I. The secondary objective of Auditing is to -----------

a) To detect errors and frauds
b) To examine the financial reports and express an opinion on them
c) Both a and b

Answer: a) To detect error and frauds of the enterprise – While auditing the auditor may come across errors and frauds. His objective is to examine the correctness of the financial statements and give his opinion on them.

2. The primary objective of Auditing is to -----------

a) To detect errors and frauds
b) To examine the financial reports and express an opinion on them
c) Both a and b

Answer: b) To examine the financial reports and express an opinion on them, to verify whether the statements have been prepared considering all statutory provisions and they disclose the true and fair profits and financial position.

3. The following are not the objectives of Auditing

a) To judge the prudence of the management decision
b) Comment on management efficiency and effectiveness
c) Both a and b

Answer: c) Both a and b
4. When a transaction of sale has not been recorded by the accountant it is an example of --
--------------------- error

   a) Complete error of omission
   b) Partial error of omission
   c) Error of commission

   Answer c) Complete error of omission - When one transaction is completely not recorded at all unintentionally

5. When the enterprises has willfully subdued and not recorded a transaction it is termed as
----------

   a) Error of Commission
   b) Error of Principle
   c) Fraud

   Answer c) Fraud – Intentionally not recording with a objective to evade tax or for personal benefit.

6. Posting in a wrong account is an example of ----------------

   a) Error of Commission
   b) Error of Principle
   c) Error of Omission

   Answer: a) Error of Commission

7. The accountant has not given the second effect of the transaction in the books of account is an example of

   a) Complete Omission
   b) Partial omission
   c) fraud

   Answer: b) Partial Omission
8. Intentional omission of transactions in the financial statements is an example of ---------- -----.

   a) **Fraudulent financial reporting**  
   b) Misappropriation of assets  
   c) Embezzlement of cash  

   **Answer:** a) Fraudulent financial reporting  

9. When the accountant has not followed the accounting principles, it is an example of ------ -------

   a) Error of Commission  
   b) **Error of Principle**  
   c) Error of Omission  

   **Answer:** a) Error of Principle – Lack of accounting knowledge or non-adherence of accounting principles while preparing the books of accounts and financial statements is an example of error of principles.  

10. Misappropriation of assets include -----------

   a) Theft of an entities asset  
   b) Stealing the sale proceeds  
   c) **Both a and b**  

   **Answer:** c) Both a and b. – both are examples of misappropriation of assets of an enterprise by the director or employee.  

11. Inflation of payments, suppression of receipts and hiking up the total of cash book are examples of -----------

   a) **Fraud**  
   b) Error of Principle  
   c) Error of Omission  

   **Answer:** a) Fraud- because the above are not due to innocence and error. The above are all intentional, to make personal gains.
12. The following measure can be taken to prevent misappropriation of goods-------

   a) Systematic record of the movement of goods
   b) Periodical stock checking
   c) Both a and b

   Answer: c) both a and b – Auditor can insist and recommend the above measures to prevent misappropriation of goods.

13. Detection of the following fraud is more difficult by the auditor--------------

   a) Fraud done by the employees
   b) Fraud done by the management
   c) None of the above

   Answer: b) Fraud done by the management – It can be intentional and no documentary or other evidence to trace the fraud can be left for the auditor to find such a fraud

14. Auditor is not responsible for--------------

   a) Prevention of frauds
   b) Truthiness and fairness in the preparation of the financial statements
   c) None of the above

   Answer: a) Prevention of frauds – Auditor examines the financial statements and books after the recording of transactions which have already done. Auditor can give guidelines to prevent errors and frauds, but fraud being intentional by employees or management, difficult to guarantee nonoccurrence of the same.