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Auditing

ACCT 4002-01

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Exam 1

Directions: Multiple Choice Questions: Please circle the best answer.

Good luck!

1. The audit objective that all transactions and accounts that should be presented in the financial statements are in fact included is related to which of the PCAOB assertions?

   A. Existence

   B. Rights and obligations

   C. Completeness

   D. Valuation

2. Cutoff tests designed to detect purchases made before the end of the year that have been recorded in the subsequent year provide assurance about management's assertion of

   A. presentation and Disclosure.

   B. completeness.

   C. rights and obligations.

   D. existence.

3. Which of the following questions would be **inappropriate** for an auditor to ask a client when exhibiting an appropriate level of professional skepticism while completing an audit procedure related to the internal control system?

   A. What can go wrong in this process?

   B. Which of your employees is a fraudster?

   C. What else is important to know about this process?

   D. What happens when a key employees goes on vacation?

4. Which of the following is not included in The American Accounting Association (AAA) definition of auditing?

   A. Potential conflict of interest

   B. Systematic process

   C. Assertions about economic actions

   D. Established criteria

5. Generally accepted auditing standards are

   A. specific actions performed by auditors during an examination.

   B. standards that guide the conduct of an audit examination.

   C. legal requirements auditors must observe during the audits of public entities.

   D. standards used by entities in deciding whether to engage or retain the services of auditors.

6. Which of the following is not a recommendation usually made following the completion of an operational audit?

   A. Economic and efficient use of resources

   B. Effective achievement of business objectives

   C. Attesting to the fairness of the financial statements

   D. Compliance with company policies

7. In order to be considered as external auditors with respect to government agencies, GAO auditors must be

   A. organizationally independent.

   B. empowered as the accounting and auditing agency by the U.S. Congress.

   C. funded by the federal government.

   D. guided by standards similar to GAAS.

8. Which of the following is the essential purpose of the audit function?

   A. Detection of fraud

   B. Examination of individual transactions to certify as to their validity

   C. Determination of whether the client's financial statement assertions are fairly state

   D. Assurance of the consistent application of correct accounting procedures

9. The audit objective that all the transactions and accounts presented in the financial statements represent real assets, liabilities, revenues, and expenses is related most closely to which of the PCAOB assertions?

   A. Existence or occurrence

   B. Rights and obligations

   C. Completeness

   D. Presentation and disclosure

10. The audit objective that all transactions are recorded in the proper period is related most closely to which of the Audit Standards Board (ASB) transaction assertions?

A. Occurrence

B. Completeness

C. Cutoff

D. Accuracy

11. The audit objective that all transactions are recorded in the proper account is related most closely to which one of the ASB transaction assertions?

A. Occurrence

B. Completeness

C. Accuracy

D. Classification

12. The audit objective that all balances include items owned by the client is related most closely to which one of the ASB balance assertions?

A. Existence

B. Rights and obligations

C. Completeness

D. Valuation

13. The audit objective that all balances include all items that should be recorded in that account is related most closely to which one of the ASB balance assertions?

A. Existence

B. Rights and obligations

C. Completeness

D. Valuation

14. The audit objective that footnotes in the financial statements should be clear and expressed such that the information is easily conveyed to the readers of the financial statements is related most closely with which of the ASB presentation and disclosure assertions?

A. Occurrence

B. Rights and obligations

C. Comprehensibility

D. Understandability

15. Which of the following best describes the primary role and responsibility of independent external auditor?

A. Produce a company's annual financial statements and notes.

B. Express an opinion on the fairness of a company's annual financial statements and footnotes.

C. Provide business consulting advice to audit clients.

D. Obtain an understanding of the client's internal control structure and give management a report about control problems and deficiencies.

16. Inquiries of warehouse personnel concerning possible obsolete or slow moving inventory items provide assurance about the ASB balance assertion of

A. completeness.

B. existence.

C. presentation.

D. valuation.

E. rights and obligations.

17. The relevant ethical requirements relating to due care, professional skepticism, and professional judgment are responsibilities of the auditor at which stage(s) of the audit?

	Risk Assessment	Audit Evidence
A.	Yes	No
B.	Yes	Yes
C.	No	Yes
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

18. The Sarbanes-Oxley Act of 2002 requires that the key company officials *certify* the financial statements. Certification means that the company CEO and CFO must sign a statement indicating

A. they have read the financial statements.

B. they are not aware of any false or misleading statements (or any key omitted disclosures).

C. they believe that the financial statements present an accurate picture of the company's financial condition.

D. All of these.

19. The process of a CPA obtaining a certificate and license in a state other than the state in which the CPA's certificate was originally obtained is referred to as

A. substantial equivalency.

B. quid pro quo.

C. relicensing.

D. re-examination.

21. The four basic requirements for becoming a CPA in most states are

A. education, the CPA Examination, experience, and substantial equivalency.

B. the CPA Examination, experience, continuing professional education, and a state certificate.

C. continuing professional education, the CPA Examination, experience, and an AICPA certificate.

D. education, the CPA Examination, experience, and a state certificate.

22. The study of business operations for the purpose of making recommendations about the efficient use of resources, effective achievement of business objectives, and compliance with company policies is referred to as

A. environmental auditing.

B. financial auditing.

C. compliance auditing.

D. operational auditing.

23. The accounting, auditing, and investigating agency of the U.S. Congress, headed by the U.S. Comptroller General is known as

A. the Federal Bureau of Investigation (FBI).

B. the U.S. General Accountability Office (GAO).

C. the Internal Revenue Service (IRS).

D. the United States Legislative Auditors (USLA).

24. Control risk is

A. the probability that a material misstatement could not be prevented or detected by the entity's internal control policies and procedures.

B. the probability that a material misstatement could occur and not be detected by auditors' procedures.

C. the risk that auditors will not be able to complete the audit on a timely basis.

D. the risk that auditors will not properly control the staff on the audit engagement.

25. The responsibilities principle under generally accepted auditing standards does *not* include which of the following?

A. Competence and capabilities

B. Independent attitude

C. Due care

D. Planning and supervision

26. Which of the following types of auditors' reports does not require an additional paragraph to support the opinion?

A. Unmodified opinion

B. Adverse opinion

C. Qualified opinion

D. Disclaimer of opinion

27. The preparation of an audit plan prior to the beginning of fieldwork is appropriately considered documentation of

A. planning.

B. supervision.

C. information evaluation.

D. quality assurance.

28. A vendor's invoice received and held by the client would be considered what type of evidence?

A. External

B. Internal

C. External-internal

D. Written representation

29. The standard auditors' report refers to standards of the PCAOB and GAAP in which paragraph?

A. Standards of the PCAOB: Scope only; GAAP: Opinion only

B. Standards of the PCAOB: Introductory only; GAAP: Scope and opinion

C. Standards of the PCAOB: Introductory and scope; GAAP: Opinion only

D. Standards of the PCAOB: Introductory only; GAAP: All paragraphs

30. Which of the following is not included in the auditors' standard report representing an unmodified opinion?

A. A brief indication of the responsibility of auditors and management for the financial statements

B. An indication that all appropriate disclosures have been made and included in the financial statements

C. An indication that the audit was conducted in accordance with standards established by the PCAOB

D. The auditors' opinion on the fairness of the financial statements

31. Internal evidence

A. is obtained directly from third parties independent of the client.

B. originates outside of the client's system but has been received and processed by the client.

C. consists of documents that are produced, used, and stored within the client's information system.

D. consists of representations made by the client's officers, directors, owners, and employees

32. The auditors' responsibility to express an opinion on the financial statements is

A. implicitly represented in the auditors' standard report.

B. explicitly represented in the introductory paragraph of the auditors' standard report.

C. explicitly represented in the scope paragraph of the auditors' standard report.

D. explicitly represented in the opinion paragraph of the auditors' standard report.

33. Which of the following is not a concept from the performance principle under generally accepted auditing standards?

A. The auditor must plan the work and properly supervise any assistants.

B. The auditor must express an opinion in accordance with the auditor's findings.

C. The auditor must obtain sufficient appropriate evidence about whether material misstatements exist.

D. The auditor must determine and apply an appropriate materiality level throughout the audit.

34. Under generally accepted auditing standards, which of the following relates to the responsibilities principle?

A. The initial planning of the audit engagement

B. The confirmation of accounts receivable

C. The completion of an internal control questionnaire

D. Maintaining professional skepticism and exercising professional judgment

35. Which of the following represent audit quality guides that remain stable over time and are applicable for all audits?

A. Auditing procedures

B. Auditing standards

C. Due care

D. System of quality control

36. As it relates to audit evidence, appropriateness refers to the

A. originality of evidence gathered.

B. quality of evidence gathered.

C. quantity of evidence gathered.

D. timeliness of evidence gathered.

37. Which of the following information would *not* be included in the auditors' standard report?

A. The names of the financial statements audited

B. A description of the nature of an audit

C. An indication that all necessary disclosures have been presented

D. An opinion on the entity's financial statements

38. The primary purpose of the auditors' study of internal control for a nonpublic entity is

A. to provide constructive suggestions to the client for improving its internal control.

B. to report on internal control as required by *Auditing Standard No. 5.*

C. to identify and detect fraud and irregularities perpetrated by client personnel.

D. to determine the nature, timing, and extent of further audit procedures.

39. Which reporting options do auditors have if the client's financial statements are not presented according to the applicable financial framework (e.g., GAAP, IFRS)?

A. Unmodified opinion or disclaimer of opinion

B. Qualified opinion or disclaimer of opinion

C. Unmodified opinion or adverse opinion

D. Qualified opinion or adverse opinion

40. A periodic review of an audit firm's system of quality control by the PCAOB is referred to as a(n)

A. inspection.

B. peer review.

C. principles review.

D. quality review.

41. The performance principle would include all of the following except

A. the auditors' determination of materiality levels.

B. the auditors' evaluation of independence with respect to their clients.

C. the auditors' evaluation of the risk of material misstatement.

D. the auditors' determination of the nature, timing, and extent of further audit procedures.

42. Which of the following is most closely associated with the responsibilities principle?

A. Due care

B. Planning

C. Qualified audit opinion

D. Risk of material misstatement

43. The state of mind that characterizes the auditors' appropriate questioning and critical assessment of audit evidence is referred to as

A. due care.

B. independence in appearance.

C. professional judgment.

D. professional skepticism.

44. The concept of _________ recognizes that a GAAS audit may fail to detect all material misstatements.

A. absolute assurance

B. due care

C. reasonable assurance

D. risk of material misstatement

45. A level of performance that would be exercised by reasonable auditors in similar circumstances is referred to as

A. due care.

B. independence.

C. professional judgment.

D. professional skepticism.

Essay

What is information risk? What is business risk?

Information Risk: The probability that information could not be prevented or detected by the entity.

Business Risk: The probability that a material misstatement at business could not be detected by the entity.