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தருய்னந்தாள் - 612504

**S.K.S.S ARTS COLLEGE, THIRUPPANANDAL - 612504**



## QUESTION BANK

*Title of the Paper*

# AUDITING

Course: III B.Com., & III B.Com., (CA)

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*Prepared by*



**Ms. R. ABINAYA, M.Com., M.Phil.,**  
**Assistant Professor**  
**Department of Commerce**

**CORE COURSE – X  
AUDITING**

***UNIT – I***

Introduction – definition of audit – objects of audit – classification of audit – Internal audit – Periodical audit – Continuous audit – Interim audit – Balance sheet audit, Internal check – Internal control. Procedure of audit – audit programme – test check – Auditing vs. Investigation.

***UNIT – II***

Vouching – cash and trading transactions, personal and impersonal ledgers.

***UNIT – III***

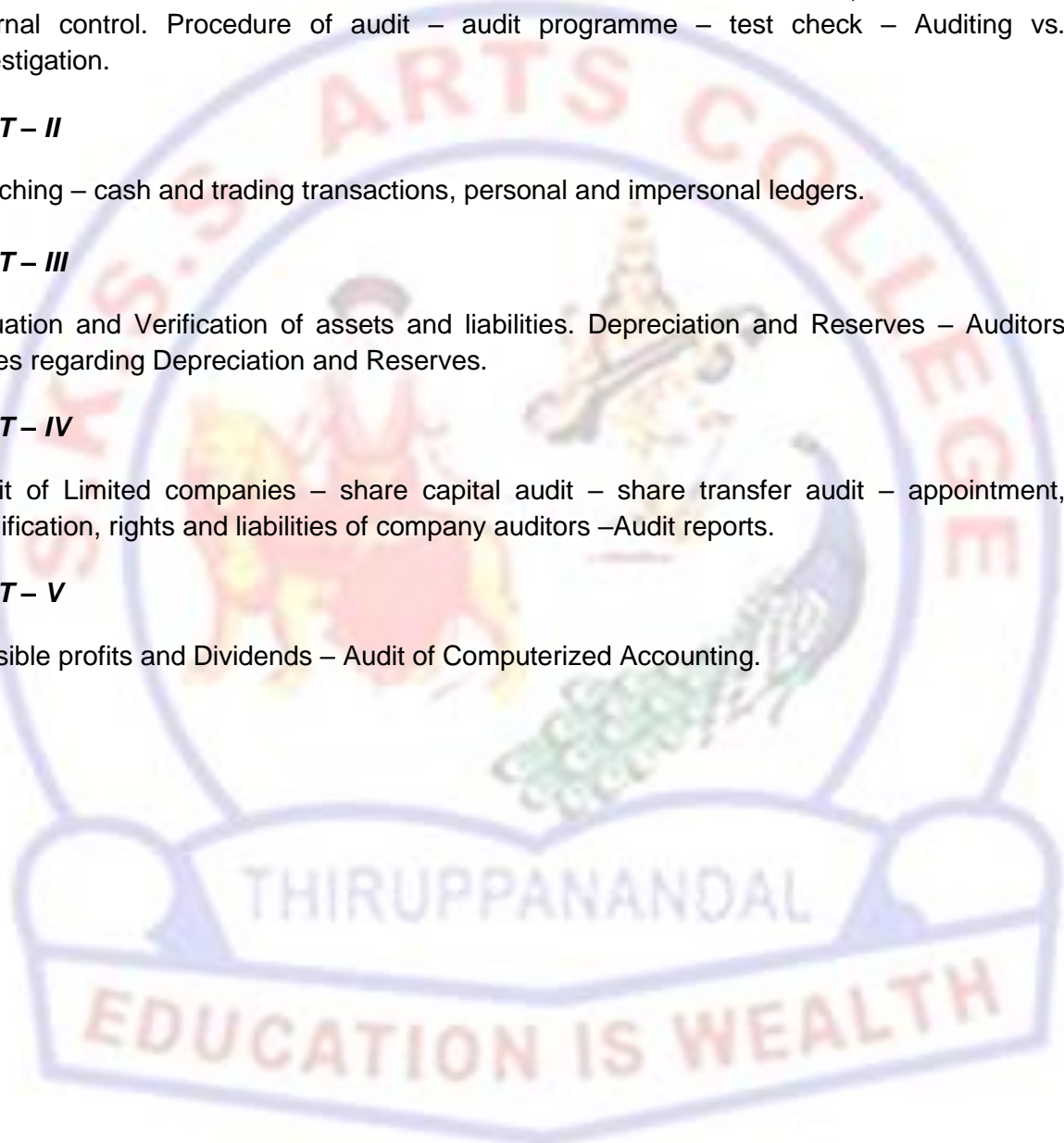
Valuation and Verification of assets and liabilities. Depreciation and Reserves – Auditors duties regarding Depreciation and Reserves.

***UNIT – IV***

Audit of Limited companies – share capital audit – share transfer audit – appointment, qualification, rights and liabilities of company auditors – Audit reports.


***UNIT – V***

Divisible profits and Dividends – Audit of Computerized Accounting.



## UNIT – I

### CHOOSE THE CORRECT ANSWER

1. The word 'Audit' is derived from
    - (a) Russian Word
    - (b) Latin Word
    - (c) French Word
    - (d) British Word
  
  2. The Compulsory audit of companies was introduced by the Companies Act
    - (a) 1913
    - (b) 1918
    - (c) 1921
    - (d) 1857
  
  3. The Industrial Revolution led to a significant increased
    - (a) New form of organization
    - (b) Size and Complexity of business operations
    - (c) Increase capital requirements of business
    - (d) All of the above
  
  4. Objects of audit may be stated as
    - (a) To examine the reliability and validity of the financial statements
    - (b) To render an opinion on the truth and fairness of the presentation in statements
    - (c) Detection and prevention of errors and fraud
    - (d) All of the above
  
  5. An audit is essentially a
    - (a) Review Function
    - (b) Express Function
    - (c) Dependent Function
    - (d) Independent Function
  
  6. Balance sheet audit is also known as
    - (a) General Audit
    - (b) Continuous Audit
    - (c) Specific Audit
    - (d) Statutory Audit
  
  7. The system of internal control means
    - (a) A plan of organization laying down appropriate division of functional responsibilities
    - (b) A proper authorization and record of business transactions
    - (c) Option A only
    - (d) Both A and B
  
  8. Internal check as a means of
    - (a) Internal Audit
    - (b) Internal Control
    - (c) Interim Audit
    - (d) External Audit
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**9. Investigation means**

- (a) An enquiry or examination
- (b) Preparing financial statement
- (c) An analytical and examination of the books of accounts
- (d) Designing a suitable accounting system

**10. Audit report expresses opinion about**

- (a) Adequacy of information on financial position of business
- (b) Work Programme
- (c) Integrity and objectivity
- (d) Internal and external audit

**Answers :** 1. (b) 2. (a) 3. (b) 4. (d) 5. (a) 6. (b) 7. (d) 8. (b) 9. (a) 10. (a)

**SHORT QUESTIONS (2 MARKS)**

- 11. Define the term auditing.
- 12. Who is an auditor?
- 13. What is Periodical audit?
- 14. What is an interim audit?
- 15. State the main objectives of an audit.
- 16. What is meant by cost and management audit?
- 17. List out the branches of audit.
- 18. What is statutory audit?
- 19. What is internal check?
- 20. Define Audit programme.

**PARAGRAPH QUESTIONS (5 MARKS)**

- 21. What is an error and how does it differs from a fraud?
- 22. Discuss the procedure of appointment of a company auditor.
- 23. What are the limitations of an audit?
- 24. What is independent audit? Enumerate its advantages.
- 25. What is statutory audit and how is it different from private audit?
- 26. Suggest a scheme of internal check for petty cash transactions.
- 27. What is an external auditor's position vis-à-vis the system of internal control?
- 28. What are the main objectives of an audit?
- 29. Can an auditor escape liability for an undiscovered fraud by citing his reliance on the internal control system? – Discuss.
- 30. What are the classes of an audit?

**ESSAY TYPE QUESTIONS (10 MARKS)**

- 31. Discuss in brief the advantages and limitations of auditing.
- 32. Explain the concept of 'truth and fairness of accounts'.
- 33. Distinguish between auditing and investigation.
- 34. Explain the qualities of an auditor.
- 35. What are the classes of an audit? Briefly discuss the merits and demerits of an audit.
- 36. Discuss the rights and duties of an auditor.
- 37. Explain the various steps in the evaluation of internal control system.
- 38. Distinguish between continuous and periodical audit.
- 39. Briefly explain the system of internal check as to cash receipts and cash payments.
- 40. Explain the concept and objects of internal audit.

## UNIT – II

### CHOOSE THE CORRECT ANSWER

1. Vouching may be defined as
  - (a) Audit report
  - (b) Such an examination of the ledger entries
  - (c) Test Check
  - (d) Inspection
2. Impersonal ledger also called
  - (a) General or Nominal Ledger
  - (b) Purchase Ledger
  - (c) Sales Ledger
  - (d) None of the above
3. Vouching of transactions relating to
  - (a) Audit Report
  - (b) Audit evidence
  - (c) Purchase of goods
  - (d) All of the above
4. Consignment means delivery of goods to
  - (a) Another for sale (or) purchase
  - (b) Cash Receipts
  - (c) Books of accounts
  - (d) None of the above
5. Vouching should involve a careful enquiry into
  - (a) Inspection of goods
  - (b) Policies and procedures
  - (c) Actual payment
  - (d) Record of transaction
6. Voucher means
  - (a) As any document which evidence a transaction or an entry in a book of account
  - (b) Internal control system
  - (c) Audit programme
  - (d) Investigation
7. Vouching of credit sales transactions should be preceded by authority and responsibilities
  - (a) Receipt of customer's order
  - (b) Authorization of credit to customers
  - (c) Preparation of invoices
  - (d) All of the above
8. Falsification of journal entries may be made either to
  - (a) Bad debts losses
  - (b) Conceal defalcation
  - (c) Sufficient reserve
  - (d) Bad and doubtful debts

9. Vouching of entries in the purchase book should be carefully done as
- (a) Purchases
  - (b) Forward purchases
  - (c) Purchase returns
  - (d) All of the above
10. In practice, the job of vouching is done by
- (a) Single person
  - (b) Two persons
  - (c) Book keeping and external auditor
  - (d) Three persons

**Answers :** 1. (b) 2. (a) 3. (c) 4. (a) 5. (b) 6. (a) 7. (d) 8. (b) 9. (d) 10. (b)

### **SHORT QUESTIONS (2 MARKS)**

11. Define Vouching.
12. What is a Voucher?
13. List out the object of vouching.
14. What is collateral vouchers?
15. What is meant by cut-off procedures?
16. Define the term 'goods sent on consignment'.
17. What is meant by sales ledger?
18. State the objects of vouching of outstanding liabilities.
19. What is meant by income accrued?
20. Define the term 'audit of impersonal ledger'.

### **PARAGRAPH QUESTIONS (5 MARKS)**

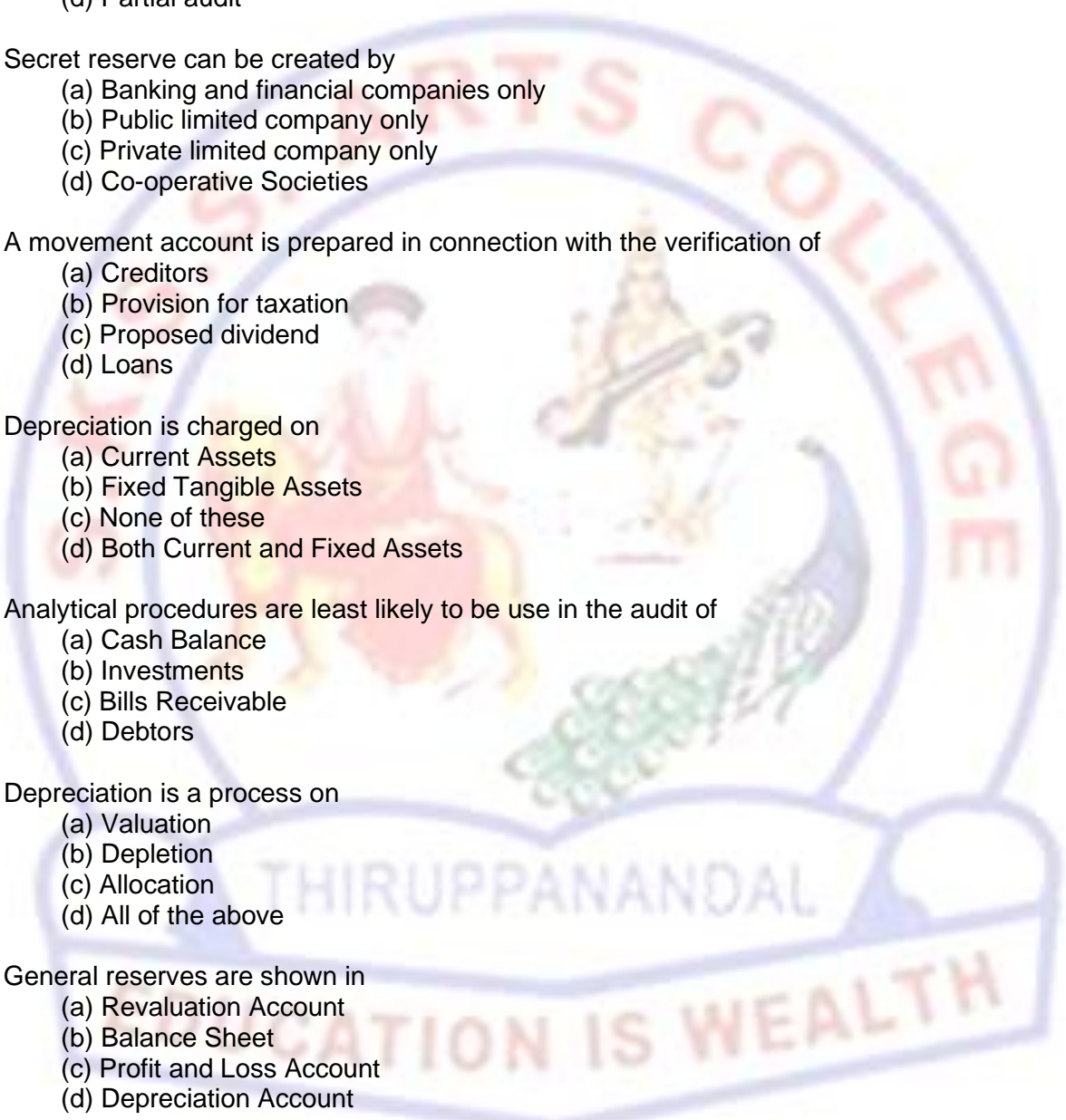
21. How is vouching different from routine checking?
22. Give five examples each of primary and collateral vouchers.
23. Indicate an auditor's liability as to vouching of petty cash.
24. Enumerate the documents to be examined while vouching purchases.
25. How should inter-account transfers be vouched?
26. Why should the auditor be concerned with purchase returns?
27. What kinds of income may be received in advance?
28. What are contingent assets? Is it binding on the client to disclose them in the financial statements?
29. What documents should be examined while vouching receipts from debtors?
30. What part of the payment on account of purchase of investments should be capitalized?

### **ESSAY TYPE QUESTIONS (10 MARKS)**

31. Explain the procedure relating to vouching of salaries.
32. "In vouching payments, the auditor does not merely seek proof that money has been paid away" – Comment.
33. Explain the procedures relating to vouching of cash sales and receipts from debtors.
34. Describe the objects of vouching the Cash Book. Discuss in brief the procedure for vouching the items appearing on the receipts side.
35. Explain the documents you would require to vouch sales.
36. Explain the cut-off procedures relating to examinations of purchases and sales.
37. What points should the auditor pay attention while vouching purchase invoices? - Explain.
38. Explain the procedure or vouching incomes received in advance.
39. Discuss the accounting principles relating to prior period items and extra-ordinary items.
40. Discuss in brief the vouching procedure as to various outstanding assets.

## UNIT – III

### CHOOSE THE CORRECT ANSWER

1. Verification of the value of assets, liabilities, the balance of reserves, provision and the amount of profit earned or loss suffered a firm is called
    - (a) Continuous audit
    - (b) Balance Sheet audit
    - (c) Interim audit
    - (d) Partial audit
  
  2. Secret reserve can be created by
    - (a) Banking and financial companies only
    - (b) Public limited company only
    - (c) Private limited company only
    - (d) Co-operative Societies
  
  3. A movement account is prepared in connection with the verification of
    - (a) Creditors
    - (b) Provision for taxation
    - (c) Proposed dividend
    - (d) Loans
  
  4. Depreciation is charged on
    - (a) Current Assets
    - (b) Fixed Tangible Assets
    - (c) None of these
    - (d) Both Current and Fixed Assets
  
  5. Analytical procedures are least likely to be use in the audit of
    - (a) Cash Balance
    - (b) Investments
    - (c) Bills Receivable
    - (d) Debtors
  
  6. Depreciation is a process on
    - (a) Valuation
    - (b) Depletion
    - (c) Allocation
    - (d) All of the above
  
  7. General reserves are shown in
    - (a) Revaluation Account
    - (b) Balance Sheet
    - (c) Profit and Loss Account
    - (d) Depreciation Account
  
  8. Dividend Equalization Reserve is
    - (a) Specific Reserve
    - (b) General Reserve
    - (c) Secret Reserve
    - (d) Capital Reserve
- 

9. The depreciation charged on an asset will be credited to  
(a) Depreciation Account  
(b) Bank Account  
(c) Cash Account  
(d) Asset Account
10. The loss on sale of an asset is debited to  
(a) Profit and Loss Account  
(b) Trial Balance Credit Side  
(c) Balance Sheet  
(d) Trading Account

**Answers :** 1. (b) 2. (a) 3. (d) 4. (b) 5. (a) 6. (c) 7. (b) 8. (a) 9. (d) 10. (a)

### **SHORT QUESTIONS (2 MARKS)**

11. Define Depreciation.
12. State any two methods of depreciation.
13. What is verification?
14. What do you mean by valuation?
15. What is Specific reserve?
16. List out any two objectives of depreciation.
17. What do you mean by Capital reserve?
18. What is historical cost?
19. Define Secret reserve
20. What do you mean by scrap value?

### **PARAGRAPH QUESTIONS (5 MARKS)**

21. Can an auditor afford to remain totally absent during the physical verification of inventories?
22. What are the methods of valuation of stock-in-trade?
23. How should goodwill be valued?- Explain
24. What are the general principles of verification and valuation of assets?
25. Why depreciation should be provided in respect of business assets?
26. Describe the reasons for depreciation of assets.
27. What are the audit objectives of depreciation audit?
28. How is secret reserve created?- Discuss
29. Difference between general reserve Vs specific reserve.
30. What is the disclosure requirement as regards depreciation?

### **ESSAY TYPE QUESTIONS (10 MARKS)**

31. Discuss the special considerations should be kept in mind while valuing inventories.
32. Briefly explain the audit objectives as to verification of liabilities.
33. Discuss the important features of a fixed asset.
34. Briefly explain the auditor's duty with regard to verification and valuation of inventories.
35. Discuss the Straight-Line method and Reducing Balance method of providing depreciation.
36. Distinguish between capital reserve and revenue reserve.
37. Discuss the merits and demerits of a secret reserve.
38. Briefly explain any ten methods of depreciation.
39. Explain the auditor's duty as regards to Sinking Fund method of depreciation.
40. Briefly explain the classification of reserves.



## UNIT – IV

### CHOOSE THE CORRECT ANSWER

1. The provisions of the Companies Act will apply to a company depending on the class to which it belongs a
  - (a) Private Company
  - (b) Public Company
  - (c) Deemed Public Company
  - (d) Both (A) and (B)
  
2. Audit of call-in-arrears represent sums due from the
  - (a) Shareholders
  - (b) Preference holders
  - (c) Debenture holders
  - (d) None of the above
  
3. A Private company has a minimum paid-up capital of
  - (a) Rs. 10,00,000
  - (b) Rs. 1,00,000
  - (c) Rs. 5,00,000
  - (d) Rs. 3,00,000
  
4. The board of directors shall appoint first auditor of a company
  - (a) Within 1 month of completion of capital subscription state of the company
  - (b) Within 1 month of the provision of the company
  - (c) Within 1 month of the commencement of the business of the company
  - (d) Within 1 month of incorporation of the company
  
5. Which of the following sections deals with qualification of the auditor?
  - (a) Section 226 (1) and Section 226 (2)
  - (b) Section 224 (1) and Section 224 (2)
  - (c) Section 226 (3) and Section 226 (4)
  - (d) Section 224 (3) and Section 224 (4)
  
6. In case the directors fail to appoint first auditors, the shareholders shall appoint them at a
  - (a) First Annual General Meeting
  - (b) General Meeting
  - (c) Statutory Meeting
  - (d) Annual General Meeting
  
7. The retiring auditor does not have a right to
  - (a) make written representations
  - (b) get his representation circulated
  - (c) be heard at the meeting
  - (d) speak as a member of the company
  
8. Which of the following sections deals with audit report under Companies Act under
  - (a) Section 227 (2)
  - (b) Section 226 (2)
  - (c) Section 224 (1)
  - (d) Section 224 (3)

9. The basic elements of an audit report should be as a
- (a) Title
  - (b) Addressee
  - (c) Date of report
  - (d) All of the above
10. Board meetings should take place at least
- (a) Four times in a year
  - (b) Three times in a year
  - (c) Two times in a year
  - (d) One time in a year

**Answers :** 1. (d) 2. (a) 3. (b) 4. (d) 5. (a) 6. (b) 7. (d) 8. (a) 9. (d) 10. (a)

### **SHORT QUESTIONS (2 MARKS)**

11. Write a note on audit of share capital.
12. Define the term 'audit report'.
13. What is calls-in-advance?
14. Define Public Company.
15. What do you meant by audit of share transfer?
16. List out any two kinds of share capital.
17. Define Private Company.
18. What is deemed public company?
19. State any two elements of audit report.
20. What is audit of limited companies?

### **PARAGRAPH QUESTIONS (5 MARKS)**

21. How are auditors of Government companies appointed?
22. What are the Statutory duties of a company auditor?
23. When is auditor of a company to be appointed by a special resolution?
24. Describe the various rights conferred on a company auditor.
25. Define audit report. What are its content?
26. Describe the elements of audit report as specified in AAS (SAP)-28.
27. When is a qualified report to be issued?
28. What are the characteristics of a good report writing?
29. What points as an auditor would you keep in mind for verification of capital newly issued by a company?
30. How will you conduct the share transfer audit?

### **ESSAY TYPE QUESTIONS (10 MARKS)**

31. Explain in brief the reasons for prescription of disqualifications in the case of an auditor.
32. Explain the circumstances under which the Central Government may appear in auditor of a company.
33. Explain a company auditor's duty to make report to the members.
34. Discuss the concept of "true and fair" in the context of representations made in the financial statements.
35. Explain the various rights conferred on a company auditor.
36. Explain the duties of an auditor as laid down under the common law.
37. Briefly explain the provisions as to restriction on transfer of shares under Secs.108A and 108G.
39. Explain the guidelines issued by the SEBI as to the first issue by a new company.
40. Discuss the provisions as to employee-stock-option scheme.

## UNIT – V

### CHOOSE THE CORRECT ANSWER

1. Divisible profit should not include
  - (a) Interest on Capital
  - (b) Capital
  - (c) Depreciation
  - (d) None of the above
2. Capital profit imply profit earned
  - (a) Through business transaction
  - (b) From capital
  - (c) From sale of fixed assets
  - (d) From sale of current assets
3. Dividend cannot be paid out of
  - (a) Capital Profit
  - (b) Capital Receipts
  - (c) Revenue Receipts
  - (d) None of the above
4. Capital profits
  - (a) Can be paid by way of dividends
  - (b) Cannot paid by way of dividends
  - (c) Can be paid by way of dividend under certain conditions
  - (d) None of the above
5. If there is capital loss, the auditor should
  - (a) Not allow payment of dividends
  - (b) Allow payment of dividends
  - (c) Allow payment of dividends after making such losses good
  - (d) None of the above
6. A company auditor should see that the dividend should be paid
  - (a) After charging depreciation
  - (b) Without charging depreciation
  - (c) Out of capital
  - (d) None of the above
7. CAAT's would normally be used when
  - (a) Auditing through the computer
  - (b) Auditing with the computer
  - (c) Auditing without the computer
  - (d) Auditing around the computer
8. An auditor is least likely to use computer software to
  - (a) Access client data files
  - (b) Assess control risk
  - (c) Performing analytical procedures
  - (d) None of the above

9. CAAT stands for
- Computer Aided Audit Technique
  - Computer Aided Audit Tools
  - Computer Assisted Audit Technique
  - Computer Accounting and Auditing Technique
10. Which one is not audit performed during system development process?
- Con-Current Audit
  - Pre-Implementation Audit
  - Post-Implementation Audit
  - General Audit

**Answers :** 1. (d) 2. (c) 3. (b) 4. (c) 5. (b) 6. (a) 7. (d) 8. (d) 9. (c) 10. (b)

### SHORT QUESTIONS (2 MARKS)

- Define Profit.
- What is Divisible Profit?
- What do you mean by Capital Profit?
- What is Unpaid dividend?
- Write a note on 'Payment of dividend'.
- State any two features of Computerized Accounting.
- Define Past losses.
- What is dividend?
- What is Audit Software?
- Define Test data.

### PARAGRAPH QUESTIONS (5 MARKS)

- What are the auditor's duties in regard to payment of dividend by a company?
- Describe the important consideration in determining divisible profit.
- Can dividend be paid out of reserves?
- What are the legal provision as regards unpaid or unclaimed dividend?
- Describe the penalty for failure to pay dividend within 42 days of its declaration.
- Is dividend always payable in cash only?
- Describe the role of the auditor vis-à-vis a service.
- Describe the payment of dividend out of capital profits with the help of decided cases.
- What are the problems faced in the audit of computerized accounts?
- Describe the process of accounting data by a third party.

### ESSAY TYPE QUESTIONS (10 MARKS)

- Difference between payment of dividend out of capital profits and out of capital.
- Explain the provisions as to distribution of dividends in the Companies Act.
- Explain the rules regarding transfer of part of profits to reserve before declaration or payment of dividend.
- Discuss the points to be considered while determining divisible profits in case of a company.
- Briefly explain the provision as to depreciation in the context of distribution of dividend.
- Explain the guiding principles of divisible profits.
- Explain the internal control system of Computer Based Accounting.
- Discuss the merits and demerits of Computer Based Accounting System.
- Explain the kinds of CAAT's.
- Distinguish between the Convention Based Accounting and Computer Based Accounting.