (*a*) Whenever there is an unresolved matter from the prior period

136. (*b*) Express a qualified or adverse opinion in the current period's report

137. (*b*) State that the corresponding figures are unaudited in an Other Matter paragraph

138. (*c*) Disclose the type of opinion expressed by the predecessor auditor and the date of that report

139. (*c*) Refer to both the current period's figures and the corresponding figures in the description of the matter

140. (*c*) State in an Other Matter paragraph that the comparative financial statements are unaudited

141. (*b*) At any place in India decided by the Board of Directors

142. (*c*) Proper books of account at the branch and periodic summarized returns to the registered office

143. (*c*) Either the company's auditor or an accountant

144. (*b*) Prepare a report and send it to the company's auditor

145. (*c*) Report to the company's auditor

146. (*d*) The auditor with responsibility for reporting on the financial information of the entity

147. (*c*) Sharing of expertise and resources

148. (*b*) Sharing of fees

149. (*b*) SA 299 (Revised)

150. (*b*) Discuss and develop a joint audit plan

151. (*c*) Reference each other's audit reports

152. (*c*) Inquiring into specific matters related to the company's financial transactions

153. (*d*) Report on the accounts examined by the auditor

154. (*c*) Seeking and obtaining necessary information for the audit

155. (*d*) Companies specified in the order

156. (*c*) Central Government

157. (*c*) Audit Committee or Board

158. (*c*) Reporting to both the Central Government and Audit Committee

159. (*c*) Adequacy of internal financial controls

160. (*b*) Rule 11 of the Companies (Audit and Auditors) Rules, 2014

161. (*b*) The auditor has to issue a separate opinion**

162. (*d*) Compliance with section 123 of the Companies Act, 2013**

163. (*c*) Whether it has a feature of recording audit trail**

164. (*a*) Whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement**

165. (*d*) Whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts**

166. (*d*) It is applicable only to private companies with a turnover less than ₹ 50 crore

167. (*b*) Section 143(11) of the Companies Act, 2013

168. (*c*) Replacement

169. (*d*) Companies (Auditor's Report) Order, 2016

170. (*a*) 29th March, 2016

171. (*b*) National Financial Reporting Authority (NFRA)

172. (*d*) CARO 2020

173. (*d*) All of the above

174. (*c*) Both paid-up capital and revenue

175. (*c*) Section 62

176. (*d*) All of the above

177. (*c*) If it has total borrowings exceeding one crore rupees

178. (*b*) It outlines the reporting requirements

179. (*b*) The Order is not applicable to past actions

180. (*b*) Regulatory body

181. (*a*) It is exempt from the Order

182. (*c*) Supersession

183. (*b*) Clause (85) of section 2

184. (*b*) To clarify that the 2016 Order still applies in some cases

185. (*b*) Matters specified in paragraphs 3 and 4

186. (*b*) For financial years commencing on or after 1st April, 2019

187. (*b*) **Consolidated financial statements:** CARO does not apply to the auditor's report on consolidated financial statements, except for clause (xxi) of paragraph 3.

188. (*d*) **Clause (xxi):** The auditor's report on consolidated financial statements is subject to clause (xxi) of paragraph 3.

189. (*b*) Section 143

190. (*b*) 1st April, 2019

191. (*b*) Section 143(2)

192. (*c*) **To enhance the quality and transparency of the report:** Requiring specific matters in the report aims to enhance the quality and transparency of the auditor's report.

193. (*b*) **Quantitative details and situation of PPE:** The auditor should verify whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant, and Equipment.

194. (*b*) **Intangible assets:** The auditor should include a statement on whether the company is maintaining proper records showing full particulars of intangible assets.

195. (*a*) **Annually:** The auditor should determine whether these assets have been physically verified by the management at reasonable intervals.

196. (*b*) **Report them in the books of account:** The auditor should report whether any material discrepancies were noticed on such verification and, if so, whether the same have been properly dealt with in the books of account.

197. (*d*) **Whether they are owned by the company:** The auditor should verify whether the title deeds of all the immovable properties disclosed in the financial statements are held in the name of the company.

198. (*c*) **When the lease agreements are executed in favor of the lessee:** The auditor should inquire whether the title deeds of immovable properties are held in the name of the company, excluding cases where the company is the lessee and the lease agreements are duly executed in favor of the lessee.

199. (*b*) Confirming ownership of the properties

200. (*b*) Enhancing transparency and accountability

201. (*b*) For financial years commencing on or after 1st April, 2019

202. (*c*) **Identification of Registered Valuer:** The auditor's report should include a statement on whether the revaluation is based on the valuation by a Registered Valuer.

203. (*c*) **Both percentage and absolute change:** The auditor should specify the amount of change, and if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

204. (*c*) **Both Property, Plant, and Equipment and intangible assets:** Revaluation of "Property, Plant and Equipment (including Right of Use assets) or intangible assets or both."

205. (*c*) Benami Transactions (Prohibition) Act, 1988

206. (*c*) Detailed disclosure of the proceedings

207. (*d*) **If proceedings have been initiated or are pending against the company:** The auditor should inquire whether any proceedings have been initiated or are pending against the company for holding any benami property.

208. (*d*) All of the above

209. (*b*) **The coverage and procedure of verification by management:** The auditor assesses whether the coverage and procedure of inventory verification by management are appropriate.

210. (*c*) **10%:** The auditor reports discrepancies of 10% or more in the aggregate for each class of inventory.

211. (*d*) **All of the above:** The auditor examines security, working capital limits, and the agreement of returns or statements with books of accounts.

212. (*a*) **Repayment terms and schedules:** The auditor verifies if the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments are regular.

213. (*b*) **When loans have fallen due during the year:** The auditor inquires if loans that have fallen due during the year have been renewed or extended.

214. (*d*) **All of the above:** The auditor assesses compliance with the Companies Act, 2013, usage of funds, and the occurrence of preferential allotment.

215. (*b*) **Timely deposit of statutory dues:** The auditor assesses whether the company is regular in depositing undisputed statutory dues.

216. (*b*) **Enhancing transparency and accountability:** The inclusion of these statements in the auditor's report aims to enhance transparency and accountability in financial reporting.

217. (*a*) **Section 192:** Section 192 deals with non-cash transactions with directors or persons connected with him.

218. (*c*) **Loans, investments, guarantees, and security:** The auditor examines compliance with sections 185 and 186 regarding loans, investments, guarantees, and security.

219. (*c*) **1:20:** The auditor examines whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20.

220. (*b*) **Section 135(6):** The auditor examines whether unspent amounts under subsection (5) of section 135 have been transferred to a special account in compliance with subsection (6).

221. (*b*) **Fulfilment of RBI criteria:** The auditor assesses whether the CIC continues to fulfill the criteria of a CIC as defined by the RBI.

222. (*b*) **Reports of the Internal Auditors:** The auditor verifies whether reports of the Internal Auditors for the period under audit were considered.

223. (*b*) **Cash losses for the financial year:** The auditor states whether the company has incurred cash losses in the financial year.

224. (*b*) **Consideration of issues raised by outgoing auditors:** The auditor examines whether the auditor has taken into consideration the issues, objections, or concerns raised by the outgoing auditors.

225. (*a*) **Section 143(11):** The auditor assesses whether there is any material uncertainty as on the date of the audit report that the company is capable of meeting its liabilities within one year from the balance sheet date.

226. (*b*) **Provide an explanation for such Answer:** According to paragraph 4(1), the auditor's report is required to state the basis for any unfavorable or qualified Answer.

227. (*b*) **Disclose the limitation and reasons for the inability:** As per paragraph 4(2), the auditor's report should indicate the fact of being unable to express an opinion and provide reasons for the inability.

228. (*b*) **To fulfill a regulatory requirement:** Providing the basis for an unfavorable or qualified Answer is a regulatory requirement to enhance transparency and accountability.

229. (*c*) **Always, as it is a mandatory disclosure:** According to paragraph 4(2), the auditor's report should indicate the fact of being unable to express an opinion and provide reasons for the inability.

230. (*b*) **To clarify the auditor's position and reasoning:** Disclosing the basis for an unfavorable or qualified Answer helps clarify the auditor's position and reasoning, ensuring transparency and understanding.

CHAPTER 9

Special Features of Audit of Different Types of Entities

MULTIPLE CHOICE QUESTIONS

1. What is the primary aim of government audit?
(*a*) Ensuring profitability
(*b*) Ensuring accountability of the executive in respect of public revenue and expenditure
(*c*) Administering law and order
(*d*) Facilitating government policies

2. Which committee scrutinizes the Appropriation Accounts in the context of government audit in India?
(*a*) Public Accounts Committee (PAC)
(*b*) Finance Committee
(*c*) Audit and Accounts Committee
(*d*) Budgetary Control Committee

3. According to Article 266, what does the Consolidated Fund of India consist of?
(*a*) Only direct and indirect taxes
(*b*) Only loans taken by the Government of India
(*c*) Only loans and repayments
(*d*) All revenue received from direct and indirect taxes, loans, and loan repayments

4. What is the major area of specialization that emerged with the rapid growth of public enterprises in government audit?
(*a*) Expenditure audit
(*b*) Tax audit
(*c*) Commercial audit
(*d*) Regulatory audit

5. How has government audit evolved in response to the changing nature of government activities in India?
(*a*) By focusing solely on accountancy
(*b*) By becoming more expenditure-oriented
(*c*) By adding new concepts, techniques, and procedures
(*d*) By limiting its scope to regulatory functions

6. According to the U.N. Handbook, what is government auditing?
(*a*) Retroactive examination of financial statements
(*b*) Future-oriented examination of financial transactions

(*c*) Systematic and independent examination of financial, administrative, and other operations
(*d*) Informal evaluation of government policies

7. What is one of the objectives of government audit, as mentioned in the passage?
(*a*) Implementing government policies
(*b*) Investigating irregularities
(*c*) Ensuring profitability of public enterprises
(*d*) Appraising government policies and providing public accounting of government funds

8. In India, which independent statutory authority is responsible for the discharge of government audit functions?
(*a*) Ministry of Finance
(*b*) Public Accounts Committee (PAC)
(*c*) Comptroller and Auditor General (C&AG)
(*d*) Indian Audit and Accounts Department

9. What does government audit serve as a mechanism for?
(*a*) Ensuring profitability
(*b*) Public accounting of government funds
(*c*) Investigating irregularities
(*d*) Administering law and order

10. What is the primary focus of government audit in terms of administrative accountability?
(*a*) Pursuing irregularities to their logical end
(*b*) Investigating every misdemeanour
(*c*) Ensuring profitability of government enterprises
(*d*) Ensuring authorities act in accordance with the Constitution and laws

11. How is the Comptroller & Auditor General (C&AG) of India appointed and removed according to the Constitution?
(*a*) Appointed by the Prime Minister, removed by the President
(*b*) Appointed by the Parliament, removed by the Supreme Court
(*c*) Appointed by the President, removed only on grounds of proven misbehavior or incapacity
(*d*) Appointed by the Chief Justice, removed by the Parliament

12. Under what circumstances can the C&AG of India be removed from office, as specified in the Constitution?
(*a*) At the discretion of the President
(*b*) On the recommendation of the Prime Minister
(*c*) Only on grounds of proven misbehavior or incapacity, by a 2/3rd majority of both Houses of Parliament
(*d*) Automatically after a fixed tenure

13. How is the salary and other conditions of service of the C&AG determined, according to the Constitution?
(*a*) Determined by the Parliament
(*b*) Determined by the President in consultation with the C&AG

(*c*) Fixed at the time of appointment and cannot be varied to his disadvantage
(*d*) Determined by the Prime Minister

14. Which constitutional provision defines the duties and powers of the C&AG in relation to the accounts of the Union and States?

(*a*) Article 148
(*b*) Article 149
(*c*) Article 150
(*d*) Article 151

15. What is the role of the President in determining the form of accounts of the Union and States, according to the Constitution?

(*a*) The President has no role in this matter
(*b*) The President determines the form independently
(*c*) The President decides based on the advice of the C&AG
(*d*) The Constitution does not specify the role of the President in this context

16. Who appoints the Comptroller and Auditor General (C&AG) of India, and under what circumstances can they be removed?

(*a*) Appointed by the Prime Minister; can be removed by a simple majority in Parliament
(*b*) Appointed by the President; can be removed only on grounds of proven misbehavior or incapacity by a 2/3rd majority of both Houses of Parliament
(*c*) Appointed by the Chief Justice; can be removed by the President's discretion
(*d*) Appointed by the Finance Minister; can be removed by the Governor of the State

17. What is the primary duty of the Comptroller and Auditor General (C&AG) concerning accounts in the Union and States?

(*a*) Maintain subsidiary accounts
(*b*) Compile and submit accounts of the Union and States
(*c*) Audit only the expenditure accounts
(*d*) Provide information as required by the Union Government

18. Under what conditions does a body or authority qualify as "substantially financed," subject to audit by the C&AG?

(*a*) Grant or loan less than ₹ 10 lakhs
(*b*) Grant or loan less than 50% of the total expenditure
(*c*) Grant or loan less than ₹ 25 lakhs, with the amount being less than 75% of the total expenditure
(*d*) Grant or loan more than ₹ 50 lakhs, regardless of the total expenditure

19. What is the duty of the Comptroller and Auditor General (C&AG) concerning grants or loans given for specific purposes?

(*a*) Sanction the grants or loans
(*b*) Scrutinize procedures for fulfilling conditions and access books and accounts
(*c*) Audit only the utilization of grants or loans
(*d*) Report on the financial position of the authority or body

20. What does the Comptroller and Auditor General (C&AG) audit concerning the accounts of stores and inventory?

(*a*) Financial transactions

(*b*) Compliance with Companies Act, 2013

(*c*) Procedure for allocation of revenue

(*d*) Accounts of stores and inventory kept in any office or department

21. In the audit of government companies and corporations, what powers does the Comptroller and Auditor General (C&AG) have according to the Companies Act, 2013?

(*a*) Appointing the CEO of the company

(*b*) Appointing the auditor and directing the audit process

(*c*) Issuing licenses to the company

(*d*) Deciding the budget of the company

22. What is the role of the President concerning the form of accounts of the Union and States, according to the Constitution?

(*a*) Determines the form independently

(*b*) Prescribes the form based on the advice of the C&AG

(*c*) No role in determining the form

(*d*) Advises the C&AG on the form

23. Under what circumstances can the Comptroller and Auditor General (C&AG) be relieved of the responsibility to compile and submit accounts?

(*a*) Only when the C&AG voluntarily requests relief

(*b*) As per the discretion of the President

(*c*) When the C&AG is on leave

(*d*) Only if the Parliament decides to relieve the C&AG by a simple majority

24. What does Article 150 of the Constitution specify regarding the accounts of the Union and States?

(*a*) The C&AG shall compile and submit the accounts

(*b*) The President may prescribe the form of accounts based on the advice of the C&AG

(*c*) The accounts shall be kept in the form determined by the C&AG

(*d*) The accounts shall be audited by the Parliament

25. What is the primary focus of the Comptroller and Auditor General (C&AG) in auditing receipts of the Union or States?

(*a*) Checking the legality of expenditure

(*b*) Ensuring the efficiency of revenue collection

(*c*) Verifying the compliance with Companies Act, 2013

(*d*) Assessing the financial position of the Union or States

26. What power does the Comptroller and Auditor General (C&AG) have regarding the inspection of government offices under the control of the Union or a State Government?

(*a*) Power to conduct surprise inspections only

(*b*) Power to inspect any office of accounts, including those responsible for creating initial or subsidiary accounts

(*c*) Power to inspect only Union government offices
(*d*) Power to inspect only State government offices

27. What authority does the C&AG have in relation to accounts, books, papers, and other documents during the audit process?
(*a*) Authority to seize documents without notice
(*b*) Authority to request the submission of relevant documents to specified places
(*c*) Authority to ignore relevant documents
(*d*) Authority to conduct physical searches for documents

28. What is the power of the C&AG in terms of questioning and obtaining information during the audit process?
(*a*) Limited power to question only, without obtaining information
(*b*) Power to question but cannot make observations
(*c*) Power to put questions, make observations, and call for required information
(*d*) No power to question or obtain information

29. Under what circumstances can the C&AG dispense with any part of detailed audit during the audit process?
(*a*) Only if requested by the audited entity
(*b*) Only for transactions related to Union Government
(*c*) If determined necessary for efficient auditing
(*d*) Only with the approval of the President

30. What is the primary focus of an audit against 'rules and orders' in government expenditure?
(*a*) Ensuring compliance with internal office procedures
(*b*) Verifying adherence to constitutional and statutory provisions, financial rules, and regulations
(*c*) Checking for personal financial benefits to government officials
(*d*) Assessing the efficiency of financial transactions

31. Which type of audit aims to ensure that each item of government expenditure is covered by a proper authorization from the competent authority?
(*a*) Performance audit
(*b*) Audit of sanctions
(*c*) Audit against provision of funds
(*d*) Propriety audit

32. What is the primary objective of an audit against provision of funds in government expenditure?
(*a*) Verifying adherence to financial rules
(*b*) Ensuring proper utilization of funds allocated
(*c*) Checking for personal financial benefits to government officials
(*d*) Assessing the efficiency of financial transactions

33. What does propriety audit in government expenditure focus on, in addition to adherence to rules and regulations?

(*a*) Evaluating the efficiency of financial transactions
(*b*) Identifying cases of improper, avoidable, or ineffective expenditure
(*c*) Ensuring compliance with constitutional provisions
(*d*) Checking the legality of expenditure

34. In the context of propriety audit, what general principle ensures that public expenditure is not more than necessary?

(*a*) Principle of economic efficiency
(*b*) Principle of financial propriety
(*c*) Principle of personal benefit
(*d*) Principle of legal compliance

35. What is the objective of performance audit in government expenditure?

(*a*) Verifying adherence to financial rules and regulations
(*b*) Assessing the legality of expenditure
(*c*) Examining the relationship between goods and services produced and resources used
(*d*) Identifying cases of improper, avoidable, or ineffective expenditure

36. Which of the following is NOT a stage in the procedure for conducting a performance audit?

(*a*) Preliminary study
(*b*) Execution of audit
(*c*) Identification of topic
(*d*) Implementation of audit recommendations

37. What is the primary focus of efficiency audit in government expenditure?

(*a*) Assessing the legality of expenditure
(*b*) Evaluating the efficiency of financial transactions
(*c*) Verifying adherence to constitutional provisions
(*d*) Identifying cases of improper expenditure

38. Which audit ensures that expenditure is incurred with due regard to broad and general principles of financial propriety?

(*a*) Audit against 'rules and orders'
(*b*) Propriety audit
(*c*) Audit of sanctions
(*d*) Performance audit

39. What is the purpose of conducting a preliminary study in the context of a performance audit?

(*a*) Implementation of audit recommendations
(*b*) Identifying the topic for audit
(*c*) Executing the audit process
(*d*) Reporting the audit findings

40. What does an audit against 'rules and orders' involve in terms of the types of rules and orders audited?

(*a*) Only rules regulating powers to incur expenditure
(*b*) Only rules dealing with the presentation of claims against government
(*c*) Rules related to conditions of service, pay, and allowances of government servants
(*d*) A variety of rules, regulations, and orders falling under different categories

41. What is the primary function of the executive government in the context of rules, regulations, and orders for audit?
   (*a*) Enforcing compliance with rules
   (*b*) Prescribing rules for audit authorities
   (*c*) Issuing rules, regulations, and orders to be observed by subordinate authorities
   (*d*) Interpreting rules and regulations for audit authorities

42. In audit against 'rules and orders,' what is NOT the function of the Comptroller and Auditor General (C&AG)?
   (*a*) Interpretation of rules, statutes, and orders
   (*b*) Prescribing rules and regulations
   (*c*) Ensuring consistency with constitutional and legal provisions
   (*d*) Verifying the application of rules by subordinate authorities

43. What is the function of an audit against provision of funds in government expenditure?
   (*a*) Verifying compliance with financial rules
   (*b*) Ensuring proper utilization of funds allocated
   (*c*) Identifying cases of improper expenditure
   (*d*) Evaluating the efficiency of financial transactions

44. What does performance audit cover in government expenditure?
   (*a*) Audit against 'rules and orders'
   (*b*) Audit of sanctions
   (*c*) Efficiency, economy, and effectiveness audit
   (*d*) Audit against provision of funds

45. What is the primary focus of the audit of receipts in government auditing?
   (*a*) Ensuring compliance with internal office procedures
   (*b*) Verifying adherence to constitutional and statutory provisions
   (*c*) Checking the effectiveness of assessment, collection, and proper allocation of revenues
   (*d*) Assessing the efficiency of financial transactions

46. What is one of the key objectives of the audit of receipts in relation to regulations and procedures?
   (*a*) Evaluating the efficiency of financial transactions
   (*b*) Ensuring compliance with constitutional provisions
   (*c*) Verifying the implementation of adequate regulations and procedures
   (*d*) Identifying cases of improper expenditure

47. What does the audit of receipts review in terms of systems and procedures?
   (*a*) The efficiency of financial transactions
   (*b*) The correctness and regularity of accounting for demands, collection, and refunds
   (*c*) The compliance with internal office procedures
   (*d*) The effectiveness of expenditure controls

48. What is a basic principle of the audit of receipts concerning the importance of assessment, demand, collection, and refund cases?

(*a*) Emphasizing individual cases over general trends

(*b*) Prioritizing particular cases for thorough review

(*c*) Focusing more on the general than on the particular

(*d*) Giving equal importance to all cases

49. Why is a review of judicial decisions taken by tax authorities conducted in the audit of receipts?

(*a*) To assess the efficiency of financial transactions

(*b*) To judge the effectiveness of the assessment procedure

(*c*) To identify cases of improper expenditure

(*d*) To verify compliance with internal office procedures

50. Who determines the extent and quantum of audit required under each category in the audit of receipts?

(*a*) The designated authorities

(*b*) The group leader

(*c*) The supervisor

(*d*) The Comptroller and Auditor General (C&AG)

51. What is the institutional mechanism for the audit of receipts that ensures control and direction in the auditing process?

(*a*) Primary check by the auditor, test check by the supervisor, and control and direction by the group leader

(*b*) Primary check by the supervisor, test check by the group leader, and control and direction by the auditor

(*c*) Primary check by the group leader, test check by the auditor, and control and direction by the supervisor

(*d*) Primary check, test check, and control and direction all performed by the group leader

52. What does the audit of receipts primarily focus on centrally, where accounts and original vouchers are kept?

(*a*) Drawing and disbursing functions

(*b*) The correctness and regularity of accounting

(*c*) Compliance with internal office procedures

(*d*) Effectiveness of expenditure controls

53. What is the planning, executing, and reporting of work directed and monitored by in the audit of receipts?

(*a*) Top levels of the audit hierarchy

(*b*) The designated authorities

(*c*) Middle and top levels of the audit hierarchy

(*d*) The group leader

54. What determines the structured extent and quantum of audit in the audit of receipts?

(*a*) The auditor's discretion

(*b*) The organizational arrangements

(*c*) Negotiations with the designated authorities
(*d*) The nature of transactions, their importance, and the total plan of audit

55. What is the primary objective of the audit of accounts of stores and inventories?
(*a*) Ensuring compliance with internal office procedures
(*b*) Verifying adherence to constitutional and statutory provisions
(*c*) Ascertaining the effectiveness of inventory control systems
(*d*) Evaluating the efficiency of financial transactions

56. What does the audit of accounts of stores and inventories aim to bring to the government's notice?
(*a*) Quantitative deficiencies in stores held and defects in control systems
(*b*) Compliance with rules for purchases and economical procurement
(*c*) Reasonable prices paid and adherence to purchase rules
(*d*) Deficiencies in inspecting and receiving units' certificates

57. Why does the auditor verify that purchases are properly sanctioned and made economically?
(*a*) To ensure compliance with internal office procedures
(*b*) To bring uneconomical purchases to the government's notice
(*c*) To evaluate the efficiency of financial transactions
(*d*) To assess the value accounts and physical accounts

58. What is the specific focus of the auditor in checking the accounts of receipts, issues, and balances in inventories?
(*a*) Ensuring compliance with internal office procedures
(*b*) Verifying adherence to constitutional and statutory provisions
(*c*) Assessing the value accounts and physical accounts
(*d*) Ascertaining the accuracy, correctness, and reasonableness of balances

59. Why is the periodic verification of inventory conducted in the audit of accounts of stores and inventories?
(*a*) To evaluate the efficiency of financial transactions
(*b*) To ensure compliance with internal office procedures
(*c*) To confirm the existence of inventories and identify excess or idle inventory
(*d*) To review the prices charged for inventory items

60. In the context of public enterprises, what are the three main categories of entities as per the given information?
(*a*) Government entities, commercial enterprises, private companies
(*b*) Departmental enterprises, statutory bodies, government companies
(*c*) Commercial enterprises, statutory authorities, audit bodies
(*d*) Private corporations, departmental entities, government agencies

61. How is the audit of departmental enterprises conducted, according to the provided information?

(*a*) By private auditors appointed by the government
(*b*) In the same manner as any government department with commercial accounts
(*c*) By external auditors hired by the enterprises
(*d*) Through a collaborative effort of internal and external auditors

62. Who appoints auditors for government companies under the Companies Act, 2013?

(*a*) The company's board of directors
(*b*) The shareholders of the company
(*c*) The Comptroller and Auditor-General of India
(*d*) The Ministry of Corporate Affairs

63. What is the role of the Comptroller and Auditor-General of India in the audit of government companies?

(*a*) Directs the company's internal auditors
(*b*) Appoints external auditors for the company
(*c*) Conducts periodic financial audits only
(*d*) Issues directions to the company auditors and conducts supplementary audit

64. Under which section of the Companies Act, 2013, does the Comptroller and Auditor-General of India have the power to appoint auditors for government companies?

(*a*) Section 136
(*b*) Section 143(5)
(*c*) Section 139(7)
(*d*) Section 150

65. What action can the Comptroller and Auditor-General of India take within 60 days of receiving an audit report under section 143(6)(a)?

(*a*) Issue directions to the company auditors
(*b*) Conduct a supplementary audit
(*c*) Appoint new auditors for the company
(*d*) Suspend the company's board of directors

66. What does the supplementary or test audit by the Comptroller and Auditor-General focus on in the case of a government company?

(*a*) Verification of internal controls
(*b*) Assessment of shareholder satisfaction
(*c*) Examination of audit board performance
(*d*) Test audit of the company's accounts

67. What is the primary role of the Audit Board in the audit of government companies?

(*a*) Conducting internal audits
(*b*) Representing shareholders' interests
(*c*) Processing reviews or appraisals on performance
(*d*) Appointing statutory auditors for companies

68. Under which section of the Companies Act, 2013, is the role of the Comptroller and Auditor-General of India prescribed for government companies?

(*a*) Section 136
(*b*) Section 143
(*c*) Section 150
(*d*) Section 161

69. In the audit of government companies, what is covered by the directions issued by the Comptroller and Auditor-General of India under section 143(6)?
   (*a*) System of book-keeping and accounts
   (*b*) External factors affecting the company
   (*c*) Employee performance evaluations
   (*d*) Marketing and advertising strategies

70. What is the primary purpose of reporting audit findings, according to the information provided?
   (*a*) To influence public opinion
   (*b*) To rectify irregularities and improprieties
   (*c*) To draw conclusions for the reader
   (*d*) To safeguard the Constitution

71. As per Article 151 of the Indian Constitution, to whom does the Comptroller and Auditor-General (C&AG) report on the accounts of the Union and States?
   (*a*) Prime Minister
   (*b*) Chief Justice
   (*c*) President or Governor
   (*d*) Public Accounts Committee

72. What is the traditional approach of reporting by the Comptroller and Auditor-General (C&AG) in India?
   (*a*) Making strong recommendations
   (*b*) Drawing explicit conclusions
   (*c*) Publicizing audit findings extensively
   (*d*) Presenting factual information, leaving conclusions to the reader

73. What is the primary purpose of local self-government in municipalities?
   (*a*) To generate revenue for the central government
   (*b*) To administer state-level services
   (*c*) To provide local services with autonomy
   (*d*) To regulate international trade

74. Which of the following is NOT one of the distinct types of urban local authorities in municipal government in India?
   (*a*) Municipal corporations
   (*b*) Municipal councils
   (*c*) Cantonal committees
   (*d*) Notified area committees

75. What are the three broad categories of activities covered by municipal authorities according to their functions?
   (*a*) Development, legislative, and cultural
   (*b*) Regulatory, maintenance, and development
   (*c*) Administrative, safety, and economic
   (*d*) Public health, education, and defense

76. Under which head would interest payments typically be classified in the expenditure incurred by municipalities and corporations?
   (*a*) General administration and revenue collection
   (*b*) Public safety
   (*c*) Public works
   (*d*) Others

77. What are the major sources of revenue for municipal authorities mentioned in the passage?
(*a*) Income from commercial undertakings and government grants
(*b*) Property taxes and octroi
(*c*) Professions tax and taxes on trade
(*d*) Toll collection and show-tax

78. Which type of grant is primarily intended to bridge the gap between the needs and resources of local bodies?
(*a*) General purpose grants
(*b*) Specific purpose grants
(*c*) Statutory and compensatory grants
(*d*) Extraordinary grants

79. What is the main objective of the budgetary procedure in municipalities?
(*a*) To maximize revenue generation
(*b*) To determine levels of taxation and rates
(*c*) To create separate budgets for each municipal function
(*d*) To maintain strict separation between revenue and capital items

80. Why is the system of financial control in municipal government challenging, according to the passage?
(*a*) Lack of demarcation between legislature and executive
(*b*) Over Reliance on external audit by state government
(*c*) Independence of finance officer from municipal council
(*d*) Inability to integrate legislation and executive powers

81. What has been criticized about municipal accounting and budget formats?
(*a*) Excessive simplicity
(*b*) Inadequate information provision
(*c*) Strict separation between revenue and capital items
(*d*) Overemphasis on management information

82. Which body is responsible for controlling municipal expenditure in the absence of an independent finance officer?
(*a*) Municipal Council
(*b*) External Audit Committee
(*c*) Central Government
(*d*) State Government

83. What is the primary instrument of controlling municipal expenditure mentioned in the passage?
(*a*) Internal audit by municipal council
(*b*) Municipal finance officer
(*c*) State government's external audit
(*d*) Legislation and executive powers

84. What is the purpose of statutory and compensatory grants received by local bodies?
(*a*) To support general administration
(*b*) To compensate for losses due to tax takeover
(*c*) To fund specific development projects
(*d*) To bridge the gap between needs and resources

85. Why is the municipal accounting system considered challenging?

(*a*) Excessive simplicity
(*b*) Inconsistent information provision
(*c*) Separation of executive powers
(*d*) Lack of comprehensibility

86. What is the key criticism regarding the integration of legislation and executive powers in municipal councils?

(*a*) Lack of efficiency
(*b*) Inability to function as an inquisitorial body
(*c*) Overemphasis on financial accountability
(*d*) Clear demarcation between legislature and executive

87. Which revenue source is generally compulsive in nature for municipal corporations?

(*a*) Property taxes
(*b*) Profession tax
(*c*) Octroi
(*d*) Taxes on advertisements

88. What is one of the important objectives of audit in local bodies?

(*a*) Assessing public opinion
(*b*) Reporting on the strengths of political systems
(*c*) Checking adherence to internal policies
(*d*) Reporting on the fairness of financial statements

89. Which of the following is considered a legacy of colonial days in the audit procedure for local authorities?

(*a*) Internal audit
(*b*) External audit
(*c*) Surcharging
(*d*) Competence of local government authorities

90. What privilege is coupled with the provision of ultra vires in the audit of local authorities?

(*a*) Legal immunity
(*b*) Power to appoint auditors
(*c*) Power of veto
(*d*) Authority to conduct internal audit

91. Why may the external auditor need to perform detailed checking in the absence of an internal audit?

(*a*) Lack of external audit competence
(*b*) Inefficiency of internal audit
(*c*) Poor staffing of municipalities
(*d*) Complexity of financial statements

92. What aspect does 'value for money' audit primarily focus on?

(*a*) Legal compliance
(*b*) Fair presentation of financial statements
(*c*) Assessing public opinion
(*d*) Efficiency, economy, and effectiveness

93. Who is generally in charge of the audit of municipal accounts in the State Government?

(*a*) Local bodies
(*b*) Municipal corporations
(*c*) Local Fund Audit Wing
(*d*) External auditors

94. In some cases, which municipal corporations may have the power to appoint their own auditors for regular external audit?

(*a*) Small municipalities
(*b*) Bigger municipalities like Delhi and Mumbai
(*c*) Municipal councils
(*d*) Notified area committees

95. What is the primary objective of the auditor while auditing local bodies?

(*a*) Assessing public opinion
(*b*) Reporting on political strengths
(*c*) Detecting errors and fraud
(*d*) Ensuring legal compliance

96. What should the auditor ensure regarding the expenditure incurred by local bodies?

(*a*) Conformity to internal policies
(*b*) Alignment with political objectives
(*c*) Conformity to relevant laws and financial rules
(*d*) Compliance with municipal bylaws

97. What should the auditor check in terms of authorizations during the audit of local bodies?

(*a*) Local elections
(*b*) Financial statements
(*c*) Sanctions by competent authority
(*d*) Administrative procedures

98. What aspect should the auditor verify concerning provisioning during the audit of local bodies?

(*a*) Provision of facilities to employees
(*b*) Provision of funds and authorization
(*c*) Provision of public services
(*d*) Provision of infrastructure

99. What aspect should the auditor check regarding the performance of schemes, programs, and projects in local bodies?

(*a*) Political alignment
(*b*) Economic efficiency and expected results
(*c*) Public opinion
(*d*) Legal compliance

100. What is the primary characteristic of NGOs?

(*a*) Profit-making
(*b*) Government-controlled
(*c*) Non-profit making
(*d*) Business-oriented

101. Under which Acts can NGOs in India be incorporated?

(*a*) Companies Act, 2013
(*b*) Societies Registration Act, 1860
(*c*) Both (*a*) and (*b*)
(*d*) None of the above

102. What is the significance of Section 11(1)(d) of the Income Tax Act, 1961, concerning voluntary contributions?

(*a*) Exclusion from total income
(*b*) Mandatory inclusion in total income
(*c*) Deductible from taxable income
(*d*) Tax exemption for the donor

103. What is the primary objective of a contribution or grant towards a Revolving Fund for an NGO?

(*a*) Permanent investment
(*b*) Temporary loans for projects
(*c*) Corpus contribution
(*d*) Expenditure on administrative costs

104. What type of donations and grants are given for the acquisition of specific fixed assets by NGOs?
(*a*) Corpus contributions
(*b*) Revolving fund contributions
(*c*) Project-specific grants
(*d*) General-purpose grants

105. How are reserves vouched in an NGO's audit?
(*a*) By reviewing internal controls
(*b*) By verifying project guidelines
(*c*) By checking letters from donors and board resolutions
(*d*) By examining establishment costs

106. What is earmarking in the context of NGO funds?
(*a*) Setting aside funds for administrative expenses
(*b*) Allocating funds for specific goals
(*c*) Utilizing funds for general purposes
(*d*) Donating funds to other NGOs

107. Who appoints the auditors of an NGO registered under section 8 of the Companies Act, 2013?
(*a*) Management of the Society or Trust
(*b*) Donors
(*c*) Members of the company
(*d*) Government authorities

108. What does the Foreign Contribution (Regulation) Act, 2010 prescribe for NGOs?
(*a*) Specific audit format
(*b*) Mandatory registration
(*c*) Exemption from audit
(*d*) Internal control requirements

109. What should the auditor primarily focus on during the audit planning phase for an NGO?
(*a*) Political affiliations
(*b*) Reviewing the organization's accounting system
(*c*) Marketing strategies
(*d*) Product development

110. Which aspect should the auditor prioritize while checking the receipt of income for an NGO?
(*a*) Membership fees
(*b*) Marketing expenses
(*c*) Employee salaries
(*d*) Administrative costs

111. What is the significance of vouching corpus fund contributions with letters from donors?
(*a*) Confirming immovable property
(*b*) Ensuring compliance with income tax regulations
(*c*) Verifying interest income with investment register
(*d*) Checking the receipt of income from fund-raising programs

112. In an NGO's audit, what should be checked concerning fixed assets such as land, buildings, and vehicles?
(*a*) Administrative expenses
(*b*) Maintenance costs
(*c*) Depreciation and authorizations
(*d*) Project-specific expenses

113. What should be physically verified concerning cash in hand during an NGO's audit?
(*a*) Bank balances
(*b*) Imprest balances
(*c*) Fixed assets
(*d*) Liabilities

114. How should interest and dividends be verified during the audit of an NGO?
(*a*) Reviewing internal controls
(*b*) Checking bank reconciliation statements
(*c*) Physically verifying cash in hand
(*d*) Examining project guidelines

115. What does the auditor need to check concerning receipts from fund-raising programs in an NGO's audit?
(*a*) Internal control system
(*b*) Project-specific expenses
(*c*) Administrative costs
(*d*) Employee salaries

116. Which financial statement item in an NGO represents temporary loans given and recovered from a revolving fund?
(*a*) Fixed assets
(*b*) Project expenses
(*c*) Liabilities
(*d*) Ear-marked funds

117. What does Section 17(1) of the Registration Act, 1908, require concerning the registration of trusts?
(*a*) Mandatory registration for all NGOs
(*b*) Compliance with accounting standards
(*c*) Registration for trusts related to immovable property
(*d*) Registration under the Income Tax Act, 1961

118. In a sole proprietorship, who appoints the auditor?
(*a*) Bank
(*b*) Previous auditor
(*c*) Sole proprietor
(*d*) Regulatory authority

119. Why might a sole trader get their financial statements audited?
(*a*) Regulatory requirements
(*b*) Legal obligation
(*c*) Mandatory for all sole traders
(*d*) Internal policy

120. In case of a change of auditor in a sole proprietorship, whose duty is it to communicate with the previous auditor?
(*a*) Sole proprietor
(*b*) Incoming auditor
(*c*) Regulatory authority
(*d*) Bank

121. Why is it desirable to have the appointment of the auditor in writing in a sole proprietorship?
(*a*) Mandatory legal requirement
(*b*) Prevents misunderstanding
(*c*) Simplifies audit process
(*d*) Regulatory compliance

122. What can a sole proprietor determine regarding the audit process?
(*a*) Regulatory requirements
(*b*) Partial audit scope
(*c*) Mandatory audit standards
(*d*) Internal policies

123. Who usually appoints the auditor for a partnership firm?

(*a*) Regulatory authority (*b*) Partners

(*c*) Managing partner (*d*) Government

124. What is the duty of the incoming auditor in case of a change of auditor in a partnership firm?

(*a*) Communicate with the regulatory authority

(*b*) Communicate with the managing partner

(*c*) Communicate with the previous auditor

(*d*) Communicate with the government

125. What should the letter of appointment of the auditor in a partnership firm clearly state?

(*a*) Partners' personal details (*b*) Nature and scope of the audit

(*c*) Auditors' personal details (*d*) Government regulations

126. In a partnership firm, what does an audit help mitigate among the partners?

(*a*) Dissolution (*b*) Disputes

(*c*) Admission (*d*) Retirement

127. In the audit of a partnership firm, what is relied upon by banks when advancing loans?

(*a*) Government regulations (*b*) Audited statements of accounts

(*c*) Partners' opinions (*d*) Partnership agreement

128. Why are audited accounts helpful on the retirement or death of a partner in a partnership firm?

(*a*) For dissolving the partnership (*b*) For settling accounts between the partners

(*c*) For admission of a new partner (*d*) For determining the audit fees

129. What should the audit confirm regarding the letter of appointment in a partnership firm?

(*a*) Auditors' fee (*b*) Nature of business

(*c*) Limitations, if any (*d*) Regulatory compliance

130. What is the primary focus of examining the partnership agreement in the audit process?

(*a*) Auditors' qualifications (*b*) Provisions for taxes

(*c*) Division of profits (*d*) Interest of partners

131. What is verified in the audit to ensure that the interest of no partner has suffered prejudicially?

(*a*) Balance Sheet (*b*) Division of profits

(*c*) Partnership agreement (*d*) Extraordinary contracts

132. What is the object of examining the partnership agreement in the audit of a partnership firm?

(*a*) Determining audit fees (*b*) Verifying balance sheet

(*c*) Reporting prejudicial effects (*d*) Fulfilling regulatory requirements

133. Before starting the audit of a partnership firm, what should the auditor examine in the partnership agreement?

(*a*) Partners' personal details
(*b*) Provisions regarding books of account
(*c*) Regulatory authority's approval
(*d*) Nature and style of the business

134. In the audit of a partnership firm, what is specifically checked to ensure the interest of partners is not prejudiced?

(*a*) Provision for taxes
(*b*) Extraordinary contracts
(*c*) Audited statements
(*d*) Borrowing capacity

135. What do audited accounts provide as a means of settling accounts between partners in a partnership firm?

(*a*) Legal obligations
(*b*) Regulatory compliance
(*c*) Convenient and reliable means
(*d*) Managing partner's opinion

136. In a partnership firm, what constitutes reliable evidence for computing amounts due to retiring or deceased partners?

(*a*) Auditors' report
(*b*) Partnership agreement
(*c*) Audited statements
(*d*) Regulatory requirements

137. What is generally the duty of an incoming auditor in case of a change of auditor in a partnership firm?

(*a*) Communicate with regulatory authority
(*b*) Communicate with managing partner
(*c*) Communicate with previous auditor
(*d*) Communicate with government

138. What is the minimum number of partners required to form an LLP?

(*a*) 1
(*b*) 2
(*c*) 3
(*d*) 4

139. Which partners in an LLP are required to take DPIN (Designated Partner Identification Number)?

(*a*) All partners
(*b*) Designated Partners
(*c*) Managing Partners
(*d*) Minor Partners

140. Under what conditions is an LLP considered a Small Limited Liability Partnership?

(*a*) Contribution exceeding INR 50,00,000
(*b*) Turnover exceeding INR 40,00,000
(*c*) Contribution not exceeding INR 25,00,000
(*d*) Turnover not exceeding INR 30,00,000

141. What does the Limited Liability Partnership Act, 2008, require LLPs to maintain?

(*a*) Stock records
(*b*) Annual reports
(*c*) Books of accounts
(*d*) Memorandum of association

142. Which of the following is not a component required to be maintained in the books of accounts of an LLP?

(*a*) Statements of costs of goods purchased
(*b*) Record of assets and liabilities
(*c*) List of all employees
(*d*) Particulars of sums received and expended

143. Under what circumstances is an LLP not required to get its accounts audited?

(*a*) Turnover exceeding INR 40,00,000
(*b*) Contribution exceeding INR 25,00,000
(*c*) Designated Partners decide against it
(*d*) Both (*a*) and (*b*)

144. What is one of the purposes of auditing the accounts of an LLP?

(*a*) Settling partnership disputes
(*b*) Generating additional revenue
(*c*) Avoiding regulatory requirements
(*d*) Changing the nature of the business

145. What is the significance of audited accounts for banks and financial institutions in relation to LLPs?

(*a*) Regulatory compliance
(*b*) Convenient and reliable means
(*c*) Avoiding tax liabilities
(*d*) Dissolution of the LLP

146. When should an LLP file its annual return with the Registrar of Companies (ROC)?

(*a*) Within 30 days of the financial year
(*b*) Within 60 days of the financial year
(*c*) Within 90 days of the financial year
(*d*) Within 120 days of the financial year

147. What is the purpose of submitting Form 8 by an LLP?

(*a*) Filing annual return
(*b*) Reporting change in partners
(*c*) Providing financial projections
(*d*) Submitting Statement of Account and Solvency

148. Who may appoint the auditor for an LLP?

(*a*) ROC
(*b*) Designated Partners
(*c*) Government
(*d*) All partners equally

149. When can the partners appoint auditors if the designated partners fail to do so for an LLP?

(*a*) Never
(*b*) Anytime during the financial year
(*c*) Only in the first financial year
(*d*) At least 30 days prior to the end of each financial year

150. What should the auditor obtain in writing before starting the audit work for an LLP?

(*a*) Letter of recommendation
(*b*) Partnership agreement
(*c*) Minutes of the meeting
(*d*) Engagement letter

151. Which document should the auditor refer to for any resolution passed regarding the accounts in an LLP?

(*a*) Partnership agreement
(*b*) Letter of recommendation
(*c*) Minutes book
(*d*) Statement of Account and Solvency

152. What is the auditor's responsibility regarding the LLP agreement during the audit process?

(*a*) Ignore it as it is not relevant
(*b*) Read it only if discrepancies are found
(*c*) Use it as a reference for various provisions
(*d*) Provide a copy to the government

153. What is one of the advantages or purposes of auditing the accounts of an LLP?

(*a*) Marketing the business
(*b*) Enhancing brand image
(*c*) Better compliance and management
(*d*) Reducing audit fees

154. In what form should an LLP file its annual return with the ROC?

(*a*) Form 8
(*b*) Form 11
(*c*) Form 18
(*d*) Form 24

155. When should an LLP file the Statement of Account and Solvency in Form 8 with the ROC?

(*a*) Within 30 days from the end of the financial year
(*b*) Within 60 days from the end of the financial year
(*c*) Within 90 days from the end of the financial year
(*d*) Within 120 days from the end of the financial year

156. In the audit of a charitable institution, what should auditors study to understand its legal framework?

(*a*) Annual reports
(*b*) Trust Deed or Regulations
(*c*) Receipt books
(*d*) Internal check systems

157. What is one of the responsibilities in verifying the income of a charitable institution?

(*a*) Checking interest rate calculations
(*b*) Examining the rent roll and tenancy agreements
(*c*) Issuing official receipts
(*d*) Comparing amounts with figures published in reports

158. Which of the following is NOT a consideration in auditing subscriptions and donations of a charitable institution?

(*a*) Changes in annual or life membership subscription
(*b*) Control over unused receipt books
(*c*) Calculations of interest on investments
(*d*) System of control over collections

159. What should auditors pay special attention to when auditing grants received by a charitable institution?

(*a*) Checking the rent roll
(*b*) Comparing amounts with reports

(*c*) Ensuring grants are paid only for charitable purposes
(*d*) Vouching amounts received with dividend counterfoils

160. In auditing investment income, what is the auditor responsible for checking regarding securities with fixed rates of interest?
(*a*) Comparing dividend amounts with investment schedule
(*b*) Checking rent roll and tenancy agreements
(*c*) Calculating interest received on securities
(*d*) Obtaining a certificate from a responsible official

161. What is the auditor's responsibility when examining the rent of a charitable institution?
(*a*) Checking calculations of interest
(*b*) Comparing amounts with reports
(*c*) Inspecting tenancy agreements and rent roll
(*d*) Verifying income tax refunds

162. What should auditors vouch when dealing with special functions held in aid of a charitable institution?
(*a*) Checking the rent roll
(*b*) Vouching gross receipts and outgoings
(*c*) Calculating interest on investments
(*d*) Verifying income tax refunds

163. Why should auditors verify income tax refunds in the audit of a charitable institution?
(*a*) To calculate interest on investments
(*b*) To ensure compliance with regulations
(*c*) To issue official receipts
(*d*) To obtain refunds for deducted income tax

164. What is the primary purpose of vouching payments of grants in the audit of a charitable institution?
(*a*) Ensuring compliance with regulations
(*b*) Checking the rent roll
(*c*) Verifying income tax refunds
(*d*) Confirming payments are for charitable purposes

165. What document should auditors examine to understand the provisions affecting accounts in an educational institution?
(*a*) Annual reports
(*b*) Student Fee Register
(*c*) Trust Deed or Regulations
(*d*) Endowment list

166. What should auditors verify to ensure proper accounting for fees received from students?
(*a*) Rental income
(*b*) Names in the Students Fee Register
(*c*) Expenditure approvals
(*d*) List of endowments

167. How can auditors confirm that free studentship and concessions are appropriately granted in an educational institution?
(*a*) Checking rent rolls
(*b*) Reviewing the Trust Deed

(*c*) Inspecting tenancy agreements
(*d*) Referring to Rules prepared by the Managing Committee

168. What aspect should auditors focus on when vouching for donations in an educational institution?
(*a*) Checking rent roll
(*b*) Matching counterfoils with the Cash Book
(*c*) List published with the annual report
(*d*) Inspecting tenancy agreements

169. What should auditors verify regarding government or local authority grants in an educational institution?
(*a*) Correspondence with the Income-tax Department
(*b*) Memo of grant
(*c*) Provident Fund investments
(*d*) List of endowments

170. What is a consideration in verifying capital expenditure in an educational institution?
(*a*) Checking rent rolls
(*b*) Matching counterfoils with the Cash Book
(*c*) Sanction by the Managing Committee
(*d*) Referring to Rules prepared by the Managing Committee

171. Why should auditors report old heavy arrears on account of fees, dormitory rents, etc. in an educational institution?
(*a*) To claim income tax refunds
(*b*) To seek approval for capital expenditure
(*c*) To inform the Managing Committee
(*d*) To verify inventories

172. What is the auditor's responsibility regarding caution money and other deposits in an educational institution?
(*a*) To verify inventories
(*b*) To inform the Managing Committee
(*c*) To claim income tax refunds
(*d*) To show as a liability in the balance sheet

173. What should auditors confirm regarding investments representing endowment funds in an educational institution?
(*a*) Checking rent rolls
(*b*) Keeping them separate
(*c*) Sanction by the Managing Committee
(*d*) Referring to Rules prepared by the Managing Committee

174. What should auditors confirm about the refund of taxes deducted from the income from investment in an educational institution?
(*a*) It has been claimed and recovered
(*b*) It is included in the Poor Boys Fund
(*c*) It is exempted from income tax
(*d*) It is shown as a liability in the balance sheet

175. What is the purpose of verifying separate statements of account in an educational institution?
(*a*) To claim income tax refunds
(*b*) To seek approval for capital expenditure
(*c*) To inform the Managing Committee
(*d*) To ensure compliance with regulations

176. What is the primary purpose of vouching the Register of Patients in a hospital audit?

(*a*) To verify the attendance of hospital staff
(*b*) To reconcile the total subscriptions
(*c*) To ensure correct preparation of bills
(*d*) To authorize and sanction expenses

177. How should auditors verify cash collections in a hospital audit?

(*a*) Comparing with budgeted amounts
(*b*) Checking with the property and Investment Register
(*c*) Tracing entries in the Cash Book with receipts and counterfoils
(*d*) Vouching all purchases and expenses

178. What aspect should auditors focus on regarding income from investments, rent, etc., in a hospital audit?

(*a*) Checking cash collections
(*b*) Verifying grants received
(*c*) Ensuring proper internal check
(*d*) Confirming collection of income due

179. Why is it essential to ascertain the proper application of legacies and donations received for a specific purpose in a hospital audit?

(*a*) To reconcile subscriptions
(*b*) To ensure correct preparation of bills
(*c*) To comply with internal check procedures
(*d*) To meet the agreed-upon purpose

180. What is the purpose of reconciling total subscriptions in a hospital audit?

(*a*) To check cash collections
(*b*) To authorize and sanction expenses
(*c*) To ensure proper internal check
(*d*) To identify significant budget variations

181. What should auditors verify concerning purchases and expenses in a hospital audit?

(*a*) Legacies and donations
(*b*) Capital expenditure sanctions
(*c*) Depreciation rates
(*d*) Budget comparisons

182. What should auditors verify regarding grants and TDS in a hospital audit?

(*a*) Refund of taxes deducted
(*b*) Claims for income tax exemptions
(*c*) Significant budget variations
(*d*) Proper application of legacies

183. What is the purpose of comparing totals of various items with the budgeted amounts in a hospital audit?

(*a*) To reconcile total subscriptions
(*b*) To identify significant budget variations
(*c*) To ensure correct preparation of bills
(*d*) To comply with internal check procedures

184. What should auditors examine regarding the internal check in a hospital audit?

(*a*) Legacies and donations
(*b*) Capital expenditure sanctions
(*c*) Receipt and issue of stores
(*d*) Management representation and certificate

185. Why is it important to ensure that depreciation has been written off against all assets at appropriate rates in a hospital audit?

(*a*) To reconcile total subscriptions
(*b*) To verify attendance of hospital staff

(*c*) To comply with internal check procedures
(*d*) To reflect the true value of assets

186. What should auditors inspect regarding bonds, share scripts, and title deeds of properties in a hospital audit?
(*a*) Registers
(*b*) Internal check
(*c*) Management representation
(*d*) Property and Investment Registers

187. What is the purpose of physically checking a percentage of items in inventories during a hospital audit?
(*a*) To reconcile total subscriptions
(*b*) To verify attendance of hospital staff
(*c*) To ensure proper internal check
(*d*) To validate ledger balances

188. What should auditors obtain to cover various aspects during the course of a hospital audit?
(*a*) Inventories
(*b*) Management representation and certificate
(*c*) Trust Deed
(*d*) Patient bills

189. What document should auditors vouch entrance fees against in a club audit?
(*a*) Subsidiary registers
(*b*) Register of Members
(*c*) Members' applications and counterfoils
(*d*) Inventory registers

190. How should auditors verify members' subscriptions in a club audit?
(*a*) Check totals of various columns
(*b*) Inspect share scrips and bonds
(*c*) Trace receipts to the Register of Members
(*d*) Physically check inventory of furniture

191. What should auditors ensure regarding arrears of subscriptions in a club audit?
(*a*) Correct adjustment of irrecoverable dues
(*b*) Recovery of arrear dues from members
(*c*) Arithmetical accuracy of the Register of Members
(*d*) Proper reconciliation of total subscriptions due

192. What aspect should auditors check regarding the Register of Members in a club audit?
(*a*) Pricing accuracy
(*b*) Arithmetical accuracy
(*c*) Recovery of arrear dues
(*d*) Irrecoverable Member Dues

193. What should auditors verify in terms of internal check for members' charges in a club audit?
(*a*) Purchase of sports items
(*b*) Trace debits from subsidiary registers
(*c*) Total subscriptions due
(*d*) Inventory of furniture

194. What should auditors trace in member accounts to confirm proper accounting in a club audit?
(*a*) Purchase of sports items
(*b*) Inventories of furniture
(*c*) Debits for supplies and services
(*d*) Irrecoverable Member Dues

195. What should auditors vouch to confirm the normal rates of gross profit in a club audit?

(*a*) Irrecoverable Member Dues (*b*) Purchases of sports items
(*c*) Entrance fees (*d*) Cigars, wines, etc.

196. What should auditors physically check in a club audit to verify the inventory of assets?

(*a*) Investments (*b*) Arrears of subscriptions
(*c*) Furniture, sports material, etc. (*d*) Management powers of the secretary

197. What should auditors inspect in a club audit to check the financial powers of the secretary?

(*a*) Share scripts and bonds (*b*) Members' applications and counterfoils
(*c*) Irrecoverable Member Dues (*d*) Subsidiary registers

198. What should auditors verify in terms of investments in a club audit?

(*a*) Management powers of the secretary
(*b*) Arithmetical accuracy of the Register of Members
(*c*) Investments' current values and safe custody
(*d*) Pricing accuracy

199. What is a key aspect of the internal control mechanism for cinema ticket sales?

(*a*) Unlimited entrance during shows (*b*) Serial numbering of tickets
(*c*) Uniform numbering for all shows (*d*) No inventory of tickets

200. What reconciliation should auditors perform at the end of a cinema show?

(*a*) Reconciliation of advertisement charges
(*b*) Reconciliation of tax returns
(*c*) Reconciliation of cash collected with tickets sold
(*d*) Reconciliation of advance payments to distributors

201. What record should be maintained for 'free passes' in a cinema audit?

(*a*) Serial numbers of tickets (*b*) Record of cash collected
(*c*) Register of 'free passes' (*d*) Inventory of tickets

202. What should auditors verify in terms of tax collection for cinema tickets?

(*a*) Tax returns filed monthly (*b*) Total number of tickets issued
(*c*) Serial numbering of tickets (*d*) Daily statements of tickets sold

203. What should auditors vouch in the Cash Book regarding cinema ticket sales?

(*a*) Advertisement slides and shorts (*b*) Cash collected on ticket sales
(*c*) Expenditure on repairs and maintenance (*d*) Unadjusted balance of advance payments

204. What should auditors verify in relation to charges for advertisement slides and shorts in a cinema audit?

(*a*) Expenditure on repairs and maintenance (*b*) Unadjusted balance of advance payments
(*c*) Register of Slides and Shorts Exhibited (*d*) Depreciation on machinery and furniture

205. What should auditors ensure about the expenditure on repairs and maintenance in a cinema audit?
(*a*) All should be capitalized
(*b*) All should be treated as revenue expenditure
(*c*) None should be capitalized
(*d*) Some can be capitalized

206. What is a key consideration for charging depreciation on machinery and furniture in a cinema audit?
(*a*) Fixed percentage of taking from the restaurant
(*b*) Fixed sum from the restaurant income
(*c*) Appropriate rate of depreciation
(*d*) Serial numbering of tickets

207. What should auditors vouch in terms of payments for film hire in a cinema audit?
(*a*) Advertisement charges
(*b*) Bills of distributors
(*c*) Expenditure on repairs and maintenance
(*d*) Unadjusted balance of advance payments

208. What should auditors inquire about the arrangement for collecting the share of restaurant income in a cinema audit?
(*a*) Serial numbers of tickets
(*b*) Fixed sum or percentage receivable annually
(*c*) Unadjusted balance of advance payments
(*d*) Register of Slides and Shorts Exhibited

209. What is the primary characteristic of a hire-purchase agreement?
(*a*) One-time payment for goods
(*b*) Option to purchase goods in instalments
(*c*) Ownership transfer at the beginning
(*d*) No instalment payments required

210. Who is considered the hirer in a hire-purchase transaction?
(*a*) The person who lets the goods
(*b*) The person who owns the goods
(*c*) The person obtaining possession under the agreement
(*d*) The person making the one-time payment

211. What does the term "owner" refer to in a hire-purchase transaction?
(*a*) The person obtaining possession
(*b*) The person making a deposit
(*c*) The person letting the goods
(*d*) The person paying cash for the goods

212. Which of the following is a key element that the auditor should check in a hire-purchase agreement?
(*a*) Agreement duration
(*b*) Cash price of the goods
(*c*) Number of instalments for payment
(*d*) Ownership transfer after the first instalment

213. What information should be clearly specified in a hire-purchase agreement according to the audit checklist?
(*a*) The hirer's monthly income
(*b*) The hirer's residential address
(*c*) The hire-purchase price and cash price of the goods
(*d*) The hirer's credit history

214. Which aspect is crucial for the auditor to verify regarding instalment payments in a hire-purchase agreement?

(*a*) Payments made in a lump sum
(*b*) Regularity of instalment payments
(*c*) Payments made after ownership transfer
(*d*) Mode of payment for cash price

215. What is the role of a hire-purchase agreement in the ownership transfer process?

(*a*) Transfers ownership immediately
(*b*) Transfers ownership after deposit payment
(*c*) Transfers ownership after the last instalment
(*d*) Does not involve ownership transfer

216. What does the auditor need to verify to identify the goods in a hire-purchase agreement?

(*a*) The hirer's preferences
(*b*) The agreement commencement date
(*c*) A sufficient description of the goods
(*d*) The place of purchase

217. What is a critical requirement for a hire-purchase agreement to be considered valid?

(*a*) Electronic format
(*b*) Verbal agreement
(*c*) Must be in writing and signed by all parties
(*d*) Mutual understanding

218. Which of the following is NOT a specified element in a hire-purchase agreement?

(*a*) Date of agreement commencement
(*b*) Number of instalments and payment details
(*c*) Hirer's credit history
(*d*) Goods identification details

219. In a finance lease, what happens to the legal ownership of the leased asset?

(*a*) Transfers to the lessee
(*b*) Remains with the lessor
(*c*) Transfers to the lessor
(*d*) Shared between lessee and lessor

220. What is the primary characteristic that distinguishes a finance lease from an operating lease?

(*a*) Length of the lease term
(*b*) Option to purchase at fair value
(*c*) Ownership transfer at the end
(*d*) Monthly rental payments

221. Which of the following is typically examined by the lessee before approaching a lessor for a finance lease?

(*a*) Lessors' credit history
(*b*) Equipment specifications and fitness
(*c*) Lessor's choice of equipment
(*d*) After-sales services by the lessor

222. What action does the lessee take after the manufacturer delivers the equipment in a finance lease transaction?

(*a*) Reject the equipment
(*b*) Notify the lessor of acceptance
(*c*) Return the equipment to the manufacturer
(*d*) Request a lease renewal

223. What is a significant feature of a finance lease regarding payments?

(*a*) Payments are made irregularly
(*b*) Payments are not disclosed in the agreement

(*c*) Payments are made regularly at agreed-upon intervals
(*d*) Payments are made only at the end of the lease term

224. At the end of a finance lease, what happens to the equipment?
(*a*) Transfers to the lessee
(*b*) Sold to a third party
(*c*) Returns to the lessor
(*d*) Shared ownership between lessee and lessor

225. What should the lessee have the right to do at the end of the lease period in a finance lease?
(*a*) Request an extension of the lease period
(*b*) Purchase the equipment at fair value
(*c*) Terminate the lease without notice
(*d*) Return the equipment without any conditions

226. What is a necessary element for a lease to be considered a finance lease?
(*a*) Short lease term
(*b*) Low rental payments
(*c*) Major part of the economic life of the asset
(*d*) Monthly lease payments

227. In a finance lease, what does the lessee require to ascertain the credit analysis of the lessee?
(*a*) Availability of collateral security
(*b*) Lessors' ability to meet commitments
(*c*) Lessee's choice of equipment
(*d*) Lessors' past credit record

228. What is an attribute of an operating lease?
(*a*) Major part of the economic life of the asset
(*b*) Option to purchase the asset at a low price
(*c*) Transfers ownership at the end of the lease
(*d*) Does not transfer substantially all risks and rewards of ownership

229. What should an auditor verify regarding the lease agreement in a leasing company's transaction?
(*a*) Lessee's choice of equipment
(*b*) Lessee's credit history
(*c*) Description of lessor and lessee
(*d*) Availability of collateral security

230. What should the auditor ensure has been obtained by the lessor for record-keeping in a leasing transaction?
(*a*) Lessee's credit history
(*b*) Copies of the insurance policies
(*c*) Lessee's acceptance letter
(*d*) Lessee's monthly rental payments

231. What document should the auditor examine to confirm that the equipment has been received and is acceptable to the lessee?
(*a*) Acceptance letter from the lessor
(*b*) Lease agreement
(*c*) Invoice
(*d*) Lease proposal form

232. What is a key responsibility of the lessee during the lease period in a finance lease?
(*a*) Terminate the lease at any time
(*b*) Request extensions of the lease term
(*c*) Paying rentals regularly
(*d*) Assign or sublet the equipment

233. What is a characteristic of the lease proposal form submitted by the lessee?

(*a*) Description of lessor and lessee (*b*) Monthly rental payments

(*c*) Terms of the agreement (*d*) Availability of collateral security

234. What is a significant concern for auditors in the hotel industry related to internal controls?

(*a*) Marketing strategies (*b*) Pilfering

(*c*) Employee training programs (*d*) Guest satisfaction surveys

235. How can auditors verify the accuracy of restaurant bills in a hotel?

(*a*) Check guest register (*b*) Examine housekeeper's report

(*c*) Review internal training records (*d*) Verify external marketing strategies

236. What should the auditor ensure regarding taxes collected in a hotel?

(*a*) Keep them for future use (*b*) Return them to guests

(*c*) Pay over to proper authorities (*d*) Use for internal improvements

237. In a hotel, who typically posts charges for room sales to guest bills?

(*a*) Chef (*b*) Housekeeper

(*c*) Night auditor (*d*) Marketing manager

238. What does the auditor need to verify regarding charged rates on guest bills in a hotel?

(*a*) Number of staff members (*b*) Authorized signatures

(*c*) Correct period and rates (*d*) Marketing strategies

239. What report does the housekeeper usually prepare in a hotel, and how should it be tested by the auditor?

(*a*) Employee attendance report; physically check every employee

(*b*) Occupancy-in-progress report; test with guest register and individual bills

(*c*) Financial statements report; compare with budgeted figures

(*d*) Guest satisfaction report; analyze customer reviews

240. Why is proper documentation crucial for inventories in a hotel?

(*a*) Enhances guest experience (*b*) Controls pilfering and theft

(*c*) Facilitates marketing strategies (*d*) Improves employee morale

241. What measure should be taken for areas where large quantities of inventory are held in a hotel?

(*a*) Keep them unlocked for easy access (*b*) Maintain detailed sales records

(*c*) Keep them locked, with limited key access (*d*) Allow access to all personnel

242. Why does the auditor attend the physical inventory taking in a hotel?

(*a*) To calculate revenue (*b*) To observe employee performance

(*c*) To perform pricing and calculation tests (*d*) To conduct guest satisfaction surveys

243. How are quasi-fixed assets like silver and cutlery often accounted for in hotels?

(*a*) On a fixed asset basis
(*b*) On a revenue basis
(*c*) On an inventory basis
(*d*) On an employee benefit basis

244. What is a potential confusion in accounting for quasi-fixed assets in hotels?

(*a*) Overstating assets
(*b*) Understating assets
(*c*) Lack of detailed definitions
(*d*) Frequent valuation changes

245. What type of costs should be treated as revenue expenditure in a hotel?

(*a*) Major alterations
(*b*) Minor renovations
(*c*) Capital improvements
(*d*) Fixed asset acquisitions

246. What is a characteristic of casual labor in the hotel industry?

(*a*) High job security
(*b*) Extensive records
(*c*) Formal training programs
(*d*) Operates on a casual basis

247. Why is the hotel trade susceptible to defalcation related to casual labor?

(*a*) High job security
(*b*) Extensive records
(*c*) Inadequate wage payment records
(*d*) Formal training programs

248. What should the auditor check when ledgers come through travel agents or booking agencies in a hotel?

(*a*) Employee attendance
(*b*) Recovery of money per terms of credit
(*c*) Quality of guest services
(*d*) Marketing strategies effectiveness

249. What is the primary purpose of a Co-operative Society according to the provided background?

(*a*) Maximize individual profits
(*b*) Jointly-owned enterprise to meet common needs
(*c*) Exploit outside forces
(*d*) Eliminate middlemen exclusively

250. Which Act forms the fundamental law for the formation and working of co-operative societies in India?

(*a*) Companies Act, 1956
(*b*) Cooperative Societies Act, 1912
(*c*) Partnership Act, 1932
(*d*) Income Tax Act, 1961

251. What role should a chartered accountant play in the development of co-operative organizations?

(*a*) Solely focus on individual profits
(*b*) Provide only audit services
(*c*) Play a significant role in the development on scientific lines
(*d*) Ignore audit procedures for co-operatives

252. Apart from audit, what are some additional professional services that a chartered accountant can provide to co-operative societies?

(*a*) Only taxation services

(*b*) Only internal audit services

(*c*) Only management accounting services

(*d*) Guidance in accounts writing, installation of accounting systems, internal audit, management accounting services, taxation, etc.

253. What is the focus of this unit regarding co-operative societies in general?

(*a*) Only taxation guidelines

(*b*) Only audit procedures

(*c*) Primarily audit with some mention of other services

(*d*) Internal audit exclusively

254. Who appoints the auditor of a co-operative society, and to whom does the auditor submit the audit report?

(*a*) Appointed by the society members, report submitted to the Registrar

(*b*) Appointed by the Registrar, report submitted to the society

(*c*) Appointed by the government, report submitted to the government

(*d*) Appointed by the society, report submitted to the government

255. Which category of individuals is qualified to act as auditors for co-operative societies according to some State Co-operative Acts?

(*a*) Chartered Accountants only

(*b*) Government diploma holders in co-operative accounts

(*c*) Those who served as auditors in the co-operative department of the government

(*d*) All of the above

256. Under section 43(h) of the Central Co-operative Societies Act, what can a state government prescribe rules for?

(*a*) Appointment of auditors

(*b*) Books and accounts to be kept by a co-operative society

(*c*) Society membership criteria

(*d*) Schedule of audit fees

257. What does section 5 of the Central Act restrict regarding share holdings in a co-operative society?

(*a*) Limits on the number of shares

(*b*) Limits on the value of shareholding

(*c*) No member can hold more than 20% of shares or ₹ 1,000/-

(*d*) All of the above

258. Under section 29 of the Central Act, to whom can a registered society make loans?

(*a*) Only to members

(*b*) Only to non-members

(*c*) Only to other registered societies

(*d*) To anyone with or without the Registrar's sanction

259. What is the permitted usage of a society's Reserve Fund according to certain State Acts?
(*a*) External investments only
(*b*) Working capital for the society's business
(*c*) Public purposes unrelated to the society's objectives
(*d*) All of the above

260. According to section 33 of the Central Act, what percentage of profits should be transferred to the Reserve Fund before distribution as dividends or bonus?
(*a*) 5%
(*b*) 10%
(*c*) 15%
(*d*) 20%

261. What is the purpose of contributions to the Education Fund according to certain State Acts?
(*a*) Increase shareholder dividends
(*b*) Support charitable purposes
(*c*) Promote co-operative education
(*d*) Contribute to state revenue

262. How does the process of appropriations of profits differ in co-operative societies compared to corporate accounting practices?
(*a*) The General Body approves appropriations before the Annual General Meeting
(*b*) Appropriations are passed as accounting entries subject to approval
(*c*) No difference, both follow the same procedure
(*d*) The General Body approval comes after necessary accounting entries

263. According to the State Acts, what is the nature of transfers to Dividend Equalization Reserve and Share Capital Redemption Fund?
(*a*) Charges against profits
(*b*) Appropriation of profits
(*c*) Liabilities
(*d*) Debts against the society

264. What is the auditor's role regarding overdue debts in a co-operative society?
(*a*) No action needed, as it's a routine matter
(*b*) Classify and report overdue debts of 6 months or more
(*c*) Ignore overdue debts in the audit process
(*d*) Report only if the debts are more than 5 years overdue

265. How should overdue interest be treated while calculating profits in a co-operative society?
(*a*) Include it as part of the profit
(*b*) Exclude it from interest outstanding and accrued due
(*c*) Create a separate fund for overdue interest
(*d*) Report overdue interest as a liability

266. What is the unique requirement for writing off bad debts in Maharashtra State Co-operative Rules?
(*a*) Requires certification of bad debts by the Registrar
(*b*) Bad debts can be written off only if they are certified as bad by the auditor
(*c*) The managing committee has the authority to write off bad debts
(*d*) Bad debts can be written off without any certification

267. How should fixed assets be valued in a co-operative society?

(*a*) Market value at the date of audit
(*b*) Cost less adequate provision for depreciation
(*c*) Current market price
(*d*) Fixed assets are not valued in co-operative audit

268. What principle should be followed while auditing co-operative societies regarding adherence to co-operative principles?

(*a*) Maximize profits for the society
(*b*) Focus on achieving social benefits for society members
(*c*) Encourage middlemen commissions for efficiency
(*d*) Ignore cost accounting methods and modern techniques

269. Under what circumstances does an auditor need to report special matters to the Registrar during co-operative audit?

(*a*) Routine matters that need attention
(*b*) In case of any irregularities noticed
(*c*) Only if fraud is detected
(*d*) When the society requests it

270. What is the purpose of verifying members' registers and examining their passbooks in a co-operative society?

(*a*) To increase literacy among society members
(*b*) To ensure compliance with government regulations
(*c*) To check for manipulations in book entries
(*d*) To verify members' signatures

271. When can an auditor classify a society after completing the audit?

(*a*) Based on personal preferences
(*b*) As per the auditor's own criteria
(*c*) According to criteria specified by the Registrar
(*d*) Only after consulting with the society members

272. What should an auditor do after completing the audit report before finalization?

(*a*) Submit the report directly to the Registrar
(*b*) Discuss the draft audit report with the managing committee
(*c*) Finalize the report without further discussion
(*d*) Seek approval from the government

273. How can a society challenge the audit classification given by the auditor?

(*a*) File a legal case against the auditor
(*b*) Make an appeal to the government
(*c*) Seek assistance from a different auditor
(*d*) Appeal to the Registrar and request a review

274. What is the scope of application of the Multi-State Co-operative Societies Act, 2002?

(*a*) Applies to co-operative societies in a single state
(*b*) Applies to societies engaged in political activities

(*c*) Applies to societies whose objects span multiple states
(*d*) Applies only to societies with a specific political agenda

275. According to the Act, what is a restriction on the utilization of funds by a Multi-State co-operative society?
(*a*) Funds cannot be utilized for any social purpose
(*b*) Funds cannot be used for the welfare of members
(*c*) Funds cannot be utilized for any political purpose
(*d*) Funds can only be used for political campaigns

276. What information is required to be maintained in the books of accounts of a Multi-State Co-operative Society engaged in production, processing, and manufacturing?
(*a*) Only details of assets and liabilities
(*b*) Sum of money received and expended
(*c*) Particulars related to utilization of materials or labor
(*d*) Information about members' personal details

277. Under the Multi-State Co-operative Society Rules 2002, what is a mandatory requirement for the books of accounts of such societies?
(*a*) Recording only financial transactions
(*b*) Detailed records of political contributions
(*c*) Maintaining records of all purchases
(*d*) Keeping track of assets and liabilities

278. Which of the following is NOT a key aspect covered by the Multi-State Co-operative Societies Act, 2002?
(*a*) Membership rules
(*b*) Management regulations
(*c*) Investment of funds
(*d*) State-specific political activities

279. Who is eligible to be appointed as an auditor of a Multi-State Co-operative Society according to Section 72 of the Multi-State Co-operative Societies Act, 2002?
(*a*) Any individual with accounting experience
(*b*) Chartered Accountant under the Chartered Accountants Act, 1949
(*c*) Government employee with financial expertise
(*d*) Any member of the society

280. What disqualifies a person from being appointed as an auditor of a Multi-State Co-operative Society under Section 72?
(*a*) Membership in any co-operative society
(*b*) Indebtedness exceeding one thousand rupees to the society
(*c*) Employment in the government sector
(*d*) Holding a government diploma in co-operative accounts

281. When is the first auditor or auditors of a Multi-State Co-operative Society appointed according to Section 70 of the Act?
(*a*) Within one month of the conclusion of the first annual general meeting
(*b*) Within one month of the date of registration of the society

(*c*) Within three months of the commencement of the financial year
(*d*) Within one month of the society's incorporation

282. What is the term of office for subsequent auditors of a Multi-State Co-operative Society, as per Section 70?
(*a*) Until the society's liquidation
(*b*) Until the conclusion of the next annual general meeting
(*c*) Five years from the date of appointment
(*d*) Until the completion of the financial year

283. According to Section 73, what powers do auditors have in relation to Multi-State Co-operative Societies?
(*a*) Power to interfere in day-to-day operations
(*b*) Power to make financial decisions
(*c*) Right of access to books, accounts, and vouchers
(*d*) Power to appoint the managing committee

284. What inquiries must the auditor make under Section 73(2) regarding the Multi-State Cooperative Societies transactions?
(*a*) Inquiries about personal expenses only
(*b*) Inquiries about security of loans and advances
(*c*) Inquiries about book entries
(*d*) Inquiries about cash receipts only

285. According to Section 73(3) & (4), what must the auditor's report include?
(*a*) Only financial figures
(*b*) Information on members' personal details
(*c*) Whether proper books of account have been kept
(*d*) Details on political activities of the society

286. Under what conditions can the Central Government order a special audit of a Multi-State Co-operative Society under Section 77?
(*a*) If the society is not politically active
(*b*) If the society is adhering to co-operative principles
(*c*) If the society's financial position endangers its solvency
(*d*) If the society is a charitable organization

287. Who can be appointed as a special auditor under Section 77, according to subsection (2)?
(*a*) Any member of the society
(*b*) A government official
(*c*) Only a chartered accountant
(*d*) The auditor of the Multi-State Co-operative Society

288. What happens if the Central Government does not take any action on the special auditor's report within four months?

(*a*) The auditor's report becomes null and void

(*b*) The Central Government must conduct a re-audit

(*c*) The report is sent to the Multi-State Co-operative society for circulation

(*d*) The society is dissolved

289. Who bears the expenses of a special audit under Section 77?

(*a*) Central Government (*b*) Special auditor

(*c*) Multi-State Co-operative society (*d*) State Government

290. Under what circumstances can the Central Registrar initiate an inquiry into the constitution, working, and financial condition of a Multi-State Co-operative Society?

(*a*) On request from the members of the society

(*b*) On request from the state government

(*c*) On request from a federal co-operative to which the society is affiliated, creditors, or a specified percentage of members

(*d*) On the recommendation of the society's auditor

291. Before holding an inquiry into a Multi-State Co-operative Society, how much notice must the Central Registrar give to the society?

(*a*) Seven days (*b*) Ten days

(*c*) Fifteen days (*d*) Thirty days

292. What powers does the Central Registrar or the authorized person have during the inquiry into a Multi-State Co-operative Society?

(*a*) Limited to examining financial documents only

(*b*) Access to books, accounts, and summoning persons for examination

(*c*) Calling general meetings without notice

(*d*) Providing financial aid to the society

293. In case the officers of the Multi-State Co-operative Society refuse or fail to call a general meeting as directed by the Central Registrar, what power does the Registrar have?

(*a*) Power to dissolve the society (*b*) Power to appoint new officers

(*c*) Power to call the meeting himself (*d*) Power to impose fines on the officers

294. Within what time frame should the Central Registrar communicate the report of the inquiry to the Multi-State Co-operative Society, affiliated financial institutions, and the party requesting the inquiry?

(*a*) One month (*b*) Three months

(*c*) Six months (*d*) Twelve months

295. Under what circumstances can the Central Registrar initiate an inspection into the constitution, working, and financial condition of a Multi-State Co-operative Society?

(*a*) On request from the state government

(*b*) On request from a federal co-operative, creditors, or a specified percentage of members

(*c*) Automatically every year
(*d*) Only when serious irregularities are suspected

296. How can the Central Registrar or an authorized person make an inspection into the affairs of a Multi-State Co-operative Society?
(*a*) By personal visit without any prior notice
(*b*) By sending a questionnaire to be filled by the society
(*c*) By general or special order in writing
(*d*) By obtaining consent from the society's president

297. Before conducting an inspection, how much notice must be given to the Multi-State Co-operative Society?
(*a*) Seven days
(*b*) Ten days
(*c*) Fifteen days
(*d*) Thirty days

298. What powers does the Central Registrar or an authorized person have during the inspection of a Multi-State Co-operative Society?
(*a*) Access to books, accounts, papers, vouchers, and the power to take custody of property
(*b*) Authority to dissolve the society
(*c*) Ability to replace the current board members
(*d*) Permission to conduct financial audits

299. Which legislation governs a charitable institution formed as a Public Trust in India?
(*a*) Societies Registration Act, 1860
(*b*) Companies Act, 2013
(*c*) Public Trust Act or Indian Trusts Act, 1882
(*d*) Income Tax Act, 1961

300. Under which act is a charitable institution formed as a Society governed?
(*a*) Companies Act, 2013
(*b*) Societies Registration Act, 1860
(*c*) Indian Trusts Act, 1882
(*d*) Foreign Contribution (Regulation) Act, 2010

301. What type of company can a charitable institution be formed as, under the Companies Act, 2013?
(*a*) Section 25 company
(*b*) Section 8 company
(*c*) Section 10 company
(*d*) Section 15 company

302. Which legislation is applicable to charitable institutions concerning foreign contributions?
(*a*) Income Tax Act, 1961
(*b*) Indian Trusts Act, 1882
(*c*) Companies Act, 2013
(*d*) Foreign Contribution (Regulation) Act, 2010

303. What financial statements are required to be prepared by a charitable trust every year?
(*a*) Income statement only
(*b*) Balance sheet and Cash flow statement
(*c*) Balance sheet and Income and expenditure statement
(*d*) Statement of changes in equity

304. What is the responsibility of the auditor regarding the list of books and records maintained by the Trust?

(*a*) Ignore the list if the Trust is small

(*b*) Verify the list for maintaining mandatory books and records

(*c*) Suggest additional books to maintain

(*d*) Only focus on financial statements

305. What should the auditor's working papers include during the audit of a charitable institution?

(*a*) Only financial statements

(*b*) Detailed notes about the evidence, work done, and decisions

(*c*) Only information from the management

(*d*) Certificates issued by the client

306. What is the primary responsibility of the auditor concerning the maintenance of accounts for trusts?

(*a*) Ensure compliance with tax regulations

(*b*) Verify regular and proper maintenance in accordance with applicable laws

(*c*) Determine the market value of trust assets

(*d*) Advise on investment strategies

307. In auditing trusts, what should the auditor check regarding money received in the form of donations?

(*a*) Verify if the donations are spent on personal expenses of trustees

(*b*) Ensure donations are invested for financial growth

(*c*) Confirm if donations are applied as per trust objectives and donor directions

(*d*) Check if donations are distributed among trustees

308. What aspect does the auditor need to confirm concerning the cash balance and vouchers during the audit of trusts?

(*a*) Verify if cash balance is invested in profitable ventures

(*b*) Confirm if cash balance is consistent with accounts

(*c*) Check if vouchers are not maintained to prevent fraud

(*d*) Ensure all cash transactions are in cash books only

309. Which of the following is a part of the auditor's responsibility regarding the production of documents during the audit of trusts?

(*a*) Checking only financial statements

(*b*) Ensuring production of all books and documents required for audit

(*c*) Ignoring the need for vouchers

(*d*) Focusing on cash transactions only

310. What does the auditor need to verify concerning the maintenance of a register of movable and immovable properties in trusts?

(*a*) Confirm if the register is hidden from public view

(*b*) Ensure changes in properties are not communicated to the regional office (*c*) Verify if defects and inaccuracies mentioned in previous audits are rectified

(*d*) Check if the register is maintained by external consultants

311. In the audit of trusts, what is the auditor required to confirm regarding irregular, illegal, or improper expenditures?

(*a*) Ignore irregularities that do not involve trustees

(*b*) Confirm if expenditures align with trustee personal interests

(*c*) Verify if expenditures are in line with the trust's objectives

(*d*) Focus on legal aspects only

312. What does the auditor need to check concerning the maximum and minimum number of trustees in trusts?

(*a*) Ensure there are no trustees

(*b*) Confirm if the number of trustees exceeds the maximum limit

(*c*) Verify if the trust has at least one trustee

(*d*) Confirm if the specified number of trustees is maintained

313. What does the auditor need to confirm concerning the meetings held by trusts as per their instrument?

(*a*) Ignore meeting schedules as they are not crucial

(*b*) Confirm if meetings are held irregularly

(*c*) Ensure meetings are held regularly as per the instrument

(*d*) Focus on financial statements only

314. What should the auditor check regarding the minute books of trust meetings during the audit?

(*a*) Confirm if minute books are hidden from public view

(*b*) Ensure minute books are maintained by external consultants

(*c*) Verify if minute books record the proceedings of meetings

(*d*) Check if minute books are used for personal notes by trustees

315. In auditing trusts, what does the auditor need to confirm regarding the acceptance of cash donations?

(*a*) Ensure cash donations are discouraged

(*b*) Verify if cash donations are accepted over the prescribed limit

(*c*) Confirm if cash donations are invested immediately

(*d*) Ignore the limit on cash donations

316. What should the auditor consider regarding the governing legislation of a society?

(*a*) Check if the society has its own governing rules

(*b*) Confirm registration under the Societies Registration Act, 1860

(*c*) Ignore governing legislation as it is not relevant

(*d*) Focus only on state laws

317. What is the importance of ascertaining the object of a society during an audit?

(*a*) Determine the society's profitability
(*b*) Assess compliance with tax regulations
(*c*) Evaluate the societal impact of its activities
(*d*) Verify membership fees

318. For societies receiving foreign contributions, what must the auditor check for compliance?

(*a*) Verify if foreign contributions are invested for growth
(*b*) Confirm registration under the Income Tax Act
(*c*) Ascertain registration under the Foreign Contribution (Regulation) Act, 2010
(*d*) Ignore foreign contributions as they are not relevant

319. Why is it essential for a society to be registered under the relevant provisions of the Income Tax Act?

(*a*) To increase scrutiny by tax authorities
(*b*) To become eligible for tax exemption on income
(*c*) To attract foreign contributions
(*d*) To enhance social media presence

320. What is the auditor's role concerning internal control when auditing societies?

(*a*) Ignore internal control in audit procedures
(*b*) Assess internal control to design audit procedures, especially for donations and expenditures
(*c*) Focus only on financial statements
(*d*) Verify internal control of external consultants

321. Why should the auditor evaluate accounting policies with special reference to donations and grants in societies?

(*a*) To increase complexity in financial reporting
(*b*) To comply with international accounting standards
(*c*) To identify any inconsistencies in accounting practices
(*d*) To speed up the audit process

322. What should the auditor check regarding expenses reimbursed by donors in societies?

(*a*) Ignore expenses reimbursed by donors
(*b*) Ascertain if these expenses are recognized in financial statements
(*c*) Focus only on expenses incurred by society
(*d*) Verify if donors are involved in society's management

Answer Key

1. (*b*)	**2.** (*a*)	**3.** (*d*)	**4.** (*c*)	**5.** (*c*)	**6.** (*c*)	**7.** (*d*)	**8.** (*c*)	**9.** (*b*)	**10.** (*d*)
11. (*c*)	**12.** (*c*)	**13.** (*b*)	**14.** (*b*)	**15.** (*c*)	**16.** (*b*)	**17.** (*b*)	**18.** (*c*)	**19.** (*b*)	**20.** (*d*)
21. (*b*)	**22.** (*b*)	**23.** (*b*)	**24.** (*b*)	**25.** (*b*)	**26.** (*b*)	**27.** (*b*)	**28.** (*c*)	**29.** (*c*)	**30.** (*b*)
31. (*b*)	**32.** (*b*)	**33.** (*b*)	**34.** (*a*)	**35.** (*c*)	**36.** (*d*)	**37.** (*b*)	**38.** (*b*)	**39.** (*b*)	**40.** (*d*)
41. (*c*)	**42.** (*b*)	**43.** (*b*)	**44.** (*c*)	**45.** (*c*)	**46.** (*c*)	**47.** (*b*)	**48.** (*c*)	**49.** (*b*)	**50.** (*d*)

51. (*a*)	**52.** (*b*)	**53.** (*c*)	**54.** (*d*)	**55.** (*c*)	**56.** (*a*)	**57.** (*b*)	**58.** (*d*)	**59.** (*c*)	**60.** (*b*)
61. (*b*)	**62.** (*c*)	**63.** (*d*)	**64.** (*b*)	**65.** (*b*)	**66.** (*d*)	**67.** (*c*)	**68.** (*b*)	**69.** (*a*)	**70.** (*b*)
71. (*c*)	**72.** (*d*)	**73.** (*c*)	**74.** (*c*)	**75.** (*b*)	**76.** (*d*)	**77.** (*b*)	**78.** (*a*)	**79.** (*b*)	**80.** (*a*)
81. (*b*)	**82.** (*d*)	**83.** (*c*)	**84.** (*b*)	**85.** (*d*)	**86.** (*b*)	**87.** (*a*)	**88.** (*d*)	**89.** (*c*)	**90.** (*b*)
91. (*c*)	**92.** (*d*)	**93.** (*c*)	**94.** (*b*)	**95.** (*c*)	**96.** (*c*)	**97.** (*c*)	**98.** (*b*)	**99.** (*b*)	**100.** (*c*)
101. (*c*)	**102.** (*a*)	**103.** (*b*)	**104.** (*c*)	**105.** (*c*)	**106.** (*b*)	**107.** (*c*)	**108.** (*a*)	**109.** (*b*)	**110.** (*a*)
111. (*b*)	**112.** (*c*)	**113.** (*b*)	**114.** (*b*)	**115.** (*a*)	**116.** (*c*)	**117.** (*c*)	**118.** (*c*)	**119.** (*a*)	**120.** (*b*)
121. (*b*)	**122.** (*b*)	**123.** (*b*)	**124.** (*c*)	**125.** (*b*)	**126.** (*b*)	**127.** (*b*)	**128.** (*b*)	**129.** (*c*)	**130.** (*d*)
131. (*c*)	**132.** (*c*)	**133.** (*b*)	**134.** (*b*)	**135.** (*c*)	**136.** (*c*)	**137.** (*c*)	**138.** (*b*)	**139.** (*b*)	**140.** (*c*)
141. (*c*)	**142.** (*c*)	**143.** (*d*)	**144.** (*a*)	**145.** (*b*)	**146.** (*b*)	**147.** (*d*)	**148.** (*b*)	**149.** (*b*)	**150.** (*d*)
151. (*c*)	**152.** (*c*)	**153.** (*c*)	**154.** (*b*)	**155.** (*a*)	**156.** (*b*)	**157.** (*d*)	**158.** (*c*)	**159.** (*c*)	**160.** (*c*)
161. (*c*)	**162.** (*b*)	**163.** (*d*)	**164.** (*d*)	**165.** (*c*)	**166.** (*b*)	**167.** (*d*)	**168.** (*c*)	**169.** (*b*)	**170.** (*c*)
171. (*c*)	**172.** (*d*)	**173.** (*b*)	**174.** (*a*)	**175.** (*d*)	**176.** (*c*)	**177.** (*c*)	**178.** (*d*)	**179.** (*d*)	**180.** (*b*)
181. (*b*)	**182.** (*a*)	**183.** (*b*)	**184.** (*c*)	**185.** (*d*)	**186.** (*a*)	**187.** (*d*)	**188.** (*b*)	**189.** (*c*)	**190.** (*c*)
191. (*a*)	**192.** (*d*)	**193.** (*b*)	**194.** (*c*)	**195.** (*d*)	**196.** (*c*)	**197.** (*d*)	**198.** (*c*)	**199.** (*b*)	**200.** (*c*)
201. (*c*)	**202.** (*a*)	**203.** (*b*)	**204.** (*c*)	**205.** (*b*)	**206.** (*c*)	**207.** (*b*)	**208.** (*b*)	**209.** (*b*)	**210.** (*c*)
211. (*c*)	**212.** (*b*)	**213.** (*c*)	**214.** (*b*)	**215.** (*c*)	**216.** (*c*)	**217.** (*c*)	**218.** (*c*)	**219.** (*b*)	**220.** (*c*)
221. (*b*)	**222.** (*b*)	**223.** (*c*)	**224.** (*c*)	**225.** (*b*)	**226.** (*c*)	**227.** (*a*)	**228.** (*d*)	**229.** (*c*)	**230.** (*b*)
231. (*a*)	**232.** (*c*)	**233.** (*c*)	**234.** (*b*)	**235.** (*a*)	**236.** (*c*)	**237.** (*c*)	**238.** (*c*)	**239.** (*b*)	**240.** (*b*)
241. (*c*)	**242.** (*c*)	**243.** (*c*)	**244.** (*c*)	**245.** (*b*)	**246.** (*d*)	**247.** (*c*)	**248.** (*b*)	**249.** (*b*)	**250.** (*b*)
251. (*c*)	**252.** (*d*)	**253.** (*c*)	**254.** (*b*)	**255.** (*d*)	**256.** (*b*)	**257.** (*d*)	**258.** (*a*)	**259.** (*d*)	**360.** (*b*)
261. (*c*)	**262.** (*d*)	**263.** (*a*)	**264.** (*b*)	**265.** (*b*)	**266.** (*b*)	**267.** (*b*)	**268.** (*b*)	**269.** (*b*)	**270.** (*c*)
271. (*c*)	**272.** (*b*)	**273.** (*d*)	**274.** (*c*)	**275.** (*c*)	**276.** (*c*)	**277.** (*d*)	**278.** (*d*)	**279.** (*b*)	**280.** (*b*)
281. (*b*)	**282.** (*b*)	**283.** (*c*)	**284.** (*b*)	**285.** (*c*)	**286.** (*c*)	**287.** (*c*)	**288.** (*c*)	**289.** (*c*)	**290.** (*c*)
291. (*c*)	**292.** (*b*)	**293.** (*c*)	**294.** (*b*)	**295.** (*b*)	**296.** (*c*)	**297.** (*c*)	**298.** (*a*)	**299.** (*c*)	**300.** (*b*)
301. (*b*)	**302.** (*d*)	**303.** (*c*)	**304.** (*b*)	**305.** (*b*)	**306.** (*b*)	**307.** (*c*)	**308.** (*b*)	**309.** (*b*)	**310.** (*c*)
311. (*c*)	**312.** (*d*)	**313.** (*c*)	**314.** (*c*)	**315.** (*b*)	**316.** (*b*)	**317.** (*c*)	**318.** (*c*)	**319.** (*b*)	**320.** (*b*)
321. (*c*)	**322.** (*b*)								

SOLUTION

1. (*b*) Ensuring accountability of the executive in respect of public revenue and expenditure
2. (*a*) Public Accounts Committee (PAC)
3. (*d*) All revenue received from direct and indirect taxes, loans, and loan repayments
4. (*c*) Commercial audit
5. (*c*) By adding new concepts, techniques, and procedures
6. (*c*) Systematic and independent examination of financial, administrative, and other operations
7. (*d*) Appraising government policies and providing public accounting of government funds
8. (*c*) Comptroller and Auditor General (C&AG)
9. (*b*) Public accounting of government funds
10. (*d*) Ensuring authorities act in accordance with the Constitution and laws
11. (*c*) Appointed by the President, removed only on grounds of proven misbehavior or incapacity
12. (*c*) Only on grounds of proven misbehavior or incapacity, by a 2/3rd majority of both Houses of Parliament
13. (*b*) Determined by the President in consultation with the C&AG
14. (*b*) Article 149
15. (*c*) The President decides based on the advice of the C&AG
16. (*b*) Appointed by the President; can be removed only on grounds of proven misbehavior or incapacity by a 2/3rd majority of both Houses of Parliament
17. (*b*) Compile and submit accounts of the Union and States
18. (*c*) Grant or loan less than ₹ 25 lakhs, with the amount being less than 75% of the total expenditure
19. (*b*) Scrutinize procedures for fulfilling conditions and access books and accounts
20. (*d*) Accounts of stores and inventory kept in any office or department
21. (*b*) Appointing the auditor and directing the audit process
22. (*b*) Prescribes the form based on the advice of the C&AG
23. (*b*) As per the discretion of the President
24. (*b*) The President may prescribe the form of accounts based on the advice of the C&AG
25. (*b*) Ensuring the efficiency of revenue collection
26. (*b*) Power to inspect any office of accounts, including those responsible for creating initial or subsidiary accounts
27. (*b*) Authority to request the submission of relevant documents to specified places
28. (*c*) Power to put questions, make observations, and call for required information
29. (*c*) If determined necessary for efficient auditing
30. (*b*) Verifying adherence to constitutional and statutory provisions, financial rules, and regulations

31. (*b*) Audit of sanctions
32. (*b*) Ensuring proper utilization of funds allocated
33. (*b*) Identifying cases of improper, avoidable, or ineffective expenditure
34. (*a*) Principle of economic efficiency
35. (*c*) Examining the relationship between goods and services produced and resources used
36. (*d*) Implementation of audit recommendations
37. (*b*) Evaluating the efficiency of financial transactions
38. (*b*) Propriety audit
39. (*b*) Identifying the topic for audit
40. (*d*) A variety of rules, regulations, and orders falling under different categories
41. (*c*) Issuing rules, regulations, and orders to be observed by subordinate authorities
42. (*b*) Prescribing rules and regulations
43. (*b*) Ensuring proper utilization of funds allocated
44. (*c*) Efficiency, economy, and effectiveness audit
45. (*c*) Checking the effectiveness of assessment, collection, and proper allocation of revenues
46. (*c*) Verifying the implementation of adequate regulations and procedures
47. (*b*) The correctness and regularity of accounting for demands, collection, and refunds
48. (*c*) Focusing more on the general than on the particular
49. (*b*) To judge the effectiveness of the assessment procedure
50. (*d*) The Comptroller and Auditor General (C&AG)
51. (*a*) Primary check by the auditor, test check by the supervisor, and control and direction by the group leader
52. (*b*) The correctness and regularity of accounting
53. (*c*) Middle and top levels of the audit hierarchy
54. (*d*) The nature of transactions, their importance, and the total plan of audit
55. (*c*) Ascertaining the effectiveness of inventory control systems
56. (*a*) Quantitative deficiencies in stores held and defects in control systems
57. (*b*) To bring uneconomical purchases to the government's notice
58. (*d*) Ascertaining the accuracy, correctness, and reasonableness of balances
59. (*c*) To confirm the existence of inventories and identify excess or idle inventory
60. (*b*) Departmental enterprises, statutory bodies, government companies
61. (*b*) In the same manner as any government department with commercial accounts
62. (*c*) The Comptroller and Auditor-General of India

63. (*d*) Issues directions to the company auditors and conducts supplementary audit
64. (*b*) Section 143(5)
65. (*b*) Conduct a supplementary audit
66. (*d*) Test audit of the company's accounts
67. (*c*) Processing reviews or appraisals on performance
68. (*b*) Section 143
69. (*a*) System of book-keeping and accounts
70. (*b*) To rectify irregularities and improprieties
71. (*c*) President or Governor
72. (*d*) Presenting factual information, leaving conclusions to the reader
73. (*c*) To provide local services with autonomy
74. (*c*) Cantonal committees
75. (*b*) Regulatory, maintenance, and development
76. (*d*) Others
77. (*b*) Property taxes and octroi
78. (*a*) General purpose grants
79. (*b*) To determine levels of taxation and rates
80. (*a*) Lack of demarcation between legislature and executive
81. (*b*) Inadequate information provision
82. (*d*) State Government
83. (*c*) State government's external audit
84. (*b*) To compensate for losses due to tax takeover
85. (*d*) Lack of comprehensibility
86. (*b*) Inability to function as an inquisitorial body
87. (*a*) Property taxes
88. (*d*) Reporting on the fairness of financial statements
89. (*c*) Surcharging
90. (*b*) Power to appoint auditors
91. (*c*) Poor staffing of municipalities
92. (*d*) Efficiency, economy, and effectiveness
93. (*c*) Local Fund Audit Wing
94. (*b*) Bigger municipalities like Delhi and Mumbai
95. (*c*) Detecting errors and fraud

96. (*c*) Conformity to relevant laws and financial rules
97. (*c*) Sanctions by competent authority
98. (*b*) Provision of funds and authorization
99. (*b*) Economic efficiency and expected results
100. (*c*) Non-profit making
101. (*c*) Both (*a*) and (*b*)
102. (*a*) Exclusion from total income
103. (*b*) Temporary loans for projects
104. (*c*) Project-specific grants
105. (*c*) By checking letters from donors and board resolutions
106. (*b*) Allocating funds for specific goals
107. (*c*) Members of the company
108. (*a*) Specific audit format
109. (*b*) Reviewing the organization's accounting system
110. (*a*) Membership fees
111. (*b*) Ensuring compliance with income tax regulations
112. (*c*) Depreciation and authorizations
113. (*b*) Imprest balances
114. (*b*) Checking bank reconciliation statements
115. (*a*) Internal control system
116. (*c*) Liabilities
117. (*c*) Registration for trusts related to immovable property
118. (*c*) Sole proprietor
119. (*a*) Regulatory requirements
120. (*b*) Incoming auditor
121. (*b*) Prevents misunderstanding
122. (*b*) Partial audit scope
123. (*b*) Partners
124. (*c*) Communicate with the previous auditor
125. (*b*) Nature and scope of the audit
126. (*b*) Disputes
127. (*b*) Audited statements of accounts
128. (*b*) For settling accounts between the partners

129. (*c*) Limitations, if any

130. (*d*) Interest of partners

131. (*c*) Partnership agreement

132. (*c*) Reporting prejudicial effects

133. (*b*) Provisions regarding books of account

134. (*b*) Extraordinary contracts

135. (*c*) Convenient and reliable means

136. (*c*) Audited statements

137. (*c*) Communicate with previous auditor

138. (*b*) 2

139. (*b*) Designated Partners

140. (*c*) Contribution not exceeding INR 25,00,000 and Turnover not exceeding INR 40,00,000

141. (*c*) Books of accounts

142. (*c*) List of all employees

143. (*d*) Both (*a*) and (*b*)

144. (*a*) Settling partnership disputes

145. (*b*) Convenient and reliable means

146. (*b*) Within 60 days of the financial year

147. (*d*) Submitting Statement of Account and Solvency

148. (*b*) Designated Partners

149. (*b*) Anytime during the financial year

150. (*d*) Engagement letter

151. (*c*) Minutes book

152. (*c*) Use it as a reference for various provisions

153. (*c*) Better compliance and management

154. (*b*) Form 11

155. (*a*) Within 30 days from the end of the financial year

156. (*b*) Trust Deed or Regulations

157. (*d*) Comparing amounts with figures published in reports

158. (*c*) Calculations of interest on investments

159. (*c*) Ensuring grants are paid only for charitable purposes

160. (*c*) Calculating interest received on securities

161. (*c*) Inspecting tenancy agreements and rent roll

162. (*b*) Vouching gross receipts and outgoings
163. (*d*) To obtain refunds for deducted income tax
164. (*d*) Confirming payments are for charitable purposes
165. (*c*) Trust Deed or Regulations
166. (*b*) Names in the Students Fee Register
167. (*d*) Referring to Rules prepared by the Managing Committee
168. (*c*) List published with the annual report
169. (*b*) Memo of grant
170. (*c*) Sanction by the Managing Committee
171. (*c*) To inform the Managing Committee
172. (*d*) To show as a liability in the balance sheet
173. (*b*) Keeping them separate
174. (*a*) It has been claimed and recovered
175. (*d*) To ensure compliance with regulations
176. (*c*) To ensure correct preparation of bills
177. (*c*) Tracing entries in the Cash Book with receipts and counterfoils
178. (*d*) Confirming collection of income due
179. (*d*) To meet the agreed-upon purpose
180. (*b*) To authorize and sanction expenses
181. (*b*) Capital expenditure sanctions
182. (*a*) Refund of taxes deducted
183. (*b*) To identify significant budget variations
184. (*c*) Receipt and issue of stores
185. (*d*) To reflect the true value of assets
186. (*a*) Registers
187. (*d*) To validate ledger balances
188. (*b*) Management representation and certificate
189. (*c*) Members' applications and counterfoils
190. (*c*) Trace receipts to the Register of Members
191. (*a*) Correct adjustment of irrecoverable dues
192. (*d*) Irrecoverable Member Dues
193. (*b*) Trace debits from subsidiary registers
194. (*c*) Debits for supplies and services

195. (*d*) Cigars, wines, etc.

196. (*c*) Furniture, sports material, etc.

197. (*d*) Subsidiary registers

198. (*c*) Investments' current values and safe custody

199. (*b*) Serial numbering of tickets

200. (*c*) Reconciliation of cash collected with tickets sold

201. (*c*) Register of 'free passes'

202. (*a*) Tax returns filed monthly

203. (*b*) Cash collected on ticket sales

204. (*c*) Register of Slides and Shorts Exhibited

205. (*b*) All should be treated as revenue expenditure

206. (*c*) Appropriate rate of depreciation

207. (*b*) Bills of distributors

208. (*b*) Fixed sum or percentage receivable annually

209. (*b*) Option to purchase goods in instalments

210. (*c*) The person obtaining possession under the agreement

211. (*c*) The person letting the goods

212. (*b*) Cash price of the goods

213. (*c*) The hire-purchase price and cash price of the goods

214. (*b*) Regularity of instalment payments

215. (*c*) Transfers ownership after the last instalment

216. (*c*) A sufficient description of the goods

217. (*c*) Must be in writing and signed by all parties

218. (*c*) Hirer's credit history

219. (*b*) Remains with the lessor

220. (*c*) Ownership transfer at the end

221. (*b*) Equipment specifications and fitness

222. (*b*) Notify the lessor of acceptance

223. (*c*) Payments are made regularly at agreed-upon intervals

224. (*c*) Returns to the lessor

225. (*b*) Purchase the equipment at fair value

226. (*c*) Major part of the economic life of the asset

227. (*a*) Availability of collateral security

228. (*d*) Does not transfer substantially all risks and rewards of ownership

229. (*c*) Description of lessor and lessee

230. (*b*) Copies of the insurance policies

231. (*a*) Acceptance letter from the lessor

232. (*c*) Paying rentals regularly

233. (*c*) Terms of the agreement

234. (*b*) Pilfering

235. (*a*) Check guest register

236. (*c*) Pay over to proper authorities

237. (*c*) Night auditor

238. (*c*) Correct period and rates

239. (*b*) Occupancy-in-progress report; test with guest register and individual bills

240. (*b*) Controls pilfering and theft

241. (*c*) Keep them locked, with limited key access

242. (*c*) To perform pricing and calculation tests

243. (*c*) On an inventory basis

244. (*c*) Lack of detailed definitions

245. (*b*) Minor renovations

246. (*d*) Operates on a casual basis

247. (*c*) Inadequate wage payment records

248. (*b*) Recovery of money per terms of credit

249. (*b*) Jointly-owned enterprise to meet common needs

250. (*b*) Cooperative Societies Act, 1912

251. (*c*) Play a significant role in the development on scientific lines

252. (*d*) Guidance in accounts writing, installation of accounting system, internal audit, management accounting services, taxation, etc.

253. (*c*) Primarily audit with some mention of other services

254. (*b*) Appointed by the Registrar, report submitted to the society

255. (*d*) All of the above

256. (*b*) Books and accounts to be kept by a co-operative society

257. (*d*) All of the above

258. (*a*) Only to members

259. (*d*) All of the above

260. (*b*) 10%

261. (*c*) Promote co-operative education

262. (*d*) The General Body approval comes after necessary accounting entries

263. (*a*) Charges against profits

264. (*b*) Classify and report overdue debts of 6 months or more

265. (*b*) Exclude it from interest outstanding and accrued due

266. (*b*) Bad debts can be written off only if they are certified as bad by the auditor

267. (*b*) Cost less adequate provision for depreciation

268. (*b*) Focus on achieving social benefits for society members

269. (*b*) In case of any irregularities noticed

270. (*c*) To check for manipulations in book entries

271. (*c*) According to criteria specified by the Registrar

272. (*b*) Discuss the draft audit report with the managing committee

273. (*d*) Appeal to the Registrar and request a review

274. (*c*) Applies to societies whose objects span multiple states

275. (*c*) Funds cannot be utilized for any political purpose

276. (*c*) Particulars related to utilization of materials or labor

277. (*d*) Keeping track of assets and liabilities

278. (*d*) State-specific political activities

279. (*b*) Chartered Accountant under the Chartered Accountants Act, 1949

280. (*b*) Indebtedness exceeding one thousand rupees to the society

281. (*b*) Within one month of the date of registration of the society

282. (*b*) Until the conclusion of the next annual general meeting

283. (*c*) Right of access to books, accounts, and vouchers

284. (*b*) Inquiries about security of loans and advances

285. (*c*) Whether proper books of account have been kept

286. (*c*) If the society's financial position endangers its solvency

287. (*c*) Only a chartered accountant

288. (*c*) The report is sent to the Multi-State Co-operative society for circulation

289. (*c*) Multi-State Co-operative society

290. (*c*) On request from a federal co-operative to which the society is affiliated, creditors, or a specified percentage of members

291. (*c*) Fifteen days

292. (*b*) Access to books, accounts, and summoning persons for examination

293. (*c*) Power to call the meeting himself

294. (*b*) Three months

295. (*b*) On request from a federal co-operative, creditors, or a specified percentage of members

296. (*c*) By general or special order in writing

297. (*c*) Fifteen days

298. (*a*) Access to books, accounts, papers, vouchers, and the power to take custody of property

299. (*c*) Public Trust Act or Indian Trusts Act, 1882

300. (*b*) Societies Registration Act, 1860

301. (*b*) Section 8 company

302. (*d*) Foreign Contribution (Regulation) Act, 2010

303. (*c*) Balance sheet and Income and expenditure statement

304. (*b*) Verify the list for maintaining mandatory books and records

305. (*b*) Detailed notes about the evidence, work done, and decisions

306. (*b*) Verify regular and proper maintenance in accordance with applicable laws

307. (*c*) Confirm if donations are applied as per trust objectives and donor directions

308. (*b*) Confirm if cash balance is consistent with accounts

309. (*b*) Ensuring production of all books and documents required for audit

310. (*c*) Verify if defects and inaccuracies mentioned in previous audits are rectified

311. (*c*) Verify if expenditures are in line with the trust's objectives

312. (*d*) Confirm if the specified number of trustees is maintained

313. (*c*) Ensure meetings are held regularly as per the instrument

314. (*c*) Verify if minute books record the proceedings of meetings

315. (*b*) Verify if cash donations are accepted over the prescribed limit

316. (*b*) Confirm registration under the Societies Registration Act, 1860

317. (*c*) Evaluate the societal impact of its activities

318. (*c*) Ascertain registration under the Foreign Contribution (Regulation) Act, 2010

319. (*b*) To become eligible for tax exemption on income

320. (*b*) Assess internal control to design audit procedures, especially for donations and expenditures

321. (*c*) To identify any inconsistencies in accounting practices

322. (*b*) Ascertain if these expenses are recognized in financial statements

10

CHAPTER

Audit of Banks

MULTIPLE CHOICE QUESTIONS

1. Regulating body in case of banks is:

(*a*) SEBI (*b*) IRDA

(*c*) RBI (*d*) ICAI

2. Which of the following is fund-based advance:

(*a*) Term loans (*b*) Cash credits

(*c*) Demand Loans (*d*) All of the above

3. Which of the following is not classification of NPA-

(*a*) Impaired (*b*) Sub standard

(*c*) Doubtful (*d*) Loss

4. 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

5. 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

6. The LFAR is to be submitted before....................every year

(*a*) 30th April (*b*) 31st May

(*c*) 30th June (*d*) 30th September

7. In case of Frauds involving amount less than INR 1 crores, the auditor should report to the: -

(*a*) Central Government (*b*) Reserve Bank of India

(*c*) Bank's Board/Audit Committee (*d*) Comptroller & Audit General

8. 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

9. 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

10. 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

11. 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

12. Mrs. Reema has availed a Personal Loan for her Boutique of INR 5 lakh 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
(*c*) Higher of the two	(*d*) Both the Activa Loan & the Personal Loan

13. The matters which the banks require their auditors to deal with in the Long Form Audit Report is to be specified by

(*a*) Banking Regulation Act, 1949	(*b*) Central Government
(*c*) Comptroller and Auditor General of India	(*d*) Reserve Bank of India

14. The auditors should classify Credit card accounts as NPA, if __________ amount due, as mentioned in the credit card statement is not paid fully within ________ days from next statement date.

(*a*) Total, 90	(*b*) Minimum, 90
(*c*) Minimum, 30	(*d*) Minimum, 60

15. An agricultural advance is classified as NPA, if interest or principal is overdue for _______ in case of short duration crops or if interest or principal is overdue for__ in case of long duration crops.

(*a*) One crop season, two crop season	(*b*) Two crop season, one crop season
(*c*) 90 days, 120 days	(*d*) 120 days, 90 days

16. The bank is a consortium member of Cash Credit Facilities of 100 crores to Bottle Limited. Bank's own share is Rs 20 crores only. During the last two quarters against a debit of Rs 1.75 crores towards interest the credits in Bottle Ltd's account are to the tune of Rs 1.25 crores only. The auditors have classified the account of Bottle Ltd as performing

(*a*) Incorrect, Bottle ltd is Non Performing Asset (NPA)
(*b*) Correct, Bottle ltd is performing asset
(*c*) Bottle Ltd's classification is subjective
(*d*) None of the above

17. During the stage of "Risk Assessment" in a bank audit, the auditor is required to identify and assess risks. Risks to be identified and assessed include:
(*a*) Risks of Material Misstatements and Risk of Fraud including Money Laundering
(*b*) Risks of Material Misstatements and Risk of Fraud including Money Laundering and Specific Risks
(*c*) Risk Associated with Outsourcing of activities and Risk of Fraud including Money Laundering
(*d*) Risks of Material Misstatements, Risk of Fraud including Money Laundering, Specific Risks and Risk Associated with Outsourcing of activities

18. Which of the following activity is generally not form part of execution stage in a bank audit:
(*a*) Establish Engagement Team
(*b*) Engagement Team Discussions
(*c*) Response to the Assessed Risks
(*d*) Appropriateness of Going Concern

19. You are at the planning stage for one of your firm's client XYZ Bank for the year ended 31st March 2023. The bank is a commercial bank that provides a number of products and services to the general public and other segments of the economy in the area of South Mumbai. You are assigned the audit of one of the branches of XYZ Bank. The audit engagement team was called to have a detailed discussion on the following matters. Which one of the following should not be included in the discussion for the audit of banks?
(*a*) Appointment and remuneration to be received on this engagement
(*b*) Errors of last year in the application of accounting policies of the bank
(*c*) Methods of fraud if any perpetrated by the bank employee within particular balances and/ or dis-closures
(*d*) Effect of the results of the risk assessment procedures on other aspects to decide the nature, timing and extent of further audit procedures

20. M/s. S Ltd. is a MSME unit. The company does multiple banking. The company is availing cash credit limit from U Bank of ₹ 25 crores. The limit availed remained less than ₹ 5.00 crores during all the days of F.Y. 2022-23. The company has not done any credit in cash credit account during the year as it is operating current account in newly opened another bank branch adjoining to company premises. The company is having sufficient security of stocks and debtors and DP of ₹ 25.00 crores remains all over the year. The company is availing term loans from other bank branches. Now the Bank Manager is insisting to route the sale proceeds through U Bank, otherwise cash credit limit and term loan accounts with other banks will be treated as Non-Performing Accounts
(*a*) Cash credit facility with U Bank need to be classified as NPA as there is no credit in the account to serve the interest charged in the account. Classification of term loan with other banks depends upon the payment made to that bank
(*b*) Cash credit facility with U Bank as well term loans with other bank branches need to be classified as NPA

(*c*) Cash credit facility with U Bank as well term loans with other bank branches need to be classified as performing

(*d*) Cash credit facility with U Bank need to be classified as performing whereas classification of term loan with other banks depends upon the payment made to that bank

21. Which of the following is correct in the case of Banks?

(*a*) The policy of income recognition should be objective

(*b*) The policy of income recognition should be subjective

(*c*) The policy of income recognition maybe objective or subjective

(*d*) The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations

22. In the course of audit of Good Samaritan Bank as at 31st March 2023 you observed the following: in a particular account there was no recovery in the past 18 months. The bank has not applied the NPA norms as well as income recognition norms to this particular account. When queried the bank management replied that this account was guaranteed by the central government and hence these norms were not applicable. The bank has not invoked the guarantee

(*a*) Bank is correct to the extent of not applying the NPA norms for provisioning purposes. But this exemption is not available in respect of income recognition norms

(*b*) Bank is not correct to the extent of not applying the NPA norms for provisioning purposes. But this exemption is available in respect of income recognition norms

(*c*) Bank is correct in not applying the NPA norms and income recognition norms

(*d*) Bank is not correct in not applying the NPA norms and income recognition norms

23. In carrying out audit of deposits and liabilities in a bank, the auditor is primarily concerned with obtaining ________ that all known liabilities are recorded and stated at appropriate amounts

(*a*) Absolute assurance

(*b*) Reasonable assurance

(*c*) Moderate assurance

(*d*) Limited assurance

24. Management develops controls and uses performance indicators to aid in managing key business and financial risks. Requirements of Risk Management System in a Bank may include:

1. Oversight by Those Charged with Governance
2. Identification, measurement and monitoring of risks
3. Control activities
4. Monitoring activities
5. Reliable information systems
6. Assess the Risk of Fraud including Money Laundering by audit team
7. Identifying and Assessing the Risks of Material Misstatements by auditor
8. Assess Specific Risks at engagement level that may cause material misstatement

Identify the requirements:

(*a*) 1, 2, 3 and 4

(*b*) 5, 6, 7 and 8

(*c*) 1, 2, 3,4 and 5

(*d*) 6, 7 and 8

25. Which of the following is correct?

(*a*) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a Firm of Chartered Accountants only.

(*b*) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.

(*c*) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company; should be audited by a CAG Auditor only.

(*d*) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under Banking Law.

26. In addition to the main audit report, Statutory Central Auditors are required to issue other reports/ certificates. Which of the following is not covered within their scope?

(*a*) Report on adequacy and operating effectiveness of Internal Controls Over Financial Reporting in case of banks which are registered as companies under the Companies Act in terms of Section 143(3)(1) of the Companies Act, 2013.

(*b*) Long form audit report (LFAR).

(*c*) Report on compliance with Statutory Liquidity Ratio.

(*d*) Unit Inspection Reports

27. Under the Banking Regulation Act, what is the frequency of the statutory audit of banks in India?

(*a*) Half-yearly

(*b*) Quarterly

(*c*) Annually

(*d*) Biennially

28. Which accounting standards are followed by banks in India for the preparation of financial statements?

(*a*) Indian Accounting Standards (Ind AS)

(*b*) Generally Accepted Accounting Principles (GAAP)

(*c*) International Financial Reporting Standards (IFRS)

(*d*) Indian Financial Reporting Standards (IFRS)

29. What is the primary objective of the Concurrent Audit system introduced by RBI for banks in India?

(*a*) To assess operational efficiency

(*b*) To monitor day-to-day transactions in real-time

(*c*) To confirm compliance with tax regulations

(*d*) To evaluate the effectiveness of internal controls

30. What is the primary focus of the auditor when assessing the Non-Performing Assets (NPAs) during the audit of a bank in India?

(*a*) Evaluating the adequacy of loan loss provisions

(*b*) Confirming the accuracy of fixed asset balances

(c) Assessing market risks
(d) Verifying the valuation of inventory

31. In the context of bank audit, what is the primary objective of the auditor regarding internal controls?
(a) To identify opportunities for cost reduction
(b) To express an opinion on the effectiveness of management
(c) To provide assurance on the reliability of financial reporting
(d) To determine the market value of the bank's stock

32. Under the Risk-Based Internal Audit (RBIA) framework, what is the primary consideration for the auditor?
(a) Evaluating the bank's investment portfolio
(b) Confirming the accuracy of petty cash transactions
(c) Assessing the bank's compliance with SEBI regulations
(d) Reviewing the effectiveness of internal controls

33. What is the primary responsibility of the auditor regarding the Management Representation Letter in the context of a bank audit?
(a) To draft the letter on behalf of the management
(b) To review and sign the letter
(c) To obtain and evaluate the letter from the management
(d) To ignore the letter as it is not a mandatory requirement

34. In the audit of a bank, which risk is associated with the fluctuation in interest rates affecting the bank's net interest income?
(a) Credit risk
(b) Liquidity risk
(c) Market risk
(d) Operational risk

35. What is the primary focus of the auditor when reviewing a bank's compliance with Know Your Customer (KYC) norms?
(a) Assessing market risks
(b) Verifying the valuation of inventory
(c) Confirming the accuracy of fixed asset balances
(d) Ensuring compliance with regulatory requirements.

36. Under the Internal Capital Adequacy Assessment Process (ICAAP), what is the auditor primarily concerned with?
(a) Assessing the bank's marketing strategy
(b) Evaluating the adequacy of loan loss provisions
(c) Reviewing the effectiveness of internal controls
(d) Confirming the accuracy of cash balances

37. What is the role of the auditor in assessing the appropriateness of the Risk-Based Internal Audit (RBIA) framework?
(*a*) Confirming the accuracy of fixed asset balances
(*b*) Reviewing the effectiveness of internal controls
(*c*) Evaluating the bank's investment portfolio
(*d*) Assessing the market value of bank premises

38. What is the primary consideration for the auditor when reviewing the valuation of financial instruments in a bank's portfolio?
(*a*) Confirming the accuracy of petty cash transactions
(*b*) Assessing the bank's compliance with SEBI regulations
(*c*) Evaluating the adequacy of loan loss provisions
(*d*) Ensuring compliance with accounting standards

39. In the context of a bank audit, what is the purpose of the auditor's assessment of the Going Concern assumption?
(*a*) To confirm compliance with tax regulations
(*b*) To assess the bank's operational efficiency
(*c*) To evaluate the bank's market risks
(*d*) To ensure the bank can continue its operations for the foreseeable future

40. Which document provides the framework for the auditor's independence in the context of a bank audit?
(*a*) Companies Act, 2013
(*b*) Banking Regulation Act, 1949
(*c*) Chartered Accountants Act, 1949
(*d*) SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

41. What is the primary focus of the auditor when assessing the quality of the bank's loan portfolio during an audit?
(*a*) Verifying the valuation of inventory
(*b*) Confirming the accuracy of fixed asset balances
(*c*) Assessing the adequacy of loan loss provisions
(*d*) Evaluating the bank's investment portfolio

42. In the audit of banks, what is the significance of the Management's Responsibility section in the auditor's report?
(*a*) To emphasize the role of the auditor
(*b*) To disclose any limitations in the audit process
(*c*) To outline the responsibilities of the bank's management
(*d*) To confirm compliance with tax regulations

43. What does "Drawing Power" refer to in the context of bank financing?
(*a*) The power of the bank to demand repayment of the loan
(*b*) The borrower's ability to withdraw funds from the sanctioned limit

(*c*) The interest rate applied to the loan
(*d*) The bank's authority to approve loan applications

44. Which of the following factors is NOT typically considered when determining the drawing power of a borrower?
(*a*) Value of collateral
(*b*) Creditworthiness of the borrower
(*c*) Prevailing interest rates
(*d*) Economic conditions

45. In the context of working capital finance, what is the relationship between drawing power and the outstanding loan amount?
(*a*) Drawing power is always equal to the outstanding loan amount
(*b*) Drawing power is higher than the outstanding loan amount
(*c*) Drawing power is lower than the outstanding loan amount
(*d*) Drawing power is unrelated to the outstanding loan amount

46. Which financial statement is commonly used by banks to assess the drawing power of a borrower?
(*a*) Income Statement
(*b*) Cash Flow Statement
(*c*) Balance Sheet
(*d*) Statement of Changes in Equity

47. What role does the "Stock Statement" play in the assessment of drawing power?
(*a*) It provides information about the borrower's ownership structure
(*b*) It details the borrower's current stock of goods and inventory
(*c*) It outlines the borrower's historical stock prices
(*d*) It assesses the borrower's fixed assets

48. How does an increase in the value of the borrower's collateral affect the drawing power?
(*a*) Increases drawing power
(*b*) Decreases drawing power
(*c*) Has no impact on drawing power
(*d*) Makes drawing power irrelevant

49. In the context of project financing, what is the impact of project delays on drawing power?
(*a*) Increases drawing power
(*b*) Decreases drawing power
(*c*) Has no impact on drawing power
(*d*) Drawing power becomes negative

50. What is the significance of the "Margin" in relation to drawing power?
(*a*) It is the difference between the sanctioned limit and the drawing power
(*b*) It represents the interest charged by the bank
(*c*) It is the maximum amount a borrower can draw
(*d*) It refers to the profit margin of the borrower's business

51. Which regulatory body provides guidelines to banks on the computation and monitoring of drawing power?
(*a*) Institute of Chartered Accountants of India (ICAI)
(*b*) Reserve Bank of India (RBI)
(*c*) Securities and Exchange Board of India (SEBI)
(*d*) Ministry of Finance

52. How does the drawing power influence the availability of funds for a borrower?

(*a*) Higher drawing power leads to more available funds

(*b*) Lower drawing power increases available funds

(*c*) Drawing power has no impact on fund availability

(*d*) Higher drawing power decreases available funds

53. In the context of drawing power, what is the purpose of the "DP Statement" provided by the borrower to the bank?

(*a*) To explain the borrower's business plan

(*b*) To detail the borrower's personal expenses

(*c*) To update the bank on market conditions

(*d*) To show the computation of drawing power

54. Which of the following is a factor that may lead to a reduction in drawing power?

(*a*) Increase in the value of inventory

(*b*) Decrease in the creditworthiness of the borrower

(*c*) Improvement in economic conditions

(*d*) Expansion of the borrower's business

55. What does "DP Margin" represent in the context of drawing power?

(*a*) The percentage of drawing power already utilized

(*b*) The difference between sanctioned limit and drawing power

(*c*) The interest rate charged on the outstanding amount

(*d*) The minimum margin required by the bank

56. How does the drawing power concept apply to cash credit facilities?

(*a*) It determines the interest rate applicable to the facility

(*b*) It sets the maximum limit for cash withdrawals

(*c*) It regulates the repayment schedule

(*d*) It is irrelevant for cash credit facilities

57. In the context of drawing power, what is the significance of the "DP Statement Date"?

(*a*) The date on which the borrower can withdraw funds

(*b*) The date on which the drawing power is calculated

(*c*) The date on which the borrower repays the loan

(*d*) The date on which the interest is charged

58. How does a decrease in the value of the borrower's inventory impact drawing power?

(*a*) Increases drawing power (*b*) Decreases drawing power

(*c*) Has no impact on drawing power (*d*) Makes drawing power negative

59. What is the role of the "Credit Information Bureau (India) Limited (CIBIL)" in the context of drawing power?

(*a*) It determines the interest rate applicable to the facility

(*b*) It assesses the creditworthiness of the borrower

(*c*) It calculates the maximum limit for cash withdrawals
(*d*) It provides information on market conditions

60. How does the drawing power affect the bank's risk in lending to a borrower?
(*a*) Higher drawing power reduces the bank's risk
(*b*) Lower drawing power increases the bank's risk
(*c*) Drawing power has no impact on the bank's risk
(*d*) The bank's risk is determined by the interest rate

61. What is the primary purpose of monitoring drawing power regularly by banks?
(*a*) To determine the borrower's business strategy
(*b*) To assess the profitability of the borrower's business
(*c*) To ensure compliance with regulatory guidelines
(*d*) To set the interest rate for the facility

62. What is the significance of the "DP Statement Period" in the context of drawing power?
(*a*) It is the duration for which the borrower can utilize the sanctioned limit
(*b*) It is the time during which the interest is calculated
(*c*) It is the period over which the drawing power is assessed
(*d*) It is the frequency at which the borrower submits financial statements

63. What is the primary purpose of the Long Form Audit Report (LFAR) in the context of a bank audit?
(*a*) To provide a detailed analysis of financial statements
(*b*) To comply with international accounting standards
(*c*) To report on the internal control system of the bank
(*d*) To assess the market risks associated with the bank's investments

64. Which regulatory body mandates the submission of the LFAR by banks in India?
(*a*) Securities and Exchange Board of India (SEBI)
(*b*) Reserve Bank of India (RBI)
(*c*) Institute of Chartered Accountants of India (ICAI)
(*d*) Ministry of Finance

65. In LFAR, what does the term "ALM" stand for?
(*a*) Asset Liability Management
(*b*) Accounting and Liability Management
(*c*) Audit and Legal Management
(*d*) Asset and Loan Management

66. What aspect of a bank's operations does LFAR primarily focus on?
(*a*) Marketing strategy
(*b*) Profitability analysis
(*c*) Internal control system
(*d*) Cash flow management

67. Which of the following is a key area covered in LFAR related to credit risk management?
(*a*) Assessment of marketing strategies
(*b*) Evaluation of the loan portfolio
(*c*) Analysis of profitability ratios
(*d*) Review of cash management practices

68. Under LFAR, what is the auditor's responsibility regarding the "Asset Classification and Provisioning"?

(*a*) Assessing the bank's marketing strategy
(*b*) Confirming the accuracy of fixed asset balances
(*c*) Evaluating the adequacy of loan loss provisions
(*d*) Reviewing the effectiveness of internal controls

69. Which section of LFAR primarily deals with the examination of compliance with statutory and regulatory guidelines?

(*a*) Section I - Capital Adequacy
(*b*) Section II - Asset Quality
(*c*) Section III - Management of Income and Expenditure
(*d*) Section IV - Compliance

70. What is the significance of the "Annual Review of Inspection Reports" in LFAR?

(*a*) It assesses the market risks associated with the bank's investments
(*b*) It provides insights into the internal control weaknesses
(*c*) It evaluates the effectiveness of the bank's marketing strategies
(*d*) It confirms the accuracy of fixed asset balances

71. Under LFAR, what is the primary purpose of the "Management's Response" section?

(*a*) To outline the responsibilities of the bank's management
(*b*) To detail the bank's profitability analysis
(*c*) To provide explanations for the identified weaknesses
(*d*) To confirm compliance with tax regulations

72. Which of the following areas is covered in LFAR under the section on "Asset Quality"?

(*a*) Review of accounting policies
(*b*) Evaluation of capital adequacy
(*c*) Assessment of the internal audit function
(*d*) Examination of the loan portfolio

Answer Key

1. (*c*)	**2.** (*d*)	**3.** (*a*)	**4.** (*b*)	**5.** (*a*)	**6.** (*c*)	**7.** (*c*)	**8.** (*a*)	**9.** (*d*)	**10.** (*b*)
11. (*c*)	**12.** (*d*)	**13.** (*d*)	**14.** (*b*)	**15.** (*b*)	**16.** (*a*)	**17.** (*d*)	**18.** (*a*)	**19.** (*a*)	**20.** (*a*)
21. (*d*)	**22.** (*a*)	**23.** (*b*)	**24.** (*b*)	**25.** (*b*)	**26.** (*d*)	**27.** (*c*)	**28.** (*a*)	**29.** (*b*)	**30.** (*a*)
31. (*c*)	**32.** (*d*)	**33.** (*c*)	**34.** (*c*)	**35.** (*d*)	**36.** (*b*)	**37.** (*b*)	**38.** (*d*)	**39.** (*d*)	**40.** (*c*)
41. (*c*)	**42.** (*c*)	**43.** (*b*)	**44.** (*c*)	**45.** (*c*)	**46.** (*c*)	**47.** (*b*)	**48.** (*a*)	**49.** (*b*)	**50.** (*a*)
51. (*b*)	**52.** (*a*)	**53.** (*d*)	**54.** (*b*)	**55.** (*d*)	**56.** (*b*)	**57.** (*b*)	**58.** (*b*)	**59.** (*b*)	**60.** (*b*)
61. (*c*)	**62.** (*c*)	**63.** (*c*)	**64.** (*b*)	**65.** (*a*)	**66.** (*c*)	**67.** (*b*)	**68.** (*c*)	**69.** (*d*)	**70.** (*b*)
71. (*c*)	**72.** (*d*)								

SOLUTION

1. (*c*) RBI
2. (*d*) All of the above
3. (*a*) Impaired
4. (*b*) Developing an Audit Plan
5. (*a*) The Bank concerned through its Board of Directors
6. (*c*) 30th June
7. (*c*) Bank's Board/Audit Committee
8. (*a*) Bank Guarantee
9. (*d*) Cash Credit Limit
10. (*b*) Lead bank
11. (*c*) Assignment
12. (*d*) Both the Activa Loan & the Personal Loan
13. (*d*) Reserve Bank of India
14. (*b*) Minimum, 90
15. (*b*) Two crop season, one crop season
16. (*a*) Incorrect, Bottle ltd is Non Performing Asset (NPA)
17. (*d*) Risks of Material Misstatements, Risk of Fraud including Money Laundering, Specific Risks and Risk Associated with Outsourcing of activities
18. (*a*) Establish Engagement Team
19. (*a*) Appointment and remuneration to be received on this engagement
20. (*a*) Cash credit facility with U Bank need to be classified as NPA as there is no credit in the account to serve the interest charged in the account. Classification of term loan with other banks depends upon the payment made to that bank
21. (*d*) The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations
22. (*a*) Bank is correct to the extent of not applying the NPA norms for provisioning purposes. But this exemption is not available in respect of income recognition norms
23. (*b*) Reasonable assurance
24. (*b*) 5, 6, 7 and 8
25. (*b*) Sub-section (1) of section 30 of the Banking Regulation Act, 1949 requires that the balance sheet and profit and loss account of a banking company should be audited by a person duly qualified under any law for the time being in force to be an auditor of companies.
26. (*d*) Unit Inspection Reports
27. (*c*) Annually

28. (*a*) Indian Accounting Standards (Ind AS)

29. (*b*) To monitor day-to-day transactions in real-time

30. (*a*) Evaluating the adequacy of loan loss provisions

31. (*c*) To provide assurance on the reliability of financial reporting

32. (*d*) Reviewing the effectiveness of internal controls

33. (*c*) To obtain and evaluate the letter from the management

34. (*c*) Market risk

35. (*d*) Ensuring compliance with regulatory requirements

36. (*b*) Evaluating the adequacy of loan loss provisions

37. (*b*) Reviewing the effectiveness of internal controls

38. (*d*) Ensuring compliance with accounting standards

39. (*d*) To ensure the bank can continue its operations for the foreseeable future

40. (*c*) Chartered Accountants Act, 1949

41. (*c*) Assessing the adequacy of loan loss provisions

42. (*c*) To outline the responsibilities of the bank's management

43. (*b*) The borrower's ability to withdraw funds from the sanctioned limit

44. (*c*) Prevailing interest rates

45. (*c*) Drawing power is lower than the outstanding loan amount

46. (*c*) Balance Sheet

47. (*b*) It details the borrower's current stock of goods and inventory

48. (*a*) Increases drawing power

49. (*b*) Decreases drawing power

50. (*a*) It is the difference between the sanctioned limit and the drawing power

51. (*b*) Reserve Bank of India (RBI)

52. (*a*) Higher drawing power leads to more available funds

53. (*d*) To show the computation of drawing power

54. (*b*) Decrease in the creditworthiness of the borrower

55. (*d*) The minimum margin required by the bank

56. (*b*) It sets the maximum limit for cash withdrawals

57. (*b*) The date on which the drawing power is calculated

58. (*b*) Decreases drawing power

59. (*b*) It assesses the creditworthiness of the borrower

60. (*b*) Lower drawing power increases the bank's risk

61. (*c*) To ensure compliance with regulatory guidelines
62. (*c*) It is the period over which the drawing power is assessed
63. (*c*) To report on the internal control system of the bank
64. (*b*) Reserve Bank of India (RBI)
65. (*a*) Asset Liability Management
66. (*c*) Internal control system
67. (*b*) Evaluation of the loan portfolio
68. (*c*) Evaluating the adequacy of loan loss provisions
69. (*d*) Section IV - Compliance
70. (*b*) It provides insights into the internal control weaknesses
71. (*c*) To provide explanations for the identified weaknesses
72. (*d*) Examination of the loan portfolio

CHAPTER 11

Ethics and Terms of Audit Engagement

MULTIPLE CHOICE QUESTIONS

1. What does the term "Ethics" primarily refer to?

(*a*) Legal principles
(*b*) Moral principles
(*c*) Scientific principles
(*d*) Economic principles

2. Where does ethics originate?

(*a*) External regulations
(*b*) Cultural norms
(*c*) Intrinsic to individuals
(*d*) Government laws

3. What is the key aspect of fostering a culture of ethics?

(*a*) External enforcement
(*b*) Inherent resistance
(*c*) Strong intrinsic force
(*d*) Compliance with rules

4. Why is the requirement of ethics in auditing considered manifold?

(*a*) Legal obligations
(*b*) Increased complexity
(*c*) High level of public trust
(*d*) Government regulations

5. What is the primary purpose of assurance engagements in the auditing profession?

(*a*) Maximizing personal gain
(*b*) Enhancing public confidence
(*c*) Satisfying individual interests
(*d*) Minimizing professional responsibilities

6. What is the basis of professional ethics?

(*a*) Legal regulations
(*b*) Human nature
(*c*) Personal gain
(*d*) Financial interests

7. What does the passage suggest about the relationship between professional bodies and public interest?

(*a*) It is irrelevant
(*b*) It is narrow
(*c*) It is broad
(*d*) It is restrictive

8. What distinguishes the accountancy profession?

(*a*) Financial gain
(*b*) Legal obligations

(*c*) Acceptance of responsibility in the public interest
(*d*) Personal interests

9. What does professional ethics seek to protect?
(*a*) Individual interests (*b*) Public interests
(*c*) Personal gain (*d*) Legal obligations

10. What does the Institute of Chartered Accountants of India (ICAI) require its members to comply with?
(*a*) Legal obligations (*b*) Financial regulations
(*c*) Professional ethics (*d*) Personal interests

11. What action may be taken against Chartered Accountants for deviation from ethical responsibilities?
(*a*) Taxation
(*b*) Legal action
(*c*) Fines, suspension, or other disciplinary actions
(*d*) Public recognition

12. What is the philosophy of the accountancy profession regarding ethical compliance?
(*a*) Legal enforcement (*b*) Personal gain
(*c*) Disciplinary action (*d*) Ethical compliance

13. What is the primary purpose of the code of ethics for Chartered Accountants mentioned in the passage?
(*a*) Maximizing personal gain (*b*) Enhancing professional reputation
(*c*) Satisfying legal obligations (*d*) Governing professional conduct

14. What is the primary focus of a principles-based approach to ethics?
(*a*) Strict adherence to established rules (*b*) Narrow interpretation of ethical guidelines
(*c*) Compliance with the spirit of ethics (*d*) Rigid application of professional judgment

15. How does a principles-based approach differ from a rules-based approach in ethical guidance?
(*a*) It relies on professional judgment and expertise
(*b*) It strictly adheres to established rules
(*c*) It overlooks the spirit of ethics
(*d*) It is more rigid in dealing with practical situations

16. What potential drawback is associated with a rules-based approach to ethics?
(*a*) Flexibility in decision-making (*b*) Overlooking the spirit of ethics
(*c*) Enhanced professional judgment (*d*) Narrow outlook

17. Why does a rules-based approach may be somewhat rigid?
(*a*) Due to its flexibility in practical situations (*b*) Because it relies on professional judgment
(*c*) It strictly adheres to established rules (*d*) It promotes a broad outlook

18. Why is it necessary to follow the spirit of the code in ethical guidance?

(*a*) To promote a narrow outlook

(*b*) To ensure rigid application of rules

(*c*) To enhance professional judgment

(*d*) To prevent overlooking the spirit of ethics

19. What does "independence" mean in the context of an auditor's responsibilities?

(*a*) Following ethical guidelines rigorously

(*b*) Subordinating judgment to the wishes of the client

(*c*) Remaining alert to potential ethical violations

(*d*) Ensuring compliance with legal regulations

20. How should the engagement partner handle situations where there is evidence of non-compliance with ethical requirements by members of the engagement team?

(*a*) Address it independently without consulting others in the firm

(*b*) Ignore the non-compliance if it doesn't impact the audit engagement

(*c*) Consult with others in the firm and determine appropriate action

(*d*) Report it directly to the client for resolution

21. What is one of the responsibilities of the engagement partner in relation to independence requirements?

(*a*) Delegate the evaluation of independence to the engagement team

(*b*) Form a conclusion on compliance with independence requirements

(*c*) Withdraw from the audit engagement without evaluation

(*d*) Minimize communication with the firm on independence matters

22. What action should the engagement partner take if there are identified breaches of the firm's independence policies and procedures?

(*a*) Ignore the breaches if they don't impact the audit engagement

(*b*) Report the breaches only to the relevant engagement team members

(*c*) Evaluate the breaches and take appropriate action to eliminate or reduce threats

(*d*) Withdraw from the audit engagement without further investigation

23. In addition to independence, what is another consideration during preliminary engagement activities?

(*a*) Marketing strategies for the firm

(*b*) Client continuance and compliance with ethical requirements

(*c*) Internal control assessment

(*d*) Financial statement preparation techniques

24. Why is it in the interests of both the entity and the auditor to send an audit engagement letter before the commencement of the audit?

(*a*) To increase audit fees

(*b*) To establish a formal contract between the entity and the auditor

(*c*) To avoid misunderstandings regarding the terms of the engagement

(*d*) To expedite the audit process

25. What is the key characteristic of a principles-based approach to ethics?
(*a*) Strict adherence to established rules
(*b*) Narrow outlook on ethical considerations
(*c*) Compliance with the spirit of ethics
(*d*) Rigid application of professional judgment

26. What does a rules-based approach to ethics primarily rely on?
(*a*) Professional judgment
(*b*) Compliance with the spirit of ethics
(*c*) Clearly established rules
(*d*) Flexibility in handling practical situations

27. Why might a rules-based approach be criticized?
(*a*) It encourages professional judgment
(*b*) It fosters a narrow outlook on ethics
(*c*) It allows flexibility in handling practical situations
(*d*) It strictly adheres to the spirit of ethics

28. What does the fundamental principle of Integrity require from a professional accountant?
(*a*) Compliance with all laws and regulations
(*b*) Avoidance of conflicts of interest
(*c*) Fair dealing and truthfulness
(*d*) Strict adherence to technical standards

29. When may a professional accountant disclose confidential information according to the Confidentiality principle?
(*a*) Only when required by law
(*b*) Whenever the accountant deems it necessary
(*c*) Only with the client's authorization
(*d*) Never, as confidentiality is absolute

30. What does the principle of Objectivity require a professional accountant to avoid?
(*a*) Compliance with regulations
(*b*) Undue influence on professional judgment
(*c*) Maintaining a biased perspective
(*d*) Disclosure of confidential information

31. Which fundamental principle emphasizes the responsibility to act carefully, thoroughly, and on a timely basis?
(*a*) Integrity
(*b*) Objectivity
(*c*) Professional competence and due care
(*d*) Professional behavior

32. Under what circumstances can a professional accountant disclose confidential information without violating the principle of confidentiality?
(*a*) Always, if it serves the accountant's interest
(*b*) Only when authorized by the client or employer
(*c*) Only when permitted by law and authorized by the client or employer
(*d*) Never, as confidentiality is absolute

33. What is the essence of the principle of Professional Behavior?
(*a*) Strict adherence to laws and regulations
(*b*) Avoidance of conflicts of interest
(*c*) Compliance with technical and professional standards
(*d*) Avoidance of activities that might impair the integrity or reputation of the profession

34. Which principle requires a professional accountant to act diligently and in accordance with applicable technical and professional standards?

(*a*) Integrity
(*b*) Objectivity
(*c*) Professional competence and due care
(*d*) Professional behavior

35. What does the principle of Professional Behavior require regarding laws and regulations?

(*a*) Strict compliance with all laws and regulations
(*b*) Compliance only when convenient
(*c*) Avoidance of any conduct that discredits the profession
(*d*) Disregard for legal considerations

36. When is it acceptable for a professional accountant to knowingly engage in an activity that might impair the integrity, objectivity, or good reputation of the profession?

(*a*) When it is personally beneficial
(*b*) Only with client authorization
(*c*) Never, as it is incompatible with fundamental principles
(*d*) When no regulations are violated

37. What is a key aspect of the Confidentiality principle that serves the public interest?

(*a*) Facilitating the free flow of information
(*b*) Restricting the flow of information
(*c*) Only disclosing information to third parties
(*d*) Limiting information sharing with clients

38. What is the key implication of independence in the context of professional judgment for auditors?

(*a*) Subordination to the wishes of the client
(*b*) Compliance with superficial legal standards
(*c*) Provision of an opinion unaffected by compromising influences
(*d*) Adherence to visible standards of independence

39. How is "independence" defined in context to professional integrity?

(*a*) Strict adherence to legal standards
(*b*) A condition of mind and personal character
(*c*) Conformance to visible standards imposed by law
(*d*) Superficial compliance with professional conduct rules

40. What are the two interlinked perspectives of auditor independence?

(*a*) Independence of appearance and adherence
(*b*) Independence in judgment and appearance
(*c*) Independence of character and compliance
(*d*) Independence of mind and independence in appearance

41. Why is independence crucial for auditors in the context of financial statements?

(*a*) To enforce legal standards
(*b*) To maintain superficial compliance
(*c*) To maintain confidence in users of financial statements
(*d*) To satisfy personal interests

42. What is "independence in appearance"?

(*a*) Adherence to legal standards
(*b*) Avoidance of facts and circumstances compromising professional judgment
(*c*) Superficial compliance with professional conduct rules
(*d*) Independence of character and compliance

43. Why does the passage highlight the importance of independence in the relationship between auditors and clients?

(*a*) To emphasize compliance with legal standards
(*b*) To ensure adherence to visible standards
(*c*) To maintain the appearance of independence
(*d*) To instill confidence in users of financial statements

44. What does the passage suggest about the relationship between legal standards and the quality of independence?

(*a*) Legal standards ensure the existence of independence
(*b*) Legal standards may be relaxed or strengthened, but independence remains unaltered
(*c*) Legal standards define the essence of independence
(*d*) Legal standards compromise the quality of independence

45. In what context does independence of an auditor become significant?

(*a*) Compliance with personal interests
(*b*) Providing financial advice to clients
(*c*) Confidence in users of financial statements
(*d*) Superficial adherence to legal standards

46. Why is independence considered a subjective matter?

(*a*) It is defined by legal rules
(*b*) It depends on the state of mind and character of a person
(*c*) It is superficial and visible
(*d*) It is imposed by law

47. What duty does the passage emphasize for every Chartered Accountant regarding independence?

(*a*) Compliance with legal rules
(*b*) Placement in a position compromising independence
(*c*) Conformance to superficial legal standards
(*d*) Determination of independence in given circumstances

48. What is the key implication of independence in the context of professional judgment for auditors?
(*a*) Subordination to the wishes of the client
(*b*) Compliance with superficial legal standards
(*c*) Provision of an opinion unaffected by compromising influences
(*d*) Adherence to visible standards of independence

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(*c*) Conformance to superficial legal standards

(*d*) Determination of independence in given circumstances

58. Which type of threat to auditor independence occurs when there is a direct financial interest or a materially significant indirect financial interest in an audit client?

(*a*) Self-review threats

(*b*) Advocacy threats

(*c*) Familiarity threats

(*d*) Self-interest threats

59. In what situation can self-review threats to auditor independence arise?

(*a*) Close business relationship with an audit client

(*b*) Performance of services that are subject matters of audit

(*c*) Acceptance of significant gifts from the client

(*d*) Loan or guarantee to or from the client

60. Which type of threat to auditor independence involves promoting a client's opinion to a point where objectivity may be compromised?

(*a*) Familiarity threats

(*b*) Self-interest threats

(*c*) Advocacy threats

(*d*) Intimidation threats

61. What is the primary concern of familiarity threats to auditor independence?

(*a*) Auditor intimidation

(*b*) Acceptance of significant gifts

(*c*) Rotation of auditors

(*d*) Being too sympathetic to the client's interests

62. When do self-interest threats occur in the context of audit engagements?

(*a*) When auditors form relationships with the client

(*b*) When there is a threat of replacement over disagreements

(*c*) When performing services subject to audit
(*d*) When auditors are deterred from acting objectively

63. What type of threat occurs when auditors are deterred from acting objectively due to the threat of replacement or pressure to reduce work in response to reduced audit fees?
(*a*) Intimidation threats
(*b*) Familiarity threats
(*c*) Advocacy threats
(*d*) Self-review threats

64. In the context of familiarity threats, what does the rotation of auditors aim to address?
(*a*) Pressure to disproportionately reduce work
(*b*) Long association between auditors and client counterparts
(*c*) Acceptance of significant gifts or hospitality
(*d*) Close relatives of the audit team in senior positions in the client company

65. Which type of threat involves the auditor dealing with shares or securities of the audited company, potentially compromising objectivity?
(*a*) Self-interest threats
(*b*) Self-review threats
(*c*) Advocacy threats
(*d*) Familiarity threats

66. What is the primary focus of intimidation threats to auditor independence?
(*a*) Threat of replacement over disagreements
(*b*) Pressure to disproportionately reduce work
(*c*) Deterrence from acting objectively
(*d*) Acceptance of significant gifts or hospitality

67. Which threat involves an auditor's undue dependence on a client's fees, leading to concerns about losing the engagement?
(*a*) Intimidation threats
(*b*) Self-interest threats
(*c*) Familiarity threats
(*d*) Self-review threats

68. In what situations can self-review threats occur?
(*a*) Loan or guarantee to or from the client
(*b*) Close business relationship with the client
(*c*) Performance of services subject to audit
(*d*) Acceptance of significant gifts or hospitality

69. Which type of threat involves auditors forming relationships with clients where they become too sympathetic to the client's interests?
(*a*) Advocacy threats
(*b*) Familiarity threats
(*c*) Self-review threats
(*d*) Intimidation threats

70. When might advocacy threats arise in the context of auditor independence?
(*a*) Rotation of auditors
(*b*) Acceptance of significant gifts
(*c*) Promotion of a client's opinion to compromise objectivity
(*d*) Undue dependence on a client's fees

71. What is the primary concern of self-interest threats to auditor independence?
(*a*) Promotion of a client's opinion
(*b*) Being too sympathetic to the client's interests
(*c*) Benefit from a financial interest in an audit client
(*d*) Deterrence from acting objectively

72. What is best about the definition of threats to auditor independence?
(*a*) Threats can be precisely defined for every situation
(*b*) Legal standards determine the definition of threats
(*c*) Threats are impossible to define in every situation
(*d*) Threats are solely dependent on legal rules

73. What is the primary responsibility of Chartered Accountants regarding independence?
(*a*) To eliminate all threats to independence
(*b*) To take actions to reduce threats to an acceptable level
(*c*) To completely avoid any tasks involving threats to independence
(*d*) To ignore threats and proceed with the task

74. What is the significance of safeguards in the context of auditor independence?
(*a*) They eliminate all threats to independence
(*b*) They are optional and not necessary
(*c*) They effectively reduce threats to an acceptable level
(*d*) They increase threats to independence

75. According to the guiding principles, what must an auditor conscientiously consider before taking on any work?
(*a*) The financial benefits of the task
(*b*) The legal requirements of the task
(*c*) Whether the task involves threats to independence
(*d*) The time required to complete the task

76. What is the recommended course of action for an auditor when threats to independence exist in a task?
(*a*) Proceed with the task without recording safeguards
(*b*) Eliminate all threats without considering safeguards
(*c*) Desist from the task or eliminate the threat or implement safeguards
(*d*) Ignore the threats and rely on personal judgment

77. What does the passage recommend if an auditor is unable to fully implement credible and adequate safeguards?
(*a*) Proceed with the work without safeguards
(*b*) Seek legal advice to overcome the threats
(*c*) Record the inability and continue with the work
(*d*) Refrain from accepting the work

78. What does professional skepticism entail for an auditor?

(*a*) Trusting all information provided by the client

(*b*) Accepting audit evidence without questioning its reliability

(*c*) Having a questioning mind and critical assessment of audit evidence

(*d*) Relying solely on past experience with the client

79. In the context of professional skepticism, what does being "alert to conditions" refer to?

(*a*) Ignoring contradictory audit evidence

(*b*) Overlooking unusual circumstances during the audit

(*c*) Accepting all information without scrutiny

(*d*) Remaining vigilant to possible misstatements due to error or fraud

80. What does professional skepticism require the auditor to be alert to when considering audit evidence?

(*a*) Consistency in all audit evidence obtained

(*b*) Conditions indicating possible fraud

(*c*) Reliability of all documents without exception

(*d*) Overlooking the need for additional audit procedures

81. When does maintaining professional skepticism become particularly crucial in the audit process?

(*a*) Only in the planning stage

(*b*) When dealing with reliable documents

(*c*) Throughout the entire audit process

(*d*) When there is no indication of fraud risk factors

82. What risks does professional skepticism help the auditor reduce during the audit?

(*a*) Risks of relying on past experience

(*b*) Risks of overlooking unusual circumstances

(*c*) Risks of using appropriate assumptions

(*d*) Risks of underestimating the reliability of audit evidence

83. What is a key aspect of professional skepticism's role in the critical assessment of audit evidence?

(*a*) Accepting all records and documents as genuine

(*b*) Relying solely on past experience with the entity's management

(*c*) Considering the sufficiency and appropriateness of audit evidence

(*d*) Ignoring fraud risk factors during the evaluation process

84. In what situation does the auditor have reason to accept records and documents as genuine without further investigation?

(*a*) When past experience indicates honesty and integrity

(*b*) When a single document supports a material financial statement amount

(*c*) When fraud risk factors are prevalent

(*d*) When there is doubt about the reliability of information

85. What is the auditor required to do when there is doubt about the reliability of information or indications of possible fraud?

(*a*) Accept the information and proceed with the audit

(*b*) Investigate further and modify audit procedures as necessary

(*c*) Rely on past experience and assumptions

(*d*) Overlook any indications and continue with routine procedures

86. Does the auditor's belief in the honesty and integrity of management relieve them of the need for professional skepticism?

(*a*) Yes, it negates the need for skepticism

(*b*) No, professional skepticism must be maintained despite beliefs

(*c*) Yes, unless past experience indicates fraud

(*d*) No, unless fraud risk factors are absent

87. What does the passage emphasize about professional skepticism in relation to the entity's management and governance?

(*a*) It allows auditors to disregard past experience

(*b*) It relieves auditors of the need for skepticism

(*c*) It requires ongoing vigilance despite past experience

(*d*) It implies absolute trust in management's integrity

88. What are some potential components of audit engagement terms?

(*a*) Provisions for employee benefits

(*b*) Identification of applicable financial reporting framework

(*c*) Marketing strategies for the client

(*d*) Management's personal responsibilities

89. What is the primary objective of SA 210 regarding the auditor's responsibilities in agreeing to the terms of the audit engagement?

(*a*) To ensure compliance with marketing strategies

(*b*) To establish preconditions for an audit

(*c*) To delegate responsibilities to management

(*d*) To confirm legal obligations

90. How does SA 210 recommend achieving the objective of agreeing on the terms of the audit engagement?

(*a*) Through legal obligations only

(*b*) By confirming management's understanding

(*c*) By establishing preconditions for marketing

(*d*) By ensuring a common understanding between the auditor and management

91. What are the preconditions for an audit, as defined by SA 210?

(*a*) The use of any financial reporting framework

(*b*) Agreement of management to all auditor requests (*c*) The use of an acceptable financial reporting framework and agreement of management to the audit premise

(*d*) The delegation of all responsibilities to those charged with governance

92. What is the auditor required to determine to establish whether the preconditions for an audit are present?

(*a*) Acceptability of the financial reporting framework only

(*b*) Agreement of management to auditor requests

(*c*) Acceptability of the financial reporting framework and agreement of management to its responsibilities

(*d*) Management's understanding of marketing strategies

93. What does the auditor need to obtain from management to ensure the preconditions for an audit are present?

(*a*) Agreement to the auditor's premises

(*b*) Acknowledgment and understanding of management's responsibilities

(*c*) Delegation of internal control to the auditor

(*d*) Approval of all audit evidence by management

94. According to SA 210, what is management's responsibility for the preparation of financial statements?

(*a*) Providing unrestricted access to persons within the entity

(*b*) Ensuring fair representation of financial statements

(*c*) Delegating the preparation to the auditor

(*d*) Acknowledging the auditor's premises

95. What type of access does SA 210 require management to provide the auditor in relation to information for the audit?

(*a*) Limited access to relevant information

(*b*) Unrestricted access to relevant information

(*c*) Access only to financial statements

(*d*) Access to information only upon request

96. What does SA 210 specify regarding management's responsibility for internal control in relation to financial statement preparation?

(*a*) Delegating all control to the auditor

(*b*) Ensuring internal control for fair representation

(*c*) Limiting internal control to avoid misstatement

(*d*) Leaving internal control entirely to the auditor's discretion

97. What information is management required to provide the auditor for the purpose of the audit, according to SA 210?

(*a*) Only financial statements

(*b*) Relevant information upon request

(*c*) Access to restricted information

(*d*) All information of which management is aware and additional information upon request

98. In the absence of legal requirements, what is the nature of the audit engagement between the auditor and client?

(*a*) Statutory obligation (*b*) Matter of law

(*c*) Matter of contract (*d*) Regulatory mandate

99. What is the primary purpose of reducing the terms of the audit engagement to writing?

(*a*) To fulfill legal obligations (*b*) To increase misunderstandings

(*c*) To clarify the nature of the engagement (*d*) To bypass client responsibilities

100. Who should the auditor agree on the terms of the audit engagement with?

(*a*) Regulatory authorities

(*b*) Auditors from other firms

(*c*) Management or those charged with governance

(*d*) Legal advisors

101. What is the purpose of an audit engagement letter?

(*a*) To impose legal obligations on the client

(*b*) To create confusion and misunderstandings

(*c*) To reduce the possibility of misunderstandings

(*d*) To delegate responsibilities to the auditor

102. What does the audit engagement letter include?

(*a*) Only the auditor's responsibilities

(*b*) Only the client's responsibilities

(*c*) The objective and scope of the audit, responsibilities of both auditor and management, and applicable financial reporting framework

(*d*) Only the applicable financial reporting framework

103. What action should the auditor take if the preconditions for an audit are found to be absent?

(*a*) Proceed with the audit without notifying management

(*b*) Discuss the matter with management

(*c*) Automatically accept the proposed audit engagement

(*d*) Seek legal advice before taking any action

104. Under what circumstances should the auditor not accept the proposed audit engagement, as per the passage?

(*a*) If management does not provide additional information

(*b*) If the financial reporting framework is deemed acceptable

(*c*) If management's agreement is not obtained on various matters

(*d*) If the auditor is legally obligated to accept the engagement

105. Under what circumstances should the auditor refrain from accepting a proposed audit engagement with limitations on the scope of work?

(*a*) If the limitations are imposed by management or those charged with governance

(*b*) If the limitations will result in the auditor disclaiming an opinion

(*c*) Only if required by law or regulation
(*d*) Both (*b*) and (*c*)

106. Under what circumstances may a request for a change in the terms of the audit engagement be considered reasonable?
(*a*) If the change is related to incorrect or incomplete information
(*b*) If the entity experiences a change in circumstances affecting the need for the service
(*c*) Only if management imposes a restriction on the scope of the audit engagement
(*d*) Both (*a*) and (*c*)

107. What may be considered an unreasonable basis for requesting a change in the audit engagement, according to the passage?
(*a*) A change in circumstances affecting the entity's requirements
(*b*) A misunderstanding concerning the nature of the original service
(*c*) A change related to incorrect or incomplete information
(*d*) Any request from the entity for a change

108. When might a change in the audit engagement be deemed unreasonable?
(*a*) When the entity experiences a change in circumstances
(*b*) When the auditor requests additional information
(*c*) When the change is to avoid a qualified opinion or disclaimer of opinion
(*d*) When there is a misunderstanding about the nature of the original service

109. What does the passage suggest about the auditor's consideration of a request to change the terms of the audit engagement?
(*a*) The auditor must always accept any requested changes
(*b*) The justification for the change should be ignored
(*c*) The implications of a restriction on the scope should be carefully assessed
(*d*) The auditor should automatically disclaim an opinion in such cases

110. In what situation might a change in the audit engagement be considered reasonable, according to the passage?
(*a*) When the entity is not forthcoming with information
(*b*) When the auditor requests a change to avoid a qualified opinion
(*c*) When there is a misunderstanding about the nature of the original service
(*d*) When a change is needed due to incorrect or incomplete information

111. When may an auditor be requested to change the audit engagement to a lower level of assurance, and what is the auditor required to determine?
(*a*) After completing the audit, and the auditor must assess legal implications
(*b*) Prior to completing the audit, and the auditor must determine reasonable justification
(*c*) When the client insists on changes, and the auditor must discontinue the engagement
(*d*) After issuing the audit report, and the auditor must assess contractual implications

112. What consideration must the auditor take into account before agreeing to change an audit engagement to a review or related service?

(*a*) Legal or contractual implications
(*b*) Auditor's personal preferences
(*c*) Availability of audit resources
(*d*) Any client requests for changes

113. When changing the audit engagement to a review or related service, what does the auditor need to assess regarding the work performed to the date of change?

(*a*) All work must be repeated from the beginning
(*b*) Only the relevant work may be considered
(*c*) The auditor should discontinue the engagement
(*d*) The original audit engagement must be referenced in the report

114. What should the report on the related service avoid referencing to avoid confusion?

(*a*) Any legal implications
(*b*) The original audit engagement
(*c*) Changes made to the engagement letter
(*d*) Any procedures performed in the original audit engagement

115. If the terms of the audit engagement are changed, what is the requirement for the auditor and management?

(*a*) Discontinue the engagement immediately
(*b*) Agree on and record the new terms in an engagement letter or written agreement
(*c*) Ignore any changes and proceed with the original terms
(*d*) Refer back to the original audit engagement for guidance

116. What is the appropriate course of action for the auditor when unable to agree on a change in terms of the audit engagement and not permitted to continue the original audit engagement by management?

(*a*) Continue with the audit engagement against management's wishes
(*b*) Withdraw from the audit engagement if possible under applicable law or regulation
(*c*) Automatically report the circumstances to regulators
(*d*) Seek legal action against management for non-cooperation

117. Under what circumstances may it be appropriate for the auditor to revise the terms of the audit engagement or remind the entity of existing terms in a recurring audit?

(*a*) Whenever the auditor feels it is necessary
(*b*) Only if there is a recent change of senior management
(*c*) If there is any indication that the entity misunderstands the audit objective and scope
(*d*) Only when there is a change in the financial reporting framework

118. What factor may make it appropriate to send a new audit engagement letter or remind the entity of existing terms in a recurring audit?

(*a*) Routine practice without specific reasons
(*b*) A recent change of senior management
(*c*) The auditor's personal preference
(*d*) The entity's routine business operations

119. When is it not necessary for the auditor to send a new audit engagement letter in a recurring audit?

(*a*) Every year regardless of circumstances

(*b*) When there is a change in ownership

(*c*) When there is a change in legal or regulatory requirements

(*d*) When there are no significant changes in circumstances

120. What is a potential reason for revising the terms of the audit engagement in a recurring audit?

(*a*) Routine annual update

(*b*) A change in the financial reporting framework

(*c*) The auditor's personal preference

(*d*) The entity's routine business operations

121. Which standard is applicable to the entire firm, covering all engagements, including audits, reviews, and other assurance services?

(*a*) SA 220

(*b*) SQC 1

(*c*) Both SA 220 and SQC 1

(*d*) None of the above

122. What is the scope of SA 220 in terms of the engagements it covers?

(*a*) It covers all engagements, including audits, reviews, and other assurance services.

(*b*) It applies exclusively to audit engagements.

(*c*) It addresses reviews and other assurance services but not audits.

(*d*) It only covers engagements related to financial statements but excludes other assurance services.

123. What is the primary objective of the system of quality control, as per SQC 1?

(*a*) To maximize profits for the firm

(*b*) To ensure strict adherence to internal policies only

(*c*) To provide reasonable assurance that the firm complies with professional standards, regulatory and legal requirements, and issues appropriate reports

(*d*) To minimize the workload for engagement partners

124. What is the purpose of documenting and communicating quality control policies and procedures within the firm, as per SQC 1?

(*a*) To comply with regulatory requirements only

(*b*) To create unnecessary paperwork

(*c*) To recognize the importance of obtaining feedback and encourage communication among personnel

(*d*) To limit access to information within the firm

125. According to SQC 1, who is required to assume ultimate responsibility for the firm's system of quality control?

(*a*) Engagement Partners

(*b*) Chief Financial Officer

(*c*) Chief Executive Officer or Managing Partners

(*d*) Quality Control Managers

126. What is the purpose of having persons assigned operational responsibilities for the firm's quality control system possess sufficient experience, ability, and authority, as per SQC 1?

(*a*) To reduce their workload and responsibilities

(*b*) To limit their decision-making authority

(*c*) To ensure the effectiveness of the quality control system

(*d*) To streamline communication within the firm

127. What fundamental principles of professional ethics are established by the Code of Ethics issued by ICAI?

(*a*) Independence, transparency, and accountability

(*b*) Honesty, diligence, and consistency

(*c*) Integrity, objectivity, professional competence and due care, confidentiality, and professional behavior

(*d*) Efficiency, innovation, and collaboration

128. Why is the observance of "Independence" considered a basic requirement in all engagements, according to the Code of Ethics?

(*a*) It is a legal mandate

(*b*) It simplifies audit procedures

(*c*) It aligns with the fundamental principles of professional ethics

(*d*) It reduces the workload for personnel

129. What is the purpose of policies and procedures related to independence, as per the provided information?

(*a*) To increase workload for personnel

(*b*) To limit communication within the firm

(*c*) To ensure compliance with legal requirements

(*d*) To provide reasonable assurance that independence requirements are satisfied

130. How should a firm respond to circumstances and relationships that create threats to independence, according to the provided information?

(*a*) Ignore the threats for the sake of client relations

(*b*) Eliminate threats or reduce them to an acceptable level using safeguards, or consider withdrawal from the engagement

(*c*) Increase fees for the engagement to compensate for the threats

(*d*) Delegate the responsibility to individual personnel

131. What role do engagement partners play in maintaining independence within the firm?

(*a*) They are responsible for financial reporting

(*b*) They communicate independence requirements to personnel

(*c*) They handle legal matters related to independence

(*d*) They are exempt from independence requirements

132. How often should the firm obtain written confirmation of compliance with its independence policies and procedures from relevant personnel?

(*a*) Monthly
(*b*) Quarterly
(*c*) Annually
(*d*) Biannually

133. What is the objective of obtaining written confirmation of compliance with independence policies?

(*a*) To increase administrative burden
(*b*) To discourage personnel from reporting issues
(*c*) To ensure that independence requirements are satisfied
(*d*) To limit communication within the firm

134. What information does a firm need to assess regarding the integrity of a client before accepting an engagement?

(*a*) The client's financial statements only
(*b*) The identity and business reputation of key personnel, business practices, and the internal control environment
(*c*) The client's marketing strategy
(*d*) The client's technological capabilities

135. What should a firm consider regarding the client's attitude towards aggressive interpretation of accounting standards?

(*a*) It is not relevant to the engagement
(*b*) It may indicate a lack of professionalism
(*c*) It is a positive attribute
(*d*) It is solely the responsibility of the client

136. When should a firm obtain vital information about a client, according to the provided information?

(*a*) After accepting the engagement
(*b*) Only for new clients, not existing ones
(*c*) Before accepting an engagement, when deciding to continue an existing engagement, and when considering acceptance of a new engagement with an existing client
(*d*) Only during the audit process

137. If a firm identifies issues regarding a client and decides to accept or continue the engagement, what is the recommended action?

(*a*) Ignore the issues and proceed with the engagement
(*b*) Document how the issues were resolved
(*c*) Communicate the issues to the client and seek their resolution
(*d*) Immediately withdraw from the engagement

138. What should a firm consider when obtaining information about a client's principal owners, key management, and those charged with governance?

(*a*) Only financial information
(*b*) The client's marketing strategy

(*c*) The identity and business reputation of these individuals
(*d*) Only the client's legal structure

139. In the context of client integrity, what should the firm consider about the client's attitude towards maintaining the firm's fees as low as possible?
(*a*) It indicates a commitment to cost-effectiveness
(*b*) It may be a sign of potential conflict
(*c*) It is a positive attribute
(*d*) It is irrelevant to the engagement

140. When is it crucial to resolve any conflicts of interest between the firm and the client?
(*a*) After the engagement is completed
(*b*) Only when regulatory authorities intervene
(*c*) Before accepting the engagement
(*d*) It is not necessary to resolve conflicts of interest

141. If a firm obtains information that, if known earlier, would have led to declining the engagement, what should the firm consider according to the policies and procedures on continuance of the engagement?
(*a*) Ignore the information
(*b*) Report the information to regulatory authorities only
(*c*) Consider reporting to relevant parties and assess the possibility of withdrawing from the engagement or both the engagement and the client relationship
(*d*) Disclose the information to the client

142. What aspect should a firm consider when evaluating the client's reasons for the proposed appointment of the firm and non-reappointment of the previous firm?
(*a*) The client's financial statements
(*b*) The client's marketing strategy
(*c*) Potential conflicts of interest
(*d*) The reasons for the proposed appointment

143. What is the recommended action if there is a conflict of interest between the firm and the client?
(*a*) Ignore the conflict for the sake of client relations
(*b*) Properly resolve the conflict before accepting the engagement
(*c*) Proceed with the engagement without addressing the conflict
(*d*) Seek legal advice and proceed accordingly

144. How often should the firm obtain written confirmation of compliance with its policies on client information and engagement acceptance?
(*a*) Monthly
(*b*) Annually
(*c*) Biannually
(*d*) Only for new clients

145. What should a firm consider regarding a client's involvement in money laundering or other criminal activities?

(*a*) Ignore the information as it is confidential

(*b*) Report the information to regulatory authorities only

(*c*) Properly investigate and assess the implications for the engagement

(*d*) Proceed with the engagement without further consideration

146. What aspect should a firm's policies and procedures on quality control primarily address in relation to personnel?

(*a*) Recruitment and compensation only

(*b*) Career development and performance evaluation only

(*c*) Ethical principles and commitment only

(*d*) Capabilities, competence, and commitment to ethical principles, among other HR issues

147. What is the primary purpose of an engagement quality control review in the audit of financial statements for listed entities?

(*a*) To reduce the responsibilities of the engagement partner

(*b*) To provide advisory services to the engagement team

(*c*) To take an objective view on significant judgments made in the engagement

(*d*) To act as a substitute for the engagement partner's responsibilities

148. In which circumstances is consultation recommended in the context of engagement performance?

(*a*) Routine engagement tasks

(*b*) Matters that require specialized expertise

(*c*) Only in contentious matters

(*d*) Never recommended in engagement performance

149. How long should the assembly of engagement files be completed after the date of the auditor's report for audit engagements?

(*a*) Within 30 days (*b*) Within 45 days

(*c*) Within 60 days (*d*) Within 90 days

150. Who is responsible for resolving differences of opinion within the engagement team or between the engagement partner and the engagement quality control reviewer?

(*a*) Engagement quality control reviewer (*b*) Engagement partner

(*c*) Another practitioner or firm (*d*) Professional or regulatory body

151. What is the retention period for engagement documentation in the specific case of audit engagements?

(*a*) Five years (*b*) Seven years

(*c*) Ten years (*d*) Three years

152. When is an engagement quality control review mandatory?

(*a*) For all types of engagements

(*b*) Only for advisory services

(*c*) For audits of financial statements of listed entities

(*d*) Never mandatory

153. How can a firm disclose portions of or extracts from engagement documentation to clients?

(*a*) Only with client's consent (*b*) Without any restrictions

(*c*) Only if required by law (*d*) Not allowed

154. Who assumes ultimate responsibility for the firm's system of quality control according to SQC 1?

(*a*) Engagement quality control reviewer

(*b*) Engagement partner

(*c*) Chief executive officer or managing partners

(*d*) Audit engagement team

155. In which engagements is an engagement quality control review required, as per SQC 1?

(*a*) Only for audits of financial statements (*b*) For all types of engagements

(*c*) Only for non-assurance engagements (*d*) Only for reviews of financial statements

156. What is the purpose of an engagement quality control review in the audit of financial statements?

(*a*) To act as a substitute for the engagement partner's responsibilities

(*b*) To reduce the responsibilities of the engagement partner

(*c*) To provide an objective view on significant judgments made in the engagement

(*d*) To replace the engagement partner in the engagement team

157. What is the purpose of conducting a periodic inspection of a selection of completed engagements as part of a firm's system of quality control?

(*a*) To criticize engagement teams for their performance

(*b*) To identify individual team members responsible for issues

(*c*) To assess the relevance of the firm's quality control policies

(*d*) To ensure policies and procedures are operating effectively

158. What is the primary objective of SA 220, "Quality Control for an Audit of Financial Statements at the Engagement Level"?

(*a*) To establish ethical requirements for auditors

(*b*) To guide engagement teams on client relationship management

(*c*) To ensure compliance with professional standards and legal requirements in audits

(*d*) To monitor the overall performance of the audit firm

159. According to SA 220, which responsibility falls under the domain of the engagement partner?

(*a*) Leadership responsibilities for quality on audits

(*b*) Assignment of engagement teams

(*c*) Monitoring the firm's system of quality control
(*d*) Establishing ethical requirements

160. What is the main objective of implementing quality control procedures at the engagement level, as per SA 220?
(*a*) To maximize audit fees for the engagement
(*b*) To ensure client satisfaction
(*c*) To comply with regulatory requirements
(*d*) To guarantee a favorable outcome in legal matters

161. How is SA 220 related to SQC 1 (Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements)?
(*a*) SA 220 is independent and unrelated to SQC 1
(*b*) SA 220 is a component of SQC 1, focusing on engagement-level controls
(*c*) SQC 1 is modelled after SA 220
(*d*) SQC 1 provides guidelines for ethical conduct, while SA 220 addresses quality control

162. What is the primary emphasis of the leadership responsibility of an engagement partner, according to SA 220?
(*a*) Focusing solely on legal compliance
(*b*) Emphasizing the engagement team's ability to raise concerns
(*c*) Prioritizing cost-effectiveness in audit engagements
(*d*) Highlighting the importance of audit quality and compliance with standards

163. What does the leadership responsibility of the engagement partner underscore regarding the engagement team's actions?
(*a*) Strict adherence to firm's administrative procedures
(*b*) Limiting concerns to matters within the audit team
(*c*) Fear of reprisals for raising concerns
(*d*) Ability to raise concerns without fear of reprisals

164. In an audit engagement, what information should the engagement partner consider when determining the acceptance and continuance of client relationships and audit engagements?
(*a*) Only financial information of the client
(*b*) Information related to the engagement team's hobbies
(*c*) Integrity of principal owners, competence of engagement team, and compliance with ethical requirements
(*d*) Information unrelated to the audit engagement

165. According to SQC 1, when should a firm obtain necessary information about a client engagement?
(*a*) After the completion of the engagement
(*b*) Before deciding to continue an existing engagement
(*c*) Only during the final reporting stage
(*d*) No information is necessary

166. What is the responsibility of the engagement partner regarding the issuance of the auditor's report in an audit engagement?

(*a*) To delay the issuance until the end of the fiscal year

(*b*) To ensure it is drafted by a legal expert

(*c*) To ensure it is appropriate in the circumstances and supported by sufficient audit evidence

(*d*) To delegate it to a junior team member

167. In audits of financial statements of listed entities, what is the engagement partner's responsibility concerning the engagement quality control review?

(*a*) Conducting the review personally

(*b*) Not involving an engagement quality control reviewer

(*c*) Determining that an engagement quality control reviewer has been appointed

(*d*) Assigning the review to the client

168. When should the auditor's report be dated in the context of engagement quality control review for audits of financial statements of listed entities?

(*a*) At the beginning of the audit engagement

(*b*) Before the completion of the engagement quality control review

(*c*) After the resolution of any differences of opinion

(*d*) Only after receiving approval from the engagement team

169. What is the engagement partner's responsibility in case of differences of opinion within the engagement team?

(*a*) Ignore the differences to maintain team harmony

(*b*) Document the differences but proceed without resolution

(*c*) Follow the firm's policies and procedures for dealing with and resolving differences of opinion

(*d*) Escalate the matter to regulatory authorities

170. Who does the engagement partner consult on difficult or contentious matters within or outside the firm?

(*a*) Only internal team members

(*b*) Nobody, as it is the sole responsibility of the engagement partner

(*c*) Others at an appropriate level within or outside the firm

(*d*) Only senior management of the client

171. What is the purpose of the monitoring process in a firm's system of quality control?

(*a*) To increase the workload of engagement teams

(*b*) To provide reasonable assurance that policies and procedures are ineffective

(*c*) To ensure deficiencies are overlooked

(*d*) To provide reasonable assurance that policies and procedures are relevant, adequate, and operating effectively

172. In documenting matters related to an audit engagement, what should the engagement partner include regarding ethical requirements?

(*a*) Avoid mentioning issues related to ethical requirements

(*b*) Document any issues identified and how they were resolved

(*c*) Document only unresolved ethical issues
(*d*) Ignore ethical considerations as they are not relevant to documentation

173. When considering compliance with independence requirements, what is the responsibility of the engagement partner?
(*a*) Delegating it to a junior team member
(*b*) Ignoring discussions with the firm on independence
(*c*) Documenting conclusions on compliance with independence requirements
(*d*) Exclusively relying on the firm's monitoring process

174. What should be documented regarding the nature and scope of consultations undertaken during an audit engagement?
(*a*) Exclude any discussions to maintain confidentiality
(*b*) Document only disagreements with the client
(*c*) Document the entire consultation process in detail
(*d*) Document the conclusions resulting from consultations

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*c*)	**4.** (*c*)	**5.** (*b*)	**6.** (*b*)	**7.** (*c*)	**8.** (*c*)	**9.** (*b*)	**10.** (*c*)
11. (*c*)	**12.** (*d*)	**13.** (*d*)	**14.** (*c*)	**15.** (*a*)	**16.** (*d*)	**17.** (*c*)	**18.** (*d*)	**19.** (*b*)	**20.** (*c*)
21. (*b*)	**22.** (*c*)	**23.** (*b*)	**24.** (*c*)	**25.** (*c*)	**26.** (*c*)	**27.** (*b*)	**28.** (*c*)	**29.** (*a*)	**30.** (*b*)
31. (*c*)	**32.** (*c*)	**33.** (*d*)	**34.** (*c*)	**35.** (*a*)	**36.** (*c*)	**37.** (*a*)	**38.** (*c*)	**39.** (*b*)	**40.** (*d*)
41. (*c*)	**42.** (*b*)	**43.** (*d*)	**44.** (*b*)	**45.** (*c*)	**46.** (*b*)	**47.** (*d*)	**48.** (*c*)	**49.** (*b*)	**50.** (*d*)
51. (*c*)	**52.** (*b*)	**53.** (*d*)	**54.** (*b*)	**55.** (*c*)	**56.** (*b*)	**57.** (*d*)	**58.** (*d*)	**59.** (*b*)	**60.** (*c*)
61. (*d*)	**62.** (*b*)	**63.** (*a*)	**64.** (*b*)	**65.** (*c*)	**66.** (*c*)	**67.** (*b*)	**68.** (*c*)	**69.** (*b*)	**70.** (*c*)
71. (*c*)	**72.** (*c*)	**73.** (*b*)	**74.** (*c*)	**75.** (*c*)	**76.** (*c*)	**77.** (*d*)	**78.** (*c*)	**79.** (*d*)	**80.** (*b*)
81. (*c*)	**82.** (*b*)	**83.** (*c*)	**84.** (*a*)	**85.** (*b*)	**86.** (*b*)	**87.** (*c*)	**88.** (*b*)	**89.** (*b*)	**90.** (*d*)
91. (*c*)	**92.** (*c*)	**93.** (*b*)	**94.** (*b*)	**95.** (*b*)	**96.** (*b*)	**97.** (*d*)	**98.** (*c*)	**99.** (*c*)	**100.** (*c*)
101. (*c*)	**102.** (*c*)	**103.** (*c*)	**104.** (*c*)	**105.** (*d*)	**106.** (*b*)	**107.** (*c*)	**108.** (*c*)	**109.** (*c*)	**110.** (*d*)
111. (*b*)	**112.** (*a*)	**113.** (*b*)	**114.** (*b*)	**115.** (*b*)	**116.** (*b*)	**117.** (*c*)	**118.** (*b*)	**119.** (*d*)	**120.** (*b*)
121. (*b*)	**122.** (*b*)	**123.** (*c*)	**124.** (*c*)	**125.** (*c*)	**126.** (*c*)	**127.** (*c*)	**128.** (*c*)	**129.** (*d*)	**130.** (*b*)
131. (*b*)	**132.** (*c*)	**133.** (*c*)	**134.** (*b*)	**135.** (*b*)	**136.** (*c*)	**137.** (*b*)	**138.** (*c*)	**139.** (*b*)	**140.** (*c*)
141. (*c*)	**142.** (*d*)	**143.** (*b*)	**144.** (*b*)	**145.** (*c*)	**146.** (*d*)	**147.** (*c*)	**148.** (*b*)	**149.** (*c*)	**150.** (*b*)
151. (*b*)	**152.** (*c*)	**153.** (*a*)	**154.** (*c*)	**155.** (*a*)	**156.** (*c*)	**157.** (*d*)	**158.** (*c*)	**159.** (*a*)	**160.** (*c*)
161. (*c*)	**162.** (*d*)	**163.** (*d*)	**164.** (*c*)	**165.** (*b*)	**166.** (*c*)	**167.** (c)	**168.** (*c*)	**169.** (*c*)	**170.** (*c*)
171. (*d*)	**172.** (*b*)	**173.** (*c*)	**174.** (*d*)						

SOLUTION

1. (*b*) Moral principles
2. (*c*) Intrinsic to individuals
3. (*c*) Strong intrinsic force
4. (*c*) High level of public trust
5. (*b*) Enhancing public confidence
6. (*b*) Human nature
7. (*c*) It is broad
8. (*c*) Acceptance of responsibility in the public interest
9. (*b*) Public interests
10. (*c*) Professional ethics
11. (*c*) Fines, suspension, or other disciplinary actions
12. (*d*) Ethical compliance
13. (*d*) Governing professional conduct
14. (*c*) Compliance with the spirit of ethics
15. (*a*) It relies on professional judgment and expertise
16. (*d*) Narrow outlook
17. (*c*) It strictly adheres to established rules
18. (*d*) To prevent overlooking the spirit of ethics
19. (*b*) Subordinating judgment to the wishes of the client
20. (*c*) Consult with others in the firm and determine appropriate action
21. (*b*) Form a conclusion on compliance with independence requirements
22. (*c*) Evaluate the breaches and take appropriate action to eliminate or reduce threats
23. (*b*) Client continuance and compliance with ethical requirements
24. (*c*) To avoid misunderstandings regarding the terms of the engagement
25. (*c*) Compliance with the spirit of ethics
26. (*c*) Clearly established rules
27. (*b*) It fosters a narrow outlook on ethics
28. (*c*) Fair dealing and truthfulness
29. (*a*) Only when required by law
30. (*b*) Undue influence on professional judgment
31. (*c*) Professional competence and due care

32. (*c*) Only when permitted by law and authorized by the client or employer
33. (*d*) Avoidance of activities that might impair the integrity or reputation of the profession
34. (*c*) Professional competence and due care
35. (*a*) Strict compliance with all laws and regulations
36. (*c*) Never, as it is incompatible with fundamental principles
37. (*a*) Facilitating the free flow of information
38. (*c*) Provision of an opinion unaffected by compromising influences
39. (*b*) A condition of mind and personal character
40. (*d*) Independence of mind and independence in appearance
41. (*c*) To maintain confidence in users of financial statements
42. (*b*) Avoidance of facts and circumstances compromising professional judgment
43. (*d*) To instill confidence in users of financial statements
44. (*b*) Legal standards may be relaxed or strengthened, but independence remains unaltered
45. (*c*) Confidence in users of financial statements
46. (*b*) It depends on the state of mind and character of a person
47. (*d*) Determination of independence in given circumstances
48. (*c*) Provision of an opinion unaffected by compromising influences
49. (*b*) A condition of mind and personal character
50. (*d*) Independence of mind and independence in appearance
51. (*c*) To instill confidence in users of financial statements
52. (*b*) Avoidance of facts and circumstances compromising professional judgment
53. (*d*) To instill confidence in users of financial statements
54. (*b*) Legal standards may be relaxed or strengthened, but independence remains unaltered
55. (*c*) Confidence in users of financial statements
56. (*b*) It depends on the state of mind and character of a person
57. (*d*) Determination of independence in given circumstances
58. (*d*) Self-interest threats
59. (*b*) Performance of services that are subject matters of audit
60. (*c*) Advocacy threats
61. (*d*) Being too sympathetic to the client's interests
62. (*b*) When there is a threat of replacement over disagreements
63. (*a*) Intimidation threats
64. (*b*) Long association between auditors and client counterparts

65. (*c*) Advocacy threats

66. (*c*) Deterrence from acting objectively

67. (*b*) Self-interest threats

68. (*c*) Performance of services subject to audit

69. (*b*) Familiarity threats

70. (*c*) Promotion of a client's opinion to compromise objectivity

71. (*c*) Benefit from a financial interest in an audit client

72. (*c*) Threats are impossible to define in every situation

73. (*b*) To take actions to reduce threats to an acceptable level

74. (*c*) They effectively reduce threats to an acceptable level

75. (*c*) Whether the task involves threats to independence

76. (*c*) Desist from the task or eliminate the threat or implement safeguards

77. (*d*) Refrain from accepting the work

78. (*c*) Having a questioning mind and critical assessment of audit evidence

79. (*d*) Remaining vigilant to possible misstatements due to error or fraud

80. (*b*) Conditions indicating possible fraud

81. (*c*) Throughout the entire audit process

82. (*b*) Risks of overlooking unusual circumstances

83. (*c*) Considering the sufficiency and appropriateness of audit evidence

84. (*a*) When past experience indicates honesty and integrity

85. (*b*) Investigate further and modify audit procedures as necessary

86. (*b*) No, professional skepticism must be maintained despite beliefs

87. (*c*) It requires ongoing vigilance despite past experience

88. (*b*) Identification of applicable financial reporting framework

89. (*b*) To establish preconditions for an audit

90. (*d*) By ensuring a common understanding between the auditor and management

91. (*c*) The use of an acceptable financial reporting framework and agreement of management to the audit premise

92. (*c*) Acceptability of the financial reporting framework and agreement of management to its responsibilities

93. (*b*) Acknowledgment and understanding of management's responsibilities

94. (*b*) Ensuring fair representation of financial statements

95. (*b*) Unrestricted access to relevant information

96. (*b*) Ensuring internal control for fair representation

97. (*d*) All information of which management is aware and additional information upon request

98. (*c*) Matter of contract

99. (*c*) To clarify the nature of the engagement

100. (*c*) Management or those charged with governance

101. (*c*) To reduce the possibility of misunderstandings

102. (*c*) The objective and scope of the audit, responsibilities of both auditor and management, and applicable financial reporting framework

103. (*c*) Discuss the matter with management

104. (*c*) If management's agreement is not obtained on various matters

105. (*d*) Both (*b*) and (*c*)

106. (*b*) If the entity experiences a change in circumstances affecting the need for the service

107. (*c*) A change related to incorrect or incomplete information

108. (*c*) When the change is to avoid a qualified opinion or disclaimer of opinion

109. (*c*) The implications of a restriction on the scope should be carefully assessed

110. (*d*) When a change is needed due to incorrect or incomplete information

111. (*b*) Prior to completing the audit, and the auditor must determine reasonable justification

112. (*a*) Legal or contractual implications

113. (*b*) Only the relevant work may be considered

114. (*b*) The original audit engagement

115. (*b*) Agree on and record the new terms in an engagement letter or written agreement

116. (*b*) Withdraw from the audit engagement if possible under applicable law or regulation

117. (*c*) If there is any indication that the entity misunderstands the audit objective and scope

118. (*b*) A recent change of senior management

119. (*d*) When there are no significant changes in circumstances

120. (*b*) A change in the financial reporting framework

121. (*b*) SQC 1

122. (*b*) It applies exclusively to audit engagements.

123. (*c*) To provide reasonable assurance that the firm complies with professional standards, regulatory and legal requirements, and issues appropriate reports

124. (*c*) To recognize the importance of obtaining feedback and encourage communication among personnel

125. (*c*) Chief Executive Officer or Managing Partners

126. (*c*) To ensure the effectiveness of the quality control system

127. (*c*) Integrity, objectivity, professional competence and due care, confidentiality, and professional behavior

128. (*c*) It aligns with the fundamental principles of professional ethics

129. (*d*) To provide reasonable assurance that independence requirements are satisfied

130. (*b*) Eliminate threats or reduce them to an acceptable level using safeguards, or consider withdrawal from the engagement

131. (*b*) They communicate independence requirements to personnel

132. (*c*) Annually

133. (*c*) To ensure that independence requirements are satisfied

134. (*b*) The identity and business reputation of key personnel, business practices, and the internal control environment

135. (*b*) It may indicate a lack of professionalism

136. (*c*) Before accepting an engagement, when deciding to continue an existing engagement, and when considering acceptance of a new engagement with an existing client

137. (*b*) Document how the issues were resolved

138. (*c*) The identity and business reputation of these individuals

139. (*b*) It may be a sign of potential conflict

140. (*c*) Before accepting the engagement

141. (*c*) Consider reporting to relevant parties and assess the possibility of withdrawing from the engagement or both the engagement and the client relationship

142. (*d*) The reasons for the proposed appointment

143. (*b*) Properly resolve the conflict before accepting the engagement

144. (*b*) Annually

145. (*c*) Properly investigate and assess the implications for the engagement

146. (*d*) Capabilities, competence, and commitment to ethical principles, among other HR issues

147. (*c*) To take an objective view on significant judgments made in the engagement

148. (*b*) Matters that require specialized expertise

149. (*c*) Within 60 days

150. (*b*) Engagement partner

151. (*b*) Seven years

152. (*c*) For audits of financial statements of listed entities

153. (*a*) Only with client's consent

154. (*c*) Chief executive officer or managing partners

155. (*a*) Only for audits of financial statements

156. (*c*) To provide an objective view on significant judgments made in the engagement

157. (*d*) To ensure policies and procedures are operating effectively

158. (*c*) To ensure compliance with professional standards and legal requirements in audits

159. (*a*) Leadership responsibilities for quality on audits

160. (*c*) To comply with regulatory requirements

161. (*c*) SQC 1 is modelled after SA 220

162. (*d*) Highlighting the importance of audit quality and compliance with standards

163. (*d*) Ability to raise concerns without fear of reprisals

164. (*c*) Integrity of principal owners, competence of engagement team, and compliance with ethical requirements

165. (*b*) Before deciding to continue an existing engagement

166. (*c*) To ensure it is appropriate in the circumstances and supported by sufficient audit evidence

167. (*c*) Determining that an engagement quality control reviewer has been appointed

168. (*c*) After the completion of the engagement quality control review

169. (*c*) Follow the firm's policies and procedures for dealing with and resolving differences of opinion

170. (*c*) Others at an appropriate level within or outside the firm

171. (*d*) To provide reasonable assurance that policies and procedures are relevant, adequate, and operating effectively

172. (*b*) Document any issues identified and how they were resolved

173. (*c*) Documenting conclusions on compliance with independence requirements

174. (*d*) Document the nature and scope of, and conclusions resulting from, consultations undertaken during the course of the audit engagement

FINANCIAL MANAGEMENT

CHAPTER 1

Scope & Objectives of FM

MULTIPLE CHOICE QUESTIONS

1. Which of the following is financial management decision
   (*a*) Investment decision
   (*b*) Financing decision
   (*c*) Dividend decision
   (*d*) All of above

2. In investment decision we decide
   (*a*) Where to invest
   (*b*) From where to borrow
   (*c*) How much dividend to be distributed
   (*d*) None of above

3. In financing decision we decide
   (*a*) Where to invest
   (*b*) From where to borrow
   (*c*) How much dividend to be distributed
   (*d*) None of above

4. In dividend decision we need to decide
   (*a*) Where to invest
   (*b*) From where to borrow
   (*c*) How much dividend to be distributed
   (*d*) None of above

5. Which objective of financial management focus on short term
   (*a*) Profit maximization
   (*b*) Wealth maximization
   (*c*) Both of *(a)* & *(b)*
   (*d*) None of above

6. Which objective of financial management recognize risk-return relationships
   (*a*) Profit maximization
   (*b*) Wealth maximization
   (*c*) Both of *(a)* & *(b)*
   (*d*) None of above

7. Which objective of financial management recognize the effect of all future cash flows, dividend EPS etc.
   (*a*) Profit maximization
   (*b*) Wealth maximization
   (*c*) Both of *(a)* & *(b)*
   (*d*) None of above

8. Does investment, financing, dividend decisions are inter-related to each other?
   (*a*) True
   (*b*) False
   (*c*) Partially true
   (*d*) Partially false

9. Which of following position is goods for a business?
   (*a*) High risk (*b*) High return
   (*c*) Risk-return (*d*) No risk

10. ______ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.
   (*a*) Financial Management (*b*) Profit Maximization
   (*c*) Agency Theory (*d*) Social Responsibility

11. ______ is concerned with the maximization of a firms earnings after taxes.
   (*a*) Shareholder wealth maximization (*b*) Profit maximization
   (*c*) Stakeholder maximization (*d*) EPS maximization

12. The ______ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.
   (*a*) Asset management (*b*) Financing
   (*c*) Investment (*d*) Capital budgeting

13. The long-run objective of financial management is to:
   (*a*) Maximize earnings per share (*b*) Maximize the value of the firms common stock
   (*c*) Maximize return on investment (*d*) Maximize market share

14. Which of the following is not an objective of financial management?
   (*a*) Maximization of wealth of shareholders (*b*) Maximization of profits
   (*c*) Mobilization of funds at an acceptable cost (*d*) Ensuring discipline in the organization.

15. Which of the following is a function of the finance manager?
   (*a*) Mobilizing funds (*b*) Risk returns trade off
   (*c*) Deployment of funds (*d*) All of above

16. Focus of financial management is mainly concerned with the decision related to:
   (*a*) Financing (*b*) Investing
   (*c*) Dividend (*d*) All of above

17. The main objective of financial management is to:
   (*a*) Secure profitability (*b*) Maximize shareholder wealth
   (*c*) Enhancing the cost of debt (*d*) None of above

18. The shareholder value maximisation model holds that the primary goal of the firm is to maximise its:
   (*a*) Accounting profit (*b*) Liquidity
   (*c*) Market value (*d*) Working capital

19. Wealth maximisation approach is based on the concept of:

(*a*) Cost benefit analysis
(*b*) Cash flow approach
(*c*) Time value of money
(*d*) All of the above

20. Management of all matters related to an organisation's finances is called:

(*a*) Cash inflows and outflows
(*b*) Allocation of resources
(*c*) Financial management
(*d*) Finance

21. Which of the following is the disadvantage of having shareholders wealth maximisation goals?

(*a*) Emphasizes the short-term gains
(*b*) Ignores the timing of returns
(*c*) Requires immediate resources
(*d*) Offers no clear relationship between financial decisions and share price

22. The most important goal of financial management is:

(*a*) Profit maximisation
(*b*) Matching income and expenditure
(*c*) Using business assets effectively
(*d*) Wealth maximisation

23. To achieve wealth maximization, the finance manager has to take careful decision in respect of:

(*a*) Investment
(*b*) Financing
(*c*) Dividend
(*d*) All of the above

24. Early in the history of finance, an important issue was:

(*a*) Liquidity
(*b*) Technology
(*c*) Capital structure
(*d*) Financing options

25. Which of the following are microeconomic variables that help define and explain the discipline of finance?

(*a*) Risk and return
(*b*) Capital structure
(*c*) Inflation
(*d*) All of the above

26. Financial management is mainly concerned with the-

(*a*) Acquiring and developing assets to forfeit its overall benefit
(*b*) Acquiring, financing and managing assets to accomplish the overall goal of a business enterprise
(*c*) Efficient management of the business
(*d*) Sole objective of profit maximization

27. Which of the following need not be followed by the finance manager for measuring and maximising shareholder's wealth?

(*a*) Accounting profit analysis
(*b*) Cash flow approach
(*c*) Cost benefit analysis
(*d*) Application of time value of money

Answer Key

1. (*d*)	**2.** (*a*)	**3.** (*b*)	**4.** (*c*)	**5.** (*a*)	**6.** (*b*)	**7.** (*b*)	**8.** (*a*)	**9.** (*c*)	**10.** (*a*)
11. (*b*)	**12.** (*c*)	**13.** (*b*)	**14.** (*d*)	**15.** (*d*)	**16.** (*d*)	**17.** (*b*)	**18.** (*c*)	**19.** (*d*)	**20.** (*c*)
21. (*d*)	**22.** (*d*)	**23.** (*d*)	**24.** (*a*)	**25.** (*d*)	**26.** (*b*)	**27.** (*a*)			

2

CHAPTER

Type of Financing

MULTIPLE CHOICE QUESTIONS

1. Equity shares:
   (*a*) Have an unlimited life, and voting rights and receive dividends
   (*b*) Have a limited life, with no voting rights but receive dividends
   (*c*) Have a limited life, and voting rights and receive dividends
   (*d*) Have an unlimited life, and voting rights but receive no dividends

2. External sources of finance do not include:
   (*a*) Debentures
   (*b*) Retained earnings
   (*c*) Overdrafts
   (*d*) Leasing

3. Internal sources of finance do not include:
   (*a*) Better management of working capital
   (*b*) Ordinary shares
   (*c*) Retained earnings
   (*d*) Reserve and surplus

4. In preference shares:
   (*a*) Dividends are not available
   (*b*) Limited voting rights are available
   (*c*) are not part of a company's share capital
   (*d*) Interest can be received

5. A debenture:
   (*a*) is a long term loan
   (*b*) Does not require security
   (*c*) Is a short term loan
   (*d*) Receive dividend payments

6. Debt capital refers to:
   (*a*) Money raised through the sale of shares
   (*b*) Funds raised by borrowing that must be repaid
   (*c*) Factoring accounts receivable
   (*d*) Inventory loans

7. The most popular source of short term funding is:
   (*a*) Factoring
   (*b*) Trade credit
   (*c*) Family and friends
   (*d*) Commercial banks

8. Marketable securities are primarily:
(*a*) short-term debt instruments
(*b*) short-term equity securities
(*c*) long-term debt instruments
(*d*) long-term equity securities

9. Which of the following marketable securities is the obligation of a commercial bank?
(*a*) Commercial paper
(*b*) Negotiable certificate of deposit
(*c*) Re-purchase agreement
(*d*) T-bills

10. Reserve & Surplus are which form of financing?
(*a*) Security financing
(*b*) Internal financing
(*c*) Loans financing
(*d*) International financing

11. With reference to 'IFC Masala Bonds', which of the statements given below is/are correct?
1. The International Finance Corporation, which offered these bonds, is an arm of the World Bank.
2. They are rupee-denominated bonds and are a source of debt financing for the public and private sector.

(*a*) 1 only
(*b*) 2 only
(*c*) Both 1 & 2
(*d*) Neither 1 nor 2

12. External Commercial borrowings can be accessed through________
(*a*) only automatic route
(*b*) only approval route
(*c*) both automatic and approval route
(*d*) neither automatic nor approval route

13. Which of the following is not a short-term source of finance?
(*a*) Trade credit
(*b*) Working capital loans
(*c*) Accrued expenses
(*d*) External commercial borrowing

14. "A callable bond has a call option which gives the borrower the right to redeem the bond before maturity at a predetermined price known as the call price". This statement is _____.
(*a*) True
(*b*) False
(*c*) Partly true and partly false
(*d*) None of the above

15. If the floating rate bond would be automatically converted into fixed rate bond if interest rate falls below a predetermined level than such bond is known as ______.
(*a*) Drop lock bond
(*b*) Variable rate bond
(*c*) Convertible floating rate bond
(*d*) Plain vanilla bond

16. Bonds issued in Germany denominating in Indian rupees are known as _______.
(*a*) Yield curve bond
(*b*) Drop lock bond
(*c*) Masala bond
(*d*) Euro bond

17. _____ refers to loan taken for a short period because of pending disbursement of loan sanctioned by financial institution.

(*a*) Venture capital
(*b*) External commercial borrowing
(*c*) Bridge finance
(*d*) Debt securitisation

18. Which of the following is not a method of venture capital financing?

(*a*) Equity financing
(*b*) Conditional loan
(*c*) Income note
(*d*) None of the above

19. In _____ lease, lessor enters into the transaction only as financier.

(*a*) Operating
(*b*) Financial
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

20. In operating lease, ______ bears the risk of obsolescence.

(*a*) Lessor
(*b*) Lessee
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

21. In _____, lessor borrows a part of the purchase cost of assets from the third party.

(*a*) Sales and lease back
(*b*) Sales-aid lease
(*c*) Leveraged lease
(*d*) None of the above

22. In ____ lease, lessee has the option of purchasing the assets at the end of the lease period.

(*a*) Open-ended
(*b*) Close-ended
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

23. Commercial papers are issued in denominations of _____ or multiples thereof.

(*a*) ₹1 lakhs
(*b*) ₹3 lakhs
(*c*) ₹5 lakhs
(*d*) ₹10 lakhs

24. Which of the following is not a type of packing credit?

(*a*) Packing credit against hypothecation of goods
(*b*) Forward exchange contract
(*c*) E.C.G.C guarantee
(*d*) Multi forward contract

25. If interest rate is 11%, the inflation is 5% and the investor will earn 16%, this type of bond is known as _____.

(*a*) Inflation bond
(*b*) Option bond
(*c*) Deep discount bond
(*d*) Zero coupon bond

26. Which of the following is not a type of ESG bonds?

(*a*) Green bonds
(*b*) Social bonds
(*c*) Sustainability linked bonds
(*d*) Yellow bonds

27. Securities offered by non US companies who want to list on any of the US exchange are known as _____.

(*a*) American Depository Receipts (*b*) Global Depository Receipts

(*c*) Indian Depository Receipts (*d*) None of the above

28. The ______ receipt mechanism is used to raise funds in the Indian Capital Market.

(*a*) American Depository (*b*) Global Depository

(*c*) Indian Depository (*d*) None of the above

29. Which is not a type of crowd funding?

(*a*) Equity funding (*b*) Peer-to-peer lending

(*c*) Donation-based (*d*) None of the above

30. Which of the following is not a source of long-term source of finance?

(*a*) Retained earnings (*b*) Venture capital funding

(*c*) Deferred expenses (*d*) Assets securitization

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*b*)	**4.** (*b*)	**5.** (*a*)	**6.** (*b*)	**7.** (*b*)	**8.** (*a*)	**9.** (*b*)	**10.** (*b*)
11. (*c*)	**12.** (*c*)	**13.** (*d*)	**14.** (*b*)	**15.** (*a*)	**16.** (*c*)	**17.** (*c*)	**18.** (*d*)	**19.** (*b*)	**20.** (*a*)
21. (*c*)	**22.** (*a*)	**23.** (*c*)	**24.** (*d*)	**25.** (*a*)	**26.** (*d*)	**27.** (*a*)	**28.** (*c*)	**29.** (*d*)	**30.** (*c*)

3

CHAPTER

Financial Analysis and Planning – Ratio Analysis

MULTIPLE CHOICE QUESTIONS

1. Ratio Analysis aid in __________.
   (*a*) Financial accounting
   (*b*) Cost accounting
   (*c*) Decision making
   (*d*) None of the above

2. Which of the following is not the advantage of ratio analysis?
   (*a*) Forecasting
   (*b*) Inter-firm Comparison
   (*c*) Historical analysis
   (*d*) Clues to further investigation

3. Which of the following is not the limitation of ratio analysis?
   (*a*) Not free from bias
   (*b*) Only symptoms and not cure
   (*c*) Only quantitative analysis and not qualitative analysis
   (*d*) Simplicity

4. Ratio analysis facilitates __________ comparisons.
   (*a*) Inter-firm
   (*b*) Intra-firm
   (*c*) Pattern
   (*d*) All of the above

5. Liquidity ratios measures __________ obligations.
   (*a*) Short - term
   (*b*) Long - term
   (*c*) Very short - term
   (*d*) Both (*a*) & (*b*)

6. A very high current ratio will:
   (*a*) increase the profitability
   (*b*) have adverse impact on profitability
   (*c*) not affect the profitability
   (*d*) None of the above

7. A very high current ratio may be due to:
   (*a*) pilling up inventory
   (*b*) inefficiency in collection of debtors
   (*c*) high balances in cash and bank without proper investment
   (*d*) all of the above

8. Traditionally, a current ratio of __________ is considered to be a satisfactory ratio.
(*a*) 2:1
(*b*) 1:1
(*c*) 1:2
(*d*) None of the above

9. A firm seeks to increase its current ratio from 1.5 before its closing date of the accounts. The action that would make it possible is:
(*a*) Delaying payment of salaries
(*b*) Increase charge for depreciation
(*c*) Making cash payment to creditors
(*d*) Selling marketable securities for cash at book value

10. Which one of the following is not a quick assets:
(*a*) Debtors
(*b*) Marketable securities
(*c*) Cash at bank
(*d*) Prepaid expenses

11. The ratio which measures the average period for which quick assets are available to meet average daily operating expenses is:
(*a*) Absolute cash ratio
(*b*) Current ratio
(*c*) Quick ratio
(*d*) Interval measure ratio

12. A low interval measure ratio is indicator of:
(*a*) Short term profitability
(*b*) Short term liquidity
(*c*) Long term profitability
(*d*) Long term liquidity

13. Fixed assets ratio is __________.
(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

14. Debt-service coverage ratio is __________.
(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

15. Proprietory ratio is __________.
(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

16. Interest coverage ratio is __________.
(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

17. Return on total assets is __________.
(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

18. Dividend payout ratio is __________.

(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

19. Capital gearing ratio is __________.

(*a*) Liquidity ratio
(*b*) Activity ratio
(*c*) Solvency ratio
(*d*) Profitability ratio

20. Solvency ratio measures __________ obligations.

(*a*) Short-term
(*b*) Long-term
(*c*) Very Short-term
(*d*) None of the above

21. A __________ debt-equity ratio indicates a high safety margin for creditors.

(*a*) high
(*b*) low
(*c*) very high
(*d*) nil

22. __________ ratio measures the proportion of total assets financed by the equity.

(*a*) Capital gearing ratio
(*b*) Debt-equity ratio
(*c*) Total assets to debt ratio
(*d*) Proprietory ratio

23. A __________ proprietory ratio indicate that the firm is not taking benefit of trading on equity.

(*a*) high
(*b*) low
(*c*) very low
(*d*) nil

24. If the capital gearing ratio is less than 1, the company is said to be __________ geared.

(*a*) Highly
(*b*) Lowly
(*c*) Either of the above
(*d*) None of the above

25. __________ measures the efficiency with which fixed assets are being utilized.

(*a*) Current ratio
(*b*) Fixed assets ratio
(*c*) Fixed assets turnover ratio
(*d*) Debt-equity ratio

26. A low debtors' turnover ratio may involve risk of __________.

(*a*) Bad debts
(*b*) High interest cost
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

27. Gross profit ratio may increase due to which of the following factor:

(*a*) higher sales price with constant cost of goods sold
(*b*) lower cost of goods sold with constant sales price
(*c*) A combination of (*a*) & (*b*)
(*d*) All of the above

28. The operating profit ratio may increase due to which of the following factor:

(*a*) Higher gross profits
(*b*) Lower operating expenses
(*c*) A combination of (*a*) & (*b*)
(*d*) All of the above

29. __________ ratio indicate what portion of sales is left to pay dividend and to create reserves.

(*a*) Net profit
(*b*) Gross profit
(*c*) Expense
(*d*) Operating profit

30. A highly geared company is exposed to:

(*a*) Business risk
(*b*) Financial risk
(*c*) Interest risk
(*d*) Inflation risk

31. The industries where demand is volatile and profits subject to fluctuation should have:

(*a*) high level of gearing
(*b*) low level of gearing
(*c*) any level of gearing
(*d*) None of the above

32. A longer creditors payment period as compared to industry indicates:

(*a*) suppliers are willing to supply on too long credit period
(*b*) operating in sellers market
(*c*) operations are being financed by suppliers free of interest
(*d*) damages credit rating and relationship with suppliers

33. If a firm's total debt-to-equity ratio is higher than the industry average but the long-term debt-to-equity ratio is lower than the industry average, this suggests that the firm:

(*a*) has a higher level of short-term liabilities than the industry
(*b*) is less profitable than the industry
(*c*) is unable to make its interest payments
(*d*) is holding a larger amount of current assets

34. Return on investment can be increased by:

(*a*) Increasing the profit margin
(*b*) Reduction of invested capital
(*c*) Increasing the investment turnover
(*d*) All of the above

35. Four companies have the following P/E Ratios:

Company	A	B	C	D
P/E Ratio	17	24	12	8

Which of the following statement about the companies is true?

(*a*) B's share price must be twice that of C
(*b*) A's share price is 17 times of its earnings
(*c*) D has the lowest share price relative to its earning growth
(*d*) B has the high expectations of future earnings growth

36. Ratio of Net sales to Net working capital is a:

(*a*) Profitability ratio (*b*) Liquidity ratio

(*c*) current ratio (*d*) Working capital turnover ratio

37. Long-term solvency is indicated by:

(*a*) Debt/equity ratio (*b*) Current ratio

(*c*) Operating ratio (*d*) Net profit ratio

38. Ratio of net profit before interest and tax to sales is:

(*a*) Gross profit ratio (*b*) Net profit ratio

(*c*) Operating profit ratio (*d*) Interest coverage ratio

39. Observing changes in the financial variables across the year is:

(*a*) Vertical analysis (*b*) Horizontal analysis

(*c*) Peer-firm analysis (*d*) Industry analysis

40. The Receivable-Turnover ratio helps management to:

(*a*) Managing resources (*b*) Managing inventory

(*c*) Managing customer relationship (*d*) Managing working capital

41. Which of the following is a liquidity ratio?

(*a*) Equity ratio (*b*) Proprietary ratio

(*c*) Net Working capital (*d*) Capital gearing ratio

42. Which of the following is not a part of Quick assets?

(*a*) Disposal investments (*b*) Receivables

(*c*) Cash and cash equivalents (*d*) Prepaid expenses

43. Capital Gearing ratio is the fraction of:

(*a*) Preference share capital and debentures to Equity share capital and reserve & surplus

(*b*) Equity share capital and reserve and surplus to preference share capital and debentures

(*c*) Equity share capital to total assets

(*d*) Total assets to equity share capital

44. From the following information, calculate P/E ratio:

Equity share capital of ₹10 each	₹8,00,000
9% Preference share capital of ₹10 each	₹3,00,000
Profit (*a*fter 35% tax)	₹2,67,000
Depreciation	₹67,000
Market price of equity shares	₹48

(*a*) 15 times (*b*) 16 times

(*c*) 17 times (*d*) 18 times

45. Equity multiplier allows the investor to see:

(*a*) What proportion of interest on debt can be covered from earnings available to equity shareholders?

(*b*) How many times preference share interest be paid from earnings available to equity shareholders?

(*c*) What portion of return on equity is the result of debt?

(*d*) How many times equity is multiplied to get the value of debt?

46. A company has average accounts receivable of ₹10,00,000 and annual credit sales of ₹60,00,000. Its average collection period would be:

(*a*) 60.83 days (*b*) 6.00 days

(*c*) 1.67 days (*d*) 0.67 days

47. A company has net profit margin of 5%, total assets of ₹90,00,000 and return on assets of 9%. Its total asset turnover ratio would be:

(*a*) 1.6 (*b*) 1.7

(*c*) 1.8 (*d*) 1.9

48. What does Q ratio measures?

(*a*) Relationship between market value and book value per equity share.

(*b*) Proportion of profit available per equity share

(*c*) Overall earnings on average total assets

(*d*) Market value of equity as well as debt in comparison to all assets at their replacement cost

49. Calculate operating expenses from the information given below:

Sales	₹75,00,000
Rate of income tax	50%
Net profit to sales	5%
Cost of goods sold	₹32,90,000
Interest on debentures	₹60,000

(*a*) ₹41,00,000 (*b*) ₹8,10,000

(*c*) ₹34,00,000 (*d*) ₹33,90,000

50. Which of the following is not a profitability ratio?

(*a*) P/E Ratio (*b*) Return on capital employed (ROCE)

(*c*) Q Ratio (*d*) Preference Dividend Coverage Ratio

51. Profit margin (net) of B.S. Ltd. is 7% while turnover is 3 times of its capital. The return on investment of the concern is ___________.

(*a*) 18% (*b*) 19%

(*c*) 20% (*d*) 21%

52. If current ratio is given as 2.5, liquid assets are ₹60,000, then the value of the stock will be:

(*a*) ₹20,000 (*b*) ₹30,000
(*c*) ₹40,000 (*d*) ₹50,000

53. SK Ltd., has sales of ₹7,74,000 with after-tax profit of ₹93,000. If the company's asset turnover is 2.55, its return on assets (ROA) is:

(*a*) 11.83% (*b*) 26.54%
(*c*) 30.64% (*d*) 21.69%

54. For the financial year ended as on March 31, 2023 the figures extracted from the balance sheet of SK Ltd. is as under:

Opening stock ₹29,000; Purchases ₹2,42,000; Sales ₹3,20,000; Gross profit 25% of sales; Stock turnover ratio will be:

(*a*) 8 times (*b*) 6 times
(*c*) 9 times (*d*) 10 times

55. If credit sales for the year is ₹5,40,000 and debtors at the end of year is ₹90,000, the average collection period will be:

(*a*) 30 days (*b*) 61 days
(*c*) 91 days (*d*) 120 days

56. What will be the effect on present current ratio of 2, if there is bills payable discharged?

(*a*) Improve (*b*) Decline
(*c*) No effect (*d*) None of the above

57. What will be the effect on present current ratio of 0.7:1, if there is payment of final dividend already declared?

(*a*) Improve (*b*) Decline
(*c*) No effect (*d*) None of the above

58. What will be the effect on present debt-equity ratio of 2, if there is redemption of debentures for cash?

(*a*) Improve (*b*) Decline
(*c*) No effect (*d*) None of the above

59. What will be the effect on present gross profit ratio of 20%, if there is purchase of goods of ₹25,000?

(*a*) Improve (*b*) Decline
(*c*) No effect (*d*) None of the above

60. Calculate the quick ratio from the following data:

Current liabilities – ₹2,40,000; Working capital – ₹7,20,000; Creditors – ₹40,000; Inventory – ₹2,40,000;

(*a*) 2:1 (*b*) 3:1
(*c*) 2.5:1 (*d*) 3.5:1

61. SK Ltd. has a current ratio of 5:1. Its stock is ₹1,60,000 and its current liabilities are ₹1,60,000. Calculate the liquid ratio.

(*a*) 1.5:1 (*b*) 2.5:1

(*c*) 3:1 (*d*) 4:1

62. ABC Ltd. has a current ratio of 2:1 and quick ratio of 1.5:1. Its current liabilities are ₹40,000. Calculate the value of stock.

(*a*) ₹22,000 (*b*) ₹20,000

(*c*) ₹18,000 (*d*) ₹16,000

63. AB Ltd. has a current ratio of 3:1. Its net working capital is ₹2,00,000 and its inventory is ₹2,20,000. Calculate quick ratio.

(*a*) ₹1,00,000 (*b*) ₹90,000

(*c*) ₹80,000 (*d*) ₹70,000

64. Calculate capital gearing ratio from the following information:

15% long term debts – ₹4,00,000; 18% Preference share capital – ₹50,000; Equity share capital – ₹1,00,000; Reserve & Surplus – ₹75,000; Preliminary expenses – ₹25,000.

(*a*) 2:1 (*b*) 2.5:1

(*c*) 3:1 (*d*) 3.5:1

65. Calculate the interest coverage ratio form the following information:

Net profit after interest and tax ₹60,000; Interest on long-term debt ₹30,000; Tax @ 50%

(*a*) 4 times (*b*) 5 times

(*c*) 6 times (*d*) 7 times

66. Calculate the preference dividend coverage ratio from the following information:

15% Debentures ₹8,00,000; Net profit before interest and tax ₹6,00,000; Tax @ 50%;

16% ₹1,00,000 Preference shares of ₹100 each.

(*a*) 13 times (*b*) 14 times

(*c*) 15 times (*d*) 16 times

67. Fixed assets (at cost) ₹6,00,000; Accumulated depreciation till date ₹1,00,000; Trade investments ₹50,000; Current assets ₹2,20,000; Current liabilities ₹1,70,000; Cash sales ₹2,00,000; Gross credit sales ₹8,50,000; Sales return ₹50,000. Calculate capital turnover ratio.

(*a*) 1.5 times (*b*) 1.67 times

(*c*) 1.75 times (*d*) 1.87 times

68. Earning per share ₹20; Dividend per share ₹10; Market price per share ₹200. Calculate Earning Yield.

(*a*) 10% (*b*) 100%

(*c*) 20% (*d*) 5%

69. Market value of an equity share ₹40; Book value of an equity share ₹25; Calculate the market response ratio.

(*a*) 160% (*b*) 62.50%

(*c*) 50% (*d*) 75%

Answer Key

1. (*c*)	**2.** (*c*)	**3.** (*d*)	**4.** (*d*)	**5.** (*a*)	**6.** (*b*)	**7.** (*d*)	**8.** (*a*)	**9.** (*c*)	**10.** (*d*)
11. (*d*)	**12.** (*b*)	**13.** (*c*)	**14.** (*c*)	**15.** (*c*)	**16.** (*c*)	**17.** (*d*)	**18.** (*d*)	**19.** (*c*)	**20.** (*b*)
21. (*b*)	**22.** (*d*)	**23.** (*a*)	**24.** (*b*)	**25.** (*c*)	**26.** (*c*)	**27.** (*d*)	**28.** (*d*)	**29.** (*a*)	**30.** (*c*)
31. (*b*)	**32.** (*a*)	**33.** (*a*)	**34.** (*d*)	**35.** (*b*)	**36.** (*d*)	**37.** (*a*)	**38.** (*c*)	**39.** (*b*)	**40.** (*d*)
41. (*c*)	**42.** (*d*)	**43.** (*a*)	**44.** (*b*)	**45.** (*c*)	**46.** (*a*)	**47.** (*c*)	**48.** (*d*)	**49.** (*c*)	**50.** (*d*)
51. (*d*)	**52.** (*c*)	**53.** (*c*)	**54.** (*a*)	**55.** (*b*)	**56.** (*a*)	**57.** (*b*)	**58.** (*b*)	**59.** (*c*)	**60.** (*b*)
61. (*d*)	**62.** (*b*)	**63.** (*c*)	**64.** (*c*)	**65.** (*b*)	**66.** (*c*)	**67.** (*b*)	**68.** (*a*)	**69.** (*a*)	

CHAPTER 4

Cost of Capital

MULTIPLE CHOICE QUESTIONS

1. Which of the following is not an assumption of the capital asset pricing model (CAPM)?
   (*a*) The capital market is efficient
   (*b*) Investors lend or borrow at a risk-free rate of return
   (*c*) Investors do not have the same expectations about the risk and return
   (*d*) Investor's decisions are based on a single-time period

2. Given: risk-free rate of return = 5%; market return = 10%; cost of equity = 15%; value of bet (β) is:
   (*a*) 1.9 (*b*) 1.8 (*c*) 2.0 (*d*) 2.2

3. ____________ may be defined as the cost of raising an additional rupee of capital:
   (*a*) Marginal cost of capital (*b*) Weighted average cost of capital
   (*c*) simple average cost of capital (*d*) Liquid cost of capital

4. Which of the following cost of capital requires to adjust taxes?
   (*a*) Cost of equity share (*b*) Cost of preference shares
   (*c*) Cost of debentures (*d*) Cost of retained earnings

5. Marginal cost of capital is the cost of:
   (*a*) Additional revenue (*b*) Additional funds
   (*c*) Additional interests (*d*) None of the above

6. In order to calculate Weighted Average Cost of capital, weights may be based on:
   (*a*) Market values (*b*) Target values
   (*c*) Book values (*d*) Anyone of the above

7. Firm's cost of capital is the average cost of:
   (*a*) All sources of finance (*b*) All borrowings
   (*c*) All share capital (*d*) All bonds and debentures

8. A company has a financial structure where equity is 70% of its total debt plus equity. Its cost of equity is 10% and gross loan interest is 5%. Corporation tax is paid at 30%. What is the company's weighted average cost of capital (WACC)?
   (*a*) 7.55% (*b*) 7.80%
   (*c*) 8.70% (*d*) 8.05%

9. The cost of equity capital is all of the following except:
   (*a*) The minimum rate that a firm should earn on the equity-financed part of an investment
   (*b*) A return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged
   (*c*) By far, the most difficulty component cost to estimate
   (*d*) Generally, lower than the before-tax cost of debt

10. What is the overall (weighted average) cost of capital when the firm has ₹20 crores in long-term debt, ₹4 crores in preferred stock, and ₹16 crores in equity shares? The before-tax cost for debt, preferred stock, and equity capital are 8%, 9% and 15%, respectively. Assume a 50% tax rate.
   (*a*) 7.60% (*b*) 6.90%
   (*c*) 7.30% (*d*) 8.90%

11. If the required rate of return of a particular bond is less than coupon rate, it is known as
   (*a*) Discount Bond (*b*) Premium Bond
   (*c*) Par Bond (*d*) Junk Bond

12. If a coupon bond is selling at discount, then which of the following is true?
   (*a*) Po < Par and YTM < coupon (*b*) Po < Par and YTM > coupon
   (*c*) Po > Par and YTM < coupon (*d*) Po > Par and YTM > coupon

13. Which of the following is a feature of zero-coupon bonds?
   (*a*) Sold at Par (*b*) Sold at premium
   (*c*) Pays no Interest (*d*) Not Redeemable

14. In a 3 years Bond purchased and held till maturity, the rate earned is called
   (*a*) Coupon Rate (*b*) Yield to Maturity
   (*c*) Current Yield (*d*) Holding Period Return

15. An investor should buy a bond if
   (*a*) Intrinsic Value < Market Value (*b*) Intrinsic Value > Market Value
   (*c*) Market Value < Redemption Value (*d*) Market Value = Redemption Value

16. What's the worth to you of a ₹1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?
   (*a*) More than its face value (*b*) Less than its face value
   (*c*) ₹1,000 (*d*) None of the above

17. Bonds that can be converted into shares of common stock are classified as

(*a*) convertible bonds
(*b*) stock bonds
(*c*) shared bonds
(*d*) common bonds

18. Which of the following sources of funds has an Implicit Cost of Capital?

(*a*) Equity Share Capital
(*b*) Preference Share Capital
(*c*) Debentures
(*d*) Retained earnings.

19. Marginal cost of capital is the cost of:

(*a*) Additional Sales
(*b*) Additional Funds
(*c*) Additional Interests
(*d*) None of the above

20. Which of the following is true?

(*a*) Retained earnings are cost free
(*b*) External Equity is cheaper than Internal Equity
(*c*) Retained Earnings are cheaper than External Equity
(*d*) Retained Earnings are costlier than External Equity

21. The constant growth model of equity valuation assumes that ______________

(*a*) the dividends paid by the company remain constant
(*b*) the dividends paid by the company grow at a constant rate of growth
(*c*) the cost of equity may be less than or equal to the growth rate
(*d*) the growth rate is less than the cost of equity.

22. CAPM describe the ____ between risk and return for securities.

(*a*) Linear Relationship
(*b*) Hypothetical Relationship
(*c*) No Relationship
(*d*) Diagonal Relationship

23. An increase in market value of preference share will ______________ the cost of preference share.

(*a*) increase
(*b*) not affect
(*c*) either increase or decrease
(*d*) decrease

24. Beta of Market is ____.

(*a*) 1
(*b*) less than 1
(*c*) more than 1
(*d*) not defined

25. If Beta of security is more than 1, than such investment are known as ______________ investment.

(*a*) defensive
(*b*) moderate
(*c*) aggressive
(*d*) polite

26. If beta of security is less than 1, than its CAPM return will be ______________ than market rate of return.

(*a*) more
(*b*) less
(*c*) equal
(*d*) one

27. If beta of security is equal to 1, than its CAPM return will be ______________ than market rate of return.

(*a*) more (*b*) less

(*c*) equal (*d*) one

28. R Ltd. has disbursed a dividend of ₹75 on each equity share of ₹25. The market price of share is ₹200. Corporate tax rate is 40%. Its cost of equity is -

(*a*) 30.0% (*b*) 37.5%

(*c*) 35.7% (*d*) 33.5%

29. SK Ltd. Beta is 1.8025. Dividend paid by the company last year was ₹9 per share on face value of ₹30. The risk free rate is .061275. Risk premium is 0.0825. Calculate cost of equity capital.

(*a*) 21% (*b*) 6.28%

(*c*) 14.77% (*d*) 12%

Answer Key

1. (*c*)	**2.** (*c*)	**3.** (*a*)	**4.** (*c*)	**5.** (*b*)	**6.** (*d*)	**7.** (*a*)	**8.** (*d*)	**9.** (*d*)	**10.** (*d*)
11. (*b*)	**12.** (*b*)	**13.** (*c*)	**14.** (*b*)	**15.** (*b*)	**16.** (*b*)	**17.** (*a*)	**18.** (*d*)	**19.** (*b*)	**20.** (*c*)
21. (*b*)	**22.** (*a*)	**23.** (*d*)	**24.** (*a*)	**25.** (*c*)	**26.** (*b*)	**27.** (*c*)	**28.** (*b*)	**29.** (*a*)	

5

CHAPTER

Capital Structure

MULTIPLE CHOICE QUESTIONS

1. The assumptions of MM hypothesis of capital structure do not include the following:

(*a*) Capital markets are imperfect
(*b*) Investors have homogenous expectations
(*c*) All firms can be classified into homogenous risk classes
(*d*) The dividend-payout ratio is cent percent, and there is no corporate tax

2. Which of the following is irrelevant for optimal capital structure?

(*a*) Flexibility (*b*) Solvency
(*c*) Liquidity (*d*) Control

3. Financial structure refers to:

(*a*) All financial resources (*b*) Short-term funds
(*c*) Long-term funds (*d*) None of these

4. An EBIT-EPS indifference analysis chart is used for:

(*a*) Evaluating the effects of business risk on EPS
(*b*) Examining EPS results for alternative financial plans at varying EBIT levels
(*c*) Determining the impact of a change in sales on EBIT
(*d*) Showing the changes in EPS quality over time

5. The term "capital structure" means:

(*a*) Long-term debt, preferred stock and equity shares
(*b*) Current assets and current liabilities
(*c*) Net working capital
(*d*) Shareholder's equity

6. The cost of monitoring management is considered to be a (an):

(*a*) Bankruptcy cost (*b*) Transaction cost
(*c*) Agency cost (*d*) Institutional cost

7. The traditional approach towards the valuation of a firm assumes:
   (*a*) That the overall capitalization rate changes in financial leverage
   (*b*) That there is an optimum capital structure
   (*c*) That the total risk is not changed with the changes in the capital structure
   (*d*) That the markets are prefect

8. Market values are often used in computing the weighted average cost of capital because:
   (*a*) This is the simplest way to do the calculation
   (*b*) This is consistent with the goal of maximizing shareholder value
   (*c*) This is required by SEBI
   (*d*) This is a very common mistake

9. A firm's optimal capital structure:
   (*a*) Is the debt-equity ratio that results in the minimum possible weighted average cost of capital
   (*b*) 40 percent debt and 60 percent equity
   (*c*) When the debt-equity ratio is 0.50
   (*d*) When cost of equity is minimum

10. Capital structure of a firm influences the:
   (*a*) Risk
   (*b*) Return
   (*c*) Both risk and return
   (*d*) Return but not risk

11. Consider the below mentioned statements:
   1. A company is considered to be over-capitalised when its actual capitalisation is lower than the proper capitalisation as warranted by the earning capacity.
   2. Both over-capitalisation and under-capitalisation are determined to the interest of the society.

   State True or False:
   (*a*) 1–True, 2-False
   (*b*) 1-False, 2-True
   (*c*) 1-False, 2-False
   (*d*) 1-True, 2-True

12. A critical assumption of the Net Operating Income (NOI) approach to valuation is:
   (*a*) That debt and equity levels remain unchanged
   (*b*) That dividends increase at a constant rate
   (*c*) That Ko remains constant regardless of change in leverage
   (*d*) That interest expenses and taxes are included in the calculation

13. Which of the following steps may be adopted to avoid the negative consequences of over-capitalisation?
   (*a*) The shares of the company should be split up. This will reduce dividend per share, though EPS shall remain unchanged
   (*b*) Issue of bonus shares
   (*c*) Revising upward the par value of shares in exchange of the existing shares held by them
   (*d*) Reduction in claims of debenture-holders and creditors

14. Which of the following is not included in capital structure?

(*a*) Long term debt
(*b*) Preferred stock
(*c*) Current assets
(*d*) Retained earnings

15. Financial structure is _______concept while capital structure is _______concept

(*a*) inappropriate; appropriate
(*b*) appropriate; inappropriate
(*c*) narrow; broader
(*d*) broader; narrow

16. _______ denotes the level of EBIT for which the firms EPS equals zero.

(*a*) Financial break-even point
(*b*) Margin of safety
(*c*) Equilibrium point
(*d*) Operating break-even point

17. If the EBIT is less than the financial breakeven point, then the EPS will be -

(*a*) Positive
(*b*) Negative
(*c*) Zero
(*d*) Maximum

18. Benefit of Trading on Equity is available only if:

(*a*) Rate of Interest < Rate of Return
(*b*) Rate of Interest > Rate of Return
(*c*) Both (*a*) and (*b*)
(*d*) None of (*d*) and (*b*)

19. Indifference Level of EBIT is one at which:

(*a*) EPS is zero
(*b*) EPS is Minimum
(*c*) EPS is highest
(*d*) None of these

20. Financial Break-even level of EBIT is one at which:

(*a*) EPS is one
(*b*) EPS is zero
(*c*) EPS is Infinite
(*d*) EPS is Negative

21. Which of the following is not a relevant factor in EBIT EPS Analysis of capital structure?

(*a*) Rate of Interest on Debt
(*b*) Tax Rate
(*c*) Amount of Preference Share Capital
(*d*) Dividend paid last year

22. Between two capital plans, if expected EBIT is more than indifference level of EBIT, then

(*a*) Both plans be rejected,
(*b*) Both plans are good,
(*c*) One is better than other
(*d*) None of the above

23. X Ltd. is considering the following two alternative financing plans:

	Plan-I	Plan-II
Equity Shares (₹10 each)	4,00,000	4,00,000
12% Debentures	2,00,000	--
Pref. Shares (₹100 each)	--	2,00,000

The indifference point between the plans is ₹2,40,000. Corporate tax rate is 30%. Calculate rate of dividend on preference shares.

(*a*) 8.00% (*b*) 8.04%
(*c*) 8.40% (*d*) 8.80%

24. In case of Net Income Approach, the Cost of equity is:

(*a*) Constant (*b*) Increasing
(*c*) Decreasing (*d*) None of the above

25. In case of Net Income Approach, when the debt proportion is increased; the cost of debt:

(*a*) Increases (*b*) Decreases
(*c*) Constant (*d*) None of the above

26. Net Operating Income Approach, which one of the following is constant?

(*a*) Cost of Equity (*b*) Cost of Debt
(*c*) WACC & kd (*d*) Ke and Kd

27. NOI Approach advocates that the degree of debt financing is:

(*a*) Relevant (*b*) May be relevant
(*c*) Irrelevant (*d*) May be irrelevant

28. 'Judicious use of leverage' is suggested by:

(*a*) Net Income Approach (*b*) Net Operating Income Approach
(*c*) Traditional Approach (*d*) All of the above

29. In the Traditional Approach, which one of the following remains constant?

(*a*) Cost of Equity (*b*) Cost of Debt
(*c*) WACC (*d*) None of the above

30. Which of the following assumes constant kd and ke?

(*a*) Net Income Approach (*b*) Net Operating Income Approach
(*c*) Traditional Approach (*d*) MM Model

31. Which of the following is true?

(*a*) Under Traditional Approach, overall cost of capital remains same
(*b*) Under NI Approach, overall cost of capital remains same
(*c*) Under NOI Approach, overall cost of capital remains same
(*d*) None of the above

32. In MM Model with taxes, where r is the interest rate, D is the total debt and t is tax rate, then present value shields of debt would be:

(*a*) r × D × t (*b*) r × D
(*c*) D × t (*d*) (D × r)÷(1 – t)

33. The overall capitalization rate and the cost of debt remain constant for all degrees of leverage. This is pronounced by ________.

(*a*) Traditional approach
(b) Net operating income approach
(*c*) Net income approach
(*d*) MM approach

34. M & M proposition, without taxes, states that:

(*a*) firms should borrow to the point where the tax benefit from debt is equal to the cost of the increased probability of financial distress.
(*b*) financial risk is determined by the debt-equity ratio.
(*c*) the cost of equity rise when financial leverage rises.
(*d*) it is completely irrelevant how a firm arranges its finances.

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*a*)	**4.** (*b*)	**5.** (*a*)	**6.** (*c*)	**7.** (*b*)	**8.** (*b*)	**9.** (*a*)	**10.** (*c*)
11. (*b*)	**12.** (*c*)	**13.** (*d*)	**14.** (*c*)	**15.** (*d*)	**16.** (*a*)	**17.** (*b*)	**18.** (*a*)	**19.** (*d*)	**20.** (*b*)
21. (*d*)	**22.** (*c*)	**23.** (*c*)	**24.** (*a*)	**25.** (*c*)	**26.** (*c*)	**27.** (*c*)	**28.** (*c*)	**29.** (*d*)	**30.** (*a*)
31. (*c*)	**32.** (*c*)	**33.** (*b*)	**34.** (*d*)						

CHAPTER 6

Leverages

MULTIPLE CHOICE QUESTIONS

1. Given

Operating fixed costs	₹20,000
Sales	₹1,00,000
P/V ratio	40%

The operating leverage is:

(*a*) 2.00 (*b*) 2.50

(*c*) 2.67 (*d*) 2.47

2. If EBIT is ₹15,00,000, interest is ₹2,50,000, corporate tax is 40%, degree of financial leverage is:

(*a*) 1.11 (*b*) 1.20

(*c*) 1.31 (*d*) 1.41

3. If DOL is 1.24 and DFL is 1.00, DCL would be:

(*a*) 2.14 (*b*) 2.18

(*c*) 2.31 (*d*) 2.47

4. Operating leverage is calculated is calculated as:

(*a*) Contribution ÷ EBIT (*b*) EBIT ÷ PBT

(*c*) EBIT ÷ Interest (*d*) EBIT ÷ Tax

5. Financial leverage is calculated as:

(*a*) EBIT ÷ Contribution (*b*) EBIT ÷ PBT

(*c*) EBIT ÷ Sales (*d*) EBIT ÷ Variable cost

6. Which of the following is correct?

(*a*) CL = OL + FL (*b*) CL = OL – FL

(*c*) CL = OL × FL (*d*) CL = OL ÷ FL

7. Which of the following indicates business risk?

(*a*) Operating leverage (*b*) Financial leverage

(*c*) Combined leverage (*d*) Total leverage

8. Degree of combined leverage is the fraction of:
   (*a*) Percentage change in EBIT on Percentage change in Sales
   (*b*) Percentage change in EPS on Percentage change in Sales
   (*c*) Percentage change in Sales on Percentage change in EPS
   (*d*) Percentage change in EPS on Percentage change in EBIT

9. From the following information, calculate combined leverage:

Sales	₹20,00,000
Variable cost	40%
Fixed cost	₹10,00,000
Borrowings	₹10,00,000 @ 8% p.a.

   (*a*) 10 times (*b*) 6 times
   (*c*) 1.667 times (*d*) 0.10 times

10. Operating leverage is a function of which of the following factors?
   (*a*) Amount of variable cost (*b*) Variable contribution margin
   (*c*) Volume of purchases (*d*) Amount of semi-variable cost

11. Financial leverage may be defined as:
   (*a*) Use of funds with a product cost in order to increase earnings per share
   (*b*) Use of funds with a contribution cost in order to increase earnings before interest and taxes
   (*c*) Use of funds with a fixed cost in order to increase earnings per share
   (*d*) Use of funds with a fixed cost in order to increase earnings before interest and taxes

12. If Margin of Safety is 0.25 and there is 8% increase in output, then EBIT will be:
   (*a*) Decrease by 2% (*b*) Increase by 32%
   (*c*) Increase by 2% (*d*) Decrease by 32%

13. If degree of financial leverage is 3 and there is 15% increase in Earning per share (EPS), then EBIT will be:
   (*a*) Decrease by 15% (*b*) Increase by 45%
   (*c*) Decrease by 45% (*d*) Increase by 5%

14. When EBIT is much higher than Financial break-even point, then degree of financial leverage will be slightly:
   (*a*) Less than 1 (*b*) Equals to 1
   (*c*) More than 1 (*d*) Equals to 0

15. Firm with high operating leverage will have:
   (*a*) Higher breakeven point (*b*) lower business risk
   (*c*) Higher margin of safety (*d*) All of above

16. When sales are at breakeven point, the degree of operating leverage will be:
   (*a*) Zero (*b*) Infinite
   (*c*) One (*d*) None of above

17. If degree of combined leverage is 3 and margin of safety is 0.50, then degree of financial leverage is:
   (*a*) 6.00 (*b*) 3.00
   (*c*) 0.50 (*d*) 1.50

18. Operating leverage helps in analysis of:
   (*a*) Business Risk (*b*) Financing Risk
   (*c*) Production Risk (*d*) Credit Risk

19. Which of the following is studied with the help of financial leverage?
   (*a*) Marketing Risk (*b*) Interest Rate Risk
   (*c*) Foreign Exchange Risk (*d*) Financing risk

20. High degree of financial leverage means:
   (*a*) High debt proportion (*b*) Lower debt proportion
   (*c*) Equal debt and equity (*d*) No debt

21. Which combination is generally good for firms:
   (*a*) High OL, High FL (*b*) Low OL, Low FL
   (*c*) Low OL, High FL (*d*) High OL, Low FL

22. FL is zero if:
   (*a*) EBIT = Interest (*b*) EBIT = Zero
   (*c*) EBIT = Fixed Cost (*d*) EBIT = Pref. Dividend

23. Use of Preference Share Capital in Capital structure:
   (*a*) Increases OL (*b*) Increases FL
   (*c*) Decreases OL (*d*) Decreases FL

24. Operating leverage works when:
   (*a*) Sales Increases (*b*) Sales Decreases
   (*c*) Both (*a*) and (*b*) (*d*) None of (*a*) and (*b*)

25. If the fixed cost of production is zero, which one of the following is correct?
   (*a*) OL is zero (*b*) FL is zero
   (*c*) CL is zero (*d*) None of the above

26. If a firm has no debt, which one is correct?
   (*a*) OL is one (*b*) FL is one
   (*c*) OL is zero (*d*) FL is zero

27. Financial leverage is also known as:

(*a*) Trading on equity
(*b*) Trading on debt
(*c*) Interest on equity
(*d*) Interest on debt

28. The probability of bankruptcy is higher

(*a*) for a levered firm
(*b*) for an unlevered firm
(*c*) Both (*a*) & (*b*)
(*d*) None of the above

29. Operating leverage examines_____

(*a*) The effect of the change in the quantity on EBIT
(*b*) The effect of the change in EBIT on the EPS of the company
(*c*) The effect of the change in output to the EPS of the company
(*d*) The effect of change in EPS on the output of the company

30. A firm has a DOL of 4.5 at Q units. What does this tell us about the firm?

(*a*) If sales rise by 4.5%, then EBIT will rise by 1%
(*b*) If EBIT rises by 4.5%, then EPS will rise by 1%
(*c*) If EBIT rises by 1%, then EPS will rise by 4.5%
(*d*) If sales rise by 1%, then EBIT will rise by 4.5%

31. If the Return on Investment (ROI) exceeds the rate of interest on debt, it is _____financial leverage.

(*a*) unfavorable
(*b*) adverse
(*c*) favorable
(*d*) negative

32. If there is a 10% increase in sale, EBIT increase by 35% and if sales increase by 6%, taxable income will increase by 24%. Operating leverage must be -

(*a*) 1.15
(*b*) 3.50
(*c*) 4.00
(*d*) 2.67

Answer Key

1. (*a*)	**2.** (*b*)	**3.** (*d*)	**4.** (*a*)	**5.** (*b*)	**6.** (*c*)	**7.** (*a*)	**8.** (*b*)	**9.** (*a*)	**10.** (*b*)
11. (*c*)	**12.** (*b*)	**13.** (*d*)	**14.** (*c*)	**15.** (*a*)	**16.** (*b*)	**17.** (*d*)	**18.** (*a*)	**19.** (*d*)	**20.** (*a*)
21. (*c*)	**22.** (*b*)	**23.** (*b*)	**24.** (*c*)	**25.** (*d*)	**26.** (*b*)	**27.** (*a*)	**28.** (*a*)	**29.** (*a*)	**30.** (*d*)
31. (*c*)	**32.** (*b*)								

CHAPTER 7

Investment Decisions

MULTIPLE CHOICE QUESTIONS

1. A capital budgeting technique which does not require the computation of cost of capital for decision making purposes is:
   (*a*) Net present value method
   (*b*) Internal rate of return
   (*c*) Modified internal rate of return
   (*d*) Payback period method

2. If two alternative proposals are such that the acceptance of one shall exclude the possibility of the acceptance of another then such decision making will lead to:
   (*a*) Mutually exclusive decisions
   (*b*) Accept reject decisions
   (*c*) Contingent decisions
   (*d*) None of the above

3. In case a company considers a discounting factor higher than the cost of capital for arriving at present values, the present values of cash inflows will be:
   (*a*) Less than those computed on the basis of cost of capital
   (*b*) More than those computed on the basis of cost of capital
   (*c*) Equal to those computed on the basis of the cost of capital
   (*d*) None of the above

4. If the cut off rate of a project is greater than IRR, we may:
   (*a*) Accept the proposal
   (*b*) Reject the proposal
   (*c*) Be neutral about it
   (*d*) Wait for the IRR to increase and match the cut off rate

5. While evaluating capital investment proposals, time value of money is used in which of the following techniques:
   (*a*) Payback period method
   (*b*) Accounting rate of return
   (*c*) Net present value
   (*d*) None of the above

6. IRR would favour project proposals which have:
   (*a*) Heavy cash inflows in the early stages of the project
   (*b*) Evenly distributed cash inflows throughout the project

(*c*) Heavy cash inflows at the later stages of the project
(*d*) None of the above

7. The re-investment assumption in the case of the IRR technique assumes that:
(*a*) Cash flows can be re-invested at the projects IRR
(*b*) Cash flows can be re-invested at the weighted cost of capital
(*c*) Cash flows can be re-invested at the marginal cost of capital
(*d*) None of the above

8. Multiple IRRs are obtained when:
(*a*) Cash flows in the early stages of the project exceed cash flows during the later stages
(*b*) Cash flows reverse their signs during the project
(*c*) Cash flows are uneven
(*d*) None of the above

9. Depreciation is included as a cost in which of the following techniques:
(*a*) Accounting rate of return
(*b*) Net present value
(*c*) Internal rate of return
(*d*) None of the above

10. Management is considering a ₹1,00,000 investment in a project with a 5 year life and no residual value. If the total income from the project is expected to be ₹60,000 and recognition is given to the effect of straight line depreciation on the investment, the average rate of return is:
(*a*) 12%
(*b*) 24%
(*c*) 60%
(*d*) 75%

11. Assume cash outflow equals ₹1,20,000 followed by cash inflows of ₹25,000 per year for 8 years and a cost of capital of 11%. What is the Net present value?
(*a*) (₹38,214)
(*b*) ₹9,653
(*c*) ₹8,653
(*d*) ₹38,214

12. What is the internal rate of return for a project having cash flows of ₹40,000 per year for 10 years and a cost of ₹2,26,009?
(*a*) 8%
(*b*) 9%
(*c*) 10%
(*d*) 12%

13. While evaluating investments, the release of working capital at the end of the project's life should be considered as:
(*a*) Cash inflow
(*b*) Cash outflow
(*c*) Having no effect upon the capital budgeting decision
(*d*) None of the above

14. Capital rationing refers to a situation where:

(*a*) Funds are restricted and the management has to choose from amongst available alternative investments

(*b*) Funds are unlimited and the management ahs to decide how to allocate them to suitable projects

(*c*) Very few feasible investment proposal are available with the management

(*d*) None of the above

15. Capital budgeting is done for:

(*a*) Evaluating short term investment decisions

(*b*) Evaluating medium term investment decisions

(*c*) Evaluating long term investment decisions

(*d*) None of the above

16. Capital Budgeting deals with:

(*a*) Long-term Decisions (*b*) Short-term Decisions

(*c*) Both (*a*) and (*b*) (*d*) Neither (*a*) nor (*b*)

17. Capital Budgeting Decisions are:

(*a*) Reversible (*b*) Irreversible

(*c*) Unimportant (*d*) All of the above

18. Which of the following is not a relevant cost in Capital Budgeting?

(*a*) Sunk Cost (*b*) Opportunity Cost

(*c*) Allocated Overheads (*d*) Both (*a*) and (*c*) above

19. Cash Inflows from a project include:

(*a*) Tax Shield of Depreciation (*b*) After tax Operating Profits

(*c*) Raising of Funds (*d*) Both (*a*) and (*b*)

20. Which of the following is not true for capital budgeting?

(*a*) Sunk costs are ignored (*b*) Opportunity costs are excluded,

(*c*) Incremental cash flows are considered (*d*) Relevant cash flows are considered

21. Savings in respect of a cost is treated in capital budgeting as:

(*a*) An inflow (*b*) An Outflow

(*c*) Nil (*d*) None of the above

22. ______ is a project whose cash flows are not affected by the accept/reject decision for other projects.

(*a*) Mutually exclusive project (*b*) Independent project

(*c*) Inter-dependent project (*d*) Replacement project

23. The term mutually exclusive investments mean:

(*a*) Choose only the best investments

(*b*) Selection of one investment precludes the selection of an alternative

(*c*) The elite investment opportunities will get chosen

(*d*) There are no investment options available

24. Which of the following statements is true about mutually exclusive projects?

(*a*) They are not in direct competition with each other.

(*b*) They are in direct competition with each other.

(*c*) They are not evaluated based on shareholder wealth.

(*d*) They are never evaluated.

25. A project whose cash flows are more than capital invested for rate of return then net present value will be:

(*a*) positive

(*b*) independent

(*c*) negative

(*d*) zero

26. An increase in the discount rate will:

(*a*) Reduce the present value of future cash flows.

(*b*) Increase the present value of future cash flows.

(*c*) Have no effect on net present value.

(*d*) Compensate for reduced risk.

27. Machine Z purchased at year zero for ₹5,00,000 which will be depreciated @ 25% for 5 years on written down value basis and then will be sold at ₹70,000. Capital gain tax rate is 35% while corporate income tax rate is 40%. What is the present value of cash flow of machine at 5th year if cost of capital is 12%?

(*a*) ₹68,326

(*b*) ₹39,690

(*c*) ₹49,345

(*d*) ₹87,028

28. Using profitability index, the preference rule for ranking projects is:

(*a*) the lower the profitability index, the more desirable the project.

(*b*) the higher the profitability index, the more desirable the project.

(*c*) the lower the sunk cost, the more desirable the project.

(*d*) the higher the sunk cost, the more desirable the project.

29. Profitability index is actually a modification of the -

(*a*) Payback period method

(*b*) IRR Method

(*c*) Net present value method

(*d*) Risk premium method

30. Criterion for IRR (Internal Rate of Return):

(*a*) Accept, if IRR > Cost of capital

(*b*) Accept, if IRR < Cost of capital

(*c*) Accept, if IRR = Cost of capital

(*d*) None of the above

31. Internal Rate of Return is defined as -

(*a*) The discount rate which causes the payback to equal one year.

(*b*) The discount rate which causes the NPV to equal zero.

(*c*) The ROE when the NPV equals 0.

(*d*) The ROE associated with project maximization.

32. The return after the pay off period is not considered in case of ________

(*a*) Payback period method

(*b*) Interest rate method

(*c*) Present value method

(*d*) Discounted cash flow method

33. An uncovered cost at start of year is ₹200, full cash flow during recovery year is ₹400 and prior years to full recovery is 3 then payback would be:

(*a*) 5 years

(*b*) 3.5 years

(*c*) 4 years

(*d*) 4.5 years

34. The shorter the payback period -

(*a*) The more risky is the project

(*b*) The less risky is the project

(*c*) Less will the NPV of the project

(*d*) More will the NPV of the project

35. Which of the following is demerit of payback period?

(*a*) It is difficult to calculate as well as understand it as compared to accounting rate of return method.

(*b*) This method disregards the initial investment involved.

(*c*) It fails to take into account the timing of returns and the cost of capital.

(*d*) None of the above

36. What are the two drawbacks associated with the payback period?

(*a*) The time value of money is ignored. It ignores cash flows beyond the payback period.

(*b*) The time value of money is considered. It ignores cash flows beyond the payback period.

(*c*) The time value of money is considered. It includes cash flows beyond the payback period.

(*d*) The time value of money is ignored. it includes cash flows beyond the payback period.

37. As per discounted payback period method, a project with -

(*a*) More discounted payback period will be selected

(*b*) Less discounted payback period will be selected

(*c*) Zero discounted payback period should be selected

(*d*) None of the above

38. In capital budgeting, the term Capital Rationing implies:

(*a*) That no retained earnings available

(*b*) That limited funds are available for investment

(*c*) That no external funds can be raised

(*d*) That no fresh investment is required in current year

39. In case of divisible projects, which of the following can be used to attain maximum NPV?

(*a*) Feasibility Set Approach
(*b*) Internal Rate of Return
(*c*) Profitability Index Approach
(*d*) Any of the above

40. In case of the indivisible projects, which of the following may not give the optimum result?

(*a*) Internal Rate of Return
(*b*) Profitability Index
(*c*) Feasibility Set Approach
(*d*) All of the above

Answer Key

1. (*d*)	**2.** (*a*)	**3.** (*a*)	**4.** (*b*)	**5.** (*c*)	**6.** (*a*)	**7.** (*a*)	**8.** (*b*)	**9.** (*a*)	**10.** (*b*)
11. (*c*)	**12.** (*d*)	**13.** (*a*)	**14.** (*a*)	**15.** (*c*)	**16.** (*a*)	**17.** (*b*)	**18.** (*d*)	**19.** (*d*)	**20.** (*b*)
21. (*a*)	**22.** (*b*)	**23.** (*b*)	**24.** (*b*)	**25.** (*a*)	**26.** (*a*)	**27.** (*c*)	**28.** (*b*)	**29.** (*c*)	**30.** (*a*)
31. (*b*)	**32.** (*a*)	**33.** (*b*)	**34.** (*b*)	**35.** (*c*)	**36.** (*a*)	**37.** (*b*)	**38.** (*b*)	**39.** (*c*)	**40.** (*c*)

8 CHAPTER

Dividend Decisions

MULTIPLE CHOICE QUESTIONS

1. Which one of the following is the assumption of Gordon's Model:

(*a*) Ke > g

(*b*) Retention ratio, (b), Once decide upon, is constant

(*c*) Firm is an all equity firm

(*d*) All of the above

2. What should be the optimum Dividend pay-out ratio, when r = 15% & Ke = 12%

(*a*) 100% (*b*) 50%

(*c*) Zero (*d*) None of the above

3. Which of the following is the irrelevance theory?

(*a*) Walter model (*b*) Gordon model

(*c*) M.M. hypothesis (*d*) Linter's model

4. If the company's D/P ratio is 60% & ROI is 16%, what should be the growth rate?

(*a*) 5% (*b*) 7%

(*c*) 6.4% (*d*) 9.6%

5. If the shareholders prefer regular income, how does this affect the dividend decision:

(*a*) It will lead to payment of dividend (*b*) If it's the indicator to retain more earnings

(*c*) It has no impact on dividend decision (*d*) Can't say

6. Mature companies having few investment opportunities will show high payout ratios, this statement is:

(*a*) False (*b*) True

(*c*) Partial true (*d*) None of these

7. Which of the following is the limitation of Linter's model?

(*a*) This model does not offer a market price for the shares

(*b*) The adjustment factor is an arbitrary number and not based on any scientific criterion or methods

(*c*) Both (*a*) & (*b*)

(*d*) None of the above

8. What are the different options other than cash used for distributing profits to shareholders?

(*a*) Bonus shares (*b*) Stock split

(*c*) Both (*a*) & (*b*) (*d*) None of the above

9. Which of the following statement is correct with respect to Gordon's model?

(*a*) When IRR is greater than cost of capital, the price per share increases and dividend pay-out decreases

(*b*) When IRR is greater than cost of capital, the price per share decreases and dividend pay-out increases

(*c*) When IRR is lower than cost of capital, the price per share increases and dividend pay-out decreases

(*d*) When IRR is lower than cost of capital, the price per share increases and dividend pay-out decreases

10. Compute EPS according to Graham & Dodd approach from the given information:

Market price	₹56
Dividend pay-out ratio	60%
Multiplier	2

(*a*) ₹30 (*b*) ₹56

(*c*) ₹28 (*d*) ₹84

11. Which among the following is not an assumption of Walter's Model?

(*a*) Rate of return and cost of capital are constant (*b*) Information is freely available to all

(*c*) There is discrimination in taxes (*d*) The firm has perpetual life

12. Walters Model suggests for 100% DP Ratio when:

(*a*) ke = r (*b*) ke < r

(*c*) ke > r (*d*) ke = 0

13. If a firm has ke > r the Walters Model suggests for:

(*a*) 0% payout (*b*) 100% Payout

(*c*) 50% Payout (*d*) 25% Payout

14. Walters Model suggests that a firm can always increase price share by:

(*a*) Increasing Dividend (*b*) Decreasing Dividend

(*c*) Constant Dividend (*d*) None of the above

15. Bird in hand argument is given by:

(*a*) Walker's Model (*b*) Gordon's Model

(*c*) MM Model (*d*) Residuals Theory

16. Residuals Theory argues that dividend is a:

(*a*) Relevant Decision (*b*) Active Decision

(*c*) Passive Decision (*d*) Irrelevant Decision

17. Which of the following is not true for MM Model?

(*a*) Share price goes up if dividend is paid

(*b*) Share price goes down if dividend is not paid

(*c*) Market price is unaffected by Dividend policy

(*d*) All of the above

18. MM Model argues that dividend is irrelevant as:

(*a*) The value of the firm depends upon earning power

(*b*) The investors buy shares for capital gain

(*c*) Dividend is payable after deciding the retained earnings

(*d*) Dividend is a small amount

19. If 'r' = 'ke', than MP by Walter's Model and Gordon's Model for different payout ratios would be:

(*a*) Unequal (*b*) Zero

(*c*) Equal (*d*) Negative

20. As per Modigliani-Miller hypothesis of dividend irrelevance price of share at year zero is -

(*a*) (D0 + P) ÷ (1+Ke) (*b*) (D1 + P1) × (1+Ke)

(*c*) (D1+ P1) ÷ (1+Ke) (*d*) 1 – [(D0 + P0) ÷ Ke]

21. Payout ratio is subtracted from one to calculate -

(*a*) Growth ratio (*b*) Present value ratio

(*c*) Retention ratio (*d*) Future value ratio

22. Constant payout ratio means -

(*a*) Declaration same bonus ratio every year.

(*b*) The payment of fixed percentage of earning as dividend every year.

(*c*) Constantly paying same dividend if EPS is same for all the year.

(*d*) None of the above

23. Myron Gordon believe that the required return on equity increases as the dividend payout ratio is decreased. Their argument is based on the assumption that:

(*a*) Investors are indifferent between dividends and capital gains.

(*b*) Investors require that the dividend yield and capital gains yield equal a constant.

(*c*) Capital gains are taxed at a higher rate than dividends.

(*d*) Investors view dividends as being less risky than potential future capital gains.

24. The cost of capital and rate of return on investment of X Ltd. is 10% and 15% respectively. The company has 10 lakh shares of ₹10 each. Its earnings per share is ₹7.5. Calculate the value of the firm per share using Walters Model assuming all earnings are distributed as dividends.

(*a*) ₹75 (*b*) ₹100

(*c*) ₹125 (*d*) ₹150

25. Details regarding SK Ltd. are given below:

EPS = ₹24

Ke = 11%

r = 12%

If retention ratio is 80%, market price as per Gordon's Model is -

(*a*) ₹340.68 (*b*) ₹346.82

(*c*) ₹324.65 (*d*) ₹342.86

26. A chemical company belong to a risk class for which P/E ratio is 10. It currently has 50,000 equity shares selling at ₹200 each. The firm is contemplating the declaration of dividend of ₹16 per share at the current fiscal year which has just started. Given the assumption of Modigliani-Miller, what will be the price of share at the end of the year if dividend is declared?

(*a*) ₹205 (*b*) ₹208

(*c*) ₹204 (*d*) ₹225

27. Current price of share of SK Ltd. is ₹760 and just paid dividend per share is ₹74. If the capitalization rate is 12%, what is the dividend growth rate?

(*a*) 3% (*b*) 5%

(*c*) 4% (*d*) 6%

Answer Key

1. (*d*)	**2.** (*c*)	**3.** (*c*)	**4.** (*c*)	**5.** (*a*)	**6.** (*b*)	**7.** (*c*)	**8.** (*a*)	**9.** (*a*)	**10.** (*a*)
11. (*c*)	**12.** (*c*)	**13.** (*b*)	**14.** (*d*)	**15.** (*b*)	**16.** (*c*)	**17.** (*c*)	**18.** (*a*)	**19.** (*c*)	**20.** (*c*)
21. (*c*)	**22.** (*b*)	**23.** (*d*)	**24.** (*a*)	**25.** (*d*)	**26.** (*c*)	**27.** (*b*)			

CHAPTER 9

Working Capital

MULTIPLE CHOICE QUESTIONS

1. Trade credit is a source of:

(*a*) Long-term finance
(*b*) Medium term finance
(*c*) Spontaneous source of finance
(*d*) None of the above

2. Working capital is defined as:

(*a*) Excess of current assets over current liabilities
(*b*) Excess of current liabilities over current assets
(*c*) Excess of fixed assets over long term liabilities
(*d*) None of the above

3. Working capital is also known as "Circulating capital, fluctuating capital and revolving capital:. The aforesaid statement is;

(*a*) Correct
(*b*) Incorrect
(*c*) Cannot say
(*d*) None of the above

4. The basic objectives of Working capital management are:

(*a*) Optimum utilization of resources for profitability
(*b*) To meet day to day current obligations
(*c*) Ensuring marginal return on current assets is always more than cost of capital
(*d*) Select any one of the above statements

5. The term Gross Working Capital is known as:

(*a*) the investment in current liabilities
(*b*) The investment in long-term liability
(*c*) The investment in current assets
(*d*) None of the above

6. The term net working capital refers to the difference between the current assets minus current liabilities.

(*a*) The statement is correct
(*b*) The statement is incorrect
(*c*) I cannot say
(*d*) None of the above

7. The term “Core current assets” was coined by:

(*a*) Chore Committee (*b*) Tandon Committee

(*c*) Jilani Committee (*d*) None of the above

8. The concept operating cycle refers to the average time which elapses between the acquisition of raw materials and the final cash realization. This statement is:

(*a*) Correct (*b*) Incorrect

(*c*) Partially true (*d*) I cannot say

9. As a matter of self-imposed financial discipline can there be a situation of zero working capital now-a-days in some of the professional managed organizations.

(*a*) Yes (*b*) No

(*c*) Impossible (*d*) Cannot say

10. Over trading arises when a business expands beyond the level of funds available. The statement is:

(*a*) Incorrect (*b*) Correct

(*c*) Partially correct (*d*) I cannot say

11. A Conservative Working Capital strategy call for high levels of current assets in relation to sales:

(*a*) I agree (*b*) Do not agree

(*c*) I cannot say (*d*) None of the above

12. The term Working Capital leverage refer to the impact of level of working capital on company’s profitability. This measures the responsiveness of ROCE for changes in current assets.

(*a*) I agree (*b*) Do not agree

(*c*) The statement is partially true (*d*) None of the above

13. The term spontaneous source of fiancé refers to the finance which naturally arise in the course of business operations. The statement is:

(*a*) Correct (*b*) Incorrect

(*c*) Partially correct (*d*) I cannot say

14. Under hedging approach to financing of working capital requirements of a firm, each asset in the balance sheet assets side would be offset with a financing instrument of the same approximately maturity. This statement is:

(*a*) Incorrect (*b*) Correct

(*c*) Partially correct (*d*) I cannot say

15. The Bank financing of working capital will generally be in the following form. Cash credit, Overdraft, bill discounting, bills acceptance, line of credit; letter or credit and bank guarantee.

(*a*) I agree (*b*) I do not agree

(*c*) I cannot say (*d*) None of the above

16. A positive working capital means that -
- (*a*) The company is able to pay-off its long-term liabilities.
- (*b*) The company is able to select profitable projects.
- (*c*) The company is unable to meet its short-term liabilities.
- (*d*) The company is able to pay-off its short-term liabilities.

17. While calculating working capital based on cash cost -
- (*a*) Depreciation is ignored
- (*b*) Non-cash items are not considered
- (*c*) Debtors are calculated on the basis of cost of goods sold and not on sale price
- (*d*) All of the above

18. Which of the following is correct formula to calculate WIP Conversion Period?
- (*a*) (Annual Cost of Production × 365 days) ÷ Average Stock of WIP
- (*b*) (Average Stock of WIP × 365 days) ÷ Annual Cost of Sales
- (*c*) (Average Stock of WIP × 365 days) ÷ Annual Cost of Production
- (*d*) (Annual Cost of Sales × 365days) ÷ Average Stock of WIP

19. Which of the following is determinant of working capital?
- (*a*) Nature and size of business
- (*b*) Manufacturing cycle
- (*c*) Credit policy
- (*d*) Production policy

Select the correct answer from the options given below.
- (*a*) only (1)
- (*b*) (1) and (2) only
- (*c*) (1), (2) and (3) only
- (*d*) (1), (2), (3) and (4)

20. A conservative policy implies
- (*a*) Greater liquidity and lower risk
- (*b*) Greater risk lower liquidity
- (*c*) Negligible risk
- (*d*) No risk at all with low liquidity

21. Aggressive approach covers those policies -
- (*a*) Where the firm relies heavily on short term bank finance
- (*b*) Seeks to increase dependence on long term financing
- (*c*) Both (*a*) and (*b*)
- (*d*) Neither (*a*) nor (*b*)

22. A higher current assets/fixed assets ratio indicates -
- (*a*) Hedging Approach
- (*b*) Conservative Approach
- (*c*) Matching/hedging Approach
- (*d*) Aggressive Approach

23. An aggressive policy indicates-

(*a*) higher liquidity and poor risk
(*b*) higher risk and poor liquidity
(*c*) higher risk and higher liquidity
(*d*) lower risk with lower liquidity

24. Varies inversely with profitability.

(*a*) Liquidity
(*b*) Risk
(*c*) Gross profit
(*d*) None of the above

25. Which of the following working capital strategies is the most aggressive?

(*a*) Making greater use of short term finance and maximizing net short term asset.
(*b*) Making greater use of long term finance and minimizing net short term asset.
(*c*) Making greater use of short term finance and minimizing net short term asset.
(*d*) Making greater use of long term finance and maximizing net short term asset.

26. Which of the following is a basic principle of finance as it relates to the management of working capital?

(*a*) Profitability varies inversely with risk
(*b*) Liquidity moves together with risk
(*c*) Profitability moves together with risk
(*d*) Profitability moves together with liquidity

27. If raw material consumed is ₹8,42,000; cost of production is ₹14,25,000; Stock of raw material & WIP is ₹1,24,000 and ₹72,000 respectively then Raw Material Conversion period will be-

Note: 1 Year = 365 days

(*a*) 54 days
(*b*) 18 days
(*c*) 29 days
(*d*) 49 days

28. Total sales of SK Ltd. are ₹31,248 out of which 25% are cash sales. Closing balance of debtors are ₹9,468 Debtors collection period = ?.

Note: 1 Year = 365 days

(*a*) 163 days
(*b*) 157 days
(*c*) 148 days
(*d*) 125 days

29. Raw material consumption = ₹6,48,000; Raw material purchase = ₹8,42,000; Annual cost of production = ₹14,42,000; Creditors = ₹75,000; Bills payable = ₹25,000; Creditors Payment Period?

Note: 1 Year= 360 days

(*a*) 34 days
(*b*) 43 days
(*c*) 40 days
(*d*) 39 days

30. Operating cycle days of SK Ltd. is 167 days. Other details are as follows:

Raw material stock velocity	79 days
Debtors collection period	70 days
WIP conversion period	36 days

Finished goods conversion period 29 days

Creditors payment period =?

(*a*) 47 days (*b*) 94 days

(*c*) 52 days (*d*) 59 days

31. Maximum permissible bank finance as per first method of Tandon Committee norms was ₹57,41,813 while current liabilities are reported at 32,50,000. Current assets =?

(*a*) ₹1,09,05,750 (*b*) ₹81,79,313

(*c*) ₹1,09,07,550 (*d*) ₹1,05,09,750

32. If current assets are ₹1,09,05,750 and current liabilities are ₹76,55,750 then maximum permissible bank finance as per first method of Tandon Committee norms is -

(*a*) ₹57,41,813 (*b*) ₹49,29,313

(*c*) ₹52,29,813 (*d*) ₹49,41,813

33. If current assets are ₹1,09,05,750 and current liabilities are ₹76,55,750 then maximum permissible bank finance as per second method of Tandon Committee norms is -

(*a*) ₹57,41,813 (*b*) ₹49,29,313

(*c*) ₹52,29,813 (*d*) ₹49,41,813

34. SK Ltd. submit following figures:

Current Assets = ₹232.5 lakh; Core current assets ₹30 lakh

Maximum permissible bank finance as third method of Tandon Committee norms = ₹55.625 lakh

Working capital in this case is -

(*a*) ₹136.25 (*b*) ₹106.05

(*c*) ₹163.25 (*d*) ₹160.05

Answer Key

1. (*c*)	**2.** (*a*)	**3.** (*a*)	**4.** (*b*)	**5.** (*c*)	**6.** (*a*)	**7.** (*b*)	**8.** (*a*)	**9.** (*a*)	**10.** (*b*)
11. (*a*)	**12.** (*a*)	**13.** (*a*)	**14.** (*b*)	**15.** (*a*)	**16.** (*d*)	**17.** (*d*)	**18.** (*c*)	**19.** (*d*)	**20.** (*a*)
21. (*a*)	**22.** (*b*)	**23.** (*b*)	**24.** (*a*)	**25.** (*c*)	**26.** (*c*)	**27.** (*a*)	**28.** (*c*)	**29.** (*b*)	**30.** (*a*)
31. (*a*)	**32.** (*a*)	**33.** (*b*)	**34.** (*a*)						

CHAPTER 10

Cash Management

MULTIPLE CHOICE QUESTIONS

1. Willian J Baumol's model of Cash Management determines optimum cash level where the carrying cost and transaction cost are:
   (*a*) Maximum
   (*b*) Minimum
   (*c*) Medium
   (*d*) None of the above

2. In Miller-ORR Model of cash management:
   (*a*) The lower, upper limit, and return point of cash balances are set out
   (*b*) Only upper limit and return point are decided
   (*c*) Only lower limit and return point are decided
   (*d*) None of the above are decided

3. In Miller-ORR Model of cash management:
   (*a*) Upper limit = lower limit + Return point
   (*b*) Upper limit = lower limit + 2(Return point)
   (*c*) Upper limit = lower limit + 3(Return point)
   (*d*) None of the above

4. Of the four costs shown below, which would not be included in the cash budget of an insurance firm?
   (*a*) Depreciation of fixed asset
   (*b*) Commission paid to agents
   (*c*) Office salaries
   (*d*) Capital cost of a new computer

5. The term cash includes
   (*a*) Cash and Bank Balances
   (*b*) All the Current Assets
   (*c*) All the Current Liabilities
   (*d*) None of the above

6. Non-cash transactions ______
   (*a*) Form part of cash budget
   (*b*) Do not form part of cash budget
   (*c*) May or may not form part of cash budget
   (*d*) I cannot say whether they are part of cash budget

7. Which of the following will not affect preparation of cash budget?
   (*a*) Loan taken by firm
   (*b*) Proceeds from asset disposal
   (*c*) Reduction in provision for doubtful debts
   (*d*) Cash sales

8. Which of the following is/are motive(s) for holding cash?
   1. Transactional Motive
   2. Speculative Motive
   3. Derivative Motive
   4. Contingency Motive

   Select the correct answer from the options given below
   (*a*) 1, 2, 3
   (*b*) 2, 4, 5
   (*c*) 1, 2, 4
   (*d*) 1, 3, 5

9. The Transaction Motive for holding cash is for
   (*a*) Safety Cushion
   (*b*) Daily Operations
   (*c*) Purchase of Assets
   (*d*) Payment of Dividends

10. Baumol's Model of Cash Management attempts to:
   (*a*) Minimise the holding cost
   (*b*) Minimization of transaction cost
   (*c*) Minimization of total cost
   (*d*) Minimization of cash balance

11. SK Ltd. has observed its receivable collection pattern to be as follows: 40% in the month of the sale, 45% in the month following the sale, and 13% in the second month following the sale. Sales for the last 3 months of the year were as follows: October? 3,00,000; November, ₹4,50,000 and December, ₹6,25,000. Sales for January are budgeted to be ₹3,75,000. What are the budgeted cash collections for January?
   (*a*) ₹3,75,000
   (*b*) ₹4,89,750
   (*c*) ₹4,95,750
   (*d*) ₹6,25,000

12. The annual cash requirement of SK Ltd. is ₹10,00,000. The company has marketable securities in lot size of ₹50,000. Cost of conversion of marketable securities per lot is ₹1,000. The company can earn 5% annual yield on its securities. Calculate total cost.
   (*a*) ₹2 1,000
   (*b*) ₹21,250
   (*c*) ₹18,750
   (*d*) ₹12,500

Answer Key

1. (*b*)	**2.** (*a*)	**3.** (*b*)	**4.** (*a*)	**5.** (*a*)	**6.** (*b*)	**7.** (*c*)	**8.** (*c*)	**9.** (*b*)	**10.** (*c*)
11. (*b*)	**12.** (*b*)								

CHAPTER

11 Inventory Management

MULTIPLE CHOICE QUESTIONS

1. When the items of inventory are classified according to value of usage, the technique is known as:
   (*a*) XYZ Analysis
   (*b*) ABC Analysis
   (*c*) DEF Analysis
   (*d*) None of the above

2. EOQ is the quantity that minimizes
   (*a*) Total Ordering Cost
   (*b*) Total Inventory Cost
   (*c*) Total Interest Cost
   (*d*) Safety Stock Level

3. Cost of not carrying sufficient inventory is known as
   (*a*) Carrying Cost
   (*b*) Holding Cost
   (*c*) Total Cost
   (*d*) Stock-out Cost

4. Annual consumption of material - 4,000 units Ordering Cost - ₹5
   Cost per unit - ₹2
   Storage & carrying cost - 8% p.a.
   Economic Order Quantity for the item is:
   (*a*) 500 units
   (*b*) 800 units
   (*c*) 300 units
   (*d*) 400 units

5. The annual demand of a certain component bought from the market is 1,000 units. The cost of placing an order is ₹60 and the carrying cost per unit is ₹3 p.a. The Economic Order Quantity for the item is ______
   (*a*) 200 units
   (*b*) 400 units
   (*c*) 600 units
   (*d*) 500 units

6. A publishing house purchases 2,000 units of a particular item per year at a unit cost of ₹20. The ordering cost per order is ₹50 and the inventory carrying cost is 25%. How will be the total cost if company decides to buy in EOQ?
   (*a*) ₹41,325
   (*b*) ₹41,000
   (*c*) ₹41,500
   (*d*) ₹41,525

7. Total cost = ₹24,30,000, No. of orders = 4 orders, Ordering cost = ₹750 per order, Ordering quantity = 10,000 units, Carrying cost per unit per annum = ₹15. Material price per unit = ___.

(*a*) ₹58.80 (*b*) ₹60.20

(*c*) ₹60.80 (*d*) ₹60.00

Answer Key

1. (*b*)	**2.** (*b*)	**3.** (*d*)	**4.** (*a*)	**5.** (*a*)	**6.** (*b*)	**7.** (*a*)

CHAPTER 12

Receivables Management

MULTIPLE CHOICE QUESTIONS

1. The credit terms may be expressed as "3/15 net 60". This means that a 3% discount will be granted if the customer pays within 15 days, if he does not avail the offer, he must make payment within 60 days.
   (*a*) I agree with the statement
   (*b*) I do not agree with the statement
   (*c*) I cannot say
   (*d*) None of the above

2. The term 'net 50' implies that the customer will make payment:
   (*a*) Exactly on 50th day
   (*b*) Before 50th day
   (*c*) Not later than 50th day
   (*d*) None of the above

3. Factoring is a method of financing whereby a firm sells its trade debts at a discount to a financial institution. The statement is:
   (*a*) Correct
   (*b*) Incorrect
   (*c*) Partially correct
   (*d*) I cannot say

4. A factoring arrangement can be both with recourse as well as without recourse:
   (*a*) True
   (*b*) False
   (*c*) Partially correct
   (*d*) Cannot say

5. When a firm advises its customers to mail their payments to special Post Office collection centres, the system is known as:
   (*a*) Concentration banking
   (*b*) Lock Box system
   (*c*) Playing the float
   (*d*) None of the above

6. Receivables arise -
   1. If the goods are sold on credit.
   2. If the goods are sold on cash
   3. If the services are rendered on credit
   4. If the services are rendered on cash.

   Select correct answer from the options given below:
   (*a*) 1 only
   (*b*) 1 & 2
   (*c*) 1 & 3
   (*d*) All 1 to 4

7. The payment terms 2/10, Net 30 tell us that:
   (*a*) 2% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within next 10 days of invoice date.
   (*b*) 10% discount will be awarded if the payment is made within 20 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.
   (*c*) 2% discount will be awarded if the payment is made within 30 days of invoice date; otherwise, the full amount is payable within next 10 days of invoice date.
   (*d*) 2% discount will be awarded if the payment is made within 10 days of invoice date; otherwise, the full amount is payable within 30 days of invoice date.

8. If you are proposing to introduce relaxed credit policy, you will adopt it if-
   (*a*) There is increase in profit
   (*b*) There is reduction in loss
   (*c*) Both (*a*) and (*b*)
   (*d*) Neither (*a*) nor (*b*)

9. Ageing schedule incorporates the relationship between
   (*a*) Creditors and Days Outstanding,
   (*b*) Debtors and Days Outstanding
   (*c*) Average Age of Directors
   (*d*) Average Age of All Employees

10. Which is not a service of a factor?
   (*a*) Administrating Sales Ledger
   (*b*) Advancing against Credit Sales
   (*c*) Assuming bad debt losses
   (*d*) None of the above

11. Credit Policy of a firm should involve a trade-off between increased
   (*a*) Sales and Increased Profit
   (*b*) Profit and Increased Costs of Receivables
   (*c*) Sales and Cost of goods sold
   (*d*) None of the above.

12. Out of the following, what is not true in respect of factoring?
   (*a*) Continuous Arrangement between Factor and Seller
   (*b*) Sale of Receivables to the factor
   (*c*) Factor provides cost free finance to seller
   (*d*) None of the above

13. 80% of sales of ₹10,00,000 of a firm are on credit. It has a Receivable Turnover of 8. What is the Average collection period (360 days a year) and Average Debtors of the firm?
   (*a*) 45 days and ₹1,00,000
   (*b*) 360 days and ₹1,00,000
   (*c*) 45 days and ₹8,00,000
   (*d*) 360 days and ₹1,25,000

14. In ______type of factoring the bank/factor takes all the risk and bear all the loss in case of debts becoming bad debts.
   (*a*) Non-Recourse Factoring
   (*b*) Invoice Discounting
   (*c*) Maturity Factoring
   (*d*) Recourse Factoring

15. ______ is a means of financing used by exporters that enables them to receive cash immediately by selling their medium-term receivables the amount an importer owes the exporter) at a discount, and eliminate risk by making the sale without recourse, meaning the exporter has no liability regarding possible default by the importer on paying the receivables.

(*a*) Forfeiting (*b*) Factoring

(*c*) Securitization (*d*) Reconstruction Factoring

16. A forfeiter purchase of the receivables, the sum of which is typically guaranteed by the -

(*a*) exporters bank (*b*) importers bank

(*c*) buyers bank (*d*) financers bank

17. Forfeiting eliminates -

(*a*) Risk of the exporter not receiving payment

(*b*) Credit risk and transfer risk

(*c*) Risks posed by foreign exchange rate or interest rate changes.

(*d*) All of the above

18. Forfeiting is -

(*a*) either with recourse or without recourse (*b*) always without recourse

(*c*) pure financing agreement (*d*) (*b*) and (*c*)

19. Analysis of debtors collection history of SK Ltd. shows the following facts.
42% debtors pays the amount due within 4 days of sales; 18% debtors pays within 20 days and 40% debtors pays within 40 days of sales. What is the average collection period of SK Ltd.

(*a*) 23 days (*b*) 28 days

(*c*) 21 days (*d*) 18 days

Answer Key

1. (*a*)	**2.** (*c*)	**3.** (*a*)	**4.** (*a*)	**5.** (*b*)	**6.** (*c*)	**7.** (*d*)	**8.** (*c*)	**9.** (*b*)	**10.** (*d*)
11. (*b*)	**12.** (*c*)	**13.** (*a*)	**14.** (*a*)	**15.** (*a*)	**16.** (*b*)	**17.** (*d*)	**18.** (*d*)	**19.** (*c*)	

STRATEGIC MANAGEMENT

CHAPTER 1

Introduction to Strategic Management

MULTIPLE CHOICE QUESTIONS

1. Strategy is a game plan used for which of the following?
   (*a*) To take market position
   (*b*) To attract and satisfy customers
   (*c*) To respond to dynamic and hostile environment
   (*d*) All of the above

2. Which of the following is correct?
   (*a*) Strategy is always pragmatic and not flexible
   (*b*) Strategy is not always perfect, flawless and optimal
   (*c*) Strategy is always perfect, flawless and optimal
   (*d*) Strategy is always flexible but not pragmatic

3. Strategy is-
   (*a*) Proactive in action
   (*b*) Reactive in action
   (*c*) A blend of proactive and reactive actions
   (*d*) None of the above

4. Reactive strategy can also be termed as-
   (*a*) Planned strategy
   (*b*) Adaptive strategy
   (*c*) Sound strategy
   (*d*) Dynamic strategy

5. Formulation of strategies and their implementation in a strategic management process is undertaken by-
   (*a*) Top level executives
   (*b*) Middle level executives
   (*c*) Lower-level executives
   (*d*) All of the above

6. Which of the following are responsible for formulating and developing realistic and attainable strategies?
   (*a*) Corporate level and business level managers
   (*b*) Corporate level and functional level managers
   (*c*) Functional managers and business level managers
   (*d*) Corporate level managers, business level managers and functional level managers

7. Which of the following managers' role is to translate the general statements/ strategies into concrete strategies of their individual businesses-

(*a*) Supervisor (*b*) Functional Manager

(*c*) CEO of the company (*d*) All of the above

8. Which statement should be created first and foremost?

(*a*) Strategy (*b*) Vision

(*c*) Objectives (*d*) Mission

9. Strategic management enables an organization to _________, instead of companies just responding to threats in their business environment.

(*a*) be proactive (*b*) determine when the threat will subside

(*c*) avoid the threats (*d*) defeat their competitors

10. Read the following three statements:

(i) Strategies have short-range implications.

(ii) Strategies are action oriented.

(iii) Strategies are rigidly defined.

From the combinations given below select an alternative that represents statements that are true:

(*a*) (i) and (ii) (*b*) (i) and (iii)

(*c*) (ii) and (iii) (*d*) (i), (ii) and (iii)

11. What involves formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives?

(*a*) Strategy formulation (*b*) Strategy evaluation

(*c*) Strategy implementation (*d*) Strategic management

12. Strategic management allows an organization to be more:

(*a*) Authoritative (*b*) Participative

(*c*) Commanding (*d*) Proactive

13. Strategic management can be effectively used by NGOs to:

(*a*) Use resource effectively (*b*) Raise funds

(*c*) Achieve goals (*d*) All the above

14. Strategy helps in:

(*a*) Unravelling complexity (*b*) Reduce uncertainty

(*c*) Relate the goals with the resources. (*d*) All of Above

15. Which of the following statement is not true:

(*a*) Strategic environment is complex

(*b*) Strategic environment is turbulent

(*c*) High cost of strategy makes them useless for charitable organizations

(*d*) Public sector units should implement business strategy

16. Which of the following statements correctly explain strategic management?

(i) Strategic management provides a framework for major decisions.

(ii) Strategic management helps to enhance the longevity of the business.

(iii) Strategic management is an inexpensive process.

(iv) Strategic management helps organizations to be more reactive than proactive.

(*a*) (i) and (ii) (*b*) (i), (ii) and (iii)

(*c*) (i), (ii) and (iv) (*d*) (i), (iii) and (iv)

17. Which of the following statements is not true with regards to strategy?

(*a*) Strategy reduces uncertainty.

(*b*) Strategy is a long-range blueprint of desired position.

(*c*) Strategy relates organizations to the external environment.

(*d*) Strategy is perfect and flawless.

18. SK industries are analysing the technological forces for the firm which may provide it opportunities and threats for which of the following stage/s of the strategic management process?

(*a*) Strategy formulation (*b*) Strategy implementation

(*c*) Strategy evaluation (*d*) All of the above

19. An organization during its strategy planning envisaged entire scenarios and created a strategy framework. But in the meantime after implementation, it realized that its framework is not effective in certain unique scenarios. What is the reason for the same?

(*a*) Strategy is "partly proactive and Partly reactive"

(*b*) Lack of analysis and proper planning.

(*c*) Strategy is highly reactive and highly proactive.

(*d*) Improper creation of strategic framework

20. Strategic management allows an organization to be more:

(*a*) Authoritative (*b*) Participative

(*c*) Commanding (*d*) Proactive

21. SK Bank had strategically decided to set up a separate office in Delhi back in 2019, specifically to invest in crypto currencies and in development of robust blockchain facilities. Which importance of strategic management did SK Bank make use of?

(*a*) Gives direction to the management of the company

(*b*) Helps to be proactive instead of being reactive

(*c*) Provides a framework for all major future decisions

(*d*) Supports development of new SBUs like in this case separate office for Blockchain

22. After an earnest attempt to bring in a strategic change in your organization, you the operational head of SK ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?

(*a*) Strategy Formulation (*b*) Strategy Model

(*c*) Strategy Implementation (*d*) Strategy Decision

23. Which one of the following, focuses on present business scope- 'who we are and what we do'?

(*a*) Mission Statement (*b*) Vision Statement

(*c*) Goals and objectives (*d*) Purpose

24. Imagine you are part of a strategic planning team for a company. As you work on defining the company's identity and its current business scope, which of the following elements primarily concentrates on answering the question, "Who we are and what we do?"

(*a*) Mission statement (*b*) Vision statement

(*c*) Goals and Objectives (*d*) Purpose

25. Mr. S and Mr. K are partners in a thriving business venture. Recently, they have become aware of their employees' dissatisfaction with their working conditions. Mr. S believes that the situation should be dealt with before the employees explode. Mr. K, on the other hand, believes that if the employees have an outburst, then they will handle it. Mr. S and Mr. K business philosophy is:

(*a*) Reactive, Proactive (*b*) Reactive, Reactive

(*c*) Proactive, Proactive (*d*) Proactive, Reactive

26. In large organization strategies are formulated at which level?

(*a*) Corporate levels (*b*) Divisional Levels

(*c*) Functional levels (*d*) All of the above

27. Which of these serves as a corporate defence mechanism against mistakes & pitfalls?

(*a*) Strategic Management (*b*) Marketing Techniques

(*c*) Strategic Awareness (*d*) Competitive Analysis

28. Which is a self-contained division?

(*a*) Strategic business unit (*b*) Divisional structure

(*c*) corporate division (*d*) Managerial division

29. Which is a planned strategy?

(*a*) Proactive (*b*) Reactive

(*c*) Adaptive (*d*) None of these

30. Which is not an advantage of strategic management?

(*a*) Helps organizations to be proactive. (*b*) Control their own destiny in better manner.

(*c*) Identify available opportunity (*d*) None of these

31. Which is a set of interrelated functions & processes carried out by management of an organization to attain its objective?

(*a*) Strategy (*b*) Execution

(*c*) Monitoring (*d*) Management

32. Which is not the limitation of strategic management?

(*a*) Time Consuming Process (*b*) Difficult Estimation of competitive responses

(*c*) Costly Process (*d*) Understandable complex environment

33. Which of these is something that has to do with war & ways to win over enemy?

(*a*) Strategy (*b*) Management

(*c*) Execution (*d*) Monitoring

34. Which strategy is used by companies to cope up with uncertain business environment?

(*a*) Proactive (*b*) Reactive

(*c*) Both (*d*) None of these

35. In competitive environment it is difficult to clearly estimate about firm's strategies.

(*a*) Competitive Responses (*b*) Operating Process

(*c*) Control System (*d*) Reasonable Outcomes

36. Which of these seeks to relate the goals of organization to the means of achieving them?

(*a*) Strategy (*b*) Execution

(*c*) Monitoring (*d*) Management

37. What is a unified, comprehensive & integrated plan designed to assure that basic objectives of enterprise are achieved?

(*a*) Strategy (*b*) Execution

(*c*) Monitoring (*d*) Management

38. Corporate level of management does consists of:

(*a*) Board of directors (*b*) Chief Executive Officer

(*c*) corporate staff (*d*) All the above

39. Who said that 'I believe we do a far better job of strategic management than any company I know?

(*a*) Richard Cyert (*b*) Igor H. Ansoff

(*c*) William F. Glueck (*d*) Michal Porter

40. Role of corporate level managers is to oversee development of strategies for:

(*a*) Departments (*b*) SBU

(*c*) Whole Organization (*d*) Division

41. Which is not the objective of strategic management?

(*a*) To Create Competitive Advantage (*b*) To Guide Company Successfully

(*c*) To Create Ethics in employees (*d*) None of these

42. Which of these basic questions should a vision statement answer?

(*a*) What is our business? (*b*) Who are our competitors?

(*c*) Where we are to go? (*d*) Why do we exist?

43. Which of the following are successful hospital strategies that Hospitals today are providing?

(*a*) free-standing outpatient surgery centres (*b*) home health services

(*c*) women's medicine services (*d*) All of the above

44. Which one is not the element of strategic intent?

(*a*) Business model
(*b*) Vision
(*c*) Business definition
(*d*) Business standard

45. Statement that is typically focused on present business scope and broadly describes an organisation's present capabilities, customer focus, activities, and business makeup is:

(*a*) Vision
(*b*) Mission
(*c*) Strategy
(*d*) Goals

46. Mission

(*a*) is an internally-focused definition of the organisation's societal goals
(*b*) is a statement of a firm's unique purpose and scope of operations
(*c*) does not limit the firm by specifying the industry in which the firm intends to compete
(*d*) is developed by a firm before the firm develops its strategic intent.

47. Objectives should be:

(i) Concrete and specific.
(ii) Related to time frame.
(iii) Standards for performance appraisal.

Which of the above statements are true:

(*a*) (i) & (ii)
(*b*) (ii) & (iii)
(*c*) (i) & (iii)
(*d*) (i), (ii) and (iii)

48. SK industries are analysing the technological forces for the firm which may provide it opportunities and threats for which of the following stage/s of the strategic management process?

(*a*) Strategy formulation
(*b*) Strategy implementation
(*c*) Strategy evaluation
(*d*) All of the above

49. Members of SK, an NGO, have met and determined that they need to formulate a philosophical basis for their activities. Thereby they have come up with a statement: - "Provide children till age 12, living in homeless or low-income situations, with the essential items they need to thrive – at home, at school and at play '' Identify the area of strategic intent, which the members have stated?

(*a*) Vision
(*b*) Business Definition
(*c*) Goal and Objective
(*d*) Mission

50. The philosophical base of strategic management falls within the concept of-

(*a*) Strategic Intent
(*b*) Portfolio Analysis
(*c*) Globalisation
(*d*) Vision Statement

51. The strategic management process is:

(*a*) a solution that guarantees prevention of organisational failure.
(*b*) concerned with resources, capabilities, and competencies, but not the conditions in its external environment.
(*c*) not to be used in not-for-profit organisations.
(*d*) full set of commitments, decisions, and actions related to the firm

52. A strategic business unit is a grouping of _______ businesses.

(*a*) unrelated (*b*) differentiated

(*c*) related (*d*) None of these

53. Which of these implies blueprint of the company's future position & despite organization's aspirations?

(*a*) Vision (*b*) Mission

(*c*) Goals & Objectives (*d*) Business Model

54. Which is the end result that organization want to achieve?

(*a*) Vision (*b*) Objectives

(*c*) Mission (*d*) None of the above

55. To be a world class corporate constantly furthering interest of all its stakeholders'' is vision of_____

(*a*) Tata Motors (*b*) Reliance Industry

(*c*) Microsoft (*d*) Amazon

56. Which is not the characteristic of objectives ?

(*a*) Understandable (*b*) Challenging

(*c*) Measurable (*d*) Uncontrollable

57. The managerial purpose of setting is to convert the strategic vision into specific performance targets – results and outcomes the management wants to achieve.

(*a*) Mission (*b*) Objectives

(*c*) Strategy (*d*) Strategic vision

58. Refers to purposes of what the organization strives for?

(*a*) Strategic management (*b*) Strategic intent

(*c*) Vision (*d*) Goals and objectives

59. Which of these delineates the firm's business, its goals & ways to reach goals?

(*a*) Vision (*b*) Mission

(*c*) Goals & Objectives (*d*) Business Model

60. Which is time-based measurable targets, which help in accomplishment of goals?

(*a*) Business Model (*b*) Vision

(*c*) Objectives (*d*) Mission

61. ______ can be understand as the philosophical base of strategic management.

(*a*) Goals and objectives (*b*) Mission

(*c*) Vision (*d*) Strategic intent

Answer Key

1. (*d*)	**2.** (*b*)	**3.** (*c*)	**4.** (*b*)	**5.** (*d*)	**6.** (*d*)	**7.** (*b*)	**8.** (*b*)	**9.** (*a*)	**10.** (*a*)
11. (*d*)	**12.** (*d*)	**13.** (*d*)	**14.** (*d*)	**15.** (*c*)	**16.** (*a*)	**17.** (*d*)	**18.** (*d*)	**19.** (*a*)	**20.** (*d*)
21. (*b*)	**22.** (*c*)	**23.** (*a*)	**24.** (*a*)	**25.** (*d*)	**26.** (*d*)	**27.** (*a*)	**28.** (*a*)	**29.** (*a*)	**30.** (*d*)
31. (*d*)	**32.** (*d*)	**33.** (*a*)	**34.** (*c*)	**35.** (*a*)	**36.** (*a*)	**37.** (*a*)	**38.** (*d*)	**39.** (*a*)	**40.** (*c*)
41. (*c*)	**42.** (*d*)	**43.** (*d*)	**44.** (*d*)	**45.** (*b*)	**46.** (*a*)	**47.** (*d*)	**48.** (*d*)	**49.** (*d*)	**50.** (*a*)
51. (*d*)	**52.** (*c*)	**53.** (*a*)	**54.** (*a*)	**55.** (*a*)	**56.** (*d*)	**57.** (*b*)	**58.** (*b*)	**59.** (*b*)	**60.** (*c*)
61. (*d*)									

2

CHAPTER

Strategic Analysis External Environment

MULTIPLE CHOICE QUESTIONS

1. KSFs stand for:
(*a*) Key strategic factors
(*b*) Key supervisory factors
(*c*) Key success factors
(*d*) Key sufficient factors

2. Competitive landscape requires the application of-
(*a*) Competitive advantage
(*b*) Competitive strategy
(*c*) Competitive acumen
(*d*) Competitive intelligence

3. The term PESTLE analysis is used to describe a framework for analysing:
(*a*) Macro Environment
(*b*) Micro Environment
(*c*) Both Macro and Micro Environment
(*d*) None of above

4. 'Attractiveness of firms' while conducting industry analysis should be seen in-
(*a*) Relative terms
(*b*) Absolute terms
(*c*) Comparative terms
(*d*) All of the above

5. What is not one of Michael Porter's five competitive forces?
(*a*) New entrants
(*b*) Rivalry among existing firms
(*c*) Bargaining power of unions
(*d*) Bargaining power of suppliers

6. Which of the following constitute Demographic Environment?
(*a*) Nature of economy i.e. capitalism, socialism, Mixed
(*b*) Size, composition, distribution of population, sex ratio
(*c*) Foreign trade policy of Government
(*d*) Economic policy i.e. fiscal and monetary policy of Government

7. All are elements of Macro environment except:
(*a*) Society
(*b*) Government
(*c*) Competitors
(*d*) Technology

8. The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the _____ stage of the industry life cycle.

(*a*) Maturity (*b*) Introduction

(*c*) Growth (*d*) Decline

9. Which of the following statements is not true:

(*a*) Strategic environment is complex

(*b*) Strategic environment is turbulent.

(*c*) High cost of strategy makes them useless for charitable organisations.

(*d*) public sector units should implement business strategy

10. During which stage of the Product Life Cycle will strategies like selective harvesting, retrenchment etc. may by adopted by company?

(*a*) Decline (*b*) Growth

(*c*) Maturity (*d*) Introduction

11. During which stage of the Product Life Cycle will marketing strategies need to concentrate on differentiating a product from competing products, building brand loyalty and offering incentives to attract competitor's customers to switch?

(*a*) Decline (*b*) Growth

(*c*) Maturity (*d*) Introduction

12. According to Porter, which of the following is important to achieve competitive advantage?

(*a*) Differentiation and cost advantage.

(*b*) Outsourcing activities.

(*c*) Having strong relationships with buyers and sellers.

(*d*) Focus on most competitive businesses

13. SK is a marketing consultancy business. SK's most recent corporate analysis has identified that three new businesses have recently entered its market and started aggressively targeting SK's key client. As part of SK's corporate analysis, these three new businesses would be a:

(*a*) Strength (*b*) Opportunity

(*c*) Weakness (*d*) Threat

14. Which of the following is not part of external analysis:

(*a*) Customer segments. (*b*) Organisational constraints.

(*c*) Entry barriers. (*d*) Competitors

15. The purpose of logistics management is:

(*a*) Provide customer satisfaction

(*b*) Create automation

(*c*) Procure better quality raw material

(*d*) Manage inward and outward movement of goods

16. Which is not the characteristic of globalization?

(*a*) Conglomerate of multiple units (*b*) Common Pool of resources
(*c*) Common Strategy (*d*) High Transpersonal Cost

17. Value chain analysis was originally introduced as an to shed light on the value-added task of separate activities.

(*a*) Accounting Analysis (*b*) Portfolio Analysis
(*c*) Controls Analysis (*d*) System Analysis

18. Which concepts exhibits the relationship of sales with respect of time for a product that passes through the four successive stages?

(*a*) BCG (*b*) PLC
(*c*) SWOT (*d*) ADL

19. __________ can be done using a set of concepts & techniques to get a clear picture on key industry traits.

(*a*) Strategy analysis (*b*) Industry & Competitive Analysis
(*c*) Value Chain Analysis (*d*) Portfolio Analysis

20. Competitive strategy of a firm evolves out of consideration of several factor that are______ to it.

(*a*) Unrelated (*b*) Managerial
(*c*) Internal (*d*) External

21. Which will not be considered as a supporting activity?

(*a*) Firm Infrastructure (*b*) HR Management
(*c*) Inbound Logistic (*d*) Technology Development

22. In which stage of product life cycle the competition is negligible?

(*a*) Introduction (*b*) Growth
(*c*) Maturity (*d*) Decline

23. A for a firm is whatever it does Best.

(*a*) Core Competency (*b*) Driving Forces
(*c*) Key Success Factors (*d*) Concurrent Filters

24. _________ of a firm evolves out of consideration of several factors that are external to it.

(*a*) Competitive Landscape (*b*) Strategic Analysis
(*c*) Core Competence (*d*) Competitive Strategy

25. The objective competitive strategy is to generate:

(*a*) Generate Competitive Advantage (*b*) Increase Market Share
(*c*) Beat Competition (*d*) All the above

26. Which of these will not be considered as primary activity?

(*a*) Inbound Logistic (*b*) Marketing & Sales

(*c*) Procurement (*d*) Service & Operation

27. Which of these are those things that most affect industry member's ability to prosper in marketplace?

(*a*) Key Success Factors (*b*) Driving Forces

(*c*) Core Identity Forces (*d*) Concurrent Filters

28. Capabilities that are valuable, rare, costly to imitate, & non-substitutable are __________ .

(*a*) Core Competency (*b*) Driving Forces

(*c*) Key Success Factors (*d*) Concurrent Filters

29. Competitive strategy consist of moves to.

(*a*) Attract Customer (*b*) Withstand Competitive pressure

(*c*) Strengthen market position (*d*) All the above

30. Companies often set to reduce high transformational cost in globalization.

(*a*) Bearer Plant (*b*) Overseas plant

(*c*) Domestic Plant (*d*) All the above

31. Which of these are the rules that shape whether a company will be financially & competitively successful?

(*a*) Core Identity Forces (*b*) Driving Forces

(*c*) Key Success Factors (*d*) Concurrent Filters

32. Which of the following is based on commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production?

(*a*) Experience Curve (*b*) Product Life Cycle

(*c*) SWOT Analysis (*d*) Growth Share Matrix

33. __________ comes from a firm's ability to perform activities more effectively that its rivals.

(*a*) Competitive Landscape (*b*) Competitive Advantage

(*c*) Core Competence (*d*) Strategic Change

34. Most dominant forces are called ______________ because they have biggest influence.

(*a*) Driving Forces (*b*) Dominant economic feature

(*c*) Strategic Moves (*d*) Competitive Landscape

35. In which stage of product life cycle the sales & profit falls down sharply due to some new product replaces the existing product?

(*a*) Introduction (*b*) Growth

(*c*) Maturity (*d*) Decline

36. Which approaches has an advantage that it can be used to diagnose a portfolio of products in order to establish stage at which each of them exists?

(*a*) Experience Curve (*b*) Product Life Cycle

(*c*) SWOT Analysis (*d*) Growth Share Matrix

37. __________ is a business analysis which identifies competitors, either direct or indirect.

(*a*) Competitive Landscape (*b*) Strategic Analysis

(*c*) Core Competence (*d*) Competitive Strategy

38. Which of these refers to process of integration of world economy into one huge market?

(*a*) Globalization (*b*) Privatization

(*c*) Stratification (*d*) None of these

39. Which of these is a widely used means of describing activities within & around an organization & relating them to an assessment of competitive strength of an organization?

(*a*) Accounting Analysis (*b*) Portfolio Analysis

(*c*) Controls Analysis (*d*) System Analysis

40. Which concept is also known as, S-Shaped' Curve?

(*a*) PLC (*b*) BCG

(*c*) ADL (*d*) SWOT

41. Which area of value chain transform various inputs into the final product or service?

(*a*) Marketing & Sales (*b*) Procurement

(*c*) Infrastructure (*d*) Operation

42. Which is meant about analyse competitors & at the same time, it permits the comprehension of their vision, mission, core values, niche market, strength & weakness?

(*a*) Strategic Analysis (*b*) Core Competence

(*c*) Competitive Landscape (*d*) Competitive Strategy

43. Which is a particularly important area of supportive activities in value chain that transcends all primary activities?

(*a*) Procurement (*b*) Technology Development

(*c*) Human Resources Manager (*d*) Infrastructure

44. Determine the correct stage of competitive landscape.

(i) Put all information together

(ii) Determine Strength & Weakness of competitors

(iii) Understand the competitors

(iv) Identify the competitors

(*a*) (ii), (iv), (i), (iii) (*b*) (iii), (iv), (ii), (i)

(*c*) (i), (iii), (ii), (iv) (*d*) (iv), (iii), (ii), (i)

45. Which of these is dynamic & uncertain?

(*a*) External Environment
(*b*) Organization Analysis
(*c*) Both (*a*) & (*b*)
(*d*) None of these

46. Which is not the major dimension of strategic decision making?

(*a*) Top management involvement
(*b*) Commitment of organizational resources
(*c*) Future Oriented
(*d*) Impact on short term prosperity of firm

47. Which of these consists of economic, social, technological, market & other forces which affect its functioning?

(*a*) External Environment
(*b*) Organization Analysis
(*c*) Both (*a*) & (*b*)
(*d*) None of these

48. Which is one of most effective & enduring conceptual frameworks used to assess nature of competitive environment & to describe an industry's structure?

(*a*) Porter's five forces
(*b*) Generic Strategy
(*c*) Ansoff growth share matrix
(*d*) General Electric Matrix

49. A large firm can produce high volumes of good at successively lower costs.

(*a*) Capital Requirement Barrier
(*b*) Economic of scale Barrier
(*c*) Switching Cost Barrier
(*d*) Brand Identity Barrier

50. Buyer bargaining power has leverage when ______ .

(*a*) Buyers have full knowledge
(*b*) Buyers have invested a lot of money
(*c*) Buyers are more concentrated than firms
(*d*) All the above

51. Assets of firm considering maybe highly specialized & therefore of little value to any other firm.

(*a*) Fixed Cost
(*b*) Slow Growth
(*c*) Exit Barrier
(*d*) Industry Leader

52. Who believes that basic unit of analysis for understanding is a group of competitors producing goods & services that compete directly with each other?

(*a*) Michal Porter
(*b*) Igor H. Ansoff
(*c*) William F. Glueck
(*d*) Richard Cyert

53. The interrelationship among environment.

(*a*) Strategies
(*b*) Resources
(*c*) Controls
(*d*) Porter's Five Forces

54. Which refers to physical or enhancements, that make a product special or unique in the eyes of customers?

(*a*) Product Differentiation
(*b*) Economic of scale
(*c*) Switching Cost
(*d*) Brand Identity

55. Suppliers bargaining power has leverage when.

(*a*) Substitutes are not available
(*b*) High Switching Cost
(*c*) Sellers are more concentrated than buyers
(*d*) All the above

56. Which of these is a powerful & widely used tool for systematically diagnosing significant competitive pressure in a market?

(*a*) Porter's five forces
(*b*) Generic Strategy
(*c*) Ansoff growth share matrix
(*d*) General Electric Matrix

57. Michael Porter's strategy imply.

(*a*) Organizational arrangements
(*b*) Control Procedure
(*c*) Incentive system
(*d*) All the above

58. Which of these is not the element of five forces?

(*a*) Threats of new entrance
(*b*) Bargaining power of buyer
(*c*) Threats of complimentary
(*d*) Nature of industry rivalry

59. Buyers may need to test new firm's product, negotiable new purchase contracts, & train personnel to use for after equipment.

(*a*) Handling Cost
(*b*) Emergency Cost
(*c*) Switching Cost
(*d*) Durability Cost

60. Rivalry among competitors tends to be cutthroat & industry profitability low when ________.

(*a*) Industry has no clear leader
(*b*) Numerous competitors
(*c*) Face High exit barriers
(*d*) All the above

Answer Key

1. (*c*)	**2.** (*d*)	**3.** (*a*)	**4.** (*a*)	**5.** (*c*)	**6.** (*b*)	**7.** (*c*)	**8.** (*b*)	**9.** (*c*)	**10.** (*a*)
11. (*c*)	**12.** (*a*)	**13.** (*d*)	**14.** (*b*)	**15.** (*d*)	**16.** (*d*)	**17.** (*a*)	**18.** (*b*)	**19.** (*b*)	**20.** (*d*)
21. (*c*)	**22.** (*a*)	**23.** (*c*)	**24.** (*d*)	**25.** (*d*)	**26.** (*c*)	**27.** (*a*)	**28.** (*a*)	**29.** (*d*)	**30.** (*b*)
31. (*c*)	**32.** (*a*)	**33.** (*b*)	**34.** (*a*)	**35.** (*d*)	**36.** (*a*)	**37.** (*a*)	**38.** (*a*)	**39.** (*a*)	**40.** (*a*)
41. (*d*)	**42.** (*c*)	**43.** (*c*)	**44.** (*d*)	**45.** (*a*)	**46.** (*d*)	**47.** (*a*)	**48.** (*a*)	**49.** (*b*)	**50.** (*d*)
51. (*c*)	**52.** (*a*)	**53.** (*d*)	**54.** (*a*)	**55.** (*d*)	**56.** (*a*)	**57.** (*d*)	**58.** (*c*)	**59.** (*c*)	**60.** (*d*)

CHAPTER 3

Strategic Analysis Internal Environment

MULTIPLE CHOICE QUESTIONS

1. The goal of SWOT analysis is to _______ the organization's opportunities and strengths while _______ its threats and _______ its weaknesses.
   (*a*) avoid; neutralizing; correcting
   (*b*) exploit; neutralizing; correcting
   (*c*) avoid; capitalizing; neutralizing
   (*d*) exploit; avoiding; ignoring

2. SWOT analysis is an evaluation of the organization's _______ strengths and weaknesses and its _______ opportunities and threats.
   (*a*) external; internal
   (*b*) internal; internal
   (*c*) external; external
   (*d*) internal; external

3. External opportunities and threats are usually:
   (*a*) the minor cause of organizational demise or success
   (*b*) least important for CEOs and the board of directors
   (*c*) not as important as internal strengths and weaknesses
   (*d*) largely uncontrollable activities outside the organization

4. The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon:
   (*a*) Durability, reliability, transferability, approximately
   (*b*) Appropriability, durability, transferability, imitability
   (*c*) Transferability, imitability, reliability, approximately
   (*d*) Imitability, durability, reliability, appropriability

5. Internal _________ are activities in an organization that are performed especially well.
   (*a*) Opportunities
   (*b*) Competencies
   (*c*) Strengths
   (*d*) Management

6. 'Strategic group mapping' helps in-
   (*a*) Identifying the strongest rival companies
   (*b*) Identifying weakest rival companies
   (*c*) Identifying weakest and strongest rival companies
   (*d*) None of the above

7. In Michael Porter's generic strategy __________ emphasizes producing standardized products at a very low per unit-cost for consumers who are price sensitive.

(*a*) Cheap leadership (*b*) Inferior product leadership
(*c*) Cost leadership (*d*) Cost benefit

8. Differentiation Strategy can be achieved by following measures:

(1) Match products with tastes and preferences of customers.
(2) Elevate the performance of the product.
(3) Rapid product innovation

Which of the above is true:

(*a*) (1) and (2) (*b*) (1) and (3)
(*c*) (2) and (3) (*d*) (1), (2) and (3)

9. What are the three different bases given by Michael Porter's Generic Strategies to gain competitive advantage?

(*a*) differentiation, integration and compensation
(*b*) integration, focus and differentiation
(*c*) compensation, integration and focus
(*d*) cost leadership, differentiation and focus

10. A firm successfully implementing a differentiation strategy would expect:

(*a*) Customers to be sensitive to price increases.
(*b*) To charge premium prices.
(*c*) Customers to perceive the product as standard.
(*d*) To automatically have high levels of power over suppliers

11. A core competence is all except?

(*a*) Valuable (*b*) Rare
(*c*) Impossible to imitate (*d*) Non-substitutable

12. Anything that a firm does especially well compared to rival firms is referred to as ____.

(*a*) Competitive advantage (*b*) Comparative advantage
(*c*) Opportunity cost (*d*) Sustainable advantage

13. Marketing and Sales of Hindustan Unilever Limited and lowering of operating cost by Walmart are examples of what?

(*a*) Competitive Advantage (*b*) Core Competency
(*c*) Strategic Planning (*d*) Key Performance Indicators (KPIs)

14. SK, an organic farming expert, was consulting a group of farmers to build a sustainable brand of their corn produce. He suggested following the strategy of the biggest player in this business. Which of the following can be used to identify such a player?

(*a*) BCG Matrix (*b*) ADL Matrix
(*c*) Dominant Force Analysis of the Industry (*d*) Strategic Group Mapping

15. A __________ consists of those rival firms which have similar competitive approaches and positions in the market.

(*a*) BCG Matrix. (*b*) Strategic group.

(*c*) Strategy Map. (*d*) Industry.

16. According to C.K. Prahalad and Gary Hamel, major core competencies are identified in three areas - ____, _____, and application to other markets.

(*a*) Competitor differentiation, customer value. (*b*) Competitor differentiation, focus.

(*c*) Cost leadership, differentiation. (*d*) Profits, growth.

17. Which of the following is not true for core competency:

(*a*) It distinguishes a company competitively.

(*b*) It is a source of competitive advantage.

(*c*) It is an individual skill and separate technique.

(*d*) It is often visible in the form of organisational function

18. SK Mart an online marketplace where people from all over Delhi come and sell their goods is charging zero commission for listing goods but they take 1% of the sales per month from the seller. It is defined as?

(*a*) Business Intent (*b*) Business Idea

(*c*) Business Definition (*d*) Business Model

19. Michael Porter Generic strategies to gain competitive advantage include all except:

(*a*) Cost leadership (*b*) Differentiation

(*c*) Focus (*d*) Revenue generation

20. SK, a manufacturer of private helicopters, offers unique features that fulfil the demands of a narrow market. It competes in the market based on its uniqueness and custom-oriented private helicopters. SK provides a limited number of high-end helicopters with ultimate features. Which business strategy is being followed by SK?

(*a*) Differentiation (*b*) Focused differentiation

(*c*) Cost leadership (*d*) Focused cost leadership

21. DMart sells fast moving consumer goods at wholesale prices to retail customers, is this a strategy of?

(*a*) Market Penetration (*b*) Cost Differentiation

(*c*) Cost Leadership (*d*) Market Development

22. Best Cost provider strategies

(*a*) Seek to attract buyers on the basis of charging low price for low quality

(*b*) Aim at giving customers less value for more money

(*c*) Seek to attract buyers on the basis of charging high price for high quality

(*d*) Aim to giving customers low cost and better-quality

23. Best-cost provider strategy is related to providing customers more value for money by:

(*a*) Highlighting low cost and low quality difference.

(*b*) Emphasizing low cost and better quality difference.

(*c*) Producing high cost and low quality differences.

(*d*) Managing high cost and low quality difference

24. Porter' cost leadership is a ___________ strategy

(*a*) Functional level (*b*) Business level

(*c*) Corporate level (*d*) Implementation

25. Competitive rivalry has the most effect on the firm's ____ strategies than the firm's other strategies.

(*a*) Business level (*b*) Corporate level

(*c*) Functional level (*d*) All of these

26. SK Pharmaceuticals Limited manufactures a cough syrup SK. It has modified SK syrup, claiming that the SK cough syrup is sugar-free, and the consumer will not feel drowsiness after consuming this cough syrup. Consumers found this product to be unique. The sales of SK cough syrup have increased as expected. The price of this sugar-free syrup is higher by 20% than the earlier syrup. Identify the strategy adopted by SK Pharmaceuticals Limited.

(*a*) Focus strategy (*b*) Best cost provider strategy

(*c*) Differentiation strategy (*d*) Cost leadership strategy

27. SK is a small company based in the Himalayan ranges in India. It is known in the region for its hill walking sticks. SK sell specialist walking equipment in their small shop at the foot of the mountains. They do not have a website yet are able to sell their products at premium prices. Which of the following one of Porter's generic strategies best fits SK?

(*a*) Cost leadership (*b*) Differentiation

(*c*) Focused cost leadership (*d*) Focused differentiation

28. SK, a hearing aid manufacturer recently introduced an AI based management tool that has the capabilities of managing teams across functions. What could be their new organizational structure post this implementation?

(*a*) Divisional Structure (*b*) Matrix Structure

(*c*) Hourglass Structure (*d*) Network Structure

29. A campaign advocating the message of 'save water' is:

(*a*) Services Marketing (*b*) Holistic marketing

(*c*) Social Marketing (*d*) Direct Marketing

30. The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder is:

(*a*) Social marketing (*b*) Augmented marketing

(*c*) Direct marketing (*d*) Relationship marketing

31. The marketing strategy which is used to reduce or shift the demand is:

(*a*) Enlightened Marketing (*b*) Synchro-Marketing

(*c*) Place Marketing (*d*) Demarketing

32. Airlines providing special lounge access to loyal customers is which type of marketing?

(*a*) Augmented Marketing (*b*) Direct Marketing

(*c*) Relationship Marketing (*d*) Services Marketing

33. Which of these refers to period over which competitive advantage is sustained & which depends on rate at which firm's resources?

(*a*) Durability (*b*) Transferability

(*c*) Imitability (*d*) Appropriability

34. How many strategic group does an industry contains when all sellers pursue essentially identical strategies & have comparable market position?

(*a*) More than 2 (*b*) Less than 10

(*c*) Only One (*d*) None of these

35. Which area of core competencies provide a company an edge compared to competitors & allows company to provide better to market with no fear that competitor can imitate?

(*a*) Competitor differentiation (*b*) Customer Value

(*c*) Profitability of industry (*d*) Application to other market

36. Which strategy has its objective to increase market share, even by foregoing short-term earnings?

(*a*) Build (*b*) Hold

(*c*) Harvest (*d*) Divest

37. Types of distribution channels used to access _____ .

(*a*) System (*b*) Control

(*c*) Customer (*d*) Process

38. Which of these is meant that ability of rivals to attack position of competitive advantage relies on their gaining access to necessary resources & capabilities?

(*a*) Durability (*b*) Transferability

(*c*) Imitability (*d*) Appropriability

39. Determine the flow of creating the competitive advantage.

(i) Assign the firms

(ii) Plot firms on a two-variable map

(iii) Identify competitive characteristic

(iv) Draw circle around each strategic group

(*a*) (i), (iii), (ii), (iv) (*b*) (ii), (i), (iv), (iii)

(*c*) (iii), (ii), (i), (iv) (*d*) (iv), (i), (ii), (iii)

40. Which is not the characteristic of SWOT analysis?

(*a*) Provides Logical framework (*b*) Helps in crafting strategy

(*c*) Present a cooperative account (*d*) Guides in strategy identification

41. Which criteria of core competency is related with the capabilities that allows firm to exploit opportunity or avert threats in its external environment?

(*a*) Valuable (*b*) Rare

(*c*) Costly to Imitate (*d*) Non-substitutable

42. If you don't have a competitive advantage, don't compete', it is said by _________ .

(*a*) Igor H. Ansoff (*b*) Willium F. Gluek

(*c*) Jack Welch (*d*) Arthur D. Little

43. Which of these is a measurement through which value can be measured?

(*a*) Price (*b*) Willing to pay

(*c*) Cost (*d*) All the above

44. Which of the following is not the characteristic of competitive advantage?

(*a*) appropriability (*b*) Transferability

(*c*) Imitability (*d*) Tractability

45. The concept of the core competency was developed by _________ .

(*a*) H.N. Prashad & F.W. Taylor (*b*) R.K. Narayan & Arthur D. Little

(*c*) C.K. Prahalad & Gary Hamel (*d*) Ansoff & Willium F. Gluek

46. _________ are capabilities that serves as a source of competitive advantage for a firm over its rivals.

(*a*) Concurrent Filters (*b*) Core competencies

(*c*) Driving Forces (*d*) Core Identity Forces

47. Capabilities that do not have strategic equivalents are known as which capabilities?

(*a*) Non-Substitutable (*b*) Valuable

(*c*) Rare (*d*) Non-Imitable

48. Which of these is a unique feature of a company & its products that are perceived by the target market as significant & superior to the competition?

(*a*) Strategic Leadership (*b*) Competitive Advantage

(*c*) Strategic Intent (*d*) Competitive Landscape

49. Which of the following is unique feature of company & its products that are perceived by target market?

(*a*) Strategic Leadership (*b*) Competitive Advantage

(*c*) Strategic Intent (*d*) Globalization

50. Resources are foundation of ________ & unique bundle of ________ generate competitive advantage leading to wealth creation.

(*a*) Resource, Plan
(*b*) Strategy, Resource
(*c*) Policies, Procedure
(*d*) Resources, Capabilities

51. _______ is defined as a combination of skills & techniques rather than individual skill or separate technique.

(*a*) Competency
(*b*) Driving Force
(*c*) Core Identity Force
(*d*) Concurrent Filter

52. Firm is successful in achieving ________ only after other firm's effort to duplicate or imitate it are failed.

(*a*) Strategic Leadership
(*b*) Competitive Advantage
(*c*) Strategic Intent
(*d*) Competitive Landscape

53. Determine the flow of creating the competitive advantage.

(i) Resources
(ii) Competitive advantage
(iii) capabilities

(*a*) (i), (iii), (ii)
(*b*) (ii), (i), (iii)
(*c*) (iii), (ii), (i)
(*d*) (i), (ii), (iii)

54. In industries where rate of ________ is fast, ______ are quite likely to became obsolete.

(*a*) Product Innovation, Product Patents
(*b*) Market Innovation, Firm's Name
(*c*) Product Innovation, Firm's Name
(*d*) Market Innovation, Product Patents

55. Which of these is useful analytical tool for comparing market position of each firm separately when an industry has so many competitors that it is not practical to examine each of them?

(*a*) Strategic Group Mapping
(*b*) Scenario Analysis
(*c*) Strategic Core Analysis
(*d*) PESTEL Analysis

56. Which is not the area identified in major core competencies?

(*a*) Competitor differentiation
(*b*) Customer Value
(*c*) Profitability of industry
(*d*) Application to other market

57. Which strategy is not suggested by Michael Porter?

(*a*) Cost Leadership Strategy
(*b*) Focused Strategy
(*c*) Differentiation Strategy
(*d*) None of these

58. Which strategies are the course of action adopted by organization to serve identified customer group & provide value to customer by satisfaction of their needs?

(*a*) Corporate Level Strategy
(*b*) Business Level Strategy
(*c*) Functional Level Strategy
(*d*) None of these

59. Which strategy aimed at producing products & services considered unique industrywide & directed at consumers who are relatively price incentive?

(*a*) Cost Leadership (*b*) Differentiation

(*c*) Focused strategy (*d*) None of these

60. Which is not the risk of pursuing cost leadership strategy?

(*a*) Competitors may imitate the strategy

(*b*) Technological breakthrough in industry

(*c*) Buyers interest may swing to differentiating feature

(*d*) Higher prize may lead to less demand of product

61. Which is the measure that could be adopted by an organization?

(*a*) Selecting specific niches (*b*) Creating superior skills

(*c*) Developing innovating ways (*d*) All the above

62. Firms must search for products that perform the same, or nearly the same, function as their existing products.

(*a*) Threats of new entrance (*b*) Bargaining power of buyer

(*c*) Threats of Substitutes (*d*) Nature of industry rivalry

63. Which means producing products & services that fulfil the needs of small groups of consumers who are relatively price-sensitive?

(*a*) Cost Leadership (*b*) Differentiation

(*c*) Focused strategy (*d*) None of these

64. Which action can be taken for achieving cost leadership strategy?

(*a*) Forecast the demand promptly (*b*) Optimum utilization of resources

(*c*) Resistance to differentiation (*d*) All the above

65. Which is measure for achieving differentiation strategy?

(*a*) Elevate the performance of product (*b*) Rapid product innovation

(*c*) Offer utility for customers (*d*) All the above

66. Which is not the advantage of focused strategy?

(*a*) Premium Prize (*b*) Difficulty for competitors

(*c*) Both (*a*) & (*b*) (*d*) None of these

67. Which refers the cost of customer to change the product & move to another's product?

(*a*) Handling Cost (*b*) Emergency Cost

(*c*) Switching Cost (*d*) Durability Cost

68. The more intensive the ______, the less attractive is the industry.

(*a*) Rivalry (*b*) Controls

(*c*) Strategy (*d*) Management

69. Which is he disadvantage of cost leadership strategy?

(*a*) Technological changes | (*b*) May not be remaining for longtime

(*c*) Depend upon high sales volume | (*d*) All the above

70. Which is not the disadvantage of differentiation?

(*a*) Uniqueness is difficult to sustain | (*b*) Charging Higher prize

(*c*) Not valued by customers | (*d*) All the above

71. Which is the disadvantage of focused differentiation strategy?

(*a*) Lacking in distinctive competencies | (*b*) Higher cost of product/services

(*c*) Niche could be Disappear | (*d*) All the above

72. Product development is example of strategy that offers the advantage of _________ .

(*a*) Cost Leadership | (*b*) Differentiation

(*c*) Focused | (*d*) None of these

73. Which is depend on an industry segment that is of sufficient size, has good growth potential & is not crucial to success of other major competitors?

(*a*) Cost Leadership | (*b*) Differentiation

(*c*) Focused Strategy | (*d*) None of these

74. Which is not the way of best cost provider strategy?

(*a*) Lower prize with comparable feature | (*b*) Similar prize with more feature

(*c*) Higher prize with same feature | (*d*) None of these

75. Which allows a firm when it is successful, to charge a higher price for its product & to customer loyalty?

(*a*) Cost Leadership | (*b*) Differentiation

(*c*) Focused | (*d*) None of these

76. Which strategy is most effective when consumers have distinctive preferences or requirement & rival firms are not attempting to specialize in same target segment?

(*a*) Cost Leadership | (*b*) Differentiation

(*c*) Focused strategy | (*d*) None of these

77. Which of these is a marketing philosophy holding that a company's marketing should support the best long-run performance of marketing system?

(*a*) Concentrated Marketing | (*b*) Differential Marketing

(*c*) Enlightened Marketing | (*d*) Synchro Marketing

Answer Key

1. (*b*)	**2.** (*d*)	**3.** (*d*)	**4.** (*b*)	**5.** (*c*)	**6.** (*c*)	**7.** (*c*)	**8.** (*d*)	**9.** (*d*)	**10.** (*b*)
11. (*c*)	**12.** (*a*)	**13.** (*b*)	**14.** (*d*)	**15.** (*b*)	**16.** (*a*)	**17.** (*c*)	**18.** (*d*)	**19.** (*d*)	**20.** (*b*)
21. (*c*)	**22.** (*d*)	**23.** (*b*)	**24.** (*b*)	**25.** (*a*)	**26.** (*c*)	**27.** (*d*)	**28.** (*b*)	**29.** (*c*)	**30.** (*d*)
31. (*b*)	**32.** (*c*)	**33.** (*a*)	**34.** (*c*)	**35.** (*a*)	**36.** (*a*)	**37.** (*c*)	**38.** (*b*)	**39.** (*c*)	**40.** (*b*)
41. (*a*)	**42.** (*c*)	**43.** (*b*)	**44.** (*d*)	**45.** (*c*)	**46.** (*b*)	**47.** (*a*)	**48.** (*b*)	**49.** (*b*)	**50.** (*b*)
51. (a)	**52.** (*b*)	**53.** (*a*)	**54.** (*a*)	**55.** (*a*)	**56.** (*c*)	**57.** (*d*)	**58.** (*b*)	**59.** (*b*)	**60.** (*d*)
61. (*d*)	**62.** (*c*)	**63.** (*c*)	**64.** (*d*)	**65.** (*d*)	**66.** (*d*)	**67.** (*c*)	**68.** (*a*)	**69.** (*d*)	**70.** (*d*)
71. (*d*)	**72.** (*b*)	**73.** (*c*)	**74.** (*c*)	**75.** (*b*)	**76.** (*c*)	**77.** (*c*)			

CHAPTER 4

Strategic Choices

MULTIPLE CHOICE QUESTIONS

1. Which strategy is implemented after the failure of turnaround strategy?

(*a*) Expansion strategy
(*b*) Diversification strategy
(*c*) Divestment strategy
(*d*) Growth strategy

2. Retrenchment strategy in the organization can be explained as:

(*a*) Reducing trenches (gaps) created between individuals.
(*b*) Divesting a major product line or market.
(*c*) Removal of employees from job through the process of reorganization.
(*d*) Removal of employees from job in one business to relocate them in other business

3. An organisation diversifies in backward sequence in the product chain and enters specific product/ process to be used in existing products. It is:

(*a*) Forward diversification.
(*b*) Vertical diversification.
(*c*) Horizontal diversification.
(*d*) Reactive diversification.

4. Corporate strategy includes:

(i) expansion and growth, diversification, takeovers and mergers
(ii) Vertical and horizontal integration, new investment and divestment areas
(iii) determination of the business lines

From the combinations given below select a correct alternative:

(*a*) (i) and (ii)
(*b*) (i) and (iii)
(*c*) (ii) and (iii)
(*d*) (i), (ii) and (iii)

5. Vertical integration may be beneficial when ___________

(*a*) Lower transaction costs and improved coordination are vital and achievable through vertical integration.
(*b*) Flexibility is reduced, providing a more stationary position in the competitive environment.
(*c*) Various segregated specializations will be combined.
(*d*) The minimum efficient scales of two corporations are different.

6. 'Stability strategy is a __________ strategy.

(*a*) SBU level (*b*) Corporate level

(*c*) Business level (*d*) Functional level

7. Conglomerate diversification is another name for which of the following?

(*a*) Related diversification (*b*) Unrelated diversification

(*c*) Portfolio diversification (*d*) Acquisition diversification

8. Diversification primarily helps to:

(*a*) Reduce competition (*b*) Reduce risk

(*c*) Reduce taxes (*d*) Reduce costs

9. If suppliers are unreliable or too costly, which of these strategies may be appropriate?

(*a*) Horizontal integration (*b*) Backward integration

(*c*) Market penetration (*d*) Forward integration

10. The SK Clothing Company (SK) is a manufacturer of a wide range of clothing. Fashion is one of the five divisions of SK. Fashion is operating in a market with high growth and is a market leader. By next year, it is predicted to have 10% of the market share in a growing market. Fashion should be classified as either of the following according to the BCG matrix.

(*a*) Star (*b*) Dog

(*c*) Cash cow (*d*) Question Mark

11. A beverage company has more than 500 soft drink brands, but none of them is anywhere close to its premium brand One Sip in awareness, revenue and profits. As per BCG's Matrix, One Sip brand for the beverage company is?

(*a*) Star (*b*) Dog

(*c*) Cash cow (*d*) Question mark

12. SK Pvt Ltd has seventeen factories, nine of which they recently gave to other producers on lease. This has increased their cash inflows to a great extent, and they are enjoying this surplus by investing the same in financial assets. Such a strategy can be termed as which of the following?

(*a*) Divest (*b*) Harvest

(*c*) Hold (*d*) Build

13. In context to the BCG matrix, which of the following statements is not correct?

(*a*) The BCG assumes that all products will grow and mature.

(*b*) The BCG can be used to examine a company's current product portfolio

(*c*) A company with only cash cows and dogs has limited long-term prospects.

(*d*) All of the above

14. When there is impact of strategy implementation on strategy formulation it can be referred as?

(*a*) Backward Linkages (*b*) Forward Linkages

(*c*) Vertical Linkages (*d*) Horizontal Linkages

15. Mr. S was heading the Global Biscuits SBU for SK's Ltd. and he got an email congratulating him for being promoted as the head of the entire business of SK's in India. Which of the following statements is true about Mr. S's position?

(*a*) Greg was a business level manager but now he is a corporate level manager

(*b*) Greg was a functional level manager but now he is a corporate level manager

(*c*) Greg was a business level manager and now also he is a business level manager

(*d*) Greg was a corporate level manager and now also he is a corporate level manager

16. Dogs in BCG Matrix be minimised through?

(*a*) Converting to Cash Cows
(*b*) Liquidating or Divesting
(*c*) Foreign Direct Investment Opportunity
(*d*) Bad Debt Writing off

17. Which of the following is not a type of diversification strategy?

(*a*) Vertical diversification.
(*b*) Concentric diversification.
(*c*) Conglomerate diversification.
(*d*) Co-generic diversification

18. Under BCG an SBU with products having little market share but in an attractive industry is referred to as:

(*a*) Cash cow
(*b*) Star
(*c*) Dog
(*d*) Question mark

19. What will happen in case many new businesses enter a market?

(*a*) Barriers to entry will rise.
(*b*) Competitive rivalry will intensify.
(*c*) Capacity of industry will fall.
(*d*) Industry will become more lucrative

20. An organisation acquiring its supplier is an example of:

(*a*) Horizontal integrated diversification.
(*b*) Forward integrated diversification.
(*c*) Backward integrated diversification.
(*d*) Conglomerate diversification

21. Which of the following is not true for SBUs

(*a*) It is relevant for multi-product, multi-business enterprises.

(*b*) It provides for more control at enterprise level with centralised strategic planning.

(*c*) A SBU has its own set of competitors.

(*d*) SBUs can be created for units at distant geographical locations.

22. Acquisition of another organisation that was using your product in their manufacturing is:

(*a*) Horizontal integrated diversification
(*b*) Forward integrated diversification
(*c*) Backward integrated diversification
(*d*) conglomerate diversification

23. A tool by which management identifies and evaluates the various businesses that make up a company is termed as:

(*a*) Value Chain Analysis
(*b*) Portfolio Analysis
(*c*) Competition Analysis
(*d*) Strategic Analysis

24. SK Ltd. has identified that all three of its main products are at the maturity phase of the product life cycle. Which of the following is SK Ltd. likely to be experiencing due to this?

(*a*) High, but declining sales

(*b*) Growing numbers of competitors

(*c*) Product diversification and differentiation strategies

(*d*) Adoption of price skimming strategies

25. SK is a fast-food brand and has been facing a lot of competition from American brands and has decided to not go very aggressive but to just preserve market share? Which of the strategies SK is following?

(*a*) Build (*b*) Hold

(*c*) Harvest (*d*) Divest

26. Strategy evaluation is difficult on account of following trends, except:

(*a*) There is a dramatic increase in the environment's complexity.

(*b*) It is difficult to predict the future

(*c*) Firms have unlimited resources.

(*d*) Obsolescence is rapid.

27. Acquisition of a company producing readymade garments by a company manufacturing yarn is:

(*a*) Horizontal integration (*b*) Horizontal Diversification

(*c*) Forward integration (*d*) Backward integration

28. Which of the following can be used in a retrenchment strategy?

(*a*) Reducing assets. (*b*) Operational improvement.

(*c*) Cutting cost. (*d*) All of the above.

29. Conglomerate diversification can also be explained as:

(*a*) Merger (*b*) Combination strategy

(*c*) Related diversification (*d*) Unrelated diversification

31. When two organizations combine to increase their strength and financial gains along with reducing competition is called _____________.

(*a*) Hostile takeover (*b*) Liquidation

(*c*) Merger (*d*) Acquisition

32. SK Company, a car manufacturer is buying up a supplier so that it gets a dedicated supplier with both guaranteed quality and price. The material could be manufactured when required by SK Company leading to lower inventory levels. Which strategy has SK Company adopted?

(*a*) Backward integration (*b*) Forward integration

(*c*) Conglomerate diversification (*d*) Horizontal integrated diversification

34. SK was having a tough time with its operations and wanted to restructure itself from scratch. For this, they consult a veteran in business strategy, Mr. S, who post analysis of their business said, "your dead business is worth more than alive". What did Mr. S hint at?

(*a*) Restructuring Business
(*b*) Liquidation
(*c*) Business Process Re-engineering
(*d*) Divestment

35. A rubber manufacturer starts making shoe soles and gum can be termed as?

(*a*) Conglomerate Diversification
(*b*) Concentric Diversification
(*c*) Horizontal Integration
(*d*) Vertical Integration

36. The business news anchor said that "SK's dead business is worth more than alive". What did she hint at?

(*a*) Restructuring Business
(*b*) Liquidation
(*c*) Business Process Re-engineering
(*d*) Divestment

38. Arrange divestment, liquidation, stability and turnaround strategies in order of preference for adoption by a typical organization.

(*a*) Turnaround, stability, liquidation and divestment.
(*b*) Divestment, liquidation, stability and turnaround.
(*c*) Stability, turnaround, liquidation and divestment.
(*d*) Stability, turnaround, divestment and liquidation

39. Supply chain refers to the linkages between:

(*a*) Suppliers
(*b*) Logistics
(*c*) Customers
(*d*) All the above

41. SK Limited is a full-service airline. The company is making the following decisions:

(i) Should a 'no-frills', 'low-fare' subsidiary be set-up?
(ii) If it is set-up, how should the cabin staff be recruited?

Which of the above decisions will be taken by corporate level managers?

(*a*) Only (i)
(*b*) Only (ii)
(*c*) (i) & (ii)
(*d*) Neither (i) nor (ii)

42. A tea farm owners plan to open tea cafes in tourist spots and to sell their own premium tea to build a brand. Which of the following can this be termed as?

(*a*) Backward Integration
(*b*) Forward Integration
(*c*) Diversification
(*d*) Horizontal Integration

43. SK, a honey brand, decided to start a new brand for making honey ginger candies to meet the rising demand. Identify their growth strategy?

(*a*) Conglomerate Diversification
(*b*) Concentric Diversification
(*c*) Vertical Integration
(*d*) Horizontal Integration

44. Low cost, differentiation and focus are:

(*a*) SBU level strategies
(*b*) Corporate level strategies
(*c*) Business level strategies
(*d*) Functional level strategies

46. __________ is a to by which management identifies & evaluates the various businesses that make up the company.

(*a*) Strategic Analysis
(*b*) Portfolio Analysis
(*c*) Market Analysis
(*d*) System Analysis

47. Which of these are low-growth, high market share businesses/product, generate cash & have low costs?

(*a*) Star
(*b*) Cash-Cow
(*c*) Question-Mark
(*d*) Dog

48. Which of the following is the most risky strategy of Ansoff market product growth matrix?

(*a*) Market Penetration
(*b*) Market Development
(*c*) Product Development
(*d*) Diversification

49. Which integration attempts to improve performance through ownership of more parts of the value system, making linkages internal to organization?

(*a*) Vertical
(*b*) Horizontal
(*c*) Co-Centric
(*d*) Stratified

50. Which can be defined as a technique that helps strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio?

(*a*) Strategic Analysis
(*b*) Portfolio Analysis
(*c*) Market Analysis
(*d*) System Analysis

51. Which strategy has its objective of preserve market share?

(*a*) Build
(*b*) Hold
(*c*) Harvest
(*d*) Divest

52. Which of these is a portfolio analysis technique that is based on the product life cycle?

(*a*) BCG Growth Matrix
(*b*) Ansoff Growth Matrix
(*c*) Arthur D. Little Matrix
(*d*) General Electric Matrix

53. If a company's strategies result in superior performance it is said to have.

(*a*) Core Competency
(*b*) Strategic Analysis
(*c*) Competitive Advantage
(*d*) Value Creation

54. Which strategy has its objective to increase short term cash flows regardless of long-term earning?

(*a*) Build
(*b*) Hold
(*c*) Harvest
(*d*) Divest

55. Which position of ADL matrix is comparatively rare position & in many cases is attributable to a monopoly?

(*a*) Dominant (*b*) Tenable
(*c*) Favourable (*d*) Strong

56. Industry's economic feature & competitive structure revealed about its fundamental character & about ways in which its environment may be changing.

(*a*) A Lot, Little (*b*) Little, A lot
(*c*) Nothing, A lot (*d*) A Lot, Nothing

57. The concept ADL Matrix is developed by_________.

(*a*) Igor H. Ansoff (*b*) Willium F. Gluek
(*c*) Heinz Weihrich (*d*) Arthur D. Little

58. Which strategy has its objective to sell or liquidate the business because resources can be better used elsewhere?

(*a*) Build (*b*) Hold
(*c*) Harvest (*d*) Divest

59. In which position of ADL, a firm has considerable degree of freedom over its choice of strategies & often able to act without its market position?

(*a*) Dominant (*b*) Tenable
(*c*) Favorable (*d*) Strong

60. Which of the following is also known as, Problem Child or Wild Cats?

(*a*) Star (*b*) Cash-Cow
(*c*) Question-Mark (*d*) Dog

61. Which of these refers to a growth strategy where he business focuses on selling existing products into existing markets?

(*a*) Market Penetration (*b*) Market Development
(*c*) Product Development (*d*) Diversification

62. Which position in ADL matrix generally comes about when industry is fragmented & no one competitor stand out clearly, result in market leaders a reasonable degree of freedom?

(*a*) Dominant (*b*) Tenable
(*c*) Favorable (*d*) Strong

63. Which of these is a simplest way to portray a corporation's portfolio of investment?

(*a*) Ansoff's Growth Matrix (*b*) Product Life Cycle
(*c*) SWOT Analysis (*d*) BCG Growth Share Matrix

64. Which of these require a lot of cash to hold their share & need heavy investment with low growth potential?

(*a*) Star (*b*) Cash-Cow

(*c*) Question-Mark (*d*) Dog

65. Which of these refers to a strategy where the business seeks to sell its existing products into new market & this can be achieved by new product packaging, distribution channel etc?

(*a*) Market Penetration (*b*) Market Development

(*c*) Product Development (*d*) Diversification

66. In which position of ADL matrix companies are generally vulnerable in the face of increased competition from stronger & more proactive companies in market?

(*a*) Dominant (*b*) Tenable

(*c*) Favorable (*d*) Strong

67. Which of these are products or SBU that are growing rapidly & also need heavy investment to maintain their position & finance their rapid growth potential?

(*a*) Star (*b*) Cash-Cow

(*c*) Question-Mark (*d*) Dog

68. Which of these are low-growth, low-share businesses & products that may generate enough cash to maintain themselves but do not have much future?

(*a*) Star (*b*) Cash-Cow

(*c*) Question-Mark (*d*) Dog

69. Which of these refers to a growth strategy where new products is market in new markets?

(*a*) Market Penetration (*b*) Market Development

(*c*) Product Development (*d*) Diversification

70. General Electric Matrix does not known as __________.

(*a*) Business Planning Matrix (*b*) Nine-Cell Matrix

(*c*) Electric Model (*d*) S-Shaped Curve

Answer Key

1. (*c*)	**2.** (*b*)	**3.** (*b*)	**4.** (*d*)	**5.** (*a*)	**6.** (*b*)	**7.** (*b*)	**8.** (*b*)	**9.** (*b*)	**10.** (*a*)
11. (*c*)	**12.** (*b*)	**13.** (*a*)	**14.** (*a*)	**15.** (*a*)	**16.** (*b*)	**17.** (*d*)	**18.** (*d*)	**19.** (*b*)	**20.** (*c*)
21. (*b*)	**22.** (*b*)	**23.** (*b*)	**24.** (*c*)	**25.** (*b*)	**26.** (*c*)	**27.** (*c*)	**28.** (*d*)	**29.** (*d*)	**30.** (*c*)
31. (*a*)	**32.** (*b*)	**33.** (*b*)	**34.** (*b*)	**35.** (*d*)	**36.** (*d*)	**37.** (*a*)	**38.** (*b*)	**39.** (*b*)	**40.** (*b*)
41. (*b*)	**42.** (*b*)	**43.** (*d*)	**44.** (*a*)	**45.** (*b*)	**46.** (*b*)	**47.** (*c*)	**48.** (*c*)	**49.** (*c*)	**50.** (*a*)
51. (*a*)	**52.** (*d*)	**53.** (*d*)	**54.** (*d*)	**55.** (*c*)	**56.** (*a*)	**57.** (*c*)	**58.** (*d*)	**59.** (*c*)	**60.** (*b*)
61. (*b*)	**62.** (*a*)	**63.** (*d*)	**64.** (*d*)	**65.** (*d*)	**66.** (x)	**67.** (x)	**68.** (x)	**69.** (x)	**70.** (x)

CHAPTER 5

Strategy Implementation and Evaluation

MULTIPLE CHOICE QUESTIONS

1. ____________ leadership style may be appropriate in turbulent environment.

(*a*) Transactional (*b*) Transformational
(*c*) Autocratic (*d*) None of these

2. An organizational structure with constricted middle level is:

(*a*) Divisional structure (*b*) Network structure
(*c*) Hour Glass structure (*d*) Matrix structure

3. You are the head of operations of a company. When you focus on total or aggregate management functions in the sense of embracing the integrated activities of a complete departmental, you are practicing:

(*a*) Strategic Control (*b*) Management control
(*c*) Administrative Control (*d*) Operations Control

4. Which of the following would be chosen by the core strategist to implement operational control:

(*a*) Premise Control (*b*) Special Alert Control
(*c*) Implementation Control (*d*) Budgetary Control

5. Compliance, Identification and Internalization are the three processes involved in:

(*a*) Refreezing (*b*) Defreezing
(*c*) Changing behaviour patterns (*d*) Breaking down old attitudes

6. Which one is NOT a type of strategic control?

(*a*) Operational control (*b*) Strategic surveillance
(*c*) Special alert control (*d*) Premise control

7. SK Co. operates a network of accounting training centres throughout Europe, the US and Australia. The business intends to enter developing markets in order to drive growth and has now decided to enter India which is 7,500 kilometres from the SK Co.'s UK headquarters. The Board has suggested that it will require externally focused management information to move into India. Which of the following is an external factor(s) that the Board should consider while implementing its strategy?

(*a*) Key local rivals and their strengths and weaknesses

(*b*) Courses are suitable for this market

(*c*) Timing of the courses (Public holidays, religious festivals, etc to be avoided)

(*d*) All of the above

8. Developing vision and mission, identifying an organisation's external opportunities and threats, and determining internal strengths and weaknesses are:

(*a*) SBU planning
(*b*) Strategy formulation
(*c*) Strategy implementation
(*d*) Business process reengineering

9. SK, the owner of SK boutiques, delegated tasks as per the competencies of her team. What is she covering here?

(*a*) Risk
(*b*) Work Culture
(*c*) Employee friendly vision
(*d*) Proper use of mission statement

10. After an earnest attempt to bring in a strategic change in your organisation, you, the operational head of SK ltd, succeeded but still your organisation couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?

(*a*) Strategy Formulation
(*b*) Strategy Model
(*c*) Strategy Implementation
(*d*) Strategy Decision

11. Which of the following statements is not true about strategic decisions?

(*a*) They need top-management involvement.

(*b*) Involve commitment of organisational resources.

(*c*) They are based on external environment

(*d*) They have insignificant impact on the long-term prosperity

12. Who is a transformational leader?

(*a*) Someone who is involved in organizational change.

(*b*) A leader, who provides new ways of carrying out management.

(*c*) A leader who inspires the workers to new levels by offering them a vision of a better future.

(*d*) A leader who tries to transform their staff by giving them rewards for what they do.

13. Which of the following situations will most likely suit a transformational leader?

(*a*) An organization that is in trouble.

(*b*) A growing organization.

(*c*) An organization in a stable environment.

(*d*) An organization at the maturity stage of the product life cycle.

14. ______________ leadership style may be appropriate in a turbulent environment.

(*a*) Transactional
(*b*) Transformational
(*c*) Autocratic
(*d*) None of these

15. A person who searched for business opportunity and starts a new enterprise to make use of that opportunity is called:

(*a*) Employee (*b*) Entrepreneur

(*c*) Intrapreneur (*d*) Investor

16. Which of the following is more radical organization design and is also called as non-structure which virtually eliminates in-house business functions and outsources many of them?

(*a*) Network structure (*b*) Strategic business unit

(*c*) Hourglass structure (*d*) Simple structure

17. An entrepreneur is one who:

(*a*) Initiates and innovates a new concept.

(*b*) Does not recognize and utilizes opportunities.

(*c*) Does not want to face risks and uncertainties.

(*d*) None of these.

18. In strategic management, there are two main styles of leadership. These are transformational and:

(*a*) Transparent (*b*) Transitional

(*c*) Translational (*d*) Transactional

19. A corporation organized in network structure is often called:

(*a*) Virtual organization

(*b*) Hierarchical organization

(*c*) Structured organization

(*d*) Simple organization

20. S and K have proposed three distinct phases for development of matrix structure.

These phases are (1) Cross-functional task forces (2) Product/brand management and (3)______.

(*a*) Market/external management (*b*) Functional matrix

(*c*) Mature matrix (*d*) Internal management

21. S, the owner of SK boutiques, wanted to reduce uncertainty of their business strategy for which she gathered a lot of information from peers, groups, industry reports and experts. But it did not give her comfort to take up new strategies. What tool can help her in this regard?

(*a*) Risk Analysis (*b*) BCG Analysis

(*c*) ADL Matrix (*d*) Scenario Analysis

22. SK, a western wear brand has contracted MK marketing firm from Singapore, product design team working as an outsource company from Mexico and Humans branding company taking care of its people's operations. What kind of structure is this?

(*a*) Hourglass Structure (*b*) Outsourcing

(*c*) Network Structure (*d*) Tree Branch Structure

23. SK, a social media marketing firm introduced an AI based management tool that has the capabilities of managing teams across functions all while being creative. What is the most likely organizational structure post this implementation?

(*a*) Divisional (*b*) Matrix

(*c*) Hourglass (*d*) Network

24. SK, a hearing aid manufacturer recently introduced an AI based management tool that has the capabilities of managing teams across functions. What could be their new organizational structure post this implementation?

(*a*) Divisional Structure (*b*) Matrix Structure

(*c*) Hourglass Structure (*d*) Network Structure

25. Corporate culture refers to:

(*a*) Company's values and beliefs (*b*) Company's business principles

(*c*) Internal work environment (*d*) All the above

26. Which of the following is not a phase in Kurt Lewin's Model of Change?

(*a*) Changing (*b*) Deep freezing

(*c*) Refreezing (*d*) Unfreezing

27. After an earnest attempt to bring in a strategic change in your organization, you, the operational head of SK ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?

(*a*) Strategy Formulation (*b*) Strategy Model

(*c*) Strategy Implementation (*d*) Strategy Decision

28. SK Limited is a health provider and has only large, edge of town hospitals. It is considering setting-up additional small city center clinics capable of treating less-serious day cases. Which of the following will fall under "Strategy Implementation"?

(1) Acquiring and fitting out clinics

(2) Hiring and/or transferring staff

(3) Publicity, so that patients know where and when to go

(4) Liaison with general practitioners and the main hospitals

(*a*) Only (4) (*b*) (2) & (4)

(*c*) (1), (2) & (4) (*d*) (1), (2), (3) & (4)

29. Generally, result of strategic implementation are seen on which basis?

(*a*) Short-term (*b*) Long term

(*c*) Both (*a*) & (*b*) (*d*) None of these

30. Which of these is the expression of growth ambition of the firm?

(*a*) Strategic Vision (*b*) Corporate Mission

(*c*) Business Definition (*d*) Goals & Objective

31. Which is the heart & soul of managing a business enterprise?

(*a*) Crafting & Executing strategy
(*b*) Analysis of risk & Control
(*c*) Monitoring & Testing
(*d*) Redefine Business Process

32. ________ means deciding what need to done in future & generating blueprint for action?

(*a*) Implementation
(*b*) Monitoring
(*c*) Planning
(*d*) Programing

33. Which of these are central to strategic planning?

(*a*) Vision & Mission
(*b*) Mission & Business Definition
(*c*) Goals & Objectives
(*d*) Business Model & Definition

34. Which of these serves as justification for the firm's very presence & existence?

(*a*) Strategic Vision
(*b*) Corporate Mission
(*c*) Business Definition
(*d*) Goals & Objective

35. By spelling out management indicates speed at which longer-range targets are to be approached?

(*a*) Annual Performance Targets
(*b*) Measurable short-term targets
(*c*) Qualitative Long-term targets
(*d*) Quantitative time-based targets

36. Which of these provides the basis for major decision of the firm & also said the organizational performance to be realized at each level?

(*a*) Objectives
(*b*) Mission
(*c*) Business Model
(*d*) Strategic vision

37. Which is not the stage of strategic management?

(*a*) Strategic Vision, Mission & Objectives
(*b*) Environmental & Organizational Analysis
(*c*) Strategic Evolution & Control
(*d*) Analysis of Risk & Control

38. Which is not involved in organizational analysis?

(*a*) Technological resources
(*b*) Productive Capacity
(*c*) Social Effect
(*d*) Research & development

39. Which of these involves determination of the course of action to attain the predetermined objectives?

(*a*) Implementation
(*b*) Monitoring
(*c*) Planning
(*d*) Programming

Answer Key

1. (*b*)	**2.** (*c*)	**3.** (*b*)	**4.** (*d*)	**5.** (*c*)	**6.** (*a*)	**7.** (*d*)	**8.** (*b*)	**9.** (*d*)	**10.** (*c*)
11. (*d*)	**12.** (*c*)	**13.** (*a*)	**14.** (*b*)	**15.** (*b*)	**16.** (*a*)	**17.** (*a*)	**18.** (*d*)	**19.** (*a*)	**20.** (*c*)
21. (*d*)	**22.** (*c*)	**23.** (*c*)	**24.** (*c*)	**25.** (*d*)	**26.** (*c*)	**27.** (*c*)	**28.** (*d*)	**29.** (*b*)	**30.** (*b*)
31. (*a*)	**32.** (*c*)	**33.** (*b*)	**34.** (*b*)	**35.** (*a*)	**36.** (*d*)	**37.** (*d*)	**38.** (*c*)	**39.** (*c*)	