CHAPTER 7 :AUDIT SAMPLING: IMPORTANT MCQ QUESTION BANK

1	If the auditor's objective were to test for________________________, the population could be defined as the accounts receivable listing. On the other hand, when testing for ____________________, the population would not be the accounts payable listing, but rather subsequent disbursements, unpaid invoices, suppliers' statements, unmatched receiving reports, or other populations that would provide audit evidence of understatement of accounts payable. **(a) overstatement of accounts receivable/ understatement of accounts payable** (b) validity of accounts receivables (c) Both (a) and (b) (d) None of the above	**Ans.**
2	If the auditor's objective were to test the _________________, the sampling unit could be defined as customer balances or individual customer invoices. The auditor defines the sampling unit in order to obtain an efficient and effective sample to achieve the particular audit objectives. **(a) validity of accounts receivables** (b) overstatement of accounts receivables (c) Both (a) and (b) (d) None of the above	**Ans.**
3	Mr. X may consider that in his estimation of stores valuation, an error of 2% may not be material; he also decides that he needs at least 98% reliability of the result. He is to pick up the requisite number of items of the stores for reliability of the result. The requisite number he can get from the random number table. The question of reliability of the result is directly linked with the __________________ ______________ ,when these are satisfactory, lesser degree of reliability of the sampling estimation may suffice – if these are not satisfactory, the auditor may have to decide upon a higher degree of reliability which can only be obtained from a larger sample. **(a) reliability of the internal control and of the books and records** (b)reliability of external confirmations (c)reliability of management (d)None of the above	**Ans.**
4	In a _____________relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confi rmation date but received shortly after that date by the client, are not considered a misstatement. Also, a misposting between customer accounts does not aff ect the total accounts receivable balance. (a) test of controls **(b) test of details** (c) Both (a) and (b) (d) None of the above	**Ans.**
5	If the expected rate of deviation is ________________ the auditor will normally decide not to perform tests of controls. (a)low **(b)unacceptably high** (c) Both (a) and (b)	**Ans.**

	(d) None of the above	
6	20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor evaluates the results of this sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial). Whether course of action by auditor is: (a)partly correct (b)partly incorrect **(c) correct** (d)incorrect	**Ans.**
7	Consider a situation where trade receivables balances are divided into four groups as follows:- (a) balances in excess of Rs.10,00,000; (b) balances in the range of Rs. 7,75,001 to Rs. 10,00,000; (c) balances in the range of Rs. 5,50,001 to Rs. 7,75,000; (d) balances in the range of Rs. 2,25,001 to Rs. 5,50,000; and (e) balances Rs. 2,25,000 and below. From these above groups the auditor may pick up different percentage of items from each of the group. From the top group i.e. balances in excess of Rs. 10,00,000, the auditor may examine all the items; from the second group 25 per cent of the items; from the third group 10 per cent of the items; and from the lowest group 2 per cent of the items may be selected. Whether course of action by auditor is: (a)partly correct (b)partly incorrect **(c)correct** (d)incorrect	**Ans.**
9	If in a population of branch sales, particular branch sales occur only as every 100th item and the sampling interval selected is 100. The result would be that either the auditor would have selected all or none of the sales of that particular branch. **(a) Given statement is True** (b) Given statement is False (c) Given statement is PartlyTrue (d) Given statement is Partly False	**Ans.**
10	Take the first 200 sales invoices from the sales day book in the month of September; alternatively take any four blocks of 50 sales invoices. Therefore, once the fi rst item in the block is selected, the rest of the block follows items to the completion. **(a) Given statement is True** (b) Given statement is False (c) Given statement is PartlyTrue (d) Given statement is Partly False	**Ans.**
11	Examples of non-sampling risk include (a) inappropriate audit procedures (b)misinterpretation of audit evidence (c) failure to recognize a misstatement **(d)All of the above**	**Ans.**
12	The main advantage of using statistical sampling techniques is that such techniques:	

	(a) Mathematically measure risk (b) Eliminate the need for judgmental sampling (c) Defi nes the values of tolerable error **(d) all of the them.**	**Ans.**
13	Which of the following factors is (are) considered in determining the sample size for tests of control? (a) Projected error (b) Tolerable error (c) Expected error **(d) Both (b) and (c)**	**Ans.**
14	Tolerable error, is the maximum monetary error that the auditor is prepared to accept in the population and still conclude that audit objective has been achieved, is directly related to (a) Sample size (b) Audit risk **(c) Materiality** (d) Expected error	**Ans.**
15	Which of the following is source of Non Sampling risk : (a) Human Mistakes (b) Applying audit procedures not appropriate to the objectives of audit (c)Misinterpreting the sample results **(d) All of the above**	**Ans.**
16	Which of the following is more scientific : **(a) Statistical** (b) Non- statistical (c) both (a) and (b) (d) none of the above	**Ans.**

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