Rift Valley University
Model Exam of Auditing principle and practice I

I/ Choose the Best Answer

1. _____ is a systematic examination of the books and records or a business.
A. Auditing. B. Vouching. C. Verification. D. Checking.
2. Which of the following is not a kind of audit?
A. Statutory and private audit. B. Government and continuous audit.
C. Continuous, final, Interim, Cash, Cost and Management audit. D. None of these.
3. An audit which is compulsory by the law _____.
A. Government audit. B. Internal audit. C. Cost audit. D. Statutory audit.
4. Audit done by the employees of the business undertaking is called _____.
A. final audit. B. management audit. C. government audit. D. government audit.
5. Management audit otherwise called as _____.
A. final audit. B. efficiency audit. C. cost audit. D. cash audit.
6. A number of checks and controls exercised in a business to ensure its efficient working are known as
_____.
A. Internal check. B. Internal control. C. Internal audit. D. Interim check.
7. Internal auditor is appointed by _____.
A. the management. B. the shareholders C. the government. D. he statutory body.
8. A kind of audit conducted for a part of the accounting year is called _____.
A. Periodical audit. B. Partial audit. C. Cost audit. D. Interim audit.
9. Audit means _____.
A. recording business transactions. B. preparing the final accounts.
C. examination of books, accounts, vouchers etc. D. preparing final accounts.
10. Audit programme is prepared _____.
A. to help the auditor and his staff about the work to be done while auditing.
B. to help the accountant to prepare the balance sheet.
C. to help the company to submit its accounts.
D. to help the shareholders to file the returns.
11. Auditor shall report on the accounts examined by him _____.
A. to the shareholders. B. to the court. C. to the bank. D. to the general public.
12. When a transaction has not been recorded in the books of account either wholly or partially such errors are
called as _____.
A. Error of commission. B. Error of omission. C. Compensating error. D. Error of principle.
13. 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.
14. A sale of Rs. 50000 to Mr. A was entered as a sale to Mr. B. This is an example of:
A. Error of omission. B. Error of commission. C. Compensating error. D. Error of principle.
15. Recording a transaction twice in the books of original entry is an error of _____.
A. Principle. B. Commission. C. Duplication. D. Omission.
16. Errors and frauds already committed can be discovered under the system of _____.
A. Internal audit. B. Internal check. C. Internal control. D. All of the above.
17. Goods sent on an approval basis have been recorded as credit sales. This is an example of:
A. Error of principle. B. Error of commission. C. Error of omission. D. Error of duplication.
18. Errors of principle are due to _____.
A. Wrong entry of the transaction in the books of original entry.
B. Wrong allocation of expenditure between capital and revenue.
C. Mistake in the payment of a commission.
D. Mistake in the payment of salary.
19. The auditor of a government company shall be appointed by _____.
A. the government company itself. B. the central government.
C. the share holders. D. the debenture holders.
20. An auditor of a company will be held liable under the companies act _____.
A. if the destroys, mutilates, secrets etc., any documents, vouchers, books etc., with a view to deceive any person.
B. if he has examined all the documents of the company.
C. if he has not contravened the provisions of sec.227.
D. if he is an auditor of the company.
21. The main object of the audit of the cash book may be _____.
A. to verify the assets and liabilities. B. to know that all receipts and payments have been properly recorded.
C. to check the internal control system in business. D. to check the bank balance.
22. A good audit report must at least meet one of the following qualifications _____.
A. it should offer constructive and timely suggestions to the management.
B. it should not point out mistakes.
C. it should not be based on factual information.
D. it should not be based on balance sheet.
23. Verification is _____.
A. the art of recording the business transaction. B. an examination of the books of accounts.
C. the act of establishing the accuracy of entries in the books of accounts. D. none of the above.
24. The main objects of investigation is _____.
A. to discover errors and frauds. B. to prevent errors and frauds. C. to verify statements. D. all the above.

25. Internal controls and internal check are _____.
A. one and the same. B. different. C. internal control includes internal check. D. None of the above.
26. The liabilities of an auditor can be _____.
A. Civil. B. Criminal. C. Civil and Criminal. D. Official.
27. Special audit is necessary for _____.
A. inefficient concern. B. processing concern. C. trading concern. D. manufacturing concern.
28. Audit of company account is _____.
A. compulsory. B. unnecessary. C. avoidable. D. depends upon directors.
29. The company's auditor is expected to give _____.
A. his expert opinion about the accounts. B. a factual position about the accounts.
C. a critical review of the accounts. D. financial assistance.
30. A company auditor can be removed by _____.
A. board of directors. B. managing director. C. any director. D. general meeting.
31. Audit in depth means _____.
A. audit of each and every item. B. intensive audit of each and every item.
C. intensive audit of a few items. D. audit of a few selected items.
32. the most difficult type of misstatement to detect fraud is based on _____.
A. related party purchases. B. related party sales.
C. the restatement of sales. D. omission of a sales transaction from being recorded.
33. Balance sheet audit included verification of _____.
A. assets. B. liabilities. C. income and expenditure accounts where appropriate. D. all of the above.
34. Which of the following statements is not true about the continuous audit?
A. It is conducted at regular interval. B. It may be carried out on daily basis.
C. It is needed when the organization has a good internal control system. D. It is expensive.
35. In determining the level of materiality for an audit what should not be considered?
A. Prior year's errors. B. The auditor remuneration.
C. Adjusted interim financial statement. D. Prior year financial statements.
36. Analytical procedures issued in the planning stage of an audit, generally _____.
A. helps to determine the nature, timing and extent of other audit procedures. B. directs attention to potential risk areas.
C. indicates important aspects of business. D. all of the above.
37. Of the following, which is the least persuasive type of audit evidence?
A. Bank statements obtained from the client. B. Documents obtained by auditor from third parties directly.
C. Carbon copies of sales invoices inspected by the auditor. D. Computations made by the auditor.

38. Which of the following statement is generally, correct about the reliability of audit evidence?
A. To be reliable, evidence should conclusive rather than persuasive.
B. Effective internal control system provides reliable audit evidence.
C. Evidence obtained from outside sources routed through the client.
D. All are correct.
39. Audit Programme is prepared by _____.
A. the auditor. B. the client. C. the audit assistants. D. the auditor and his audit assistants.
40. Which of the following best describes the primary purpose of audit programmed preparation?
A. To detect errors or fraud. B. To comply with GAAP.
C. To gather sufficient appropriate evidence. D. To assess audit risk.
41. The auditor has a right to _____.
A. obtains information and explanation.
B. obtains information and explanation from the employees and officers.
C. obtains information and explanation necessary for the purpose of audit.
D. both (B) and (C).
42. The part of Government Audit which is concerned with examining whether the money has been spent for the purpose specified in Appropriation Act is called _____.
A. audit of sanctions B. audit of provisions of funds.
C. audit of rules and orders. D. audit of financial property.
43. Who is the custodian authority for audit working papers?
A. Shareholders B. Auditor C. Auditee D. Managing director
44. The term "Audit" originated from the Latin word.
A. Audire B. Adhere C. Adihere D. None of the above
45. Which of the following statements is correct?
A. Valuation is a part of verification B .Verification is a part of valuation
C. Valuation has nothing to do with verification D .Auditor is a valuer
46. Examination of accounting records undertaken for a special purpose is called
A. Auditing B. Internal check C. Investigation D. Internal control
47. Demand for audit involves all of the followings except one. Which one is it?
A. Control mechanism B. Resolve conflict of interest
C. Simplify complexity D. Regulatory requirements E. None
48. Which types of Audit evaluate efficiency and effectiveness?
A. Audit of F/S B. Operational Audit C. Compliance Audit D. All
49. One of the following is a situation that impairs independence.
A. Investment interest in audit client B. Litigation between CPA and clients
C. Hospitality of goods and service D. Undue dependence on income E. All
50. _____is a risk that occurs when Auditor fails to detect misstatement and errors in company's financial statements.
A. Control risk B. Detection risk C. Inherent risk D. All