

TELANGANA UNIVERSITY
S.S.R. DEGREE COLLEGE, NIZAMABAD (C.C:5029)
V SEMESTER INTERNAL ASSESSMENT II EXAMINATIONS
AUDITING QUESTION BANK

I. Multiple choice Questions.

1. The purpose of internal audit is to evaluate the [a]
(a) Accounting system (b) Internal audit system
(c) Management accounting system (d) statutory audit system
2. The internal audit staff can provide new ideas about [d]
(a) Accounting matters (b) Auditing matters
(c) Legal matters (d) Various business matters
3. The purpose of internal audit is to determine the proper use of [d]
(a) Accounting staff (b) Audit staff (c) Leegal staff (d) Resources
4. The purpose of internal audit is to examine the [c]
(a) Auditing policies (b) Recruitment policies
(c) Accounting policies (d) Production and sale policies
5. The limitation of internal audit is [d]
(a) Shortage of time (b) Shortage of finance
(c) Shortage of time and finance (d) Shortage of staff
6. Balance sheet audit is also known as: [d]
(a) Continues Audit (b) Annual audit (c) Internal audit (d) Financial audit
7. At present, partnership firms in India are _____ to get their financial statements audited. [b]
(a) Legally required (b) Not legally required (c) Compulsorily (d) None of the above
8. Which type of audit is conducted by the Internal audit staff: [c]
(a) Cost Audit (b) Secretarial Audit (c) Internal Audit (d) Tax Audit
9. _____ lays out the strategies to be followed to conduct an audit [b]
(a) An action plan (b) An audit plan (c) An audit programme (d) All of the above
10. Working papers are the connecting link between the [d]
(a) Auditor and his staff (b) Audit assistant and management
(c) Auditor and audited accounts (d) Client's records and the audited accounts
11. The auditor is most likely to examine related party transactions very carefully while vouching [c]
(a) Credit sales (b) Sales returns (c) Credit purchases (d) Cash purchases
12. Which of the following is most crucial to a purchase department? [c]
(a) Reducing the cost of acquisition (b) Selecting supplies
(c) Authorizing the acquisition of goods (d) assuring the quality of goods
13. In case of sales return, the auditor should examine which documents? [d]
(a) Credit notes, advice notes and inward return notes
(b) Debit notes, advice notes and inward return notes
(c) Purchase invoices, advice notes and inward return notes
(d) Credit notes, inspection report and inward return notes
14. In order to vouch, which of the expenses, the auditor will examine Bill of Entry. [a]
(a) Custom (b) Excise duties (c) Sales tax (d) Income tax
15. In case of unclaimed wages, the auditor should examine whether [a]
(a) The amount has been deposited in a separate bank account
(b) Deposited with the cashier
(c) Held in a safe deposit box
(d) All of these

16. A Voucher is a _____ [a]
 (a) Document is support of an entry made in books of accounts.
 (b) Invoice received from suppliers.
 (c) Receipt issued to a customer for cash.
 (d) Despatch receipt
17. Voucher relates to _____ [d]
 (a) Cash receipt (b) Cash payment (c) Credit transactions (d) All the above
18. Verification is _____ [c]
 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
19. The main object of the audit of the cash book may be _____ [b]
 (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
20. Stock in trade is valued _____ [b]
 a. At cost price b. At market price
 c. At cost price or market price whichever is less d. At cost price less depreciation

II. Fill in the blanks.

- Intrnal control covers the control of the whole management system.
- Internal check is a valuable part of internal control.
- The purpose of internal audit is to detect the Errors and Frauds which have already been committed.
- Internal Audit is an independent appraisal function established within an organization to examine the activities.
- This scope of internal audit is comparatively wide
- In case of sales returns separate credit notes are to be prepared and adjusted.
- Debit notes should be prepared for the goods returned to suppliers and credit notes are to be obtained suppliers.
- In cash payments bank reconciliation statements are to be prepared at end of every month.
- The goods are to be sold on credit only against purchase orders received from buyers.
- Internal Audit is a review of various operations and records of the company by staff specially appointed for this purpose.
- In voching cash sales cash register should be fully checked with carbon copies of cash memos.
- Opening journal entries voucher includes purchase and sales returns, bills payable and receivables and last year's balance sheet's entries etc.
- In case of return of loan by others, the auditor should check the counter foil with the entry made in the books.
- Bills receivable book may be verified because the various details regarding bill matured are available in it.
- Internal control system regarding cash sales must be effective.
- When cash is received from customers, a cash memo is issued.
- Bills payable honoured on the date of maturity and are returned by the payee after reviving the payment.
- A voucher is a written paper or document in support of an entry in the books of accounts.
- Purchase voucher includes invoice, copies of orders and correspondence etc.
- Sales voucher includes orders record and goods outward books etc.

III. Short Answers.

- Internal control.

Ans: Internal control is a broad term with a wide coverage. It covers the control of whole management system. Internal control involves a number of checks and controls exercised in a business to ensure its efficient and economic working.

2. Internal check.

Ans: Internal check is the valuable part of the internal control. It is an arrangement of the duties of members of staff in such a manner that the work performed one person is automatically and independently checked by the other.

3. Internal audit.

Ans: Internal audit is a review of operations and records undertaken within a business by specially assigned staff. It is a post-transaction review to evaluate the correctness of records and the effectiveness of operations on a continuous basis in an organization by its own staff.

4. Define Test Checking.

Ans: Test checking means to select and examine a representative sample from a large number of similar terms.

5. What are the different types of Internal Audit?

Ans: The internal audit includes the following types,

1. Compliance auditing
2. Efficiency auditing and
3. Effectiveness auditing.

6. Vouching?

Ans: Vouching is concerned with examining documentary evidence to ascertain the authenticity of entries in the books of accounts. In other words it is an inspection by the auditor of evidence supporting the transactions made in the books

7. Supporting Vouchers.

Ans: These vouchers are nothing but the written evidences support of the transactions that have taken place. Supporting vouchers are divided into two, ie, Internal supporting vouchers and external supporting vouchers.

8. What do you understand from Auditing in an EDP Environment?

Ans: As computers are being used in almost all activities of a business, it has now become essential to introduce new auditing approach in an Electronic Data Processing (EDP) environment.

9. What are the different types of Vouchers?

Ans: Vouchers are categorized into two types i.e., supporting vouchers and accounting vouchers Supporting vouchers are further classified into internal and external whereas accounting vouchers are farther classified into cash vouchers and non-cash vouchers.

10. What do you mean by Cash Voucher?

Ans: The documentary proof of cash payments and cash receipts is known as cash voucher.