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1. award:
1.00 point

TB 01-01 Which of the following best describes the main rea...

Which of the following best describes the main reason that independent auditors report on a company's financial statements?

- Management fraud may exist within the company and it is likely that the independent auditors will detect it.
- Users of financial statements need confidence in the numbers they base their decisions on.
- Misstated account balances may be corrected as the result of the independent audit work.
- The accounting system from which the financial statements are derived may have a poorly designed system of internal control.

Multiple Choice

TB 01-01 Which of the following best describes the main rea...

2. award:
1.00 point

TB 01-02 Reducing information risk means the same as _____...

Reducing information risk means the same as _____.

- serving the public interest
- monitoring economic activities
- improving the credibility of information
- ensuring generally accepted accounting principles are used to measure profit

Multiple Choice

TB 01-02 Reducing information risk means the same as _____...

3. award:
1.00 point

TB 01-03 The underlying conditions that create demand by us...

The underlying conditions that create demand by users for reliable financial information include the fact that _____.

- more reliable information will allow investors to calculate the rate of return on their investment
- users are separated from accounting records by distance and time
- governments rely on such information to create tax policies
- there is a need for the expression of an opinion as to the fairness of financial statements

Multiple Choice

TB 01-03 The underlying conditions that create demand by us...

4. ^{award:} 1.00 point

TB 01-04 The auditee is the person or company _____.

The auditee is the person or company _____.

- who will use the audited information
- who performs an audit
- who pays the audit fee
- whose information is being audited

Multiple Choice

TB 01-04 The auditee is the person or company _____.

5. ^{award:} 1.00 point

TB 01-05 Professional judgment is a widely used concept in ...

Professional judgment is a widely used concept in accounting and auditing. How is it defined in the audit standards?

- There is no definition of professional judgment in the auditing standards.
- Professional judgment includes consideration of key principles and concepts of disciplines underlying the professional standards, such as economics, psychology, law, finance, statistics and philosophy.
- Professional judgment means reaching a complex decision by incorporating auditing standards, accounting standards, and rules of professional ethics in a coherent manner.
- Professional judgment involves specialized concepts and language integrating several disciplines in order to provide appropriate justification for audit decisions.

Multiple Choice

TB 01-05 Professional judgment is a widely used concept in ...

6. ^{award:} 1.00 point

TB 01-06 What is the primary role and responsibility of ind...

What is the primary role and responsibility of independent external auditors?

- to prepare a company's annual financial statements and notes.
- to perform an audit and provide an opinion on the financial statements of a company.
- to provide business consulting advice to audit clients.
- to obtain an understanding of a client's internal control system and prepare a report for management about control weaknesses.

Multiple Choice

TB 01-06 What is the primary role and responsibility of ind...

award:
7. 1.00 point

TB 01-07 The risk that financial statements may be material...

The risk that financial statements may be materially false and misleading is called _____.

- business risk
 - information risk
 - client risk
 - risk assessment
-

Multiple Choice

TB 01-07 The risk that financial statements may be material...

award:
8. 1.00 point

TB 01-08 Three-party accountability is a special case of wh...

Three-party accountability is a special case of which economic theory problem?

- independence
 - agency
 - business risk
 - forensics
-

Multiple Choice

TB 01-08 Three-party accountability is a special case of wh...

award:
9. 1.00 point

TB 01-09 The agency problem can be mitigated by _____.

The agency problem can be mitigated by _____.

- greater transparency
 - a higher degree of independence
 - design of contracts
 - internal auditing
-

Multiple Choice

TB 01-09 The agency problem can be mitigated by _____.

award:
10. 1.00 point

TB 01-10 In operational auditing, the auditor studies busin...

In operational auditing, the auditor studies business operations and makes recommendations about all of the following EXCEPT _____.

- economic and efficient use of resources
- effective achievement of business objectives
- the fairness of the financial statements
- compliance with company policies

Multiple Choice

TB 01-10 In operational auditing, the auditor studies busin...

award:
11. 1.00 point

TB 01-11 Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.

Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.

- organizationally independent
- the accounting and auditing agency of the Canadian Senate
- funded by the federal government
- guided by standards similar to GAAS

Multiple Choice

TB 01-11 Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.

award:
12. 1.00 point

TB 01-12 In addition to the audit of financial statements, ...

In addition to the audit of financial statements, governmental auditing may also include audits of efficiency, effectiveness, and _____.

- fraud
- accuracy
- economy
- adequacy

Multiple Choice

TB 01-12 In addition to the audit of financial statements, ...

award:
13. 1.00 point

TB 01-13 An example of a forensic accounting assignment mig...

An example of a forensic accounting assignment might be _____.

- to ensure compliance with specific legislation
- to provide an opinion about the effectiveness of a government program
- to provide assurance about the fairness of prospective financial information included in an initial public offering document
- to estimate the value of inventory lost in a warehouse fire

Multiple Choice

*TB 01-13 An example of a forensic
accounting assignment mig...*

award:
14. 1.00 point

TB 01-14 International harmonization is also known as _____...

International harmonization is also known as _____.

- convergence
- harmony
- independence
- critical thinking

Multiple Choice

*TB 01-14 International harmonization
is also known as _____...*

award:
15. 1.00 point

TB 01-15 Since financial decision makers usually obtain acc...

Since financial decision makers usually obtain accounting information from companies wanting loans or selling stock, this creates a potential _____.

- agency problem
- conflict of interest
- harmonization problem
- expectations gap

Multiple Choice

*TB 01-15 Since financial decision
makers usually obtain acc...*

award:
16. 1.00 point

TB 01-16 The difference between what the public expects of ...

The difference between what the public expects of auditors and what auditors can actually deliver is known as _____.

- forensics
- an expectations gap
- a business risk
- an information risk

Multiple Choice

*TB 01-16 The difference between
what the public expects of ...*

award:
17. 1.00 point

TB 01-17 The role of the auditor is to satisfy users' deman...

The role of the auditor is to satisfy users' demand for reliable information.

- True
- False

True / False

*TB 01-17 The role of the auditor is to
satisfy users' deman...*

award:
18. 1.00 point

TB 01-18 The concept of three-party accountability means th...

The concept of three-party accountability means that the auditor is expected to act in the interests of the party paying the audit fee.

- True
- False

True / False

*TB 01-18 The concept of three-party
accountability means th...*

award:
19. 1.00 point

TB 01-19 The three underlying conditions affecting users' d...

The three underlying conditions affecting users' demand for accounting information are complexity, reliability, and completeness.

- True
- False

True / False

*TB 01-19 The three underlying
conditions affecting users' d...*

award:
20. 1.00 point

TB 01-20 The assurance function involves the lending of cre...

The assurance function involves the lending of credibility to financial information.

- True
 False

True / False

*TB 01-20 The assurance function
involves the lending of cre...*

award:
21. 1.00 point

TB 01-21 Business risk is the risk that the financial state...

Business risk is the risk that the financial statements do not reflect the economic substance of business activities.

- True
→ False

True / False

*TB 01-21 Business risk is the risk
that the financial state...*

award:
22. 1.00 point

TB 01-22 A material misstatement is one that would affect a...

A material misstatement is one that would affect a user's decision making.

- True
 False

True / False

*TB 01-22 A material misstatement is
one that would affect a...*

award:
23. 1.00 point

TB 01-23 Forensic accounting does not include fraud auditin...

Forensic accounting does not include fraud auditing.

- True
→ False

True / False

*TB 01-23 Forensic accounting does
not include fraud auditin...*

24. ^{award:} 1.00 point

TB 01-24 An attest engagement involves a public accountant ...

An attest engagement involves a public accountant affirming the validity of an assertion.

- True
 False

True / False

*TB 01-24 An attest engagement
involves a public accountant ...*

25. ^{award:} 1.00 point

TB 01-25 Internal auditing is an independent activity desig...

Internal auditing is an independent activity designed to add value and improve an organization's operations.

- True
 False

True / False

*TB 01-25 Internal auditing is an
independent activity desig...*

26. ^{award:} 1.00 point

TB 01-26 Value-for-money audits include testing of complian...

Value-for-money audits include testing of compliance with laws and regulations.

- True
→ False

True / False

*TB 01-26 Value-for-money audits
include testing of complian...*

27. ^{award:} 1.00 point

TB 01-27 Accounting risk is the part of information risk th...

Accounting risk is the part of information risk that is due to incorrectly predicting future events.

- True
 False

True / False

*TB 01-27 Accounting risk is the part
of information risk th...*

award:
28. 1.00 point

TB 01-28 There are no restrictions on the type of business ...

There are no restrictions on the type of business advisory services a PA firm can provide to a nonaudit client.

- True
 False

True / False

*TB 01-28 There are no restrictions on
the type of business ...*

award:
29. 1.00 point

TB 01-29 Why is three-party accountability an important dis...

Why is three-party accountability an important distinguishing feature of auditing?

In three-party accountability, accountability is represented as a three-point relationship among the auditor of the financial information, the management preparing the financial information, and the users of the financial information. This triangle reflects an accountability relationship because management is accountable to the users. However, the users cannot rely on the financial statements because they do not completely trust management. They demand that the financial statements be verified by a competent, independent auditor. Thus, the auditor is also accountable to the user.

Essay

*TB 01-29 Why is three-party
accountability an important dis...*

award:
30. 1.00 point

TB 01-30 Discuss the underlying conditions affecting users'...

Discuss the underlying conditions affecting users' demand for accounting information.

There are three key conditions: complexity of information, distance between users from management, and the consequences of bad decisions. First, a company's transactions are increasingly numerous and complicated. Users of financial information are not trained to collect and compile it themselves. They need the services of professional accountants. Second, users of financial information are increasingly separated from a company's accounting records by distance and time as a result of global financial markets. Users need full-time professional accountants to do the work they cannot do for themselves. Finally, financial decisions are important to the state of investors' and other users' wealth, including investors in companies that provide loans or trade credit to other companies. Decisions can involve large dollar amounts, the loss of which may cause a cascade of bankruptcies. Good information, obtained through the financial reports prepared by accountants, is an absolute necessity to reduce the risk of loss.

Essay

*TB 01-30 Discuss the underlying
conditions affecting users'...*

award:
31. 1.00 point

TB 01-31 What is the difference between the American Accoun...

What is the difference between the American Accounting Association's (AAA) definition of auditing and the Canadian Institute of Chartered Accountants' (CICA) objectives of financial statement auditing?

The AAA definition is broad and general—it encompasses external, internal, and governmental auditing. The CICA has not defined auditing per se but has outlined a set of objectives specific to the external audit of financial statements. The CICA objectives do not focus on broad assertions about economic events but state that the main objective of an audit is the expression of an opinion on the financial statements. The objectives further assert that the audit of financial statements must be performed in accordance with GAAS (generally accepted auditing standards). The AAA definition does not refer to auditor qualifications and does not specifically address either how an audit is performed or how the results are communicated. The first of the eight auditing standards defined by the CICA, the general standard, outlines the qualifications the auditor must have; the next three, the examination standards, outline how the auditor must perform the audit; and the last four, the reporting standards, outline how the auditor should communicate the results.

Essay

*TB 01-31 What is the difference
between the American Accoun...*

award:
32. 1.00 point

TB 01-32 What is information risk?

What is information risk?

The risk that a set of financial statements will be materially false or misleading.

Essay

TB 01-32 What is information risk?

award:
33. 1.00 point

TB 01-33 What is an attest engagement?

What is an attest engagement?

When a public accountant is hired to perform procedures and issue a report resulting from those procedures that affirms the validity of an assertion, this is known as an attest engagement.

Essay

*TB 01-33 What is an attest
engagement?*

award:
34. 1.00 point

TB 01-34 When does an agency problem occur?

When does an agency problem occur?

An agency problem occurs when three conditions are present in an agency relationship: (a) the agent has objectives that are different from those of the principal, (b) the agent has more information than the principal does, and (c) the contract between the two is incomplete in that not every possible contingency can be anticipated.

Essay

TB 01-34 When does an agency problem occur?

award:
35. 1.00 point

TB 01-35 What is a direct reporting engagement?

What is a direct reporting engagement?

A type of assurance engagement in which the assertions are implied and not written down in some form.

Essay

TB 01-35 What is a direct reporting engagement?

award:
36. 1.00 point

TB 01-36 What is operational auditing and who performs it?

What is operational auditing and who performs it?

Operational auditing is the study of an entity, or a specific unit within an entity, in order to evaluate its performance. The operational auditor reports on whether the entity uses its resources economically and efficiently and whether it achieves its business objectives effectively. Internal auditors normally perform operational audits. However, independent accounting firms as part of their management advisory services also may conduct operational audits.

Essay

TB 01-36 What is operational auditing and who performs it?

award:
37. 1.00 point

TB 01-37 Discuss the nature of value-for-money audits and g...

Discuss the nature of value-for-money audits and give three examples of its application.

Value-for-money audits involve studies of the management of government organizations, programs, activities, and functions. Their goal is to improve the government's accountability to taxpayers for the effective use of tax dollars.

Examples of findings include:

1. Health care: Stronger efforts needed to control undesirable practices by unregulated health-care providers
2. Education: Need to improve availability of programs for exceptional children.
3. Young offenders: Suggested improved documentation before releasing young offenders.

Essay

*TB 01-37 Discuss the nature of
value-for-money audits and g...*

award:
38. 1.00 point

TB 01-38 Discuss the conflict between the need for an audit..

Discuss the conflict between the need for an audit firm to perform quality services and its desire to make a profit in the context of the investor's need for reliable information.

An audit firm needs to be able to pay its staff in line with their abilities. Otherwise, more qualified staff will seek opportunities elsewhere. If they leave, only less qualified people will remain, thus reducing the quality of audit possible. With less qualified people, the audit firm may be unable to express the correct opinion on the fairness of the financial statements. This would tend to increase investors' information risk. One way to have more money to pay staff appropriately is to reduce the amount of time spent on each assignment. More assignments each with less time spent would permit more profit on each assignment. However, reducing the amount of time spent on each audit engagement would also increase the risk that a material error would be missed in the audit. This increases the information risk to investors, which decreases the value of the audit to them and increases the likelihood that they will sue the auditors to recover any investment losses.

A constant demand by investors for reduction in information risk means that except in the short term, an auditor cannot reduce the quality of its services. By the same token, there is an equilibrium level of profit for audit firms, and compensation for its staff and partners that investors are willing to provide in exchange for their desired reduction in information risk.

Essay

*TB 01-38 Discuss the conflict
between the need for an audit..*

award:
39. 1.00 point

TB 02-01 According to GAAS, the overall objective of a fina...

According to GAAS, the overall objective of a financial statement audit is _____.

- to enable the auditor to express an opinion as to whether the financial statements are prepared in accordance with generally accepted accounting principles
 - to reduce audit risk to an acceptably low level
 - to determine whether the financial principles adopted by management in preparing the financial statements are acceptable
 - to obtain reasonable assurance that the financial statements taken as a whole are free from misstatement, whether due to fraud or error
-

Multiple Choice

TB 02-01 According to GAAS, the overall objective of a fina...

award:
40. 1.00 point

TB 02-02 Which of the following is the first task that the ...

Which of the following is the first task that the auditor must accomplish to demonstrate proficiency in auditing?

- Identify the evidence relevant for the audit of assertions that are made by management in its unaudited financial statements and notes.
 - Design an audit program to obtain sufficient appropriate evidence about assertions management makes in financial statements and notes.
 - Recognize the underlying assertions made by management in the financial statements and notes.
 - Evaluate the evidence gathered in the performance of the audit program and decide whether management's assertions conform to generally accepted accounting principles and reality.
-

Multiple Choice

TB 02-02 Which of the following is the first task that the ...

award:
41. 1.00 point

TB 02-03 Auditors try to achieve independence in appearance...

Auditors try to achieve independence in appearance in order to _____.

- maintain public confidence in the profession
 - become independent in appearance and in fact
 - comply with the generally accepted auditing standards
 - maintain an unbiased mental attitude
-

Multiple Choice

TB 02-03 Auditors try to achieve independence in appearance...

42. ^{award:} 1.00 point

TB 02-04 Control risk is _____.

Control risk is _____.

- the probability that a material misstatement could occur and not be prevented or detected by the company's internal control policies and procedures
- the probability that a material misstatement could occur and not be detected by the auditor's audit procedures
- the risk that the auditor will not be able to complete the audit on a timely basis
- the risk that the auditor will not properly control the staff on the audit engagement

Multiple Choice

TB 02-04 Control risk is _____.

43. ^{award:} 1.00 point

TB 02-05 The primary purpose of obtaining an understanding ...

The primary purpose of obtaining an understanding of the company's internal controls in the financial statement audit is _____.

- to help the auditors develop the audit program
- to make suggestions to management to improve internal controls
- to obtain direct sufficient appropriate audit evidence to afford a reasonable basis for an opinion on the financial statements
- to determine whether the company has changed any accounting principles

Multiple Choice

TB 02-05 The primary purpose of obtaining an understanding ...

44. ^{award:} 1.00 point

TB 02-06 An external auditor is conducting an audit of the ...

An external auditor is conducting an audit of the financial statements of Camden Corporation. The external auditor is expected to _____.

- certify the correctness of Camden's financial statements
- make a 100% examination of Camden's records
- give an opinion on whether Camden's financial statements are fairly presented in all material respects
- give an opinion on the attractiveness of Camden for investment purposes and critique the wisdom and legality of its business decisions

Multiple Choice

TB 02-06 An external auditor is conducting an audit of the ...

45. ^{award:} 1.00 point

TB 02-07 Which of the following statements best explains an...

Which of the following statements best explains an unmodified report opinion?

- The financial statements contain a departure from GAAP.
- The auditor was unable to complete the work necessary to form a complete opinion.
- The auditor was not aware of any reasons not to believe the statements are correct.
- Based on the evidence obtained, the auditor believes the statements are free of material error.

Multiple Choice

TB 02-07 Which of the following statements best explains an...

46. ^{award:} 1.00 point

TB 02-08 A standard unmodified audit report should be dated...

A standard unmodified audit report should be dated _____.

- no later than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion
- no earlier than the date when the auditor obtained sufficient appropriate audit evidence supporting the auditor's opinion
- as at the end of the year being reported on
- as at the end of the year the audit work was done

Multiple Choice

TB 02-08 A standard unmodified audit report should be dated...

47. ^{award:} 1.00 point

TB 02-09 Several sources of GAAP consulted by an auditor ar...

Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider to be the most authoritative?

- CICA Handbook.
- CICA Exposure Drafts.
- Industry practice.
- Federal legislation.

Multiple Choice

TB 02-09 Several sources of GAAP consulted by an auditor ar...

award:
48. 1.00 point

TB 02-10 The reporting standards require that the auditor e...

The reporting standards require that the auditor explicitly report on whether the financial statements _____.

- contain adequate disclosure of all material matters
- are in accordance with GAAP
- used principles that are appropriate for the circumstances
- were prepared on a consistent basis with the comparative year

Multiple Choice

*TB 02-10 The reporting standards
require that the auditor e...*

award:
49. 1.00 point

TB 02-11 Because of the risk of material misstatement, an a...

Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of _____.

- objective judgment
- independent integrity
- professional skepticism
- impartial conservatism

Multiple Choice

*TB 02-11 Because of the risk of
material misstatement, an a...*

award:
50. 1.00 point

TB 02-12 Three-Party Accountability includes all of the fol...

Three-Party Accountability includes all of the following parties except _____.

- users
- practitioners
- Audit Committee
- management

Multiple Choice

*TB 02-12 Three-Party Accountability
includes all of the fol...*

award:
51. 1.00 point

TB 02-13 Key features of SOX include all of the following e...

Key features of SOX include all of the following except _____.

- increased penalties for corporate wrongdoers
- more timely and extensive financial disclosures
- fewer options of recourse for aggrieved shareholders
- increased oversight of auditors

Multiple Choice

*TB 02-13 Key features of SOX
include all of the following e...*

award:
52. 1.00 point

TB 02-14 Which of the following has been established to ove...

Which of the following has been established to oversee the auditors of public companies?

- Canadian Coalition for Good Governance.
- Canadian Public Accountability Board.
- The SOX Board.
- The Canadian Securities Commission.

Multiple Choice

*TB 02-14 Which of the following has
been established to ove...*

award:
53. 1.00 point

TB 02-15 An assurance engagement is one in which a CA is en...

An assurance engagement is one in which a CA is engaged to _____.

- issue a written communication expressing a conclusion concerning a subject matter for which an accountable party is responsible
- provide tax advice or prepare a tax return based on financial information the CA has not audited or reviewed
- testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts
- assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance

Multiple Choice

*TB 02-15 An assurance engagement
is one in which a CA is en...*

award:
54. 1.00 point

TB 02-16 All of the following are examples of assurance eng...

All of the following are examples of assurance engagements except _____.

- tax planning
 - financial statements audit
 - internal controls statement
 - financial statements review
-

Multiple Choice

TB 02-16 All of the following are examples of assurance eng...

award:
55. 1.00 point

TB 02-17 The GAAS general standard relating to the audit of...

The GAAS general standard relating to the audit of financial statements focuses on all of the following except _____.

- competence
 - independence
 - due professional care
 - planning
-

Multiple Choice

TB 02-17 The GAAS general standard relating to the audit of...

award:
56. 1.00 point

TB 02-18 According to IFAC, which of the following is not o...

According to IFAC, which of the following is not one of the elements of quality control?

- Independence.
 - Supervision.
 - Acceptance and continuance of clients.
 - Due professional care.
-

Multiple Choice

TB 02-18 According to IFAC, which of the following is not o...

57. ^{award:} 1.00 point

TB 02-19 In establishing a quality control system, which ar...

In establishing a quality control system, which area should be of a secondary nature?

- Creating an independence and objectivity checklist.
- Creating a program for continuing professional education.
- Creating an internal review process.
- Controlling access to client files.

Multiple Choice

TB 02-19 In establishing a quality control system, which ar...

58. ^{award:} 1.00 point

TB 02-20 Williams & Co., a large international CA firm,...

Williams & Co., a large international CA firm, will be subject to an external peer review. The peer review will most likely be performed by _____.

- employees and partners of Williams & Co. who are not associated with the particular audits being reviewed
- employees and partners of another CA firm
- peer review staff of the Ontario Securities Commission
- peer review staff of the CICA

Multiple Choice

TB 02-20 Williams & Co., a large international CA firm,...

59. ^{award:} 1.00 point

TB 02-21 A report giving conclusions about a firm's complia...

A report giving conclusions about a firm's compliance with quality control standards is typical of which of the following?

- Practice inspection.
- Quality inspection.
- Peer review.
- Quality review.

Multiple Choice

TB 02-21 A report giving conclusions about a firm's complia...

award:
60. 1.00 point

TB 02-22 Practice standards are a general set of standards ...

Practice standards are a general set of standards intended to guide the audits of financial statements.

- True
 False

True / False

*TB 02-22 Practice standards are a
general set of standards ...*

award:
61. 1.00 point

TB 02-23 The CICA Handbook recommendations are a step-by-st...

The *CICA Handbook* recommendations are a step-by-step list of procedures auditors have to complete for each engagement.

- True
→ False

True / False

*TB 02-23 The CICA Handbook
recommendations are a step-by-st...*

award:
62. 1.00 point

TB 02-24 The general standard of GAAS relates primarily to ...

The general standard of GAAS relates primarily to the personal integrity and professional qualifications of auditors.

- True
 False

True / False

*TB 02-24 The general standard of
GAAS relates primarily to ...*

award:
63. 1.00 point

TB 02-25 Control risk is the risk that an accounting firm's...

Control risk is the risk that an accounting firm's quality control standards will not be adequate.

- True
→ False

True / False

*TB 02-25 Control risk is the risk that
an accounting firm's...*

award:
64. 1.00 point

TB 02-26 The fourth reporting standard requires the audit r...

The fourth reporting standard requires the audit report to comment on the consistency of the accounting principles used in preparing the financial statements.

- True
→ False

True / False

*TB 02-26 The fourth reporting
standard requires the audit r...*

award:
65. 1.00 point

TB 02-27 Audit risk is the risk that an auditor expresses a...

Audit risk is the risk that an auditor expresses an inappropriate audit opinion when the financial statements are materially misstated.

- True
 False

True / False

*TB 02-27 Audit risk is the risk that an
auditor expresses a...*

award:
66. 1.00 point

TB 02-28 Reliance on self-regulation of the accounting prof...

Reliance on self-regulation of the accounting profession has changed as a result of its perceived failure to detect the problems leading to the corporate scandals of 2002/2003.

- True
 False

True / False

*TB 02-28 Reliance on self-regulation
of the accounting prof...*

award:
67. 1.00 point

TB 02-29 Appropriate audit evidence, to be reliable and rel...

Appropriate audit evidence, to be reliable and relevant, must be quantitative, objective, and absolutely compelling.

- True
→ False

True / False

*TB 02-29 Appropriate audit evidence,
to be reliable and rel...*

award:
68. 1.00 point

TB 02-30 A prospectus is the information, usually including...

A prospectus is the information, usually including financial information, about a firm that accompanies any new issuance of shares in a regulated securities market.

- True
 False

True / False

TB 02-30 A prospectus is the information, usually including...

award:
69. 1.00 point

TB 02-31 The assessment of materiality has a pervasive impa...

The assessment of materiality has a pervasive impact on the audit.

- True
 False

True / False

TB 02-31 The assessment of materiality has a pervasive impa...

award:
70. 1.00 point

TB 02-32 Audit committees monitor management's financial re...

Audit committees monitor management's financial reporting responsibilities.

- True
 False

True / False

TB 02-32 Audit committees monitor management's financial re...

award:
71. 1.00 point

TB 02-33 Practice inspection is something a new auditor doe...

Practice inspection is something a new auditor does as part of his or her training program.

- True
→ False

True / False

TB 02-33 Practice inspection is something a new auditor doe...

award:
72. 1.00 point

TB 02-34 Alan Fallon was recently promoted to senior accoun...

Alan Fallon was recently promoted to senior accountant. He was put in charge of the Mellow Markets audit because of his experience with other grocery clients. Mellow Markets has a small, but growing chain of natural food stores. This is the first year Mellow Markets has been audited. Because of its growth, Mellow needs additional capital. Mellow intends to take its audited financial statements to a bank to secure a loan.

Alan has been assigned two inexperienced staff assistants for the audit. Because this is his first audit as a senior, he intends to bring the job in on budget. To save time, he gave the assistants the audit program for Happy Time Food Stores. He told his staff that this would make things go more quickly. He also told them that he could not spend much time with them at the client's place of business because "my time is billed out at such a high rate, we'll go right over budget." He did call them once a day from another audit on which he was working. The assistants told Alan that the audit program did not always match up with what they found at Mellow Markets. Alan responded, "Just cross out whatever is not relevant in the audit program and don't add anything—it will only make us go over the budget."

When Alan came out near the end of fieldwork, one assistant communicated her concern that they had not attended the inventory counts at any of the out-of-town locations of Mellow Markets. The audit program had stipulated that inventory should be observed for in-town stores only. Happy Time had only one store not in town while Mellow Markets had three of their five stores in other cities. Alan told the assistant to get inventory sheets from the client for the other stores. He added, "Make sure that the inventory balance in the general ledger agrees with the total for all the inventory sheets." The next day, Alan reviewed all work papers and submitted the job for review by the manager.

Required:

- A. Describe three GAAS examination standards.
- B. Do you believe that the Mellow Markets audit is in compliance with these standards? Explain.

A. The examination standards are outlined below.

1. The work should be adequately planned and properly executed using sufficient knowledge of the entity's business as a basis. If assistants are employed, they should be properly supervised.
2. A sufficient understanding of internal control should be obtained to plan the audit. When control risk is assessed below maximum, sufficient appropriate audit evidence should be obtained through tests of controls to support the assessment.
3. Sufficient appropriate audit evidence should be obtained, by such means as inspection, observation, enquiry, confirmation, computation, and analysis, to afford a reasonable basis to support the content of the report.

B.

1. The Mellow Markets audit is not in compliance with these standards. A proper audit program was not prepared. This, along with the emphasis on cutting time, means that it is also doubtful that a meaningful knowledge of the client's business was obtained. It appears that the planning portion of the first examination standard was clearly violated. The lack of time and attention the inexperienced staff received from Alan Fallon is indicative of a violation of the supervision part of the first examination standard.
2. There is no indication of any steps taken to understand, evaluate, or test the internal control of Mellow Markets. This is a violation of the second examination standard.
3. The third examination standard also seems to have been violated. First, the deficiencies in meeting the first two examination standards suggest that the auditors could not have obtained sufficient appropriate evidence. In addition, the failure to observe any of the inventory counts in other cities is an additional deficiency—particularly since Mellow is a new client. Finally, ensuring that the inventory sheets agree with the balance in the general ledger account is merely a first step in the audit of inventory. By itself it is not sufficient appropriate evidence.

Essay

TB 02-34 Alan Fallon was recently promoted to senior accoun...

award:
73. 1.00 point

TB 02-35 What is the difference between audit procedures an...

What is the difference between audit procedures and audit standards?

Audit standards are audit-quality recommendations that remain the same over time for all audits. Audit procedures, on the other hand, are quite different and include the particular specialized actions auditors take to obtain evidence in a specific audit engagement.

Essay

*TB 02-35 What is the difference
between audit procedures an...*

award:
74. 1.00 point

TB 02-36 What is a quality inspection?

What is a quality inspection?

A quality inspection is an examination and evaluation of the quality of the overall practice. It is thus aimed at the firm level rather than at individuals. It involves extensive study of a firm's quality control document and includes interviews with audit personnel as well as a detailed study of the quality of work, adherence to GAAS, and quality control standards on a selection of audit engagements.

Essay

*TB 02-36 What is a quality
inspection?*

award:
75. 1.00 point

TB 03-01 Which of the following philosophical principles in...

Which of the following philosophical principles in ethics places emphasis on the importance of following rules rather than on weighing the consequences of actions?

- Kantian principle.
 Utilitarian principle.
 Consequentialism principle.
 Moral principle.

Multiple Choice

*TB 03-01 Which of the following
philosophical principles in...*

award:
76. 1.00 point

TB 03-02 Which of the following philosophical principles of...

Which of the following philosophical principles of ethics places emphasis on the consequences of action, rather than on following the rules?

- Imperative principle.
- Utilitarianism principle.
- Generalization principle.
- Moral principle.

Multiple Choice

TB 03-02 Which of the following philosophical principles of...

award:
77. 1.00 point

TB 03-03 What is a key characteristic of critical thinking?

What is a key characteristic of critical thinking?

- It is a means of eliminating alternatives to arrive at one right answer.
- It requires making the right assumptions to support an argument.
- It requires a questioning mind.
- It is a means of picking out things wrong with another person's argument.

Multiple Choice

TB 03-03 What is a key characteristic of critical thinking?

award:
78. 1.00 point

TB 03-04 The ICAO Rules of Professional Conduct contain bot...

The ICAO Rules of Professional Conduct contain both general ethical principles that are idealistic in character and also a _____.

- list of violations that would cause the automatic suspension of a member's licence
- set of specific, mandatory rules describing minimum levels of conduct required of members
- description of the procedures to be followed by a member who must respond to an inquiry from the disciplinary committee
- list of specific acts discreditable to the profession

Multiple Choice

TB 03-04 The ICAO Rules of Professional Conduct contain bot...

award:
79. 1.00 point

TB 03-05 Which of the following items is the most important...

Which of the following items is the most important principle in the "fundamental statements of accepted conduct"?

- Maintain the reputation of the profession.
 - Act with due care.
 - Maintain independence.
 - Act with professional courtesy.
-

Multiple Choice

TB 03-05 Which of the following items is the most important...

award:
80. 1.00 point

TB 03-06 A complaint has been made against a member for an ...

A complaint has been made against a member for an audit failure. If this complaint is found to have merit, under which ICAO Rule of Professional Conduct is the member likely to be charged?

- § 202 Integrity and due care.
 - § 204 Independence.
 - § 210 Conflict of interest.
 - § 215 Contingency fees.
-

Multiple Choice

TB 03-06 A complaint has been made against a member for an ...

award:
81. 1.00 point

TB 03-07 A succinct, but comprehensive definition of indepe...

A succinct, but comprehensive definition of independence is that an auditor _____.

- must be independent in fact and in appearance in order to maintain credibility
 - must not have a direct financial interest in a client
 - must have a licence to practise as a public accountant
 - must not take on as an audit client a company owned by a member of his or her immediate family
-

Multiple Choice

TB 03-07 A succinct, but comprehensive definition of indepe...

award:
82. 1.00 point

TB 03-08 The goal of the critical-thinking framework reflec...

The goal of the critical-thinking framework reflects _____.

- independence
- ideal audit virtues
- skepticism
- ethics

Multiple Choice

TB 03-08 The goal of the critical-thinking framework reflec...

award:
83. 1.00 point

TB 03-09 The familiarity threat refers to _____.

The familiarity threat refers to _____.

- becoming too sympathetic to a client's interests
- providing assurance on one's own work
- promoting a client's position or opinion
- benefiting from a financial interest in a client

Multiple Choice

TB 03-09 The familiarity threat refers to _____.

award:
84. 1.00 point

TB 03-10 What is the meaning of the rule of professional co...

What is the meaning of the rule of professional conduct that requires an auditor to be objective?

- The auditor may have a material, indirect financial interest in a client's business as long as it does not affect his or her judgment.
- The auditor has an obligation to the CICA to not use his or her training for personal advantage.
- The auditor has an obligation to serve the needs of the audit client.
- The auditor must have an attitude of professional skepticism toward an auditee's management.

Multiple Choice

TB 03-10 What is the meaning of the rule of professional co...

award:
85. 1.00 point

TB 03-11 In the course of performing an audit, an auditor b...

In the course of performing an audit, an auditor begins dating the CFO of the auditee. What kind of threat to independence might arise?

- Self-review threat.
- Self-interest threat.
- Familiarity threat.
- Intimidation threat.

Multiple Choice

*TB 03-11 In the course of performing
an audit, an auditor b...*

award:
86. 1.00 point

TB 03-12 A client's management claims that they have to res...

A client's management claims that they have to restrict an auditor's access to a research laboratory to protect the safety of the auditor. This could be an example of a lack of _____.

- programming independence
- investigative independence
- control independence
- reporting independence

Multiple Choice

*TB 03-12 A client's management
claims that they have to res...*

award:
87. 1.00 point

TB 03-13 According to the profession's rules of conduct, an...

According to the profession's rules of conduct, an auditor would be considered independent in which of the following instances?

- The auditor is the officially appointed stock transfer agent of a client.
- The auditor has a personal chequing account in a branch of a client bank.
- The client has not paid its audit fees for the past three years.
- The client is the only tenant in a commercial building owned by the auditor.

Multiple Choice

*TB 03-13 According to the
profession's rules of conduct, an...*

award:
88. 1.00 point

TB 03-14 In a study of law cases of accountants' and audito...

In a study of law cases of accountants' and auditors' legal troubles, the greatest percentage arose from _____.

- faulty implementation of audit procedures
 - client fraud
 - misinterpretation of accounting principles
 - fraud by the auditor
-

Multiple Choice

TB 03-14 In a study of law cases of accountants' and audito...

award:
89. 1.00 point

TB 03-15 A private or civil wrong or injury is known as a _...

A private or civil wrong or injury is known as a _____.

- breach
 - tort
 - misconduct
 - deceit
-

Multiple Choice

TB 03-15 A private or civil wrong or injury is known as a _...

award:
90. 1.00 point

TB 03-16 How can competence and due care best be described?

How can competence and due care best be described?

- Competence and due care both refer to the PA doing their best for their clients.
 - Competence refers to technical ability; due care refers to strictly following official pronouncements of accounting principles.
 - Competence is knowing what do; due care is doing it to the best of one's abilities.
 - Competence and due care both refer to ongoing technical training.
-

Multiple Choice

TB 03-16 How can competence and due care best be described?

award:
91. 1.00 point

TB 03-17 In common law actions, the burden of proof lies wi...

In common law actions, the burden of proof lies with the _____.

- bailiff
- defendant
- plaintiff
- jury

Multiple Choice

TB 03-17 In common law actions, the burden of proof lies wi...

award:
92. 1.00 point

TB 03-18 The failure to perform a duty with the requisite s...

The failure to perform a duty with the requisite standard of care is known as _____.

- lack of independence
- negligence
- lack of objectivity
- misconduct

Multiple Choice

TB 03-18 The failure to perform a duty with the requisite s...

award:
93. 1.00 point

TB 03-19 That a legal duty arises when there is a contractu...

That a legal duty arises when there is a contractual agreement with the client is called _____.

- standard of care
- privity of contract
- professionalism
- independence

Multiple Choice

TB 03-19 That a legal duty arises when there is a contractu...

award:
94. 1.00 point

TB 03-20 In addition to liabilities imposed by common law, ...

In addition to liabilities imposed by common law, auditors need also be concerned about what other type of liability?

- Statutory law.
 - Tort law.
 - Professional liability.
 - Negligence.
-

Multiple Choice

TB 03-20 In addition to liabilities imposed by common law, ...

award:
95. 1.00 point

TB 03-21 If a party is found to be partially liable and thu...

If a party is found to be partially liable and thus only responsible for paying part of the damages relative to their share of the blame, this is known as _____.

- due care
 - breaking even
 - proportionate liability
 - a tort
-

Multiple Choice

TB 03-21 If a party is found to be partially liable and thu...

award:
96. 1.00 point

TB 03-22 Civil RICO provisions in effect characterize accou...

Civil RICO provisions in effect characterize accountants as _____.

- fraudsters
 - racketeers
 - scapegoats
 - incompetent
-

Multiple Choice

TB 03-22 Civil RICO provisions in effect characterize accou...

97. ^{award:} 1.00 point

TB 03-23 An ethical dilemma is one in which the choice of a...

An ethical dilemma is one in which the choice of alternative actions affects the well-being of other persons.

- True
 False

True / False

*TB 03-23 An ethical dilemma is one
in which the choice of a...*

98. ^{award:} 1.00 point

TB 03-24 Let your conscience be your guide is an ethical ...

"Let your conscience be your guide" is an ethical principle that fits all situations.

- True
→ False

True / False

*TB 03-24 Let your conscience be
your guide is an ethical ...*

99. ^{award:} 1.00 point

TB 03-25 Rules of professional conduct provide some direct ...

Rules of professional conduct provide some direct solutions to specific, profession-related problems that may not be easily derived from general theories of ethics.

- True
 False

True / False

*TB 03-25 Rules of professional
conduct provide some direct ...*

100. ^{award:} 1.00 point

TB 03-26 The Rules of Professional Conduct, state the set...

The "Rules of Professional Conduct," state the set of very specific rules that flow from the general principles and are considered to be minimum standards.

- True
 False

True / False

*TB 03-26 The Rules of Professional
Conduct, state the set...*

award:
101. 1.00 point

TB 03-27 The Rules of Professional Conduct for profession...

The "Rules of Professional Conduct" for professional accountants apply to services performed by members in both public and private practice.

- True
→ False

True / False

*TB 03-27 The Rules of Professional
Conduct for profession...*

award:
102. 1.00 point

TB 03-28 The fundamental principles of accepted conduct are...

The fundamental principles of accepted conduct are only general guidelines; therefore, they are not as important as the specific rules.

- True
→ False

True / False

*TB 03-28 The fundamental principles
of accepted conduct are...*

award:
103. 1.00 point

TB 03-29 If a professional accountant is convicted of a cri...

If a professional accountant is convicted of a criminal offence or fraud, he or she is usually thrown out of the profession.

- True
 False

True / False

*TB 03-29 If a professional accountant
is convicted of a cri...*

award:
104. 1.00 point

TB 03-30 The codified Rules of Professional Conduct deriv...

The codified "Rules of Professional Conduct" derives its authority from the *CICA Handbook*.

- True
→ False

True / False

*TB 03-30 The codified Rules of
Professional Conduct deriv...*

award:
105. 1.00 point

TB 03-31 Many users of audit reports expect auditors to det...

Many users of audit reports expect auditors to detect fraud, theft, and illegal acts, and to report them publicly.

- True
 False

True / False

*TB 03-31 Many users of audit reports
expect auditors to det...*

award:
106. 1.00 point

TB 03-32 Legal liabilities of professional accountants aris...

Legal liabilities of professional accountants arise only from lawsuits brought on the basis of the law of contracts.

- True
→ False

True / False

*TB 03-32 Legal liabilities of
professional accountants aris...*

award:
107. 1.00 point

TB 03-33 The auditor has a duty of care to a company that h...

The auditor has a duty of care to a company that hires the auditor and has a contract with him or her under privity of contract.

- True
 False

True / False

*TB 03-33 The auditor has a duty of
care to a company that h...*

award:
108. 1.00 point

TB 03-34 Auditors need not be concerned about statutory law...

Auditors need not be concerned about statutory law liability.

- True
→ False

True / False

*TB 03-34 Auditors need not be
concerned about statutory law...*

award:
109.1.00 point

TB 03-35 Consequentialism says that the right choice is the...

Consequentialism says that the right choice is the one that results in the greatest good for the greatest number of people.

- True
→ False

True / False

*TB 03-35 Consequentialism says
that the right choice is the...*

award:
110.1.00 point

TB 03-36 Explain how the ICAO enforces the fundamental sta...

Explain how the ICAO enforces the "fundamental statements of accepted conduct" and the "Rules of Professional Conduct."

The fundamental statements of accepted conduct are positive principles that represent the image of ideal conduct. As a result, they are not enforceable. Rules of professional conduct are specific rules that delineate minimum acceptable behaviour. The rules are administered and enforced by the provincial institutes through professional conduct committees and disciplinary committees.

Essay

*TB 03-36 Explain how the ICAO
enforces the fundamental sta...*

award:
111.1.00 point

TB 03-37 Summarize the professional competence and due care...

Summarize the professional competence and due care rules of the various codes of conduct.

Professional competence: Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

Due professional care: Exercise due professional care in the performance of professional services.

Planning and supervision: Adequately plan and supervise the performance of professional services.

Sufficient relevant data: Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Essay

*TB 03-37 Summarize the
professional competence and due
care...*

award:
112. 1.00 point

TB 03-38 When a professional accountant is sued, what is th...

When a professional accountant is sued, what is the lawsuit typically based on?

legal liabilities of PAs arise from lawsuits brought on the basis of the law of contracts or as tort actions for negligence. Most lawsuits stem from a breach of contract claim that the accounting or auditing services were not performed as agreed.

Essay

*TB 03-38 When a professional
accountant is sued, what is th...*

award:
113. 1.00 point

TB 03-39 What is meant by privity?

What is meant by "privity?"

The relationship of direct involvement between parties to a contract is known as privity. When privity exists, a plaintiff usually needs only to show that the defendant accountant was negligent, and showed a lack of reasonable care in the performance of professional accounting tasks.

Essay

TB 03-39 What is meant by privity?

award:
114. 1.00 point

TB 03-40 Explain the difference among integrity, independen...

Explain the difference among integrity, independence, and objectivity.

Integrity: Integrity is the duty to be honest and conscientious in performing professional services.

Independence: Independence is synonymous with objectivity. The term independence implies that that the person exhibiting the quality is free from bias or conflict of interest.

Objectivity: Objectivity is defined by the ICAO as being "free of any influence, interest, or relationship which, in respect of the engagement, impairs member's professional judgement or objectivity or which, in the view of a reasonable observer" would do so. Like independence, the term objectivity implies freedom from bias or conflict of interest.

The important distinction when discussing independence, or objectivity, is the difference between fact and appearance. A person may be truly unbiased and free of conflict of interest—that is, objective in fact. This quality, however, is a mental attitude that is incapable of measurement or observation. As a result, public accountants must also be independent, or objective, in appearance; that is, any knowledgeable person observing the accountant's actions should be able to conclude that the accountant is unbiased. Integrity is an overriding principle.

Essay

*TB 03-40 Explain the difference
among integrity, independen...*

award:
115. 1.00 point

TB 03-41 What must a plaintiff prove regarding an action br...

What must a plaintiff prove regarding an action brought under common law against a PA?

- 1) He or she was damaged or suffered a loss.
- 2) There was a beneficiary relationship with the defendant.
- 3) The financial statements were materially misleading or the accountant's advice was faulty.
- 4) He or she relied on the statements or advice.
- 5) They were the direct cause of the loss.
- 6) The accountant was negligent, grossly negligent, deceitful, or otherwise responsible for the damage.

Essay

TB 03-41 What must a plaintiff prove regarding an action br...

award:
116. 1.00 point

TB 03-42 Ethical theories can be divided into two types: mo...

Ethical theories can be divided into two types: monistic and pluralistic. Explain each.

Monistic theories assume that universal principles apply regardless of the specific facts. Pluralistic theories assume that there are no universal principles and that the best approach is to use the principles that are most relevant to a specific case.

Essay

TB 03-42 Ethical theories can be divided into two types: mo...

award:
117. 1.00 point

TB 03-43 What is professional skepticism?

What is professional skepticism?

The auditor's tendency not to believe management assertions, but instead to find sufficient support for the assertions through appropriate audit evidence. It recognizes that circumstances causing the financial statements to be materially misstated may exist.

Essay

TB 03-43 What is professional skepticism?

award:
118. 1.00 point

TB 03-44 Identify five threats to the independence of a pro...

Identify five threats to the independence of a professional accountant.

1. Self-review—providing assurance on his or her own work.
2. Self-interest—for example, benefiting from a financial interest in a client.
3. Advocacy—promoting a client's position or opinion.
4. Familiarity—becoming too sympathetic to a client's interests.
5. Intimidation—being deterred from acting objectively by actual or perceived threats from a client.

Essay

TB 03-44 Identify five threats to the independence of a pro...

award:
119. 1.00 point

TB 03-45 It is sometimes said that there is a strong link b...

It is sometimes said that there is a strong link between codes of conduct and GAAS. Explain.

Codes of conduct can be viewed as a means of fulfilling auditor responsibilities for GAAS and assurance standards.

Essay

TB 03-45 It is sometimes said that there is a strong link b...

award:
120. 1.00 point

TB 04-01 In which of the following circumstances is a publi...

In which of the following circumstances is a public accountant considered associated with a company's financial information?

- The PA is a former employee of the company and prepared the statements.
- Financial statements are reproduced on the PA's letterhead.
- The PA is engaged by the company's auditors to do limited procedures in a remote location.
- The PA is married to the company's Chief Financial Officer.

Multiple Choice

TB 04-01 In which of the following circumstances is a publi...

award:
121.1.00 point

TB 04-02 Without the public accountant's knowledge or conse...

Without the public accountant's knowledge or consent, the enterprise indicates that the PA was involved with information issued by the enterprise. Which of the following statements is true?

- The PA has no responsibilities with respect to the information.
- The PA should issue an opinion on the information.
- The PA is not associated with the information.
- The PA is associated with the information.

Multiple Choice

*TB 04-02 Without the public
accountant's knowledge or conse...*

award:
122.1.00 point

TB 04-03 Under which of the following circumstances does an...

Under which of the following circumstances does an accountant become associated with a financial report?

- The accountant works for the enterprise that issues the report.
- The accountant sits on the board of directors of the enterprise that issues the report.
- The enterprise indicates that the accountant audited or reviewed the information included in the report.
- The report does not mention that the accountant prepared or performed other services with respect to the information.

Multiple Choice

*TB 04-03 Under which of the
following circumstances does an...*

award:
123.1.00 point

TB 04-04 Levels of assurance refer to _____.

Levels of assurance refer to _____.

- the nature of the work performed and the conclusions auditors can render about financial statements
- generally accepted auditing standards
- qualifications, modifications, and expansions
- changes in the language of the audit report

Multiple Choice

*TB 04-04 Levels of assurance refer
to _____.*

award:
124. 1.00 point

TB 04-05 Which level of assurance is provided by a public a...

Which level of assurance is provided by a public accountant as a result of an audit?

- Complete assurance.
- Moderate assurance.
- Negative assurance.
- Positive assurance.

Multiple Choice

TB 04-05 Which level of assurance is provided by a public a...

award:
125. 1.00 point

TB 04-06 Which level of assurance requires a PA to gather t...

Which level of assurance requires a PA to gather the most evidence?

- Audit.
- Review.
- Examination.
- Compilation.

Multiple Choice

TB 04-06 Which level of assurance requires a PA to gather t...

award:
126. 1.00 point

TB 04-07 Many users interpret audit reports based on the nu...

Many users interpret audit reports based on the number of paragraphs. In a standard audit report on financial statements, how many paragraphs are there?

- Three paragraphs.
- Four paragraphs.
- Five paragraphs.
- Six paragraphs.

Multiple Choice

TB 04-07 Many users interpret audit reports based on the nu...

award:
127.1.00 point

TB 04-08 What is the best description of the basis on which...

What is the best description of the basis on which an auditor issues his or her report on financial statements?

- Reporting standards.
 - Sufficiency and appropriateness of evidence.
 - Application of GAAP.
 - Integrity of management.
-

Multiple Choice

TB 04-08 What is the best description of the basis on which...

award:
128.1.00 point

TB 04-09 CA has been engaged to audit the financial stateme...

CA has been engaged to audit the financial statements of Marchano Ltd., a manufacturer of toys. Several individuals are suing the company because of a toy that injured children. The company has not disclosed the lawsuit in its financial statements. What type of audit report should be issued?

- Adverse.
 - A GAAP qualification.
 - A scope qualification.
 - Disclaimer or denial
-

Multiple Choice

TB 04-09 CA has been engaged to audit the financial stateme...

award:
129.1.00 point

TB 04-10 An audit report included an additional paragraph d...

An audit report included an additional paragraph disclosing a difference of opinion between the auditor and the client. The auditor believed that an adjustment should be made to the financial statements. What should the opinion paragraph of the audit report express?

- An unqualified opinion.
 - An "except for" opinion citing a departure from generally accepted accounting principles.
 - An "except for" opinion citing a scope limitation.
 - A disclaimer of opinion.
-

Multiple Choice

TB 04-10 An audit report included an additional paragraph d...

award:
130. 1.00 point

TB 04-11 The company has not made an allowance for bad deb...

"The company has not made an allowance for bad debts for an account deemed uncollectible in the amount of \$250,000 as of the year ended December 31, 2013." is an example of a _____.

- GAAP change requiring a qualified opinion
 - scope limitation
 - departure from GAAP
 - report with a disclaimer of opinion
-

Multiple Choice

*TB 04-11 The company has not made
an allowance for bad deb...*

award:
131. 1.00 point

TB 04-12 In which of the following situations would an audi...

In which of the following situations would an auditor ordinarily choose between expressing an "except for" qualified opinion or an adverse opinion?

- The auditor did not observe the entity's physical inventory and is unable to become satisfied as to its balance by other auditing procedures.
 - The financial statements fail to disclose information that is required by generally accepted accounting principles.
 - The auditor is asked to report only on the entity's balance sheet and not on the other basic financial statements.
 - Events disclosed in the financial statements cause the auditor to have substantial doubt about the entity's ability to continue as a going concern.
-

Multiple Choice

*TB 04-12 In which of the following
situations would an audi...*

award:
132. 1.00 point

TB 04-13 An auditor will issue an adverse opinion when _____...

An auditor will issue an adverse opinion when _____.

- a severe scope limitation has been imposed by the client
 - a violation of GAAP is sufficiently material that a qualified opinion is not justified
 - a qualified opinion cannot be rendered because the auditor lacks independence
 - the company's ability to continue as a going concern is subject to substantial doubt
-

Multiple Choice

*TB 04-13 An auditor will issue an
adverse opinion when _____*

award:
133. 1.00 point

TB 04-14 A holding company has decided to carry its wholly ...

A holding company has decided to carry its wholly owned subsidiary companies on the balance sheet using the equity method. The type of audit report required is _____.

- unqualified
- qualified
- adverse
- disclaimer

Multiple Choice

TB 04-14 A holding company has decided to carry its wholly ...

award:
134. 1.00 point

TB 04-15 In which of the following circumstances is an audi...

In which of the following circumstances is an auditor most likely to express an adverse opinion?

- The chief executive officer refuses the auditor access to minutes of board of directors' meetings.
- Tests of controls show that the entity's internal control system is so poor that it cannot be relied upon.
- The financial statements are not in accordance with the *CICA Handbook* regarding the capitalization of leases.
- Information comes to the auditor's attention that raises substantial doubt about the entity's ability to continue as a going concern.

Multiple Choice

TB 04-15 In which of the following circumstances is an audi...

award:
135. 1.00 point

TB 04-16 If financial statements contain a very material de...

If financial statements contain a very material departure from GAAP such that the financial statements are virtually useless, the auditor can render a(an) _____.

- qualified "except for" opinion with reference to the departure
- adverse opinion with scope limitation reference
- adverse opinion with reference to the departure
- disclaimer of opinion

Multiple Choice

TB 04-16 If financial statements contain a very material de...

award:
136. 1.00 point

TB 04-17 Restrictions imposed by a client prohibited the ob...

Restrictions imposed by a client prohibited the observation of physical inventories that account for 35% of total assets. Alternative audit procedures for inventory were not feasible, although the auditor was able to obtain satisfactory evidence for all other items in the financial statements. The auditor should express _____.

- an "except for" qualified opinion referring to a departure from generally accepted accounting principles
 - a disclaimer of opinion
 - an unqualified opinion with a separate explanatory paragraph
 - an unqualified opinion with an explanation in the scope paragraph
-

Multiple Choice

TB 04-17 Restrictions imposed by a client prohibited the ob...

award:
137. 1.00 point

TB 04-18 An auditor most likely would issue a disclaimer of...

An auditor most likely would issue a disclaimer of opinion because of _____.

- inadequate disclosure of material information
 - the omission of the statement of cash flows
 - a material departure from generally accepted accounting principles
 - management's refusal to furnish written representations
-

Multiple Choice

TB 04-18 An auditor most likely would issue a disclaimer of...

award:
138. 1.00 point

TB 04-19 A disclaimer of opinion generally indicates _____...

A disclaimer of opinion generally indicates _____.

- the auditor is very uncertain with respect to an item and cannot form an opinion on the fairness of presentation of the financial statements as a whole
 - because of a lack of evidence, the auditor is uncertain with respect to an isolated item that is material but not so material that the auditor cannot form an opinion on the fairness of presentation of the financial statements as a whole
 - the auditor has observed a departure from generally accepted accounting principles that has a material effect upon the fairness of presentation of financial statements but the departure is not material enough to justify a qualified opinion
 - the auditor has observed a departure from generally accepted accounting principles that is so material that a qualified opinion is not justified
-

Multiple Choice

TB 04-19 A disclaimer of opinion generally indicates _____...

award:
139.1.00 point

TB 04-20 Green, CPA, was engaged to audit the financial sta...

Green, CPA, was engaged to audit the financial statements of Essex Co. after its fiscal year had ended. The timing of Green's appointment as auditor and the start of field work made confirmation of accounts receivable by direct communication with the debtors impracticable. Green applied other procedures and was satisfied as to the reasonableness of the account balances. Green's auditor's report most likely contained a(n) _____.

- unqualified opinion
- unqualified opinion with an explanatory paragraph
- qualified opinion due to a scope limitation
- qualified opinion due to a departure from generally accepted auditing standards

Multiple Choice

TB 04-20 Green, CPA, was engaged to audit the financial sta...

award:
140.1.00 point

TB 04-21 An auditor decided to issue a qualified opinion on...

An auditor decided to issue a qualified opinion on an entity's financial statements because a major inadequacy in its computerized accounting records prevented the auditor from applying necessary procedures. The opinion paragraph of the auditor's report should state that the qualification pertains to _____.

- a GAAP departure
- a departure from generally accepted auditing standards
- the possible effect of the lack of audit evidence on the financial statements
- inadequate disclosure of necessary information

Multiple Choice

TB 04-21 An auditor decided to issue a qualified opinion on...

award:
141.1.00 point

TB 04-22 An auditor who is reporting on financial statement...

An auditor who is reporting on financial statements that contain a material departure from generally accepted accounting principles should include a separate explanatory paragraph and _____.

- express a qualified or adverse opinion
- not modify the opinion paragraph as long as the departure is adequately disclosed in a footnote
- deny an opinion on the financial statements
- express a qualified opinion or deny an opinion

Multiple Choice

TB 04-22 An auditor who is reporting on financial statement...

award:
142. 1.00 point

TB 04-23 When a client will not permit inquiry of outside l...

When a client will not permit inquiry of outside legal counsel, the audit report will ordinarily contain a(n) _____.

- disclaimer of opinion
 - "except for" qualified opinion regarding a departure from generally accepted accounting principles
 - unqualified opinion with a separate explanatory paragraph
 - adverse opinion
-

Multiple Choice

TB 04-23 When a client will not permit inquiry of outside l...

award:
143. 1.00 point

TB 04-24 Under which of the following circumstances would a...

Under which of the following circumstances would a disclaimer of opinion be appropriate?

- The client refuses to allow the auditor to review the minutes of the board of director's meetings.
 - The financial statements fail to contain adequate disclosure of related party transactions.
 - The auditor is engaged during the year and is unable to observe opening physical inventories which are material.
 - The auditor has identified illegal payments to foreign officials made by the client's management.
-

Multiple Choice

TB 04-24 Under which of the following circumstances would a...

award:
144. 1.00 point

TB 04-25 In which of the following circumstances may the au...

In which of the following circumstances may the auditor issue the standard unqualified, unmodified audit report?

- The client disclosed a change in accounting principles with an immaterial effect on financial position and results of operations.
 - The financial statements do not disclose significant going concern issues.
 - The financial statements do not disclose a justified departure from generally accepted accounting principles.
 - The auditor has not been able to audit a substantial portion of the balance sheet because of circumstances beyond anyone's control.
-

Multiple Choice

TB 04-25 In which of the following circumstances may the au...

award:
145.1.00 point

TB 04-26 In Canada, when there has been a change in account..

In Canada, when there has been a change in accounting principles and the effect of the change has been properly disclosed, the auditor should _____.

- refer to the change in an explanatory paragraph
 - explicitly concur that the change is preferred
 - issue an unqualified opinion
 - refer to the change in the opinion paragraph
-

Multiple Choice

TB 04-26 In Canada, when there has been a change in account..

award:
146.1.00 point

TB 04-27 Management has decided that the life of a piece of...

Management has decided that the life of a piece of heavy equipment should be decreased from 15 years to 10 years, thus increasing the annual amortization. The auditor agrees that this amortization period is more reflective of the nature of the asset. The type of audit report that should be issued is _____.

- unqualified
 - qualified
 - adverse
 - disclaimer
-

Multiple Choice

TB 04-27 Management has decided that the life of a piece of...

award:
147.1.00 point

TB 04-28 Which of the following auditing procedures most li...

Which of the following auditing procedures most likely would assist an auditor in identifying conditions and events that may indicate substantial doubt about an entity's ability to continue as a going concern?

- Inspecting title documents to verify whether any assets are pledged as collateral.
 - Confirming with third parties the details of arrangements to maintain financial support.
 - Reconciling the cash balance per books with the cut-off bank statement and the bank confirmation.
 - Comparing the entity's amortization and asset capitalization policies to other entities in the industry.
-

Multiple Choice

TB 04-28 Which of the following auditing procedures most li...

award:
148. 1.00 point

TB 04-29 When an auditor concludes there is substantial dou...

When an auditor concludes there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, the auditor's responsibility is to _____.

- prepare prospective financial information to verify whether management's plans can be effectively implemented
 - project future conditions and events for a period of time not to exceed one year following the date of the financial statements
 - issue a qualified or adverse opinion, depending upon materiality, due to the possible effects on the financial statements
 - consider the adequacy of disclosure about the entity's possible inability to continue as a going concern
-

Multiple Choice

TB 04-29 When an auditor concludes there is substantial dou...

award:
149. 1.00 point

TB 04-30 An independent auditor must consider whether the a...

An independent auditor must consider whether the auditee has the ability to continue as a going concern. If a substantial doubt exists but disclosure is adequate and no other basis exists for modifying the report, the auditor should _____.

- disclaim an opinion.
 - express an adverse opinion.
 - qualify the opinion.
 - express an unqualified opinion.
-

Multiple Choice

TB 04-30 An independent auditor must consider whether the a...

award:
150. 1.00 point

TB 04-31 An accountant becomes associated with financial st...

An accountant becomes associated with financial statements when he or she signs them as the Chief Financial Officer.

- True
 - False
-

True / False

TB 04-31 An accountant becomes associated with financial st...

award:
151. 1.00 point

TB 04-32 Auditing standards require that an appropriate com...

Auditing standards require that an appropriate communication be issued in all cases where an accountant's name is associated with financial information.

- True
 False

True / False

*TB 04-32 Auditing standards require
that an appropriate com...*

award:
152. 1.00 point

TB 04-33 Auditors cannot give negative assurance in an audi...

Auditors cannot give negative assurance in an audit report.

- True
 False

True / False

*TB 04-33 Auditors cannot give
negative assurance in an audi...*

award:
153. 1.00 point

TB 04-34 By its silence, a clean opinion implies that the f...

By its silence, a clean opinion implies that the financial statement disclosures are reasonably adequate.

- True
 False

True / False

*TB 04-34 By its silence, a clean
opinion implies that the f...*

award:
154. 1.00 point

TB 04-35 Moderate assurance is typical in the review report...

Moderate assurance is typical in the review report of audited financial statements.

- True
→ False

True / False

*TB 04-35 Moderate assurance is
typical in the review report...*

award:
155. 1.00 point

TB 04-36 When an adverse opinion is given, all the substant...

When an adverse opinion is given, all the substantive reasons for the opinion must be disclosed in the report in explanatory paragraphs.

- True
 False

True / False

TB 04-36 When an adverse opinion is given, all the substant...

award:
156. 1.00 point

TB 04-37 The words except for should be used in the scope...

The words "except for" should be used in the scope paragraph only if there is a reservation resulting in a disclaimer of opinion or a scope qualification.

- True
 False

True / False

TB 04-37 The words except for should be used in the scope...

award:
157. 1.00 point

TB 04-38 A scope limitation imposed by a client would resul...

A scope limitation imposed by a client would result in an adverse opinion.

- True
→ False

True / False

TB 04-38 A scope limitation imposed by a client would resul...

award:
158. 1.00 point

TB 04-39 When the auditor is not independent, a GAAP depart...

When the auditor is not independent, a GAAP departure qualification is required.

- True
→ False

True / False

TB 04-39 When the auditor is not independent, a GAAP depart...

award:
159. 1.00 point

TB 04-40 The term financial statements includes all of th...

The term "financial statements" includes all of the footnote disclosures

- True
 False
-

True / False

*TB 04-40 The term financial
statements includes all of th...*

award:
160. 1.00 point

TB 04-41 Both the auditor and the client work to avoid a re...

Both the auditor and the client work to avoid a report reservation.

- True
 False
-

True / False

*TB 04-41 Both the auditor and the
client work to avoid a re...*

award:
161. 1.00 point

TB 04-42 When independence is lacking, an audit in accordan...

When independence is lacking, an audit in accordance with generally accepted accounting standards is still possible.

- True
→ False
-

True / False

*TB 04-42 When independence is
lacking, an audit in accordan...*

award:
162. 1.00 point

TB 04-43 When there is material uncertainty that an auditee...

When there is material uncertainty that an auditee's ability to continue as a going concern is doubtful, and the issue has been fully disclosed in the notes to the financial statements, the auditor should issue a qualified report with a paragraph drawing attention to the going concern issue.

- True
 False
-

True / False

*TB 04-43 When there is material
uncertainty that an auditee...*

TB 04-44 Match each of the situations below to the type of ...

Match each of the situations below to the type of report most likely to be issued. Insert the identifying letter in the space provided.

- | | | |
|---|---|----|
| 1. "Except for" qualified opinion due to GAAP departure | The client has a lawsuit pending against them. Management has provided adequate disclosure of the lawsuit. However, the response letter from the client's lawyer indicates that it is likely that the company will need to pay between \$150,000 and \$250,000 to settle the suit. | #1 |
| 2. "Except for" opinion due to scope limitation | The client has a lawsuit pending against them. Management has provided adequate disclosure of the lawsuit. However, the response letter from the client's lawyer indicates that it is likely that the company will need to pay between \$150,000 and \$250,000 to settle the suit. \$150,000 has been accrued in the | #5 |
| 3. Disclaimer of opinion | The client has material inventories held at fifty different geographical locations. Because of cost considerations, the company has decided that the auditors are neither to count inventory nor to conduct alternative procedures for yearend inventory | #2 |
| 4. Adverse opinion | The client has significantly material inventories held at fifty different geographical locations. During the inventory count, the auditor discovered that the records that tracked the movement of inventories from one location to another were inadequate and incomplete. The inventory counts are conducted over a period of three days. | #3 |
| 5. Unqualified opinion | The client has significantly material inventories held at fifty different geographical locations. During the last week of the year, the company increased the recorded cost of all inventories by 10%. This change was a result of a price-increase notice relating to raw materials sent by its major supplier. | #4 |

Matching

TB 04-44 Match each of the situations below to the type of ...

award:
164.1.00 point

TB 04-45 What are the three ways that accountants become as...

What are the three ways that accountants become associated with financial information issued by an enterprise?

- i. The public accountant associates himself or herself by some action on his or her part with information issued by the enterprise.
- ii. When the enterprise indicates that the public accountant was involved with information issued by the enterprises without the public accountant's knowledge or consent.
- iii. A third party assumes that the public accountant is associated with information issued by the enterprise.

Essay

*TB 04-45 What are the three ways
that accountants become as...*

award:
165.1.00 point

TB 04-46 What are the public accountant's responsibilities ...

What are the public accountant's responsibilities when he or she is associated with the financial information of a company?

- i. The accountant must comply with the appropriate standards in the CICA handbook.
- ii. The accountant must comply with the rules of professional conduct of his or her provincial institute
- iii. Appropriate communication must be attached indicating the extent of his or her involvement with the information of the company.

Essay

*TB 04-46 What are the public
accountant's responsibilities ...*

award:
166.1.00 point

TB 04-47 Why must a CA issue a report when associated with ...

Why must a CA issue a report when associated with financial information?

When associated with financial information, a CA must appropriately communicate the nature and extent of his or her involvement with the information.

Essay

*TB 04-47 Why must a CA issue a
report when associated with ...*

award:
167.1.00 point

TB 04-48 An organization undergoing significant going conce...

An organization undergoing significant going concern problems presents several challenges for the PA to consider. Discuss some of these.

Dealing with questions of going concern is difficult because auditors are forced to evaluate matters of financial analysis, financial forecasting and business strategy. Management tends to be optimistic in their estimates and are usually unwilling to give up and close their businesses without strong attempts to survive. Auditors must attempt to bring a realistic view to accounting estimates, while realizing that they are not likely as familiar as management with opportunities in the business. Managers and auditors both view news of financial troubles in an audit report as a self-fulfilling prophecy that causes bankruptcy. Even though the going concern issue may be fully disclosed in a note, the extra credibility enjoyed by public accountants makes their emphasis of the matter in their audit report increase the perception of risk of business failure. The mere fact that the report is a non-standard report raises concerns as well. Nonetheless, auditors have an obligation to the users of financial statements to make sure they are aware of the possibility of bankruptcy.

Essay

*TB 04-48 An organization undergoing
significant going conce...*

TB 04-49 For each of the independent situations presented b...

For each of the independent situations presented below, state what type of audit report should be issued. Briefly explain your rationale. Finally, if your report would be other than the standard unqualified report, state which paragraphs, if any, of the standard audit report would be changed.

A. Grinner and Greeter, CAs, were engaged to perform an audit of the financial statements of Happy, Inc. The management of Happy would not allow Grinner and Greeter to confirm any of the accounts receivable. All other audit procedures were performed as considered necessary by Grinner and Greeter and no other problems were discovered. However, Grinner and Greeter were unable to satisfy themselves as to the balance in accounts receivable.

B. Tick and Tie, CAs, were performing their annual audit of Johnson Manufacturing Company. Johnson is currently being sued for \$2,000,000 related to an alleged defective product sold to a customer. Johnson's lawyer told Tick and Tie that it is likely that Johnson will lose the suit and have to pay the entire \$2,000,000. The management of Johnson has included information about the lawsuit in the footnotes. However, they have not recorded any loss in the income statement or liability in the balance sheet.

A. The client has imposed a scope limitation on Grinner and Greeter. The type of report issued depends upon the materiality of accounts receivable and the likelihood that a potential error would be material or significantly material. If the account receivable balance were insignificant and immaterial, then an unqualified report could be issued. If the likelihood that a potential error would be material or significantly material, then an opinion qualified as to scope or a disclaimer of opinion, respectively, would be appropriate.

For a qualified audit report, both the scope paragraph and the opinion paragraph would be modified using words such as "except for" or "except that" and referring to the reservation paragraph. A reservation paragraph that explains the scope limitation should be inserted between the scope and opinion paragraphs.

For a disclaimer of opinion, both the scope paragraph and the opinion paragraph would be modified and referenced to the reservation paragraph. A reservation paragraph that explains the scope limitation would be inserted between the scope and opinion paragraphs. The opinion paragraph would be modified to state that the auditor is "unable to express an opinion."

B. Because Johnson Manufacturing has not properly recorded a loss and a liability, the financial statements are not in accordance with GAAP. Therefore, depending on the materiality level, Tick and Tie should issue either a qualified opinion or an adverse opinion. In either case, a reservation paragraph that explains the GAAP departure should be inserted between the scope and opinion paragraphs. In the case of a qualified opinion, the opinion paragraph should be modified by using words such as "except for" or "except as" and by referring to the reservation paragraph. In the case of an adverse opinion, the opinion paragraph should be modified by using the words "these financial statements do not present fairly" and by referring to the reservation paragraph.

Essay

*TB 04-49 For each of the
independent situations presented b...*

award:
169.1.00 point

TB 04-50 In each of the circumstances listed below, match t...

In each of the circumstances listed below, match the situation to the type of opinion that should be given and write the identifying letter in the space provided.

- A. Unqualified
- B. Qualified
- C. Adverse
- D. Disclaimer

- ___ 1. Departure from GAAP of lesser materiality
- ___ 2. Scope limitation of significant materiality
- ___ 3. No GAAP departure and no scope limitation
- ___ 4. Scope limitation of lesser materiality
- ___ 5. Departure from GAAP of significant materiality

- 1. B
- 2. D
- 3. A
- 4. B
- 5. C

Essay

TB 04-50 In each of the circumstances listed below, match t...

award:
170.1.00 point

TB 05-01 Audit risk can be offset by _____.

Audit risk can be offset by _____.

- general management
- engagement management
- audit management
- quality management

Multiple Choice

TB 05-01 Audit risk can be offset by _____.

award:
171.1.00 point

TB 05-02 What is the best description of the engagement let...

What is the best description of the engagement letter?

- The letter soliciting a potential client.
 - A letter from a successor auditor to a predecessor auditor asking to review the working papers for the previous year.
 - The audit contract, which may include special requests.
 - The letter at the end of the audit engagement reviewing any concerns the auditors wish management to be aware of.
-

Multiple Choice

TB 05-02 What is the best description of the engagement let...

award:
172.1.00 point

TB 05-03 An accountable party can be all of the following...

An "accountable party" can be all of the following at the same time except _____.

- an auditor
 - an entity
 - a client
 - an auditee
-

Multiple Choice

TB 05-03 An accountable party can be all of the following...

award:
173.1.00 point

TB 05-04 An auditor should assess a client's business risks...

An auditor should assess a client's business risks _____.

- early in the engagement, based on discussion with management
 - at the end of the engagement after all evidence has been assembled
 - as part of the year-end evidence gathering
 - only if the client requests the auditor to do so in the engagement letter
-

Multiple Choice

TB 05-04 An auditor should assess a client's business risks...

award:
174. 1.00 point

TB 05-05 Generally accepted auditing standards require that...

Generally accepted auditing standards require that analytical procedures should be applied _____.

- in the planning and final review stages of the audit and as a substantive test during the audit
 - in the planning and final review stages of the audit, and can be used as a substantive test during the audit
 - in the planning stage, and can be applied as a substantive test and in the final review stage
 - in the final review stage, and can be applied as a substantive test in the planning stage
-

Multiple Choice

TB 05-05 Generally accepted auditing standards require that...

award:
175. 1.00 point

TB 05-06 For audits of financial statements made in accorda...

For audits of financial statements made in accordance with generally accepted auditing standards, the use of analytical procedures is required to some extent _____.

- as a substantive test and in the final review stage
 - as a substantive test but not in the final review stage
 - in the final review stage but not as a substantive test
 - neither in the final review stage nor as a substantive test
-

Multiple Choice

TB 05-06 For audits of financial statements made in accorda...

award:
176. 1.00 point

TB 05-07 Which of the following is likely to be found in th...

Which of the following is likely to be found in the minutes of the board of directors?

- Approval of customer credit limits.
 - Approval of a new computer for the controller.
 - Authorization of employee salaries.
 - Authorization of executive salaries.
-

Multiple Choice

TB 05-07 Which of the following is likely to be found in th...

award:
177.1.00 point

TB 05-08 In the planning stage, analytical procedures are u...

In the planning stage, analytical procedures are used to _____.

- assess overall reasonableness of the financial statements
 - identify potential problem areas
 - determine the mathematical correctness of the financial statements
 - provide direct evidence about the balances in accounts
-

Multiple Choice

*TB 05-08 In the planning stage,
analytical procedures are u...*

award:
178.1.00 point

TB 05-09 Assume that application of analytical procedures r...

Assume that application of analytical procedures revealed significant unexplained differences between recorded amounts and the auditor's expectations. If management is unable to provide an acceptable explanation, the auditor should _____.

- consider the matter a scope limitation
 - perform additional audit procedures to investigate the matter further
 - intensify the audit with the expectation of detecting management fraud
 - withdraw from the engagement
-

Multiple Choice

*TB 05-09 Assume that application of
analytical procedures r...*

award:
179.1.00 point

TB 05-10 If fictitious sales were recorded and the fictitio...

If fictitious sales were recorded and the fictitious accounts receivable were written off as bad debt expense, _____.

- income would be overstated
 - income would be understated
 - income would not be misstated
 - accounts receivable would be understated
-

Multiple Choice

*TB 05-10 If fictitious sales were
recorded and the fictitio...*

award:
180. 1.00 point

TB 05-11 The concept of materiality refers to _____.

The concept of materiality refers to _____.

- any misstatement in the financial statements
 - the overall degree of risk in an organization
 - an amount of misstatement that could lead someone to make a poor decision and suffer a loss
 - an amount of risk in an organization sufficient to offset the expected returns of any investment in the company
-

Multiple Choice

TB 05-11 The concept of materiality refers to _____.

award:
181. 1.00 point

TB 05-12 A bank with a large loan would most likely be inte...

A bank with a large loan would most likely be interested in materiality based on _____.

- operating cash flows
 - normalized net income
 - sales revenue
 - net assets
-

Multiple Choice

TB 05-12 A bank with a large loan would most likely be inte...

award:
182. 1.00 point

TB 05-13 If an auditor were to use 5% of income before tax...

If an auditor were to use 5% of income before taxes as a basis for materiality, it would be an example of judgment based on _____.

- absolute size
 - relative size
 - nature of the item
 - cumulative effects
-

Multiple Choice

TB 05-13 If an auditor were to use 5% of income before tax...

award:
183. 1.00 point

TB 05-14 How should auditors use the concept of materiality...

How should auditors use the concept of materiality?

- As a guide to assessing inherent risk
- As a guide in assessing control risk.
- As a guide in deciding to report a deficiency to the audit committee.
- As a guide in planning the audit program.

Multiple Choice

*TB 05-14 How should auditors use
the concept of materiality...*

award:
184. 1.00 point

TB 05-15 The audit objective specifying that all recorded ...

The audit objective specifying that "all recorded assets, liabilities, and transactions represent real assets, liabilities, revenues, and expenses" is related most closely to which assertion(s)?

- Existence or occurrence.
- Rights and obligations.
- Completeness.
- Presentation and disclosure.

Multiple Choice

*TB 05-15 The audit objective
specifying that all recorded ...*

award:
185. 1.00 point

TB 05-16 Three key management assertions about items on the...

Three key management assertions about items on the balance sheet are _____.

- occurrence, completeness, and accuracy
- classification, existence, and cut-off
- confirmation, presentation, and disclosure
- existence, completeness, and presentation

Multiple Choice

*TB 05-16 Three key management
assertions about items on the...*

award:
186. 1.00 point

TB 05-17 The valuation assertion includes _____.

The valuation assertion includes _____.

- the measurement assumption used
 - ensuring all inventory is counted
 - making sure that all receivables relate to sales during the year
 - the method of presenting short-term and long-term liabilities
-

Multiple Choice

TB 05-17 The valuation assertion includes _____.

award:
187. 1.00 point

TB 05-18 The compliance assertion is not normally listed as...

The compliance assertion is not normally listed as a separate assertion. It requires an auditor to assess _____.

- how well company procedures control risk
 - how well company employees comply with codes of conduct
 - how well company personnel follow internal controls
 - how well a company's strategy is being implemented
-

Multiple Choice

TB 05-18 The compliance assertion is not normally listed as...

award:
188. 1.00 point

TB 05-19 The overall audit strategy typically includes _____.

The overall audit strategy typically includes _____.

- the detailed audit plan
 - specific procedures for determining inherent and control risk
 - decisions about unusual client accounting principles
 - audit evidence gathering procedures
-

Multiple Choice

TB 05-19 The overall audit strategy typically includes _____.

award:
189. 1.00 point

TB 05-20 The CAs provide the overall objective of a financi...

The CAs provide the overall objective of a financial statement auditor and set out the requirements that must be met to meet that objective.

- True
 False

True / False

TB 05-20 The CAs provide the overall objective of a financi...

award:
190. 1.00 point

TB 05-21 Since auditing is a public profession, auditors ar...

Since auditing is a public profession, auditors are obligated to continue auditing a client once they start.

- True
→ False

True / False

TB 05-21 Since auditing is a public profession, auditors ar...

award:
191. 1.00 point

TB 05-22 When there is a change in auditors, the Rules of P...

When there is a change in auditors, the Rules of Professional Conduct do not permit the predecessor auditor to give information to the successor auditor without explicit approval by the client.

- True
 False

True / False

TB 05-22 When there is a change in auditors, the Rules of P...

award:
192. 1.00 point

TB 05-23 The auditor's objective in obtaining an understand...

The auditor's objective in obtaining an understanding of the client's business and risks is to design audit procedures that will serve as a basis for their report.

- True
 False

True / False

TB 05-23 The auditor's objective in obtaining an understand...

award:
193. 1.00 point

TB 05-24 Analytical procedures are required at both the beg...

Analytical procedures are required at both the beginning and the end of an audit.

- True
 False

True / False

*TB 05-24 Analytical procedures are
required at both the beg...*

award:
194. 1.00 point

TB 05-25 During the preliminary analytical review, the audi...

During the preliminary analytical review, the auditor discovered that the auditee forecast sales of 10,000 units but only 5,000 were sold. The auditors should consider performing a careful lower-of-cost-or-market valuation of the year-end inventory.

- True
 False

True / False

*TB 05-25 During the preliminary
analytical review, the audi...*

award:
195. 1.00 point

TB 05-26 Auditors' analytical procedures can include review...

Auditors' analytical procedures can include review of prior year adjusting entries, conversations with client personnel, and study of the minutes of board of directors' meetings.

- True
 False

True / False

*TB 05-26 Auditors' analytical
procedures can include review...*

award:
196. 1.00 point

TB 05-27 The enquiries of the client that result from preli...

The enquiries of the client that result from preliminary analytical review provide direct evidence about the amounts in the financial statements.

- True
→ False

True / False

*TB 05-27 The enquiries of the client
that result from preli...*

award:
197. 1.00 point

TB 05-28 Relationships on the financial statements that do ...

Relationships on the financial statements that do not make sense may indicate problem areas in the accounts.

- True
 False

True / False

*TB 05-28 Relationships on the
financial statements that do ...*

award:
198. 1.00 point

TB 05-29 Materiality is primarily a quantitative calculatio...

Materiality is primarily a quantitative calculation.

- True
→ False

True / False

*TB 05-29 Materiality is primarily a
quantitative calculatio...*

award:
199. 1.00 point

TB 05-30 Materiality levels determined at the planning stag...

Materiality levels determined at the planning stage are used to decide how much work to do on each financial statement account.

- True
 False

True / False

*TB 05-30 Materiality levels
determined at the planning stag...*

award:
200. 1.00 point

TB 05-31 The audit objective related to existence is to obt...

The audit objective related to existence is to obtain evidence that the asset, liability or equity exists physically or legally.

- True
 False

True / False

*TB 05-31 The audit objective related
to existence is to obt...*

award:
201. 1.00 point

TB 05-32 A completeness error occurs when an account balanc...

A completeness error occurs when an account balance is overstated.

- True
→ False

True / False

*TB 05-32 A completeness error
occurs when an account balanc...*

award:
202. 1.00 point

TB 05-33 Audit planning is an ongoing process where informa...

Audit planning is an ongoing process where information gained as the audit is performed may result in changes to the plan.

- True
 False

True / False

*TB 05-33 Audit planning is an
ongoing process where informa...*

award:
203. 1.00 point

TB 05-34 The detailed audit plan guides development of the ...

The detailed audit plan guides development of the overall audit strategy.

- True
→ False

True / False

*TB 05-34 The detailed audit plan
guides development of the ...*

TB 05-35 Analytical procedures consist of evaluating financ...

Analytical procedures consist of evaluating financial information by studying financial and nonfinancial data and looking for plausible or implausible relationships. The procedures can range from making simple comparisons to using complex models involving many relationships and elements of data. They can involve time-series comparisons of recorded amounts and ratios developed from recorded amounts, and they always include comparison to expectations developed by the auditors.

Required:

- A) Describe the broad purposes of analytical procedures.
- B) Identify the sources of information from which an auditor develops expectations.

A) Analytical procedures are used for these broad purposes:

- i. To assist the auditor in planning the nature, timing, and extent of other auditing procedures.
- ii. As a substantive test to obtain evidence about particular assertions related to account balances or classes of transactions.
- iii. As an overall review of the financial information in the final review stage of the audit.

B) An auditor's expectations are developed from the following sources of information:

- i. Financial information for comparable prior periods giving consideration to known changes.
- ii. Anticipated results—for example, budgets, forecasts, and extrapolations.
- iii. Relationships among elements of financial information within the period.
- iv. Information regarding the industry in which the client operates.
- v. Relationships of financial information with relevant nonfinancial information.

Essay

*TB 05-35 Analytical procedures
consist of evaluating financ...*

award:
205.1.00 point

TB 05-36 Analytical procedures are one type of evidence-gat...

Analytical procedures are one type of evidence-gathering procedure. According to auditing standards, there are five general forms of analytical procedures. Auditing standards also provide examples of five sources of information for analytical procedures.

Required:

Describe three of the five general forms of analytical procedures. For each form, describe a typical source of the information for the form. For each source, include any questions or concerns an auditor would have about the reliability or relevancy of the source.

A) The five general forms of analytical procedures are:

- i. Comparison of current-year account balances to one or more prior periods.
- ii. Comparison of the current-year account balances to budgets and forecasts prepared by the company.
- iii. Evaluation of the relationships of current-year account balances to other current-year balances to determine if they conform to expectations based on the company's historical experience.
- iv. Comparison of current-year account balances and financial ratios with similar information for the industry in which the company operates.
- v. Study of the relationships of current-year account balances with relevant non-financial information (e.g., physical production statistics).

B) The five sources of information for analytical procedures are:

- i. Financial account information for prior period(s). Company budgets and forecasts.
- ii. Financial relationships among accounts in the current period.
- iii. Industry statistics.
- iv. Nonfinancial information, such as physical production statistics.

C) Concerns about relevance and reliability of the sources of information are:

- i. Has the financial information from prior period(s) been audited?
- ii. Are company budgets or forecasts generally accurate? What processes does the client go through to develop these?
- iii. Are the industry statistics from a reliable source? Are the industry statistics specific enough to the client or the particular segment or division of the client being examined?
- iv. Has the nonfinancial information been audited? Have the controls over the production of the nonfinancial information been tested?

Essay

*TB 05-36 Analytical procedures are
one type of evidence-gat...*

award:
206.1.00 point

TB 05-37 Contrast horizontal and vertical analysis. Give an...

Contrast horizontal and vertical analysis. Give an example of each.

Horizontal analysis refers to changes in financial statement amounts and ratios across two or more years. An example would be the increase in revenues from one year to the next. Vertical analysis refers to the relationship among financial statement amounts in the same year. An example would be the ratio of cost of goods sold to product sales revenue.

Essay

TB 05-37 Contrast horizontal and vertical analysis. Give an...

award:
207.1.00 point

TB 05-38 This question tests your ability to perceive the p...

This question tests your ability to perceive the place(s) where potential problems may exist and the type of problem (overstatement or understatement) that may exist.

Required:

For each of the items below, identify the account(s) that need(s) to be audited carefully and the reason; for example, "potential overstatement or understatement of _____."

- A) Current year accounts receivable is larger than last year but the allowance for doubtful accounts is the same.
- B) Current year inventory is larger than last year but the current year gross margin (profit) is larger.
- C) Current year long-term liabilities are larger than last year but the interest expense is the same.
- D) Current-year fixed assets total is larger than last year but current amortization expense is the same as last year.

- A) The collectability of accounts receivable is of concern. The allowance for doubtful accounts may be understated. The bad debt expense may be understated. Accounts receivable may be overstated.
- B) The existence assertion related to the inventory account is of concern. Inventory may be overstated. Cost of goods sold may be understated.
- C) The amount of accrued interest and interest expense is of concern. Interest expense may be understated. It is less likely, but long-term liabilities could be overstated.
- D) Amortization expense and accumulated amortization may be understated. It is also possible that fixed assets are overstated.

Essay

TB 05-38 This question tests your ability to perceive the p...

award:
208.1.00 point

TB 05-39 What is meant by materiality?

What is meant by materiality?

Materiality is the aggregate amount of errors that may occur in the financial statements before the decision making of users of the financial statement is affected by these errors. In order to assess materiality, the auditor must understand who the users of the financial statements are and for what purpose the financial statements will be used.

Essay

TB 05-39 What is meant by materiality?

award:
209.1.00 point

TB 05-40 This question is about the auditor's concept of ma...

This question is about the auditor's concept of materiality considered in the planning stage of the audit.

Required:

- A) Define or describe the independent auditor's concept of "planning materiality."
- B) Name (but do not describe or explain) three common relationships or considerations used by the auditor quantifying materiality.

- A) Planning materiality is the largest amount of uncorrected dollar misstatements the auditor believes could exist in audited financial statements without causing them to be considered misleading.
- B) Absolute size, relative size, nature of the item or issue, circumstances, uncertainty, cumulative effects.

Essay

TB 05-40 This question is about the auditor's concept of ma...

award:
210.1.00 point

TB 05-41 Give some examples of cut off errors and explain w...

Give some examples of cut off errors and explain what management assertions are affected by such errors.

An example of a cutoff error would be if sales that were shipped after year-end were recorded in sales for the year. Another example would be if expenses for which no invoice has been received are not recorded as a liability. The management assertions affected are completeness and existence or occurrence.

Essay

TB 05-41 Give some examples of cut off errors and explain w...

award:
211.1.00 point

TB 05-42 Decisions involving the proper application of GAAP..

Decisions involving the proper application of GAAP primarily involve which management assertion? Give some examples.

The valuation and allocation assertion often involves decisions about the proper application of GAAP. Examples would be the selection of amortization method, or valuing inventory at the lower of cost or market.

Essay

TB 05-42 Decisions involving the proper application of GAAP..

award:
212.1.00 point

TB 05-43 An auditor examines an organization's strategy to ...

An auditor examines an organization's strategy to determine its objectives. After assessing whether the strategy is guiding the whole operation, what steps will the auditor take next? What key management assertion can be affected by any weakness in the strategy?

An auditor must consider whether the strategy has considered all of the risks which might threaten the success of the strategy. The auditor must also enquire as to whether lower levels of management are implementing the strategy or are operating in a way that is contrary to the organization's strategy.

If senior management has neglected an important area of risk or if management is operating contrary to the strategy, the success of the organization may be in jeopardy. This can affect the valuation assertion on major investments in fixed assets or goodwill. It can even affect the going concern assumption underlying all asset values.

Essay

TB 05-43 An auditor examines an organization's strategy to ...

award:
213.1.00 point

TB 05-44 What are auditors referring to when they talk about...

What are auditors referring to when they talk about the nature, timing, and extent of audit procedures?

The nature of audit procedures refers to evidence techniques they will use, such as examination or recalculation. Timing refers to when these procedures will be performed, whether before (interim date), at, or after the auditee's year end. Timing may have other aspects such as surprise procedures (unannounced to auditee personnel) or the need observe periodic auditee procedures, such as rotating inventory counts during the year. The extent usually refers to the sample sizes of data examined, such as the number of customer accounts receivable to confirm, or the number of inventory categories, products, or locations to count.

The nature, timing, and extent of the audit procedures for each component of the audit are documented in the detailed audit plan.

Essay

TB 05-44 What are auditors referring to when they talk about...

award:
214.1.00 point

TB 06-01 What is inherent risk?

What is inherent risk?

- The probability that some accounts are more susceptible to misstatement than others.
- The probability that the client's internal control policies and procedures will fail to detect material misstatements.
- The probability that material misstatements have occurred in transactions entering the accounting system used to develop financial statements.
- The probability that the auditor may not detect material misstatements in the financial statements.

Multiple Choice

TB 06-01 What is inherent risk?

award:
215.1.00 point

TB 06-02 Theoretically, when assessing the inherent risk re...

Theoretically, when assessing the inherent risk related to an account balance, an auditor does not explicitly consider the _____.

- liquidity of the account
- management estimates involved in determining the account balance
- internal control policies and procedures
- complexity of calculations involved

Multiple Choice

TB 06-02 Theoretically, when assessing the inherent risk re...

award:
216.1.00 point

TB 06-03 The ultimate purpose of assessing control risk is ...

The ultimate purpose of assessing control risk is to contribute to the auditor's evaluation of the _____.

- factors that raise doubts about the auditability of the financial statements
- operating effectiveness of internal control policies and procedures
- risk that material misstatements exist in the financial statements
- possibility that the nature and extent of substantive tests may be reduced

Multiple Choice

TB 06-03 The ultimate purpose of assessing control risk is ...

217. ^{award:} 1.00 point

TB 06-04 The risk that an auditor's procedures will lead to...

The risk that an auditor's procedures will lead to the conclusion that a material misstatement does not exist in an account balance when, in fact, such misstatement actually does exist is _____.

- audit risk
- inherent risk
- control risk
- detection risk

Multiple Choice

TB 06-04 The risk that an auditor's procedures will lead to...

218. ^{award:} 1.00 point

TB 06-05 The probability that an auditor will give an inapp...

The probability that an auditor will give an inappropriate opinion on the financial statements best describes _____.

- audit risk
- inherent risk
- control risk
- detection risk

Multiple Choice

TB 06-05 The probability that an auditor will give an inapp...

219. ^{award:} 1.00 point

TB 06-06 The existence of audit risk is recognized by the s...

The existence of audit risk is recognized by the statement in the auditor's standard report that the auditor _____.

- obtains reasonable assurance about whether the financial statements are free of material misstatement
- assesses the accounting principles used and also evaluates the overall financial statement presentation
- realizes some matters, either individually or in the aggregate, are important while other matters are not important
- is responsible for expressing an opinion on the financial statements, which are the responsibility of management

Multiple Choice

TB 06-06 The existence of audit risk is recognized by the s...

award:
220.1.00 point

TB 06-07 If control risk increases and all other risks in t...

If control risk increases and all other risks in the audit risk model stay constant (except the one referred to below), which of the following is correct?

- Detection risk must increase.
- Inherent risk will increase.
- Audit risk will decrease.
- Detection risk must decrease.

Multiple Choice

TB 06-07 If control risk increases and all other risks in t...

award:
221.1.00 point

TB 06-08 The acceptable level of detection risk is inversel...

The acceptable level of detection risk is inversely related to the _____.

- assurance provided by substantive tests
- risk of misapplying auditing procedures
- preliminary judgment about materiality levels
- risk of failing to discover material misstatements

Multiple Choice

TB 06-08 The acceptable level of detection risk is inversel...

award:
222.1.00 point

TB 06-09 After obtaining an understanding of the internal c...

After obtaining an understanding of the internal control system and assessing control risk, an auditor decided not to perform additional tests of controls. The auditor most likely concluded that _____.

- the additional evidence to support a further reduction in control risk was not cost-beneficial
- the assessed level of inherent risk exceeded the assessed level of control risk
- the internal control system was properly designed and justifiably may be relied on
- the evidence obtainable through tests of controls would not support an increased level of control risk

Multiple Choice

TB 06-09 After obtaining an understanding of the internal c...

award:
223. 1.00 point

TB 06-10 Inherent risk and control risk differ from detecti...

Inherent risk and control risk differ from detection risk in that they _____.

- arise from the misapplication of auditing procedures
 - may be assessed in either quantitative or non-quantitative terms
 - exist independently of the financial statement audit
 - can be changed at the auditor's discretion
-

Multiple Choice

*TB 06-10 Inherent risk and control
risk differ from detecti...*

award:
224. 1.00 point

TB 06-11 On the basis of audit evidence gathered and evalua...

On the basis of audit evidence gathered and evaluated, an auditor decides to increase the assessed level of control risk from that originally planned. To achieve an overall audit risk level that is substantially the same as the planned audit risk level, the auditor would _____.

- decrease substantive testing
 - decrease detection risk
 - increase inherent risk
 - increase materiality levels
-

Multiple Choice

*TB 06-11 On the basis of audit
evidence gathered and evalua...*

award:
225. 1.00 point

TB 06-12 When an auditor increases the planned assessed lev...

When an auditor increases the planned assessed level of control risk because certain control procedures were determined to be ineffective, the auditor would most likely increase the _____.

- extent of tests of details
 - level of inherent risk
 - extent of tests of controls
 - level of detection risk
-

Multiple Choice

*TB 06-12 When an auditor increases
the planned assessed lev...*

award:
226. 1.00 point

TB 06-13 What is the definition of business risk?

What is the definition of business risk?

- An event or action that will make it more difficult for an organization to achieve its objectives.
 - An event or action that causes an organization to become bankrupt.
 - An event or action that causes an organization's financial statements to be materially incorrect.
 - Unfortunate events or actions that are common to all businesses in the economy.
-

Multiple Choice

TB 06-13 What is the definition of business risk?

award:
227. 1.00 point

TB 06-14 An auditor begins the identification of business r...

An auditor begins the identification of business risks by doing what?

- Preliminary analysis.
 - Financial analysis.
 - Strategic analysis.
 - Horizontal analysis.
-

Multiple Choice

TB 06-14 An auditor begins the identification of business r...

award:
228. 1.00 point

TB 06-15 Business processes cross boundaries between functi...

Business processes cross boundaries between functional areas of an organization. Business process management systems have been facilitated by _____.

- management information systems
 - enterprise resource planning systems
 - database management systems
 - Web-based application systems
-

Multiple Choice

TB 06-15 Business processes cross boundaries between functi...

award:
229.1.00 point

TB 06-16 The business process view also highlights the fact...

The business process view also highlights the fact that business organizations _____.

- differ in terms of the technology they use
 - essentially all perform the same activities
 - should simplify their business to follow clear rules
 - work best when run as a hierarchy
-

Multiple Choice

*TB 06-16 The business process view
also highlights the fact...*

award:
230.1.00 point

TB 06-17 Quality of earnings refers to _____.

Quality of earnings refers to _____.

- the accuracy of the net income calculation
 - a company's ability to continue earning at its current level
 - how closely earnings per share agree to analyst predictions
 - the percentage of net income to total revenue
-

Multiple Choice

*TB 06-17 Quality of earnings refers
to _____.*

award:
231.1.00 point

TB 06-18 One way to think of an accounting process is as a ...

One way to think of an accounting process is as a cycle. The idea of a cycle reflects that _____.

- transactions have to undergo a series of procedures before being recorded in the accounts
 - transactions are not complete until they are recorded
 - there is a set of accounts that record transaction information from the same business process
 - every business process results in the start of another process
-

Multiple Choice

*TB 06-18 One way to think of an
accounting process is as a ...*

award:
232. 1.00 point

TB 06-19 An auditor might suspect that the auditee is in fi...

An auditor might suspect that the auditee is in financial difficulty if _____.

- the auditee offers more generous customer credit terms
 - the auditee takes a large bank loan at market rates
 - sales increase and inventory increases
 - purchases increase and payables increase
-

Multiple Choice

TB 06-19 An auditor might suspect that the auditee is in fi...

award:
233. 1.00 point

TB 06-20 An auditor considers two factors in understanding ...

An auditor considers two factors in understanding business risks. What are they?

- The likelihood of a risk occurring and the materiality of the risk.
 - The magnitude of the risk and the type of risk.
 - The likelihood of the risk occurring and the type of risk.
 - The likelihood of a risk occurring and the magnitude the risk.
-

Multiple Choice

TB 06-20 An auditor considers two factors in understanding ...

award:
234. 1.00 point

TB 06-21 An auditor can broadly define controls as _____...

An auditor can broadly define controls as _____.

- those elements of an organization that, taken together, support people in achieving an organization's objectives
 - those systems, processes, and procedures that prevent fraud
 - key performance indicators employed by management to measure an organization's success
 - the structure and culture of an organization which helps to eliminate risk
-

Multiple Choice

TB 06-21 An auditor can broadly define controls as _____...

award:
235.1.00 point

TB 06-22 Internal control includes _____.

Internal control includes _____.

- control activities and inherent risks
- information systems and external influences
- the control environment and risk assessment processes
- financial reporting and control activities

Multiple Choice

TB 06-22 Internal control includes _____.

award:
236.1.00 point

TB 06-23 Two broad groupings of controls are _____.

Two broad groupings of controls are _____.

- internal controls and segregation of duties
- physical access controls and password controls
- validity checks and completeness checks
- general controls and application controls

Multiple Choice

TB 06-23 Two broad groupings of controls are _____.

award:
237.1.00 point

TB 06-24 A critical element of control is monitoring. What ...

A critical element of control is monitoring. What is likely to happen if management fails to monitor an internal control?

- Necessary improvements will not be identified.
- Personnel are likely to stop observing the control.
- The inherent risk of an error will increase.
- The auditor is likely to assume the control is working when it might not be.

Multiple Choice

TB 06-24 A critical element of control is monitoring. What ...

award:
238. 1.00 point

TB 06-25 Auditors do not create or control inherent risk; t...

Auditors do not create or control inherent risk; they can only try to assess its magnitude.

- True
 False

True / False

TB 06-25 Auditors do not create or control inherent risk; t...

award:
239. 1.00 point

TB 06-26 Control risk is the probability that audit procedu...

Control risk is the probability that audit procedures will fail to detect material misstatements in the financial statements.

- True
→ False

True / False

TB 06-26 Control risk is the probability that audit procedu...

award:
240. 1.00 point

TB 06-27 Detection risk is the probability that audit proce...

Detection risk is the probability that audit procedures will produce evidence of material misstatements.

- True
→ False

True / False

TB 06-27 Detection risk is the probability that audit proce...

award:
241. 1.00 point

TB 06-28 Audit risk is the probability that an auditor will...

Audit risk is the probability that an auditor will give an inappropriate opinion on financial statements.

- True
 False

True / False

TB 06-28 Audit risk is the probability that an auditor will...

award:
242. 1.00 point

TB 06-29 As control risk gets smaller, audit risk gets larg...

As control risk gets smaller, audit risk gets larger, assuming all other risks stay constant.

- True
→ False

True / False

TB 06-29 As control risk gets smaller, audit risk gets larg...

award:
243. 1.00 point

TB 06-30 Generally accepted auditing standards permit audit...

Generally accepted auditing standards permit auditors to place complete reliance on internal control (zero control risk assessment) to justify the exclusion of substantive audit procedures for a balance sheet or income statement account.

- True
→ False

True / False

TB 06-30 Generally accepted auditing standards permit audit...

award:
244. 1.00 point

TB 06-31 There are two parts to business risk analysis: pro...

There are two parts to business risk analysis: process analysis and industry analysis.

- True
→ False

True / False

TB 06-31 There are two parts to business risk analysis: pro...

award:
245. 1.00 point

TB 06-32 Business processes can be thought of as a structur...

Business processes can be thought of as a structured set of activities within an entity.

- True
 False

True / False

TB 06-32 Business processes can be thought of as a structur...

award:
246. 1.00 point

TB 06-33 An organization with a very hierarchical structure...

An organization with a very hierarchical structure is typical of companies in complex business environments as this structure reduces the ability of a junior employee to make a wrong decision.

- True
→ False

True / False

TB 06-33 An organization with a very hierarchical structure...

award:
247. 1.00 point

TB 06-34 Auditors find it easier to audit related accounts ...

Auditors find it easier to audit related accounts instead of attacking each account on its own.

- True
 False

True / False

TB 06-34 Auditors find it easier to audit related accounts ...

award:
248. 1.00 point

TB 06-35 Risk should not be tolerated on a cost-benefit bas...

Risk should not be tolerated on a cost-benefit basis.

- True
→ False

True / False

TB 06-35 Risk should not be tolerated on a cost-benefit bas...

award:
249. 1.00 point

TB 06-36 Company-level controls can have a big impact on a ...

Company-level controls can have a big impact on a company's financial reporting.

- True
 False

True / False

TB 06-36 Company-level controls can have a big impact on a ...

award:
250. 1.00 point

TB 06-37 Since management is most familiar with an organiza...

Since management is most familiar with an organization, they should sit on the board of directors and advise those charged with governance of the organization.

- True
→ False

True / False

TB 06-37 Since management is most familiar with an organiza...

award:
251. 1.00 point

TB 06-38 Management's philosophy and operating style have t...

Management's philosophy and operating style have to do with how the business is operated and are not part of the internal control environment.

- True
→ False

True / False

TB 06-38 Management's philosophy and operating style have t...

award:
252. 1.00 point

TB 06-39 To assess the risk of material misstatement at the...

To assess the risk of material misstatement at the financial statement level, the auditor needs a detailed knowledge of internal control components relevant to financial reporting.

- True
 False

True / False

TB 06-39 To assess the risk of material misstatement at the...

award:
253. 1.00 point

TB 06-40 The audit risk model includes the four risks listed below.

The audit risk model includes the four risks listed below. Match the letter identifying the type of risk to the correct definition listed below and place the letter in the space provided.

- | | | |
|-------------------|---|----|
| 1. Control risk | The probability that audit procedures will fail to produce evidence of material misstatements | #4 |
| 2. Audit risk | The probability that material misstatements have occurred in transactions entering the accounting system. | #3 |
| 3. Inherent risk | The probability that an auditor will give an inappropriate opinion on financial statements | #2 |
| 4. Detection risk | The probability that the client's internal control policies and procedures will fail to detect material misstatements if they have entered the accounting system. | #1 |

Matching

TB 06-40 The audit risk model includes the four risks listed below.

award:
254. 1.00 point

TB 06-41 Define control risk.

Define control risk.

Control risk is the risk that the system of internal controls will not prevent fraud or material errors in the financial statements.

Essay

TB 06-41 Define control risk.

award:
255. 1.00 point

TB 06-42 Can an auditor place complete reliance on internal control to the exclusion of other audit procedures? Explain your answer using the audit risk model.

Can an auditor place complete reliance on internal control to the exclusion of other audit procedures? Explain your answer using the audit risk model.

An auditor cannot place complete reliance on internal control to the exclusion of other audit procedures. You cannot have a condition where $AR = IR \times CR(=0) \times DR = 0$. Some control risk will always exist because of the inherent limitations of any system of internal control.

Essay

TB 06-42 Can an auditor place complete reliance on internal control to the exclusion of other audit procedures? Explain your answer using the audit risk model.

award:
256.1.00 point

TB 06-43 Discuss four ways of managing risk in an organizat...

Discuss four ways of managing risk in an organization.

Risks can be managed in any of four ways:

- i. Risk can be avoided by not performing those business activities which cause the risk to occur.
- ii. Risk can be reduced to an acceptable level by embedding management controls in business processes.
- iii. Risk can be tolerated if the costs of reducing it outweigh the benefits of reducing it.
- iv. Risk can be transferred to another party by a contract such as an insurance contract or a derivative.

Essay

*TB 06-43 Discuss four ways of
managing risk in an organizat...*

award:
257.1.00 point

TB 06-44 What are four of the elements of the internal cont...

What are four of the elements of the internal control environment?

The following are elements of the internal control environment:

- i. Management's philosophy and operating style.
- ii. Company organization structure.
- iii. Methods of assigning authority and responsibility.
- iv. Personnel policies and practices.

Or any combination of the eight listed on page 223.

Essay

*TB 06-44 What are four of the
elements of the internal cont...*

award:
258.1.00 point

TB 06-45 According to the Criteria of Control Guidance on C...

According to the Criteria of Control Guidance on Control, what are four values and preferences of senior management that can greatly influence an organization?

Values and preferences of senior management address issues such as:

- i. Good corporate citizenship.
 - ii. Commitment to truth and fair dealing.
 - iii. Commitment to quality and competence.
 - iv. Fair treatment and respect of individuals.
- Or any combination of the eight listed on page 224.

Essay

*TB 06-45 According to the Criteria of
Control Guidance on C...*

award:
259.1.00 point

TB 06-46 What is the connection between communication and i...

What is the connection between communication and internal control?

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control. It includes the extent to which personnel understand how their activities relate to the work of others. Communication takes such forms as policy manuals, accounting and financial reporting manuals, and memoranda. It can be made electronically, orally, or through the actions of management.

Well-trained personnel are less likely to make errors. When there are errors or exceptions, open communication channels help ensure that exceptions are reported and acted on.

Essay

*TB 06-46 What is the connection
between communication and i...*

award:
260.1.00 point

TB 06-47 Define application controls and provide examples.

Define application controls and provide examples.

Application controls are viewed in terms of whether they relate to input, processing, or output of the accounting system. They help ensure that all recorded transactions really occurred, are authorized, and are completely and accurately entered and processed through the system. Examples include authorization checks prior to data input, arithmetic checks of the accuracy of records, and maintenance and review of accounts and trial balances.

Essay

*TB 06-47 Define application controls
and provide examples.*

award:
261. 1.00 point

TB 07-01 Financial statement fraud is considered when someo...

Financial statement fraud is considered when someone knowingly makes material misrepresentations of fact with the intent of making someone believe the falsehood and suffer a loss as a result of acting upon that falsehood. Which of the following would be considered fraud?

- Increasing the returns allowance as a result of unusually high sales near year end.
 - Transferring non-performing assets at historical values to a non-consolidated subsidiary.
 - Employee theft from petty cash.
 - Purchasing several months' supply of office supplies in order to qualify for a large volume discount.
-

Multiple Choice

*TB 07-01 Financial statement fraud
is considered when someo...*

award:
262. 1.00 point

TB 07-02 If an employee or non-employee wrongfully takes mo...

If an employee or non-employee wrongfully takes money or property entrusted to their care, custody, and control, this is known as _____.

- white-collar crime
 - embezzlement
 - fraud
 - irregularity
-

Multiple Choice

*TB 07-02 If an employee or
non-employee wrongfully takes mo...*

award:
263. 1.00 point

TB 07-03 Which of the following is not a characteristic of ...

Which of the following is not a characteristic of fraud?

- Intent to deceive.
 - Misrepresentation or intentional omission of significant information.
 - Taking unfair or dishonest advantage of others for personal gain.
 - Negligence on the part of executive management.
-

Multiple Choice

*TB 07-03 Which of the following is
not a characteristic of ...*

award:
264. 1.00 point

TB 07-04 Defalcation is another name for _____.

Defalcation is another name for _____.

- fraud
- white-collar crime
- embezzlement
- irregularities

Multiple Choice

TB 07-04 Defalcation is another name for _____.

award:
265. 1.00 point

TB 07-05 Unintentional misstatements or omissions of amount...

Unintentional misstatements or omissions of amounts or disclosures in financial statements are known as _____.

- errors
- irregularities
- fraud
- embezzlement

Multiple Choice

TB 07-05 Unintentional misstatements or omissions of amount...

award:
266. 1.00 point

TB 07-06 A good reason for involving fraud auditors in the ...

A good reason for involving fraud auditors in the planning of a regular audit of financial statements is _____.

- when there are many fraud risk factors
- when the audit committee authorizes further investigation
- it makes the client aware of how seriously the auditor takes its fraud detection responsibility
- it improves the documentation standards of the financial statement audit

Multiple Choice

TB 07-06 A good reason for involving fraud auditors in the ...

award:
267. 1.00 point

TB 07-07 Which of the following is normally considered an a...

Which of the following is normally considered an accounting estimate?

- Credit sales.
- Amortization of capital assets.
- Repairs and maintenance expense.
- Audit fees.

Multiple Choice

TB 07-07 Which of the following is normally considered an a...

award:
268. 1.00 point

TB 07-08 To whom should immaterial errors should be reporte...

To whom should immaterial errors should be reported?

- No one.
- The audit committee.
- Senior management.
- The manager at least one level above the people involved.

Multiple Choice

TB 07-08 To whom should immaterial errors should be reporte...

award:
269. 1.00 point

TB 07-09 If a supervisor sets a bad example by taking offic...

If a supervisor sets a bad example by taking office supplies home for personal use, this affects which of the following factors that lead to fraud?

- Fraud incentive.
- Fraud opportunity.
- Fraud rationalization.
- Fraud detection.

Multiple Choice

TB 07-09 If a supervisor sets a bad example by taking offic...

award:
270. 1.00 point

TB 07-10 When an auditor becomes aware of a possible illegal...

When an auditor becomes aware of a possible illegal act by a client, the auditor should obtain an understanding of the nature of the act in order to _____.

- evaluate the effect on the financial statements
 - determine the reliability of management's representations
 - consider whether other similar acts may have occurred
 - recommend remedial actions to the audit committee
-

Multiple Choice

TB 07-10 When an auditor becomes aware of a possible illegal...

award:
271. 1.00 point

TB 07-11 A fraud detection tool that assesses a firm along ...

A fraud detection tool that assesses a firm along the five dimensions of accrual quality, financial performance, nonfinancial measures, off-balance sheet activities, and market-based incentives is called the _____.

- Fraud Detector
 - Embezzlease
 - F-Score
 - Red Flagger
-

Multiple Choice

TB 07-11 A fraud detection tool that assesses a firm along ...

award:
272. 1.00 point

TB 07-12 The possibility that fraud has resulted in intenti...

The possibility that fraud has resulted in intentional misstatement in the financial statements is known as _____.

- audit risk
 - control risk
 - detection risk
 - fraud risk
-

Multiple Choice

TB 07-12 The possibility that fraud has resulted in intenti...

award:
273. 1.00 point

TB 07-13 An auditor who discovers that client employees hav...

An auditor who discovers that client employees have committed an illegal act with material consequences on the financial statements is most likely to seek legal advice and consider withdrawing from the engagement if _____.

- the illegal act is a violation of generally accepted accounting principles
 - the client does not take appropriate action after being informed about the illegal act
 - the illegal act was committed during a prior year that was not audited
 - the auditor has already assessed control risk at the maximum level
-

Multiple Choice

*TB 07-13 An auditor who discovers
that client employees hav...*

award:
274. 1.00 point

TB 07-14 Which of the following is not considered one of th...

Which of the following is not considered one of the three factors that increase the probability of fraud?

- Motive.
 - Lack of training.
 - Opportunity.
 - Lack of integrity.
-

Multiple Choice

*TB 07-14 Which of the following is
not considered one of th...*

award:
275. 1.00 point

TB 07-15 What is the most important factor affecting the ri...

What is the most important factor affecting the risk of management fraud?

- Lack of integrity.
 - Lack of internal controls
 - Lack of board of director involvement in organization.
 - Lack of audited financial statements.
-

Multiple Choice

*TB 07-15 What is the most important
factor affecting the ri...*

award:
276. 1.00 point

TB 07-16 The primary responsibility for the prevention and ...

The primary responsibility for the prevention and detection of fraud rests with _____.

- external auditors
- internal auditors
- management
- the Audit Committee

Multiple Choice

*TB 07-16 The primary responsibility
for the prevention and ...*

award:
277. 1.00 point

TB 07-17 Terrance was a model, longstanding employee who li...

Terrance was a model, longstanding employee who liked his job, but he felt that he was underpaid for what he contributed to the organization. As a result, he decided to start taking office supplies home to "even the score." This is an example of _____.

- fraud opportunity
- fraud incentive
- fraud rationalization
- misstatement

Multiple Choice

*TB 07-17 Terrance was a model,
longstanding employee who li...*

award:
278. 1.00 point

TB 07-18 Statistics on fraud show that _____.

Statistics on fraud show that _____.

- senior executives commit the highest number of frauds and the senior executives cause the highest losses due to fraud
- employees below the level of senior executives commit the highest number of frauds and cause the highest losses due to fraud
- senior executives commit the highest number of frauds and employees below the level of the senior executives cause the highest losses due to fraud
- employees below the level of senior executives commit the highest number of frauds but the senior executives commit the highest-value frauds

Multiple Choice

*TB 07-18 Statistics on fraud show
that _____.*

award:
279.1.00 point

TB 07-19 Certain conditions are often present when a manager...

Certain conditions are often present when a manager prepares deliberately misstated financial statements. Which of the following is NOT such a condition?

- Unfavourable industry conditions.
- Lack of working capital.
- Low debt.
- Slow customer collections.

Multiple Choice

TB 07-19 Certain conditions are often present when a manager...

award:
280.1.00 point

TB 07-20 The first digit in a social insurance number _____...

The first digit in a social insurance number _____.

- has no meaning
- is related to the date of birth of the recipient
- indicates the province or region where the number was issued
- is sequentially numbered based on when the card was issued

Multiple Choice

TB 07-20 The first digit in a social insurance number _____...

award:
281.1.00 point

TB 07-21 Riley embezzled a large sum of money from his comp...

Riley embezzled a large sum of money from his company and gave it to his friend who recently lost his job and was in danger of losing his home. This is an example of what type of motivation?

- Psychotic.
- Egocentric.
- Ideological.
- Economic.

Multiple Choice

TB 07-21 Riley embezzled a large sum of money from his comp...

award:
282. 1.00 point

TB 07-22 A fraud that involves the improper recognition of ...

A fraud that involves the improper recognition of assets is known as a _____.

- red flag
- dangling debit
- dangling credit
- profit squeeze

Multiple Choice

*TB 07-22 A fraud that involves the
improper recognition of ...*

award:
283. 1.00 point

TB 07-23 Intentionally overstating revenues and assets or u...

Intentionally overstating revenues and assets or understating expenses and liabilities is known as _____.

- creative accounting
- dangling
- employee fraud
- defalcation

Multiple Choice

*TB 07-23 Intentionally overstating
revenues and assets or u...*

award:
284. 1.00 point

TB 07-24 Thinking like a crook is central to _____.

"Thinking like a crook" is central to _____.

- embezzlement
- fraud awareness auditing
- rationalization
- defalcation

Multiple Choice

*TB 07-24 Thinking like a crook is
central to _____.*

award:
285. 1.00 point

TB 07-25 Management fraud is an intentional act that injure...

Management fraud is an intentional act that injures investors or creditors.

- True
 False

True / False

TB 07-25 Management fraud is an intentional act that injure...

award:
286. 1.00 point

TB 07-26 Fraudulent financial reporting is an intentional a...

Fraudulent financial reporting is an intentional act that results in materially misleading financial statements.

- True
 False

True / False

TB 07-26 Fraudulent financial reporting is an intentional a...

award:
287. 1.00 point

TB 07-27 Fraudulent financial reporting is a type of fraud ...

Fraudulent financial reporting is a type of fraud perpetrated by management through exploitation of its authority.

- True
 False

True / False

TB 07-27 Fraudulent financial reporting is a type of fraud ...

award:
288. 1.00 point

TB 07-28 Errors can be either intentional or unintentional ...

Errors can be either intentional or unintentional misstatements in financial statements.

- True
→ False

True / False

TB 07-28 Errors can be either intentional or unintentional ...

289. ^{award:} 1.00 point

TB 07-29 Auditors have taken on increased responsibility fo...

Auditors have taken on increased responsibility for detecting fraud and other illegal acts in recent years.

- True
 False

True / False

TB 07-29 Auditors have taken on increased responsibility fo...

290. ^{award:} 1.00 point

TB 07-30 CAS 240 requires auditors to ignore the traditiona...

CAS 240 requires auditors to ignore the traditional assumption of management's honesty.

- True
 False

True / False

TB 07-30 CAS 240 requires auditors to ignore the traditiona...

291. ^{award:} 1.00 point

TB 07-31 Auditors are responsible for making reasonable acc...

Auditors are responsible for making reasonable accounting estimates on behalf of management.

- True
→ False

True / False

TB 07-31 Auditors are responsible for making reasonable acc...

292. ^{award:} 1.00 point

TB 07-32 External auditors are required to report illegal a...

External auditors are required to report illegal acts to the appropriate governmental agency within 30 days of finding them.

- True
→ False

True / False

TB 07-32 External auditors are required to report illegal a...

award:
293. 1.00 point

TB 07-33 All errors and irregularities, including trivial o...

All errors and irregularities, including trivial ones, should be reported to the audit committee.

- True
→ False
-

True / False

*TB 07-33 All errors and irregularities,
including trivial o...*

award:
294. 1.00 point

TB 07-34 A materiality standard does not exist for frauds.

A materiality standard does not exist for frauds.

- True
→ False
-

True / False

*TB 07-34 A materiality standard does
not exist for frauds.*

award:
295. 1.00 point

TB 07-35 Over 90% of frauds are discovered by external or i...

Over 90% of frauds are discovered by external or internal auditors.

- True
→ False
-

True / False

*TB 07-35 Over 90% of frauds are
discovered by external or i...*

award:
296. 1.00 point

TB 07-36 An economic motive for fraud is the need for money...

An economic motive for fraud is the need for money.

- True
 False
-

True / False

*TB 07-36 An economic motive for
fraud is the need for money...*

297. ^{award:} 1.00 point

TB 07-37 Lack of integrity is the most important factor aff...

Lack of integrity is the most important factor affecting the risk of management fraud.

- True
 False
-

True / False

TB 07-37 Lack of integrity is the most important factor aff...

298. ^{award:} 1.00 point

TB 07-38 An F-Score can predict 60% of misstatements in fin...

An F-Score can predict 60% of misstatements in financial statements that eventually come to light as restatements.

- True
 False
-

True / False

TB 07-38 An F-Score can predict 60% of misstatements in fin...

299. ^{award:} 1.00 point

TB 07-39 Most frauds are committed by people below the top ...

Most frauds are committed by people below the top executive levels.

- True
 False
-

True / False

TB 07-39 Most frauds are committed by people below the top ...

300. ^{award:} 1.00 point

TB 07-40 Misstating financial information in one period to ...

Misstating financial information in one period to prevent a loan being called for violating debt to equity covenants is okay as long as the violation is reversed in the next period.

- True
→ False
-

True / False

TB 07-40 Misstating financial information in one period to ...

award:
301. 1.00 point

TB 07-41 Knowledge of the characteristics of SIN numbers ca...

Knowledge of the characteristics of SIN numbers can be useful to auditors when checking personnel files and the validity of people on the payroll.

- True
 False

True / False

TB 07-41 Knowledge of the characteristics of SIN numbers ca...

award:
302. 1.00 point

TB 07-42 What is employee fraud?

What is employee fraud?

Fraudulently taking money or other property from an employer. It usually involves falsifications of some kind such a lying, exceeding authority, violating an employer's policies, or falsifying documents.

Essay

TB 07-42 What is employee fraud?

award:
303. 1.00 point

TB 07-43 What is meant by the term professional skepticism...

What is meant by the term "professional skepticism?"

Ignoring the traditional assumption of management's honesty, auditors must now presume a risk of fraudulent revenue recognition, a presumption that is "rebuttable" by audit evidence. In other words, if the auditors can convince themselves that the risk is appropriately low, then the presumption is rejected.

Essay

TB 07-43 What is meant by the term professional skepticism...

award:
304. 1.00 point

TB 07-44 What are direct-effect illegal acts?

What are direct-effect illegal acts?

Illegal acts that have a direct and material effect on financial statement amounts and are dealt with in the same manner as errors and irregularities. An example is the violation of tax laws.

Essay

*TB 07-44 What are direct-effect
illegal acts?*

award:
305. 1.00 point

TB 07-45 Briefly describe the three factors that increase t...

Briefly describe the three factors that increase the probability of fraud.

Motive, opportunity, and lack of integrity (rationalization) are the three factors that increase the probability of fraud. Motive is some kind of pressure, like a need or a desire, which causes a person to act. Economic motives are common in business fraud. Opportunity is a favourable set of circumstances that allows someone with a motive to carry out a fraud. For example, the lapse of a control or group of controls in an organization provides opportunity to a person who has a motive to commit fraud. A lack of integrity is a deficiency in the character of a person. It signifies the lack of a moral or ethical model of appropriate behaviour. People lacking integrity may rationalize their actions to defend themselves. Fraud is most common when these three factors coexist.

Essay

*TB 07-45 Briefly describe the three
factors that increase t...*

award:
306. 1.00 point

TB 07-46 Provide examples of telltale hints that are indica...

Provide examples of telltale hints that are indications of a cover-up of fraudulent activity in the accounting records.

Missing documents, cash shortages and overages, excessive voids and credit memos, customer complaints, common names or addresses for refunds, adjustments to receivables and payables, a general ledger that does not balance, increased past due receivables, and inventory shortages.

Essay

*TB 07-46 Provide examples of
telltale hints that are indica...*

award:
307. 1.00 point

TB 07-47 What are the typical conditions or circumstances t...

What are the typical conditions or circumstances that often accompany fraudulent financial reporting by management?

High debt, unfavourable industry conditions, excess capacity, profit squeeze, strong foreign competition, lack of working capital, rapid expansion, product obsolescence, slow customer collections, and related-party transactions.

Essay

*TB 07-47 What are the typical
conditions or circumstances t...*

award:
308. 1.00 point

TB 07-48 In an organization, who are the largest frauds typ...

In an organization, who are the largest frauds typically committed by?

People who hold high executive positions, have long tenure with the organization, and are respected and trusted employees.

Essay

*TB 07-48 In an organization, who are
the largest frauds typ...*

award:
309.1.00 point

TB 07-49 For each of the following statements numbered 1 th...

For each of the following statements numbered 1 through 5, match the statement to the term (A through D) that it best describes and place the identifying letter in the space provided.

- A. Embezzlement or defalcation
- B. Management fraud
- C. Errors
- D. Employee fraud

- ___ 1. A bookkeeper inadvertently transposed an amount in a journal entry for amortization.
- ___ 2. An employee in a supermarket takes home bags of fresh fruit every day without paying for them.
- ___ 3. Embezzlement by pencil or computer.
- ___ 4. A type of fraud in which employees steal money or property that has been entrusted to their care.
- ___ 5. The controller changed the journal entry for recording estimated bad debt expense to a smaller amount to hide the poor results from extending credit to high risk customers. This action increased recorded income by a material amount.

- 1. C
- 2. A
- 3. D
- 4. A
- 5. B

Essay

TB 07-49 For each of the following statements numbered 1 th...

award:
310.1.00 point

TB 08-01 The audit evidence gathering technique known as co...

The audit evidence gathering technique known as computation or recalculation refers to _____.

- sending letters to independent third parties
- counting inventory
- recalculating depreciation
- checking prices as per the price list

Multiple Choice

TB 08-01 The audit evidence gathering technique known as co...

award:
311. 1.00 point

TB 08-02 To provide efficient, reliable evidence, confirmat...

To provide efficient, reliable evidence, confirmations should be _____.

- created by the client and sent to third parties to be returned to the client
- created by the auditor and sent to third parties to be returned to the client
- created by the auditor and sent to third parties to be returned to the auditor
- created by the client and sent to third parties to be returned to the auditor

Multiple Choice

*TB 08-02 To provide efficient,
reliable evidence, confirmat...*

award:
312. 1.00 point

TB 08-03 One example of a formal authoritative document is ...

One example of a formal authoritative document is a _____.

- purchase order
- bank statement
- vendor invoice
- loan application

Multiple Choice

*TB 08-03 One example of a formal
authoritative document is ...*

award:
313. 1.00 point

TB 08-04 Analysis is most useful in providing evidence of _...

Analysis is most useful in providing evidence of _____.

- existence, completeness, and ownership
- existence, ownership, and valuation
- completeness, ownership, and presentation
- completeness, valuation, and presentation

Multiple Choice

*TB 08-04 Analysis is most useful in
providing evidence of _...*

award:
314. 1.00 point

TB 08-05 In considering the effectiveness of evidence gather...

In considering the effectiveness of evidence gathering procedures, it was found that most companies have adjustments. Research also shows that _____.

- both receivables and payables are usually overstated
 - receivables are usually overstated and payables are usually understated
 - receivables are usually understated and payables are usually overstated
 - both receivables and payables are usually understated
-

Multiple Choice

TB 08-05 In considering the effectiveness of evidence gather...

award:
315. 1.00 point

TB 08-06 In preparing for a repeat engagement, the first th...

In preparing for a repeat engagement, the first thing an audit team should do is _____.

- interview client management for any changes in the business and industry
 - take a tour of a client's physical facilities, noting obvious inventory obsolescence or equipment maintenance issues
 - obtain a copy of the year-end financial statements for the current year
 - review prior-year working papers and permanent file documents
-

Multiple Choice

TB 08-06 In preparing for a repeat engagement, the first th...

award:
316. 1.00 point

TB 08-07 Which of the following is true about specialists?

Which of the following is true about specialists?

- They are persons skilled in accounting and auditing.
 - They are not members of the audit team.
 - They have to be unrelated to the company or organization under audit.
 - They are relied on to verify all significant information on which they base their conclusions.
-

Multiple Choice

TB 08-07 Which of the following is true about specialists?

award:
317. 1.00 point

TB 08-08 What is the strongest form of audit evidence?

What is the strongest form of audit evidence?

- The auditor's direct personal knowledge.
 - Evidence gathered directly from independent third parties.
 - Evidence produced by independent third parties.
 - Comprehensive analysis performed by the auditor.
-

Multiple Choice

TB 08-08 What is the strongest form of audit evidence?

award:
318. 1.00 point

TB 08-09 An auditor selects audit procedures that will prov...

An auditor selects audit procedures that will provide _____.

- the most evidence
 - the most persuasive evidence
 - the most reliable evidence that can be obtained in a cost-effective manner
 - the most relevant information to the audit assertion
-

Multiple Choice

TB 08-09 An auditor selects audit procedures that will prov...

award:
319. 1.00 point

TB 08-10 The overall audit strategy is documented in the ____...

The overall audit strategy is documented in the _____.

- engagement letter
 - management letter
 - audit program
 - planning memorandum
-

Multiple Choice

TB 08-10 The overall audit strategy is documented in the ____...

award:
320. 1.00 point

TB 08-11 The audit program prepared by the independent audi...

The audit program prepared by the independent auditors prior to the start of fieldwork is considered appropriate documentation of _____.

- planning
- supervision
- information evaluation
- quality assurance

Multiple Choice

TB 08-11 The audit program prepared by the independent audi...

award:
321. 1.00 point

TB 08-12 Where would a copy of an auditee's long-term lease...

Where would a copy of an auditee's long-term lease for a building most likely be kept?

- In the planning file.
- In the permanent file.
- In the administration file.
- In the audit evidence file.

Multiple Choice

TB 08-12 Where would a copy of an auditee's long-term lease...

award:
322. 1.00 point

TB 08-13 Working papers should be clear, concise, and compl...

Working papers should be clear, concise, and complete. They communicate _____.

- the degree of planning in the audit
- the amount of work performed by the auditor
- the amount of time spent by the auditor
- the quality of the audit

Multiple Choice

TB 08-13 Working papers should be clear, concise, and compl...

award:
323. 1.00 point

TB 08-14 For good form, each audit evidence paper should be...

For good form, each audit evidence paper should be indexed using a standard system of letters and numbers. The main purpose of this practice is to allow _____.

- other papers to be easily cross-referenced so that connections among accounts can be followed
- a check of the completeness of working papers
- working papers to be easily refiled if they are taken out of the file or when the paper is first created
- auditors to prove that they have performed sufficient work to support their audit opinion
-

Multiple Choice

TB 08-14 For good form, each audit evidence paper should be...

award:
324. 1.00 point

TB 08-15 A combination of evidence gathering techniques pro...

A combination of evidence gathering techniques provides more persuasive than evidence gathered from a single technique.

- True
- False
-

True / False

TB 08-15 A combination of evidence gathering techniques pro...

award:
325. 1.00 point

TB 08-16 Reading the terms of lease agreement for lessee is...

Reading the terms of lease agreement for lessee is an example of analysis.

- True
- False
-

True / False

TB 08-16 Reading the terms of lease agreement for lessee is...

award:
326. 1.00 point

TB 08-17 An auditor should re-perform calculations on a ran...

An auditor should re-perform calculations on a random basis to check for accuracy. Usually, if one component has been calculated properly, the auditor can rely that the other components have also been computed properly.

- True
- False
-

True / False

TB 08-17 An auditor should re-perform calculations on a ran...

award:
327. 1.00 point

TB 08-18 Oral evidence from enquiry is considered to be ver...

Oral evidence from enquiry is considered to be very important.

- True
 False

True / False

*TB 08-18 Oral evidence from enquiry
is considered to be ver...*

award:
328. 1.00 point

TB 08-19 Loan application documents are considered authorit...

Loan application documents are considered authoritative evidence.

- True
→ False

True / False

*TB 08-19 Loan application
documents are considered authorit...*

award:
329. 1.00 point

TB 08-20 Substantive procedures give direct evidence about ...

Substantive procedures give direct evidence about the financial amounts reported in the financial statements.

- True
 False

True / False

*TB 08-20 Substantive procedures
give direct evidence about ...*

award:
330. 1.00 point

TB 08-21 For new clients, the auditor can obtain knowledge ...

For new clients, the auditor can obtain knowledge about the client's business and its industry from the permanent file.

- True
→ False

True / False

*TB 08-21 For new clients, the auditor
can obtain knowledge ...*

award:
331. 1.00 point

TB 08-22 A first audit requires more work than a repeat eng...

A first audit requires more work than a repeat engagement.

- True
 False

True / False

TB 08-22 A first audit requires more work than a repeat eng...

award:
332. 1.00 point

TB 08-23 Evidence that does not relate to one of the manage...

Evidence that does not relate to one of the management assertions can still be relevant to the auditor.

- True
→ False

True / False

TB 08-23 Evidence that does not relate to one of the manage...

award:
333. 1.00 point

TB 08-24 Spoken and written representations given by the au...

Spoken and written representations given by the auditee's officers, directors, owners, and employees are generally considered reliable enough to stand on their own.

- True
→ False

True / False

TB 08-24 Spoken and written representations given by the au...

award:
334. 1.00 point

TB 08-25 There are two kinds of audit programs: (1) balance...

There are two kinds of audit programs: (1) balance-audit programs and (2) cycle-audit programs.

- True
→ False

True / False

TB 08-25 There are two kinds of audit programs: (1) balance...

award:
335. 1.00 point

TB 08-26 The auditor is the legal owner of the working paper...

The auditor is the legal owner of the working papers related to an auditee's financial statements.

- True
 False

True / False

*TB 08-26 The auditor is the legal
owner of the working paper...*

award:
336. 1.00 point

TB 08-27 Destroying working papers may prevent auditors fro...

Destroying working papers may prevent auditors from proving due care if they are sued for negligence.

- True
→ False

True / False

*TB 08-27 Destroying working papers
may prevent auditors fro...*

award:
337. 1.00 point

TB 08-28 Permanent audit files contain such documents as th...

Permanent audit files contain such documents as the engagement letter, client organization chart, and internal control system flowcharts.

- True
→ False

True / False

*TB 08-28 Permanent audit files
contain such documents as th...*

award:
338.1.00 point

TB 08-29 The audit technique of enquiry has advantages and ...

The audit technique of enquiry has advantages and disadvantages. Discuss some of them.

The two types of audit programs are the internal control program and the balance-audit program. The internal control program specifies the procedures to follow in obtaining an understanding of the client's internal control system and assessing both inherent risk and control risk. The balance-audit program specifies the substantive procedures to follow in gathering direct evidence on the assertions about dollar amounts in the account balances.

Advantages: Enquiries, interviews, and other oral evidence are significant because management's explanations are an important part of obtaining an understanding of the business and the nature of specific transactions.

Enquiry is especially useful in determining management's strategic plan such as its intentions to invest in new products, divest old product lines or expand into new markets.

Informal discussion with client personnel may reveal a great deal of information which more formal procedures may not uncover.

It is a relatively inexpensive means of gathering audit evidence.

Disadvantages: Enquiry can only produce spoken representations, which are the least reliable form of evidence.

The auditor may misunderstand statements made during a discussion or fail to properly document the discussion, or the interviewee may later deny statements made during the discussion.

Evidence gathered by formal and informal enquiry of auditee personnel generally cannot stand alone and must be corroborated by the findings of other procedures.

Essay

*TB 08-29 The audit technique of
enquiry has advantages and ...*

award:
339.1.00 point

TB 08-30 Define and discuss the evidence gathering techniqu...

Define and discuss the evidence gathering technique of inspection.

i. Inspection consists of looking at assets with physical substance or at records and documents.

ii. Physically inspecting tangible assets provides reliable evidence of existence and may give some evidence of condition, and hence valuation, but it does not provide sufficient evidence of ownership.

iii. Inspection of documents involves varying degrees of thoroughness: examining, perusing, reading, reviewing, scanning, scrutinizing, and vouching.

iv. Inspecting formal documents with intrinsic value, such as securities certificates, also provides reliable evidence about existence.

v. Records and documents that don't have an intrinsic market value, such as invoices or purchase orders, have varying degrees of reliability for different assertions, depending on their source.

vi. Much auditing work involves examining authoritative documents prepared by independent parties and by the auditee.

Essay

*TB 08-30 Define and discuss the
evidence gathering techniqu...*

award:
340.1.00 point

TB 08-31 Analytical procedures are one type of evidence-gat...

Analytical procedures are one type of evidence-gathering procedure. According to auditing standards, there are five general forms of analytical procedures. Auditing standards also provide examples of five sources of information for analytical procedures.

Required:

- A. Describe three of the five general forms of analytical procedures.
- B. For each form, describe a typical source of the information for the form.
- C. For each source, include any questions or concerns an auditor would have about the reliability or relevancy of the source.

A) The five general forms of analytical procedures are:

- i. Comparison of current-year account balances to one or more prior periods.
- ii. Comparison of the current-year account balances to budgets and forecasts prepared by the company.
- iii. Evaluation of the relationships of current-year account balances to other current-year balances to determine if they conform to expectations based on the company's historical experience.
- iv. Comparison of current-year account balances and financial ratios with similar information for the industry in which the company operates.
- v. Study of the relationships of current-year account balances with relevant nonfinancial information (e.g., physical production statistics).

B) The five sources of information for analytical procedures are:

- i. Financial account information for prior period(s).
- ii. Company budgets and forecasts.
- iii. Financial relationships among accounts in the current period.
- iv. Industry statistics.
- v. Nonfinancial information, such as physical production statistics.

C) Concerns about relevance and reliability of the sources of information are:

- i. Has the financial information from prior period(s) been audited?
- ii. Are company budgets or forecasts generally accurate?
- iii. What processes does the client go through to develop these?
- iv. Are the industry statistics from a reliable source? Are the industry statistics specific enough to the client or the particular segment or division of the client being examined?
- v. Has the nonfinancial information been audited? Have the controls over the production of the nonfinancial information been tested?

Essay

*TB 08-31 Analytical procedures are
one type of evidence-gat...*

award:
341. 1.00 point

TB 08-32 A first-time audit requires more work than a conti...

A first-time audit requires more work than a continuing client. Identify some of the issues involved in the first audit of a company that do not occur in an ongoing engagement.

If an organization has been operating for a while but has never been audited, an auditor must include an audit of the beginning balances on the balance sheet in addition to the closing balances. In the case of accounts receivable, opening balances can be verified by reviewing cash receipts during the year. Fixed assets can be audited by examining the original purchase and ownership documents. Often, opening inventory is too time-consuming to audit which may result in a qualified opinion.

In addition, for any new audit, a review of several years' industry trends is necessary. Systems notes must be created to document internal control systems. Documents such as lease contracts, share registers, and borrowing arrangements must be accumulated for the permanent file. In an ongoing audit, these matters only need to be updated for any changes during the year.

Essay

*TB 08-32 A first-time audit requires
more work than a conti...*

award:
342. 1.00 point

TB 08-33 Contrast the qualitative aspects of evidence in te...

Contrast the qualitative aspects of evidence in terms of reliability.

- i. An auditor's direct, personal knowledge is considered the most reliable form of evidence.
- ii. Documentary evidence obtained from independent third parties is usually considered to be very reliable.
- iii. Documentary evidence that has originated outside of a client but has been received and processed by the client is considered to still be reliable but less reliable than evidence directly received from a third party.
- iv. Documentary evidence produced within a client's system is considered to be low in reliability. However, because it is easy to obtain, the quantity of evidence available can make up for the lack of reliability when the documents are prepared under satisfactory internal controls.
- v. Spoken or written representations given by client management are considered very weak evidence. It should be corroborated with other types of evidence.

Essay

*TB 08-33 Contrast the qualitative
aspects of evidence in te...*

award:
343. 1.00 point

TB 08-34 Identify the two types of audit programs and indic...

Identify the two types of audit programs and indicate the purpose of each.

The two types of audit programs are the internal control program and the balance-audit program. The internal control program specifies the procedures to follow in obtaining an understanding of the client's internal control system and assessing both inherent risk and control risk. The balance-audit program specifies the substantive procedures to follow in gathering direct evidence on the assertions about dollar amounts in the account balances.

Essay

*TB 08-34 Identify the two types of
audit programs and indic...*

award:
344. 1.00 point

TB 08-35 Since audit papers are the property of the auditor...

Since audit papers are the property of the auditor, what was fundamentally wrong about Arthur Andersen's decision to shred working papers related to the Enron audit.

Andersen's reputation declined in January 2002, when it announced publicly that it had shredded documents related to Enron's audit. This was after rumours began to circulate that Andersen should not have given a clean audit opinion on Enron's financial statements. Not only did shredding working papers give the appearance of guilt, since lawsuits had already been launched, Andersen may have in fact been guilty of obstructing justice. Perhaps more damaging, following the announcement that it shredded Enron audit documents, the share prices of Andersen's other clients experienced a significant drop. This indicated that investors downgraded the quality of the other audits performed by Andersen. These findings show the importance of the auditor's reputation to investors. If investors believe the audit is of low quality, they have less assurance that the company's financial statements reflect its real business performance and financial position. They assess a higher likelihood that its income and net book value are overstated and that the auditor has failed to report this. In reaction, Andersen's other clients dismissed Andersen as their auditors and Andersen was no longer able to stay in business.

Essay

*TB 08-35 Since audit papers are the
property of the auditor...*

award:
345. 1.00 point

TB 09-01 The COSO definition of internal control says that ...

The COSO definition of internal control says that internal control is a process to achieve objectives in which of the following categories?

- Compliance with applicable laws and regulations, usefulness of financial information for making decisions, and the ability of the company to continue in operation.
- Usefulness of financial information for making decisions, reliability of financial reporting, and the ability of the company to continue in operation.
- Reliability of financial reporting, the usefulness of financial information for making decisions, and compliance with applicable laws and regulations.
- Effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Multiple Choice

TB 09-01 The COSO definition of internal control says that ...

award:
346. 1.00 point

TB 09-02 The auditor's primary purpose for evaluating inter...

The auditor's primary purpose for evaluating internal control is to _____.

- help design of the final audit plan
- help management design internal control systems
- help judge how much control is necessary
- help determine much business risk is acceptable

Multiple Choice

TB 09-02 The auditor's primary purpose for evaluating inter...

award:
347. 1.00 point

TB 09-03 One of the auditor's primary concerns with regard ...

One of the auditor's primary concerns with regard to internal controls is _____.

- the degree to which the internal controls are working as designed
- the possibility of an inherent risk that has to be controlled
- the impact the controls have on the accuracy of the accounting records
- the amount of substantive work to be saved by testing controls instead

Multiple Choice

TB 09-03 One of the auditor's primary concerns with regard ...

award:
348. 1.00 point

TB 09-04 Which of the following is true regarding the finan...

Which of the following is true regarding the financial assertions?

- All assertions can be proved using only substantive procedures, but it would be too costly.
 - Some assertions are virtually impossible to prove without some evaluation of control effectiveness.
 - Some assertions can be proved using only an evaluation of control effectiveness.
 - The evaluation of control effectiveness is only used because it is more efficient than using only substantive procedures.
-

Multiple Choice

TB 09-04 Which of the following is true regarding the finan...

award:
349. 1.00 point

TB 09-05 Validity refers to _____.

Validity refers to _____.

- ensuring that transactions are not omitted from accounting records
 - ensuring that recorded transactions should have been recorded
 - ensuring that all recorded transactions have been approved before recording
 - ensuring that all recorded transactions have been recorded at the right dollar amount
-

Multiple Choice

TB 09-05 Validity refers to _____.

award:
350. 1.00 point

TB 09-06 The internal control objective of ensuring that al...

The internal control objective of ensuring that all sales on credit are recorded in accordance with GAAP is _____.

- accuracy
 - classification
 - accounting
 - proper period
-

Multiple Choice

TB 09-06 The internal control objective of ensuring that al...

award:
351. 1.00 point

TB 09-07 The internal control objective of accuracy is rela...

The internal control objective of accuracy is related to the financial statement assertion of _____.

- occurrence
- completeness
- valuation
- presentation

Multiple Choice

TB 09-07 The internal control objective of accuracy is rela...

award:
352. 1.00 point

TB 09-08 At the planning stage, the auditor's goal is to ___...

At the planning stage, the auditor's goal is to _____.

- select the most effective set of evidence-gathering techniques
- maximize audit fees
- select the most cost-effective set of evidence-gathering techniques
- minimize field work at remote locations

Multiple Choice

TB 09-08 At the planning stage, the auditor's goal is to ___...

award:
353. 1.00 point

TB 09-09 Key controls are those _____.

Key controls are those _____.

- over significant risks
- over physical access
- on which the auditor intends to rely
- designed by the audit committee to prevent management fraud

Multiple Choice

TB 09-09 Key controls are those _____.

award:
354. 1.00 point

TB 09-10 Which of the following statements is true?

Which of the following statements is true?

- Testing of controls is the most cost-efficient way of designing each audit.
 - Substantive testing is the most cost-efficient way of designing each audit.
 - As the work of testing of controls increases, the cost of substantive work increases.
 - There is a point where further testing of controls becomes more expensive than performing substantive tests.
-

Multiple Choice

TB 09-10 Which of the following statements is true?

award:
355. 1.00 point

TB 09-11 Anyone who designs a processing system should _____.

Anyone who designs a processing system should _____.

- not do the documentation
 - be independent of management
 - have access to the data so they can make the system more efficient
 - not do the technical programming work
-

Multiple Choice

TB 09-11 Anyone who designs a processing system should _____.

award:
356. 1.00 point

TB 09-12 What are the most cost-effective types of controls...

What are the most cost-effective types of controls over data?

- Design controls.
 - Batch controls.
 - Input controls.
 - Monitoring controls.
-

Multiple Choice

TB 09-12 What are the most cost-effective types of controls...

award:
357.1.00 point

TB 09-13 What is a walk through test?

What is a "walk through" test?

- A means of ensuring that transactions are processed as described in the control system flowchart.
 - A test of physical security over access to computer rooms.
 - A computer-assisted technique for processing client data on a different system.
 - An audit procedure carried out at the planning stage of an audit.
-

Multiple Choice

TB 09-13 What is a walk through test?

award:
358.1.00 point

TB 09-14 An auditor does not need to test _____.

An auditor does not need to test _____.

- control strengths because they are known to be strengths
 - control weaknesses because they are known to be weak
 - control strengths because they offset weaknesses
 - control weaknesses because they are offset by strengths
-

Multiple Choice

TB 09-14 An auditor does not need to test _____.

award:
359.1.00 point

TB 09-15 Process alignment refers to _____.

Process alignment refers to _____.

- the way that various IT systems are integrated to operate effectively as one system
 - control activities to ensure records are properly retained and secured
 - ensuring all network devices are at the current patch level
 - ensuring that firewalls are in place, backed up by password protection over data access
-

Multiple Choice

TB 09-15 Process alignment refers to _____.

award:
360.1.00 point

TB 09-16 One control benefit of an IT system is that it ____...

One control benefit of an IT system is that it _____.

- is efficient at processing large, unusual, or non-recurring transactions
 - can monitor the effectiveness of automated controls
 - adjusts rapidly to changing business processes
 - reduces the risk of controls being overridden
-

Multiple Choice

TB 09-16 One control benefit of an IT system is that it ____...

award:
361.1.00 point

TB 09-17 Before concluding on the effectiveness of a contro...

Before concluding on the effectiveness of a control, an auditor must determine _____.

- the required degree of company compliance with control procedures
 - the maximum possible dollar amount that would not affect a user's decision based on the financial statements
 - the actual degree of company compliance with control procedures
 - the nature, extent, and timing of planned substantive procedures
-

Multiple Choice

TB 09-17 Before concluding on the effectiveness of a contro...

award:
362.1.00 point

TB 09-18 Control tests should be applied to samples of tran...

Control tests should be applied to samples of transactions and control procedures _____.

- that occurred during the interim audit so that they provide direct auditor's knowledge
 - selected by management as being representative of all transactions processed
 - throughout the period being audited
 - that occur primarily close to reporting period ends such as year-end or quarter-end
-

Multiple Choice

TB 09-18 Control tests should be applied to samples of tran...

award:
363. 1.00 point

TB 09-19 The Handbook section Communication with Managemen...

The *Handbook* section "Communication with Management of Matters Identified During the Financial Statement Audit" requires that _____.

- all nontrivial misstatements are communicated to management in writing
 - all nontrivial misstatements and possible illegal acts are communicated to management
 - all serious control risks uncovered are communicated to management in writing
 - only frauds and illegal acts are communicated to management
-

Multiple Choice

*TB 09-19 The Handbook section
Communication with Managemen...*

award:
364. 1.00 point

TB 09-20 An auditor has uncovered suspicious expense reimbu...

An auditor has uncovered suspicious expense reimbursements paid to the chief executive officer of its audit client. What should the auditor do?

- Discuss the matter with the chief executive officer.
 - Report the matter in writing to the chief financial officer.
 - Report the matter in writing to the audit committee.
 - Report the matter in writing to the federal government.
-

Multiple Choice

*TB 09-20 An auditor has uncovered
suspicious expense reimbu...*

award:
365. 1.00 point

TB 09-21 If there have been no changes to a control that a ...

If there have been no changes to a control that a previous audit has found to be working effectively, _____.

- an auditor must still test the controls and not place reliance on the prior year's testing
 - an auditor must still test the controls but not to the same extent as the prior year's testing
 - an auditor can rely on the prior year's work and not test controls in the current year
 - an auditor can rely on the prior year's work but should test the controls every few years
-

Multiple Choice

*TB 09-21 If there have been no
changes to a control that a ...*

award:
366. 1.00 point

TB 09-22 Internal controls are put in place to keep the com...

Internal controls are put in place to keep the company on course toward achieving its goals.

- True
 False

True / False

*TB 09-22 Internal controls are put in
place to keep the com...*

award:
367. 1.00 point

TB 09-23 Controls such as those to protect inventory should...

Controls such as those to protect inventory should be put in place no matter what the cost.

- True
→ False

True / False

*TB 09-23 Controls such as those to
protect inventory should...*

award:
368. 1.00 point

TB 09-24 The primary reason to evaluate internal control is...

The primary reason to evaluate internal control is to formulate constructive suggestions for improvement.

- True
→ False

True / False

*TB 09-24 The primary reason to
evaluate internal control is...*

award:
369. 1.00 point

TB 09-25 A clean audit is normally associated with weak con...

A clean audit is normally associated with weak controls.

- True
→ False

True / False

*TB 09-25 A clean audit is normally
associated with weak con...*

award:
370. 1.00 point

TB 09-26 The auditor's control risk assessment will affect ...

The auditor's control risk assessment will affect the procedures to be included in the audit.

- True
 False

True / False

TB 09-26 The auditor's control risk assessment will affect ...

award:
371. 1.00 point

TB 09-27 The objective of control procedures is to process ...

The objective of control procedures is to process transactions correctly.

- True
 False

True / False

TB 09-27 The objective of control procedures is to process ...

award:
372. 1.00 point

TB 09-28 Classification refers to ensuring that the account...

Classification refers to ensuring that the accounting for transactions is in the period they occur.

- True
→ False

True / False

TB 09-28 Classification refers to ensuring that the account...

award:
373. 1.00 point

TB 09-29 General controls, like environmental controls, are...

General controls, like environmental controls, are primarily preventive in nature.

- True
 False

True / False

TB 09-29 General controls, like environmental controls, are...

award:
374. 1.00 point

TB 09-30 The most important feature of control is the docum...

The most important feature of control is the documentation of the policies and procedures.

- True
→ False

True / False

*TB 09-30 The most important feature
of control is the docum...*

award:
375. 1.00 point

TB 09-31 An advantage of using a pre-printed audit question...

An advantage of using a pre-printed audit questionnaire is that the auditor is less likely to forget to ask some important question.

- True
 False

True / False

*TB 09-31 An advantage of using a
pre-printed audit question...*

award:
376. 1.00 point

TB 09-32 All audit engagements require some minimal relianc...

All audit engagements require some minimal reliance on internal controls.

- True
→ False

True / False

*TB 09-32 All audit engagements
require some minimal relianc...*

award:
377. 1.00 point

TB 09-33 Control activities are often designed to speed pro...

Control activities are often designed to speed processing of transactions.

- True
→ False

True / False

*TB 09-33 Control activities are often
designed to speed pro...*

award:
378. 1.00 point

TB 09-34 Intent is something that the auditor can observe a...

Intent is something that the auditor can observe and use in deciding whether a misstatement is an error or a fraud.

- True
→ False

True / False

*TB 09-34 Intent is something that the
auditor can observe a...*

award:
379. 1.00 point

TB 09-35 Control tests and substantive tests of balances ar...

Control tests and substantive tests of balances are easily distinguishable.

- True
→ False

True / False

*TB 09-35 Control tests and
substantive tests of balances ar...*

award:
380. 1.00 point

TB 09-36 Identify three general categories of misstatements...

Identify three general categories of misstatements and give an example of each.

Any three of the following:

- i. Invalid transactions are recorded. An example would be if fictitious sales to non-existent customers are recorded.
- ii. Valid transactions are omitted from the accounts. For example, if shipments to customers are not recorded.
- iii. Unauthorized transactions are executed and recorded. An example would be if a credit is not approved for a customer order but the goods are shipped and invoiced anyway.
- iv. Transaction amounts are not recorded accurately. An item is recorded as sold but the quantity shipped is entered incorrectly on the invoice.
- v. Transaction amounts recorded in the wrong account. For example, direct labour is recorded as a salary expense rather than as a cost of production.
- vi. Accounting is not in accordance with GAAP. For example, inventory is not written down to the lower of cost or market.
- vii. Transactions are recorded in the wrong period. For example, products shipped after year-end are recorded as a sale during the year.

Essay

*TB 09-36 Identify three general
categories of misstatements...*

award:
381 1.00 point

TB 09-37 An auditor is required to obtain a sufficient unde...

An auditor is required to obtain a sufficient understanding of internal control to plan the audit. This requirement encompasses obtaining an understanding of the control environment, the accounting system, and the control policies and procedures.

Required:

- A) What are some of the reasons for obtaining an understanding of an audit client's internal control?
- B) What audit work is required for an auditor to be able to assess control risk below maximum?
- C) Should an auditor always try to obtain enough evidence to be able to assess control risk below maximum? Explain.

A) Reasons for obtaining an understanding of internal control.

- i. To assist the auditor in determining the nature, timing, and extent of substantive procedures.
- ii. To obtain information about control weaknesses that should be reported to management, and the board of directors.
- iii. To identify areas at risk of material misstatement.

B) Audit work required.

- i. Tests of controls to evaluate the actual effectiveness of control policies and procedures.
- ii. Documentation of the results of tests of controls.
- iii. Documentation of control risk assessment.

C) Should an auditor always seek to assess control risk below maximum?

- i. Not necessarily. Assessing control risk at maximum is acceptable and, in fact, may be the only option.
- ii. The cost of performing the work should always be considered in light of the benefits to be obtained. It may be more efficient to assess control risk at maximum and perform expanded substantive procedures only.

Essay

*TB 09-37 An auditor is required to
obtain a sufficient unde...*

award:
382 1.00 point

TB 09-38 What internal control objective is affected by cut...

What internal control objective is affected by cut off errors? Why are they of such concern to auditors?

The control objective of proper period relates to the cut off aspect of the existence and completeness assertions. The risk of errors occurring is high because they are somewhat non-routine events. Cutoff errors can also easily occur as a result of management manipulation such as recording sales early or expenses late.

Essay

*TB 09-38 What internal control
objective is affected by cut...*

award:
383.1.00 point

TB 09-39 Why should an auditor not rely on substantive test...

Why should an auditor not rely on substantive testing to the exclusion of testing internal controls?

A major goal in audits is to be efficient. This means performing the work in minimum time while still obtaining sufficient, appropriate audit evidence. The allocation of work between control testing and substantive testing is a cost-benefit trade-off. The more auditors rely on internal controls, the less substantive year-end work they need to do. However, auditors do not need to evaluate the entire internal control system. They should test controls in situations when it is more efficient to test controls than to do substantive testing, such as when there is a large number of small transactions making up an account balance.

Essay

*TB 09-39 Why should an auditor not
rely on substantive test...*

award:
384.1.00 point

TB 09-40 List and give some examples of five security compo...

List and give some examples of five security components of a well-designed IT system.

- i. Network security refers to network segmentation, intrusion detection software, all network devices at current patch level.
- ii. Database security refers to control administrator access accounts, update access restrictions.
- iii. Operating system security refers to O/S upgrades and penetration audits.
- iv. External security refers to firewalls, modem and wireless access, logging account usage.
- v. Application security refers to restricting access for users, review transaction routing, application triggers for unusual items, purge old users.
- vi. Physical security refers to annual restricting access to machines, video surveillance, cardkey access, physical security audit, intrusion tests.
- vii. Business continuance and disaster preparedness refers to server, applications, firewall and ISP redundancy, business continuance security plan stored off-site.

Essay

*TB 09-40 List and give some
examples of five security compo...*

award:
385.1.00 point

TB 09-41 For audits of financial institutions, auditors have a well-being reporting requirement. List four matters that must be reported under federal institutions legislation.

For audits of financial institutions, auditors have a well-being reporting requirement. List four matters that must be reported under federal institutions legislation.

Examples of reportable conditions include any four of the following:

- i. Significant weaknesses in internal control.
- ii. Going concern uncertainties that require disclosure or change in accounting basis.
- iii. Reservations in the audit opinion.
- iv. Indicators of a lack of good faith by management.
- v. Contraventions of legislated capital requirements.

Essay

TB 09-41 For audits of financial institutions, auditors have a well-being reporting requirement. List four matters that must be reported under federal institutions legislation.

award:
386. 1.00 point

TB 09-42 Below are the seven internal control objectives.A)...

Below are the seven internal control objectives.

- A) Validity
- B) Completeness
- C) Authorization
- D) Accuracy
- E) Classification
- F) Accounting and posting
- G) Proper period

For each of the following control procedures, identify the internal control objective that applies and place the correct letter in the space provided.

- ____ 1. Match shipping documents to sales invoices before recording the transaction in the sales journal.
- ____ 2. Reconcile the accounts receivable subsidiary ledger to the general ledger control account.
- ____ 3. The sales manager must approve any discounts taken after the discount period.
- ____ 4. Compare the quantity shipped per the shipping documents to the quantity billed per the sales invoice, check prices to approved price lists, and recalculate extensions and totals before the recording the sale.
- ____ 5. Account for numerical sequence of pre-numbered shipping documents.

- 1 A
- 2 F
- 3 C
- 4 D
- 5 B

Essay

TB 09-42 Below are the seven internal control objectives.A)...

award:
387. 1.00 point

TB 10-01 The set of all of the elements that comprise an ac...

The set of all of the elements that comprise an account balance or a class of transactions is referred to as a _____.

- sampling unit
- sample
- population unit
- population

Multiple Choice

TB 10-01 The set of all of the elements that comprise an ac...

award:
388. 1.00 point

TB 10-02 Which of the following audit procedures is NOT typ...

Which of the following audit procedures is NOT typically used in audit sampling applications?

- Observation of personnel and procedures.
- Physical count of tangible assets.
- Recalculation.
- Confirmation.

Multiple Choice

*TB 10-02 Which of the following
audit procedures is NOT typ...*

award:
389. 1.00 point

TB 10-03 An advantage of statistical sampling over nonstati...

An advantage of statistical sampling over nonstatistical sampling is that statistical sampling helps an auditor to _____.

- minimize the failure to detect errors and irregularities
- eliminate the risk of nonsampling errors
- reduce the level of audit risk and materiality to a relatively low amount
- make a preliminary estimate of the appropriate sample size

Multiple Choice

*TB 10-03 An advantage of statistical
sampling over nonstati...*

award:
390. 1.00 point

TB 10-04 Which of the following is an advantage of statisti...

Which of the following is an advantage of statistical sampling?

- It permits a less rigid approach to unique audit problems.
- It uses an evaluation method that allows evaluation of the sample on factors other than the sample evidence.
- It permits auditors to use a computer to select a random sample.
- It requires auditors to be exact in their judgments on risk and materiality.

Multiple Choice

*TB 10-04 Which of the following is
an advantage of statisti...*

award:
391. 1.00 point

TB 10-05 The probability that an auditor's conclusion based...

The probability that an auditor's conclusion based on a sample might differ from the auditor's conclusion based on an audit of the entire population identifies the concept of _____.

- sampling risk
 - confidence levels
 - statistical sampling
 - tolerable rate and the expected deviation rate
-

Multiple Choice

TB 10-05 The probability that an auditor's conclusion based...

award:
392. 1.00 point

TB 10-06 Which description best illustrates sampling risk?

Which description best illustrates sampling risk?

- Applying audit procedures that are inappropriate for the audit objectives.
 - Failing to recognize errors or deviations in the documents examined.
 - Arriving at incorrect statistical conclusions because of computational errors.
 - Choosing a sample that does not represent the population.
-

Multiple Choice

TB 10-06 Which description best illustrates sampling risk?

award:
393. 1.00 point

TB 10-07 Nonstatistical sampling may be better to use than ...

Nonstatistical sampling may be better to use than statistical sampling when _____.

- the auditor has insufficient knowledge about the population to take a statistical sample
 - the inherent risk of error in the population is low
 - the population is known to be diverse, with a high inherent risk of error
 - auditors are not technically proficient in sampling
-

Multiple Choice

TB 10-07 Nonstatistical sampling may be better to use than ...

award:
394. 1.00 point

TB 10-08 If the association of population items with random...

If the association of population items with random numbers is difficult and expensive, but the auditor does not have sufficient knowledge about the population, the auditor should _____.

- use nonstatistical sampling
 - use statistical sampling
 - use a computer to analyze the population and then decide which method to use
 - first determine the possible impacts of an error in the population on the financial statements to decide if sampling is reasonable
-

Multiple Choice

TB 10-08 If the association of population items with random...

award:
395. 1.00 point

TB 10-09 In testing controls over invoices, an auditor disc...

In testing controls over invoices, an auditor discovers that in 10% of her statistical sample invoices were sent for full shipments, even if shipping documents suggested partial shipments. In this case, she would likely _____.

- increase her sample size to determine the extent of the control weakness
 - recalculate control risk to determine if there is any effect on the nature, timing, or extent of her year-end procedures
 - conclude that controls are working at 90% effectiveness and classify control risk as low
 - consult with her partner to consider launching a fraud investigation
-

Multiple Choice

TB 10-09 In testing controls over invoices, an auditor disc...

award:
396. 1.00 point

TB 10-10 The purpose of tests of controls is to determine w...

The purpose of tests of controls is to determine whether _____.

- internal control policies and procedures are working as prescribed
 - substantive testing can be kept to a minimum
 - errors and irregularities are prevented or detected in a timely manner
 - the auditor has an understanding of the control system
-

Multiple Choice

TB 10-10 The purpose of tests of controls is to determine w...

award:
397.1.00 point

TB 10-11 Which of the following is a term used to describe ...

Which of the following is a term used to describe a departure from a prescribed internal control procedure?

- Exception.
 - Event.
 - Misstatement.
 - Known error.
-

Multiple Choice

TB 10-11 Which of the following is a term used to describe ...

award:
398.1.00 point

TB 10-12 For which of the following audit tests is an audit...

For which of the following audit tests is an auditor most likely to use attribute sampling?

- Making an independent estimate of the amount of a FIFO inventory.
 - Examining invoices in support of the valuation of fixed asset additions.
 - Selecting accounts receivable for confirmation of account balances.
 - Inspecting employee time cards for proper approval by supervisors.
-

Multiple Choice

TB 10-12 For which of the following audit tests is an audit...

award:
399.1.00 point

TB 10-13 Which of the following is used in attribute sampli...

Which of the following is used in attribute sampling to determine the sample size?

- Sampling risk, sample deviation rate, and tolerable deviation rate.
 - Sampling risk, sample deviation rate, and expected population deviation rate.
 - Sampling risk, tolerable deviation rate, and expected population deviation rate.
 - Sample deviation rate, tolerable deviation rate, and expected population deviation rate.
-

Multiple Choice

TB 10-13 Which of the following is used in attribute sampli...

award:
400.1.00 point

TB 10-14 In a sample-based audit of an account balance, whi...

In a sample-based audit of an account balance, which of the following combinations properly expresses the relationship between changes in the factors indicated and changes in sample size?

- | | | |
|--------------------------|-------------------------|-----------------------------|
| Tolerable Deviation Rate | Expected Deviation Rate | Risk of Incorrect Rejection |
| Direct | Inverse | Direct |
- | | | |
|--------------------------|-------------------------|-----------------------------|
| Tolerable Deviation Rate | Expected Deviation Rate | Risk of Incorrect Rejection |
| Inverse | Direct | Inverse |
- | | | |
|--------------------------|-------------------------|-----------------------------|
| Tolerable Deviation Rate | Expected Deviation Rate | Risk of Incorrect Rejection |
| Inverse | Inverse | Inverse |
- | | | |
|--------------------------|-------------------------|-----------------------------|
| Tolerable Deviation Rate | Expected Deviation Rate | Risk of Incorrect Rejection |
| Inverse | Inverse | Direct |

Multiple Choice

TB 10-14 In a sample-based audit of an account balance, whi...

award:
401.1.00 point

TB 10-15 The risk model is defined as $AR = IR \times CR$ &t...

The risk model is defined as $AR = IR \times CR \times DR$. The risk of assessing control risk too low can lead to _____.

- the auditor performing more work than needed, thus wasting resources
- the auditor failing to do additional work that should be done
- poor choice of procedures
- expanding sample sizes required for statistical sampling of account balances

Multiple Choice

TB 10-15 The risk model is defined as $AR = IR \times CR$ &t...

award:
402.1.00 point

TB 10-16 As a result of tests of controls, an auditor asses...

As a result of tests of controls, an auditor assessed control risk too low and decreased substantive testing. This assessment resulted because the true deviation rate in the population was _____.

- more than the risk of assessing control risk too low based on the auditor's sample
- less than the risk of assessing control risk too low based on the auditor's sample
- more than the deviation rate in the auditor's sample
- less than the deviation rate in the auditor's sample

Multiple Choice

TB 10-16 As a result of tests of controls, an auditor asses...

award:
403. 1.00 point

TB 10-17 The risk of assessing control risk too high is the...

The risk of assessing control risk too high is the risk that the evidence of compliance with control procedures in the sample indicates _____.

- low control risk when the actual degree of compliance does not justify a low control risk assessment
 - low control risk when the actual degree of compliance justifies a low control risk assessment
 - high control risk when the actual degree of compliance would justify a lower control risk assessment
 - high control risk when the actual degree of compliance would justify a higher control risk assessment
-

Multiple Choice

TB 10-17 The risk of assessing control risk too high is the...

award:
404. 1.00 point

TB 10-18 Detection risk is the risk that the auditor will n...

Detection risk is the risk that the auditor will not detect material misstatements in the accounts. To limit detection risk to an acceptable level, the auditor _____.

- performs substantive tests
 - tests controls
 - gains an understanding of the internal control system
 - applies statistical methods
-

Multiple Choice

TB 10-18 Detection risk is the risk that the auditor will n...

award:
405. 1.00 point

TB 10-19 When performing the substantive tests on an accoun...

When performing the substantive tests on an account balance, the auditor is concerned about two aspects of sampling-based decision errors: (1) the risk of incorrect rejection (RIR) and (2) the risk of incorrect acceptance (RIA). Which of the following is true about RIR and RIA?

- RIR is of greater concern to the auditor than the RIA.
 - RIA is of greater concern to the auditor than the RIR.
 - RIA and the RIR are of equal importance to the auditor.
 - Neither the RIR nor the RIA need be considered by the auditor.
-

Multiple Choice

TB 10-19 When performing the substantive tests on an accoun...

award:
406. 1.00 point

TB 10-20 Which of the following courses of action is an aud...

Which of the following courses of action is an auditor most likely to follow in designing a sampling plan for cash disbursements if the auditor is aware of several unusually large cash disbursements?

- Increase the sample size to reduce the effect of the unusually large disbursements.
 - Continue to draw new samples until all the unusually large disbursements are included in the sample.
 - Set the tolerable deviation rate at a lower level than originally planned.
 - Stratify the cash disbursements population so that all of the unusually large disbursements are selected.
-

Multiple Choice

TB 10-20 Which of the following courses of action is an aud...

award:
407. 1.00 point

TB 10-21 After extrapolating the results of performing subs...

After extrapolating the results of performing substantive tests on a sample of accounts from the accounts receivable subsidiary ledger, Allen CA concluded that the accounts receivable balance was materially misstated. In fact, the balance was materially correct. This situation illustrates the risk of _____.

- incorrect rejection
 - incorrect acceptance
 - assessing control risk too low
 - assessing control risk too high
-

Multiple Choice

TB 10-21 After extrapolating the results of performing subs...

award:
408. 1.00 point

TB 10-22 The standard deviation of a population of data is ...

The standard deviation of a population of data is a statistical measure of _____.

- how much data are skewed
 - how much data are correlated
 - the dispersion of data
 - the average value of data items
-

Multiple Choice

TB 10-22 The standard deviation of a population of data is ...

award:
409. 1.00 point

TB 10-23 A number of factors can affect the size of a sampl...

A number of factors can affect the size of a sample for a substantive audit of the details of an account balance. All other factors being equal, which of the following would lead to a larger sample size?

- A lower assessed level of control risk.
 - Using a larger number of effective analytical procedures to obtain evidence about particular assertions.
 - Smaller expected frequency of account item errors.
 - Smaller measure of tolerable misstatement.
-

Multiple Choice

TB 10-23 A number of factors can affect the size of a sampl...

award:
410. 1.00 point

TB 10-24 In the audit of account balances, the sample size ...

In the audit of account balances, the sample size will tend to be smaller when the _____.

- risk of incorrect acceptance is lower
 - risk of incorrect rejection is lower
 - tolerable misstatement is smaller
 - population variability is smaller
-

Multiple Choice

TB 10-24 In the audit of account balances, the sample size ...

award:
411. 1.00 point

TB 10-25 The total amount of monetary error that is found i...

The total amount of monetary error that is found in a sample is referred to as the _____.

- projected likely misstatement
 - tolerable misstatement
 - known misstatement
 - possible misstatement
-

Multiple Choice

TB 10-25 The total amount of monetary error that is found i...

award:
412. 1.00 point

TB 10-26 When evaluating the results of substantive audit p...

When evaluating the results of substantive audit procedures, auditors run the sampling risk(s) of _____.

- assessing control risk too high or too low
 - incorrect acceptance and incorrect rejection of the population
 - assessing control risk too low only
 - incorrect acceptance of the population only
-

Multiple Choice

TB 10-26 When evaluating the results of substantive audit p...

award:
413. 1.00 point

TB 10-27 The amount by which a projected likely misstatemen...

The amount by which a projected likely misstatement differs from an actual misstatement is usually the result of _____.

- a misunderstanding of accounting principles
 - sampling error
 - management override of an internal control procedure
 - risk of incorrect acceptance
-

Multiple Choice

TB 10-27 The amount by which a projected likely misstatemen...

award:
414. 1.00 point

TB 10-28 Green CA audited the inventory of ABC Company on a...

Green CA audited the inventory of ABC Company on a sample basis. Green audited a sample of 120 items and found a net overstatement of \$600. The audited sample had a recorded value of \$12,000. The entire inventory contained 2,400 items with a total book value of \$280,000. The projected likely overstatement using the average difference method is _____.

- \$12,000
 - \$14,000
 - \$48,000
 - \$56,000
-

Multiple Choice

TB 10-28 Green CA audited the inventory of ABC Company on a...

award:
415. 1.00 point

TB 10-29 Green CA audited the inventory of ABC Company on a...

Green CA audited the inventory of ABC Company on a sample basis. Green audited a sample of 120 items and found a net overstatement of \$600. The audited sample had a recorded value of \$12,000. The entire inventory contained 2,400 items with a total book value of \$280,000. The projected likely overstatement using the dollar unit sampling method is _____.

- \$12,000
- \$14,000
- \$48,000
- \$56,000

Multiple Choice

TB 10-29 Green CA audited the inventory of ABC Company on a...

award:
416. 1.00 point

TB 10-30 The determination of an appropriate sample on a re...

The determination of an appropriate sample on a representative basis must be made using statistical methods.

- True
- False

True / False

TB 10-30 The determination of an appropriate sample on a re...

award:
417. 1.00 point

TB 10-31 Analytical procedures, such as vertical analysis, ...

Analytical procedures, such as vertical analysis, ratio calculations, and time series analysis, are usually done on a sample basis.

- True
- False

True / False

TB 10-31 Analytical procedures, such as vertical analysis, ...

award:
418. 1.00 point

TB 10-32 If statistical calculations were not applied, then...

If statistical calculations were not applied, then a sampling method would be considered nonstatistical, even though a random sample was selected.

- True
 False

True / False

TB 10-32 If statistical calculations were not applied, then...

award:
419. 1.00 point

TB 10-33 Nonstatistical sampling is audit sampling in which...

Nonstatistical sampling is audit sampling in which auditors do not use the probability calculations to express the results.

- True
 False

True / False

TB 10-33 Nonstatistical sampling is audit sampling in which...

award:
420. 1.00 point

TB 10-34 When auditors perform procedures using statistical...

When auditors perform procedures using statistical sampling and obtain sufficient evidence, a conclusion about the population characteristics will not be wrong.

- True
→ False

True / False

TB 10-34 When auditors perform procedures using statistical...

award:
421. 1.00 point

TB 10-35 Sampling risk is the risk that the sample does not...

Sampling risk is the risk that the sample does not represent the population.

- True
 False

True / False

TB 10-35 Sampling risk is the risk that the sample does not...

award:
422. 1.00 point

TB 10-36 An example of nonsampling risk is the selection of...

An example of nonsampling risk is the selection of a random sample that is not representative of the population.

- True
→ False

True / False

*TB 10-36 An example of
nonsampling risk is the selection of...*

award:
423. 1.00 point

TB 10-37 Nonsampling risk exists in both statistical and no...

Nonsampling risk exists in both statistical and nonstatistical sampling.

- True
 False

True / False

*TB 10-37 Nonsampling risk exists in
both statistical and no...*

award:
424. 1.00 point

TB 10-38 Attribute sampling is audit sampling in which audi...

Attribute sampling is audit sampling in which auditors look for the presence or absence of a control condition.

- True
 False

True / False

*TB 10-38 Attribute sampling is audit
sampling in which audi...*

award:
425. 1.00 point

TB 10-39 Auditing a larger sample reduces the probability o...

Auditing a larger sample reduces the probability of determining that the control is working well when in fact it is not.

- True
→ False

True / False

*TB 10-39 Auditing a larger sample
reduces the probability o...*

426. ^{award:} 1.00 point

TB 10-40 Assessing control risk too low threatens the effic...

Assessing control risk too low threatens the efficiency of the audit but not the effectiveness.

- True
→ False

True / False

TB 10-40 Assessing control risk too low threatens the effic...

427. ^{award:} 1.00 point

TB 10-41 The sample deviation rate is the best single-point...

The sample deviation rate is the best single-point estimate of the actual, but unknown, deviation rate in the population.

- True
 False

True / False

TB 10-41 The sample deviation rate is the best single-point...

428. ^{award:} 1.00 point

TB 10-42 Using the audit risk model: If audit risk is 0.05,...

Using the audit risk model: If audit risk is 0.05, inherent risk is 1.0, control risk is 0.20, and analytical procedures risk is 1.0, the risk of incorrect acceptance is 0.25.

- True
 False

True / False

TB 10-42 Using the audit risk model: If audit risk is 0.05,...

429. ^{award:} 1.00 point

TB 10-43 In specifying the objectives for substantive testi...

In specifying the objectives for substantive testing of accounts receivable, an auditor hypothesizes that the company does not have a right to collect the money, and looks for evidence that they do.

- True
→ False

True / False

TB 10-43 In specifying the objectives for substantive testi...

award:
430. 1.00 point

TB 10-44 The risk of incorrect rejection exists both in sta...

The risk of incorrect rejection exists both in statistical and nonstatistical sampling.

- True
 False

True / False

TB 10-44 The risk of incorrect rejection exists both in sta...

award:
431. 1.00 point

TB 10-45 In making a decision about the extent of misstatem...

In making a decision about the extent of misstatement in a population, the known misstatement in the sample must be projected to the population.

- True
 False

True / False

TB 10-45 In making a decision about the extent of misstatem...

award:
432. 1.00 point

TB 10-46 When the projected likely misstatement is greater ...

When the projected likely misstatement is greater than the tolerable misstatement in a sample-based audit of an account balance, the auditor can decide that the account balance is materially misstated and therefore run the risk of incorrect acceptance.

- True
→ False

True / False

TB 10-46 When the projected likely misstatement is greater ...

award:
433.1.00 point

TB 10-47 Jack and Jill, two auditors who have separate acco...

Jack and Jill, two auditors who have separate accounting practices, have independently assessed the risks associated with the accounts receivable of their respective clients. The appropriate audit risk for both is determined to be .02. Both agree that inherent risk should be set at the maximum (1.0) and that no analytical procedures will be performed. Jack evaluates control risk as moderate (.40), while Jill assesses it as relatively low (.20). Using the audit risk model, answer the following questions.

Required:

- A) What is the risk of incorrect acceptance for Jack and for Jill?
- B) Based on your answer in part (A), which auditor will have to collect the most evidence? Explain your reasoning.
- C) What effect does differing assessments of control risk have on the sample size of accounts receivable? Explain.

A) Using the audit risk model, the risk of incorrect acceptance is as follows:

$$RIA = AR/IR \times CR \times APR$$

$$\text{For Jack, } RIA = .02/1 \times .4 \times 1 = .05$$

$$\text{For Jill, } RIA = .02/1 \times .2 \times 1 = .10$$

B) In general, the lower the risk of incorrect acceptance required by the auditor, the more evidence that will have to be collected. Therefore, Jack, who has an RIA of .05, will require more evidence than Jill.

C) As noted in part (B), the lower the risk of incorrect acceptance, the larger the sample must be. Therefore, Jack's sample for accounts receivable must be larger than Jill's sample. This makes sense because the less risk the auditor is willing to take, the more evidence the auditor requires. If the auditor requires more evidence, then the auditor must draw larger samples.

Essay

*TB 10-47 Jack and Jill, two auditors
who have separate acco...*

award:
434.1.00 point

TB 10-48 Left and Right PAs audited the accounts receivable...

Left and Right PAs audited the accounts receivable of Investo Limited on a sample basis. There were 2,000 customer accounts in the subsidiary ledger with a total recorded value of \$375,000. As part of the audit program, Left and Right selected a sample of 100 accounts having a recorded value of \$20,000. They performed the audit procedures and determined that the audited amount of the sample totalled \$19,000.

Required:

- A) Calculate the projected likely misstatement (PLM) using (1) the average difference method and (2) the ratio method.
B) Evaluate the results of the calculation in part (A). Assume that Left and Right set the tolerable misstatement for accounts receivable at \$25,000.

A) (1) Average difference method:

$$\begin{aligned} \text{PLM} &= \frac{\text{sample misstatement} \times \text{Number of population units}}{\text{Number of sampling units}} \\ &= \frac{(\$1,000 \times 2,000)}{100} = \$20,000 \end{aligned}$$

(2) Ratio method

$$\begin{aligned} \text{PLM} &= \frac{\text{sample misstatement} \times \text{Population value}}{\text{recorded value}} \\ &= \$1,000 \times \frac{\$375,000}{\$20,000} \\ &= \$18,750 \end{aligned}$$

B) Since \$20,000 and \$18,750 are both well below the tolerable misstatement of \$25,000, accounts receivable is probably not materially misstated. However, this does not take sampling error into account.

Essay

*TB 10-48 Left and Right PAs audited
the accounts receivable...*

award:
435.1.00 point

TB 10-49 Assume several auditors selected various unrestric...

Assume several auditors selected various unrestricted, unstratified random samples from a population of 1,200 customers' accounts receivable with a recorded value of \$480,000. The results of their tests are shown in the table below.

Projected Likely Misstatement
 Overstatement (Understatement)

	Sample Size	Recorded Balances	Audited Balances	Avg.Diff.Meth.	DUS Method
1.	150	\$60,600	\$60,000	\$	\$
2.	200	\$81,000	\$80,400	\$	\$
3.	240	\$97,200	\$98,000	\$	\$
4.	300	\$120,366	\$120,000	\$	\$
5.	340	\$135,320	\$133,620	\$	\$

Required:

For each of the sample sizes, calculate the projected likely misstatement (PLM) using (1) average difference method, and (2) the Dollar Unit Sample method. Treat each case independently. Round the PLM solutions to the nearest dollar.

--

Projected Likely Misstatement
 Overstatement (Understatement)

	Sample Size	Recorded Balances	Audited Balances	Avg.Diff.Meth.	DUS Method
1.	150	\$60,600	\$60,000	\$4,800	\$4,752
2.	200	\$81,000	\$80,400	\$3,600	\$3,556
3.	240	\$97,200	\$98,000	(\$4,000)	(\$3,951)
4.	300	\$120,366	\$120,000	\$1,464	\$1,460
5.	340	\$135,320	\$133,620	\$6,000	\$6,030

Essay

TB 10-49 Assume several auditors selected various unrestric...

award:
436.1.00 point

TB 10-50 Calculate the projected likely misstatement (PLM) ...

Calculate the projected likely misstatement (PLM) for the data given below using the average difference method and the ratio method. (Round to the nearest dollar.)

	Case A	Case B
Population size (logical units)	1,500 customer accounts	1,500 customer accounts
Population size (acct. rec. total)	\$300,000	\$300,000
Sample size (logical units)	100	300
Book value in sample	\$23,466	\$62,095
Audited value in sample	\$22,431	\$60,295
<u>Projected Likely Misstatement:</u>		
Difference Method:	\$ _____	\$ _____
Dollar Unit Sample Method:	\$ _____	\$ _____

--

<u>Projected Likely Misstatement:</u>		
Difference Method:	\$ 15,525	\$ 9,000
Dollar Unit Sample Method:	\$ 13,232	\$ 8,696

Essay

TB 10-50 Calculate the projected likely misstatement (PLM) ...

award:
437 .1.00 point

TB 10-51 Below are steps in the process of tests of control...

Below are steps in the process of tests of controls for assessing control risk. Indicate, using the correct letter, the phase in which the step belongs.

- A: Problem recognition phase
- B: Evidence collection phase
- C: Evidence evaluation phase

- _____ 1. Define the deviation conditions.
- _____ 2. Calculate the sample deviation rate.
- _____ 3. Judge the deviation rate in relation to the tolerable rate.
- _____ 4. Determine the sample size.
- _____ 5. Define the population.
- _____ 6. Perform procedures to test the controls.
- _____ 7. Specify the audit objectives.

- 1. A
- 2. C
- 3. C
- 4. B
- 5. A
- 6. B
- 7. A

Essay

*TB 10-51 Below are steps in the
process of tests of control...*

award:
438.1.00 point

TB 10-52 Statements or examples that relate to audit sampli...

Statements or examples that relate to audit sampling are listed below. Match the statements 1 through 5 to the term (A through D) that it best describes and place the identifying letter in the space provided.

- A: Statistical sampling
- B: Nonstatistical sampling
- C: Sampling risk
- D: Nonsampling risk

- ____ 1. Jones CA selected a sample and evaluated the results of her sample using the laws of probability.
- ____ 2. Wilson CA checked to see if there were any signatures in the credit approval box on a sample of sales orders rather than looking only for authorized signatures.
- ____ 3. Based on a statistical sample, Jackson CA concluded that the client's control system was working on an acceptable basis when in fact the population deviation rate was unacceptable.
- ____ 4. For his sample Barnum CA selected all invoices over \$1,000 and all invoices recorded on the 15th of each month.
- ____ 5. When a client could not produce an invoice for a sample selected by the auditor, the auditor accepted the client's assurance that the invoice contained the appropriate approval.

- 1. A
- 2. D
- 3. C
- 4. D

Essay

*TB 10-52 Statements or examples
that relate to audit sampli...*

award:
439.1.00 point

TB 11-01 Which of the following lists outlines the best ord...

Which of the following lists outlines the best order for a typical sequence of activities in the revenue and collection cycle?

- Delivering goods, billing customers, credit granting, collection activity.
- Customer ordering, delivering goods, billing customer, cash receipts.
- Customer ordering, delivering goods, credit granting, collection activity.
- Credit granting, billing customers, delivering goods, cash receipts.

Multiple Choice

*TB 11-01 Which of the following lists
outlines the best ord...*

award:
440. 1.00 point

TB 11-02 Typical source documents involved in the revenue a...

Typical source documents involved in the revenue and collection cycle would be _____.

- cash disbursements
- shipping documents
- inventory listings
- vendor invoices

Multiple Choice

*TB 11-02 Typical source documents
involved in the revenue a...*

award:
441. 1.00 point

TB 11-03 When the credit manager decides a customer's accou...

When the credit manager decides a customer's account is considered to be uncollectible, the decision should be reviewed by the controller to _____.

- ensure the bad debts account is within budget
- ensure the credit manager has not written off the account as a favour to a friend
- begin a lawsuit to collect the money
- inform the police

Multiple Choice

*TB 11-03 When the credit manager
decides a customer's accou...*

award:
442. 1.00 point

TB 11-04 Upon receipt of customer cheques in the mailroom, ...

Upon receipt of customer cheques in the mailroom, a responsible employee should prepare a remittance listing and forward it to the cashier. A copy of the listing should be sent to the _____.

- internal auditor to investigate the listing for unusual transactions
- controller to compare the listing with the monthly bank statement
- accounts receivable bookkeeper to update the subsidiary accounts receivable records
- entity's bank to compare the listing with the cashier's deposit slip

Multiple Choice

*TB 11-04 Upon receipt of customer
cheques in the mailroom, ...*

award:
443. 1.00 point

TB 11-05 Which of the following internal control procedures...

Which of the following internal control procedures is most likely to ensure that all billed sales are correctly posted to the accounts receivable subsidiary ledger?

- Daily sales summaries are compared to daily postings to the accounts receivable subsidiary ledger.
 - Each sales invoice is supported by a pre-numbered shipping document.
 - The accounts receivable subsidiary ledger is reconciled daily to the control account in the general ledger.
 - Each shipment on credit is supported by a pre-numbered sales invoice.
-

Multiple Choice

*TB 11-05 Which of the following
internal control procedures...*

award:
444. 1.00 point

TB 11-06 In evaluating the adequacy of the allowance for do...

In evaluating the adequacy of the allowance for doubtful accounts, an auditor is most likely to review the aging of receivables as evidence and support for management's financial statement assertion of _____.

- existence or occurrence
 - valuation or allocation
 - completeness
 - rights and obligations
-

Multiple Choice

*TB 11-06 In evaluating the adequacy
of the allowance for do...*

award:
445. 1.00 point

TB 11-07 The most frequent reconciliation is the comparison...

The most frequent reconciliation is the comparison of the sum of customers' unpaid balances with the accounts receivable control account total. Usually, this reconciliation is done with a(n) _____.

- aged trial balance
 - capital asset sub-ledger
 - bank statement
 - customer statement
-

Multiple Choice

*TB 11-07 The most frequent
reconciliation is the comparison...*

award:
446. 1.00 point

TB 11-08 Which of the following procedures would best lead ...

Which of the following procedures would best lead to an understanding of the transaction flow in the revenue and collection cycle?

- Enquiry.
 - Observation.
 - Confirmations.
 - Inspecting a sample of documents.
-

Multiple Choice

TB 11-08 Which of the following procedures would best lead ...

award:
447. 1.00 point

TB 11-09 Which of the following is most likely to be detect...

Which of the following is most likely to be detected by an auditor's review of a client's sales cut off?

- Shipments lacking sales invoices and shipping documents.
 - Excessive write-off of accounts receivable.
 - Unrecorded sales at year-end.
 - Lapping of year-end accounts receivable.
-

Multiple Choice

TB 11-09 Which of the following is most likely to be detect...

award:
448. 1.00 point

TB 11-10 Which of the following audit procedures is an audi...

Which of the following audit procedures is an auditor most likely to perform in testing controls related to management's assertion about the completeness of sales?

- Verify that extensions and footings on the entity's sales invoices and monthly customer statements have been recomputed.
 - Inspect the entity's reports of pre-numbered shipping documents that have not been recorded in the sales journal.
 - Compare the invoiced prices on pre-numbered sales invoices to the entity's authorized price list.
 - Inquire about the entity.
-

Multiple Choice

TB 11-10 Which of the following audit procedures is an audi...

award:
449.1.00 point

TB 11-11 An auditor is most likely to review an entity's pr...

An auditor is most likely to review an entity's practice of periodically accounting for the numerical sequence of shipping documents and invoices as evidence and support for management's financial statement assertion of _____.

- existence or occurrence
- rights and obligations
- valuation or allocation
- completeness

Multiple Choice

TB 11-11 An auditor is most likely to review an entity's pr...

award:
450.1.00 point

TB 11-12 Which of the following controls helps to achieve t...

Which of the following controls helps to achieve the accuracy objective over sales invoices?

- Recorded sales in the sales journal are supported by invoices.
- Invoices, shipping documents, and sales orders are pre-numbered and the numerical sequence is checked.
- Sales are recognized in accordance with generally accepted accounting principles.
- Quantities invoiced are agreed to quantities shipped and quantities ordered by the customer as evidenced in source documentation.

Multiple Choice

TB 11-12 Which of the following controls helps to achieve t...

award:
451.1.00 point

TB 11-13 Which of the following controls is most likely to ...

Which of the following controls is most likely to help ensure that all credit sales transactions are recorded?

- The billing department supervisor sends copies of approved sales orders to the credit department for comparison to authorized credit limits and current customer account balances.
- The accounting department supervisor independently reconciles the accounts receivable subsidiary ledger to the accounts receivable control account monthly.
- The accounting department supervisor controls the mailing of monthly statements to customers and investigates any differences reported by customers.
- The billing department supervisor matches pre-numbered shipping documents with entries in the sales journal.

Multiple Choice

TB 11-13 Which of the following controls is most likely to ...

award:
452. 1.00 point

TB 11-14 Infotech is a small software company with few bill...

Infotech is a small software company with few billings. It sends out invoices to clients using the preparation date as the invoice number. As a result, which of the following assertions about billings cannot be tested?

- Validity.
 - Completeness.
 - Classification.
 - Proper period accounting.
-

Multiple Choice

TB 11-14 Infotech is a small software company with few bill...

award:
453. 1.00 point

TB 11-15 Tracing bills of lading to sales invoices provides...

Tracing bills of lading to sales invoices provides evidence that _____.

- shipments to customers were invoiced
 - shipments to customers were recorded as sales
 - recorded sales were shipped
 - invoiced sales were shipped
-

Multiple Choice

TB 11-15 Tracing bills of lading to sales invoices provides...

award:
454. 1.00 point

TB 11-16 Which of the following audit procedures is the mos...

Which of the following audit procedures is the most effective when testing sales for understatement?

- Scrutinize the accounts receivable aged trial balance.
 - Confirm a sample of recorded accounts receivable.
 - Trace a sample of shipping documents to sales invoices recorded in the sales journal.
 - Vouch a sample of recorded sales from the sales journal to shipping documents.
-

Multiple Choice

TB 11-16 Which of the following audit procedures is the mos...

455. ^{award:} 1.00 point

TB 11-17 To determine whether sales transactions have been ...

To determine whether sales transactions have been recorded in the proper accounting period, the auditor performs cutoff tests. Which of the following best describes the overall approach used when performing cutoff tests?

- Ascertain that management's letter of representation includes the statement that transactions have been accounted for in the proper accounting period.
 - Analyze transactions occurring within a few days before and after year-end.
 - Confirm year-end transactions with regular customers.
 - Examine cash receipts in the subsequent period.
-

Multiple Choice

TB 11-17 To determine whether sales transactions have been ...

456. ^{award:} 1.00 point

TB 11-18 Tracing a sample of recorded cash receipts to the ...

Tracing a sample of recorded cash receipts to the customers' accounts in the accounts receivable subsidiary ledger is an audit procedure designed to satisfy the control objective of _____.

- completeness
 - validity
 - accuracy
 - accounting
-

Multiple Choice

TB 11-18 Tracing a sample of recorded cash receipts to the ...

457. ^{award:} 1.00 point

TB 11-19 A charity sells raffle tickets at community events...

A charity sells raffle tickets at community events. One ticket will be chosen to win a prize. The charity could reduce the risk of employee misappropriation of cash best by _____.

- insuring all employees with fidelity bonds
 - counting all cash in the presence of two people as soon as it comes back to the charity's offices
 - having auditors conduct surprise cash counts at the community events
 - using pre-numbered tickets and accounting for all ticket numbers
-

Multiple Choice

TB 11-19 A charity sells raffle tickets at community events...

award:
458. 1.00 point

TB 11-20 The control objective associated with selecting a ...

The control objective associated with selecting a sample of cash receipts remittance lists (or daily cash reports) and tracing them through to the cash receipts journal is _____.

- validity
- completeness
- existence
- authorization

Multiple Choice

TB 11-20 The control objective associated with selecting a ...

award:
459. 1.00 point

TB 11-21 The control objective associated with selecting a ...

The control objective associated with selecting a sample of recorded sales invoices from the sales journal and recalculating the cross totals of quantities and prices is _____.

- authorization
- completeness
- validity
- accuracy

Multiple Choice

TB 11-21 The control objective associated with selecting a ...

award:
460. 1.00 point

TB 11-22 Scanning sales invoices to determine whether there...

Scanning sales invoices to determine whether there are any numbers missing in the sequence is a control over which of the following objectives?

- Completeness.
- Accuracy.
- Validity.
- Classification.

Multiple Choice

TB 11-22 Scanning sales invoices to determine whether there...

award:
461.1.00 point

TB 11-23 Selecting a sample of debits from customer account...

Selecting a sample of debits from customer accounts receivable records and vouching them to supporting sales invoices is an audit procedure designed to obtain evidence about the control objective of _____.

- validity
- completeness
- authorization
- accuracy

Multiple Choice

TB 11-23 Selecting a sample of debits from customer account...

award:
462.1.00 point

TB 11-24 To gather evidence about transactions with related...

To gather evidence about transactions with related parties, an auditor would most likely _____.

- send account confirmations
- perform analysis of receivables turnover
- scan the receivables sub-ledger for credit balances
- scan the aged trial balance for names of officers and directors

Multiple Choice

TB 11-24 To gather evidence about transactions with related...

award:
463.1.00 point

TB 11-25 Auditors ordinarily send a standard bank confirmat...

Auditors ordinarily send a standard bank confirmation to all banks with which the client has done business during the year under audit, regardless of whether the client has closed its account. One reason for doing so is to _____.

- provide the data necessary to prepare a summary of cash
- request that a cutoff bank statement and cancelled cheques be sent to the auditor
- detect lapping activities that might otherwise not be discovered
- obtain information about unrecorded liabilities and security agreements

Multiple Choice

TB 11-25 Auditors ordinarily send a standard bank confirmat...

award:
464. 1.00 point

TB 11-26 In the audit of accounts receivable, negative conf...

In the audit of accounts receivable, negative confirmations are not normally used if _____.

- internal control is considered effective
- there are a large number of small balances
- customers can be expected to consider the confirmation properly
- account balances are in dispute

Multiple Choice

*TB 11-26 In the audit of accounts
receivable, negative conf...*

award:
465. 1.00 point

TB 11-27 In the audit of accounts receivable, the negative ...

In the audit of accounts receivable, the negative form of confirmation request is most likely to be used when _____.

- recipients are likely to return positive confirmation requests without verifying the accuracy of the information
- the combined assessed level of inherent and control risk relative to accounts receivable is low
- a small number of accounts receivable is involved but a relatively large number of errors are expected
- the auditor performs a dual-purpose test that assesses control risk and obtains substantive evidence

Multiple Choice

*TB 11-27 In the audit of accounts
receivable, the negative ...*

award:
466. 1.00 point

TB 11-28 In which of the following circumstances is the use...

In which of the following circumstances is the use of the negative form of accounts receivable confirmation most likely to be justified?

- A substantial number of accounts may be in dispute and the accounts receivable balance arises from sales to a few major customers.
- A substantial number of accounts may be in dispute and the accounts receivable balance arises from sales to many customers with small balances.
- A small number of accounts may be in dispute and the accounts receivable balance arises from sales to a few major customers.
- A small number of accounts may be in dispute and the accounts receivable balance arises from sales to many customers with small balances.

Multiple Choice

*TB 11-28 In which of the following
circumstances is the use...*

award:
467.1.00 point

TB 11-29 A customer replies to a positive confirmation as f...

A customer replies to a positive confirmation as follows: "We dispute the \$250 charge from your client as the goods were never received." This confirmation _____.

- provides evidence of existence but not valuation
 - does not provide evidence of existence so valuation is irrelevant
 - provides evidence that the goods were never shipped
 - provides evidence that the account should be written off
-

Multiple Choice

TB 11-29 A customer replies to a positive confirmation as f...

award:
468.1.00 point

TB 11-30 An auditor should perform alternative procedures t...

An auditor should perform alternative procedures to substantiate the existence of accounts receivable when _____.

- there is no response to a positive confirmation request
 - there is no response to a negative confirmation request
 - collectability of the receivables is in doubt
 - pledging of the receivables is probable
-

Multiple Choice

TB 11-30 An auditor should perform alternative procedures t...

award:
469.1.00 point

TB 11-31 Which of the following procedures is an auditor mo...

Which of the following procedures is an auditor most likely to perform for year-end accounts receivable confirmations when the auditor did not receive replies to second requests?

- Review the cash receipts journal for the month prior to the year-end.
 - Intensify the study of the internal control system over the revenue cycle.
 - Increase the assessed level of detection risk for the existence assertion.
 - Inspect the shipping records documenting the merchandise sold to the debtors.
-

Multiple Choice

TB 11-31 Which of the following procedures is an auditor mo...

award:
470.1.00 point

TB 11-32 The most effective audit procedure for determining...

The most effective audit procedure for determining if an account receivable will be collected is _____.

- examination of cash collections subsequent to the year-end
 - examination of sales invoice(s)
 - confirmation of the account
 - the review of the customer's file to determine previous collection experience and to check sales orders from the customer for evidence credit approval
-

Multiple Choice

TB 11-32 The most effective audit procedure for determining...

award:
471.1.00 point

TB 11-33 The primary consideration when planning to confirm...

The primary consideration when planning to confirm accounts receivable before the balance sheet date is the _____.

- type of confirmation to be used
 - client's internal control over transactions affecting receivables
 - availability of staff auditors
 - number of customer accounts
-

Multiple Choice

TB 11-33 The primary consideration when planning to confirm...

award:
472.1.00 point

TB 11-34 The bank confirmation provides the most evidence f...

The bank confirmation provides the most evidence for which of the following assertions about cash?

- Existence.
 - Presentation.
 - Valuation.
 - Completeness.
-

Multiple Choice

TB 11-34 The bank confirmation provides the most evidence f...

473. ^{award:} 1.00 point

TB 11-35 In the audit of cash, the auditor obtains a bank c...

In the audit of cash, the auditor obtains a bank cutoff statement primarily to _____.

- identify old outstanding cheques that the client may exclude from the year-end bank reconciliation in order to misappropriate cash
 - obtain sufficient information to reconcile the client's bank account as at the year-end
 - obtain direct confirmation of the client's bank balances as at the year-end
 - test the propriety of items appearing on the client's year-end bank reconciliation
-

Multiple Choice

TB 11-35 In the audit of cash, the auditor obtains a bank c...

474. ^{award:} 1.00 point

TB 11-36 An unrecorded cheque issued during the last week o...

An unrecorded cheque issued during the last week of the year would most likely be discovered by the auditor when the _____.

- cheque register for the last month is reviewed
 - cutoff bank statement is reconciled
 - bank confirmation is reviewed
 - search for unrecorded liabilities is performed
-

Multiple Choice

TB 11-36 An unrecorded cheque issued during the last week o...

475. ^{award:} 1.00 point

TB 11-37 In the course of examining the cutoff bank stateme...

In the course of examining the cutoff bank statement for a client, an auditor is puzzled to discover that none of the cheques listed as outstanding on the year-end bank reconciliation has cleared the bank. This could be an indication that the client _____.

- is engaged in kiting
 - has overstated the year-end balance of cash
 - mailed the cheques to vendors after the year-end
 - left the cash receipts journal open after the year-end.
-

Multiple Choice

TB 11-37 In the course of examining the cutoff bank stateme...

476. ^{award:} 1.00 point

TB 11-38 An auditor confirms a representative number of ope...

An auditor confirms a representative number of open accounts receivable as of December 31 and investigates exceptions and comments noted by respondents. By this procedure, the auditor is most likely to learn of which of the following?

- One of the cashiers has been covering a personal embezzlement by lapping.
 - One of the sales clerks has not been preparing charge slips for credit sales to family and friends.
 - One of the EDP control clerks has been removing all sales invoices applicable to his account from the data file.
 - The credit manager has misappropriated remittances from customers whose accounts have been written off.
-

Multiple Choice

TB 11-38 An auditor confirms a representative number of ope...

477. ^{award:} 1.00 point

TB 11-39 Which of the following audit procedures is most li...

Which of the following audit procedures is most likely to detect lapping by the accounts receivable clerk?

- Use the cutoff bank statement to trace all cheques dated before the balance sheet date to the outstanding cheque list on the bank reconciliation.
 - Use the cutoff bank statement to determine if the bank recorded all deposits in transit per the bank reconciliation on the first business day after the balance sheet date.
 - Compare the detail of cheques listed on a sample of deposit slips to the detail of customer credits listed on the day's posting to the customer accounts in the subsidiary ledger.
 - Prepare a schedule of inter-bank transfers for a few days before and after the balance sheet date.
-

Multiple Choice

TB 11-39 Which of the following audit procedures is most li...

478. ^{award:} 1.00 point

TB 11-40 An auditor should trace cancelled cheques and clea...

An auditor should trace cancelled cheques and cleared deposits for the last part of the current audit period and the first part of the subsequent period to detect whether _____.

- the cash receipts journal was held open for a few days after the year-end
 - the last cheques recorded before the year-end were actually mailed by the year-end
 - cash balances were overstated because of kiting
 - any unusual payments to or receipts from related parties occurred
-

Multiple Choice

TB 11-40 An auditor should trace cancelled cheques and clea...

479. ^{award:} 1.00 point

TB 11-41 Substantive procedures for the audit of cash would...

Substantive procedures for the audit of cash would include which of the following?

- Ask that a cutoff bank statement be mailed directly to the client.
- Enquire if the client has prepared bank reconciliations for all bank accounts on a monthly basis.
- Prepare a schedule of inter-bank transfers for a period of ten business days before and after year-end date.
- Obtain written descriptions from the client about its cash receipts procedures.

Multiple Choice

TB 11-41 Substantive procedures for the audit of cash would...

480. ^{award:} 1.00 point

TB 11-42 Cash receipts from sales on account terms of 2/10,...

Cash receipts from sales on account terms of 2/10, net 30 have been misappropriated. Which of the following acts would conceal this defalcation and be least likely to be detected by an auditor?

- understating the sales journal
- overstating the accounts receivable subsidiary ledger
- understating the accounts receivable subsidiary ledger
- understating the cash receipts journal

Multiple Choice

TB 11-42 Cash receipts from sales on account terms of 2/10,...

481. ^{award:} 1.00 point

TB 11-43 If it is impracticable to confirm accounts receiva...

If it is impracticable to confirm accounts receivable but the auditor obtains sufficient, appropriate evidence to verify the receivable balance by performing alternative procedures, the auditor's opinion should be unqualified. The audit report should _____.

- disclose the fact that alternative procedures were used because of a client-imposed scope limitation
- disclose in the opinion paragraph that confirmation of accounts receivable was impracticable
- not mention the alternative procedures
- include an explanatory paragraph that discloses the performance of alternative procedures

Multiple Choice

TB 11-43 If it is impracticable to confirm accounts receiva...

award:
482. 1.00 point

TB 11-44 In determining the adequacy of the allowance for u...

In determining the adequacy of the allowance for uncollectible accounts, the least valuable evidence would be obtained from _____.

- an aging schedule of past due accounts that the auditor has tested
- correspondence with the client's collection agency
- financial statements of individual customers
- lack of a reply to negative confirmations

Multiple Choice

*TB 11-44 In determining the
adequacy of the allowance for u...*

award:
483. 1.00 point

TB 11-45 Money laundering refers to the proper processing o...

Money laundering refers to the proper processing of cash receipts.

- True
- False

True / False

*TB 11-45 Money laundering refers to
the proper processing o...*

award:
484. 1.00 point

TB 11-46 The revenue and collection process includes activi...

The revenue and collection process includes activities from preparing the initial sales order through recording the transaction in the sales journal.

- True
- False

True / False

*TB 11-46 The revenue and collection
process includes activi...*

award:
485. 1.00 point

TB 11-47 The packing slip authorizes the transfer of invent...

The packing slip authorizes the transfer of inventory from the warehouse to the shipping department and to then to the customer.

- True
 False

True / False

TB 11-47 The packing slip authorizes the transfer of invent...

award:
486. 1.00 point

TB 11-48 Cash receipts procedures should include steps for ...

Cash receipts procedures should include steps for authorizing and recording discounts when the customer takes them.

- True
 False

True / False

TB 11-48 Cash receipts procedures should include steps for ...

award:
487. 1.00 point

TB 11-49 A lock box system is an effective way to segregate...

A lock box system is an effective way to segregate the custody of cash.

- True
 False

True / False

TB 11-49 A lock box system is an effective way to segregate...

award:
488. 1.00 point

TB 11-50 In a manual system for the recording of cash recei...

In a manual system for the recording of cash receipts, the same person should make the journal entries to the control account and the subsidiary records.

- True
→ False

True / False

TB 11-50 In a manual system for the recording of cash recei...

award:
489. 1.00 point

TB 11-51 The accountant who records cash receipts and credi...

The accountant who records cash receipts and credits to customer accounts should also handle the cash received and the bank deposits.

- True
→ False

True / False

*TB 11-51 The accountant who
records cash receipts and credi...*

award:
490. 1.00 point

TB 11-52 In a manual data processing system, the custody of...

In a manual data processing system, the custody of cash and the recording of cash receipts in the cash journal should be combined for maximum control.

- True
→ False

True / False

*TB 11-52 In a manual data
processing system, the custody of...*

award:
491. 1.00 point

TB 11-53 The open (or pending) sales order file can be revi...

The open (or pending) sales order file can be reviewed for evidence of the completeness of recorded sales.

- True
 False

True / False

*TB 11-53 The open (or pending)
sales order file can be revi...*

award:
492. 1.00 point

TB 11-54 Fidelity bonds can help prevent and detect embezzl...

Fidelity bonds can help prevent and detect embezzlement.

- True
→ False

True / False

*TB 11-54 Fidelity bonds can help
prevent and detect embezzl...*

award:
493. 1.00 point

TB 11-55 If an auditor selects a sample of customer account...

If an auditor selects a sample of customer accounts receivable and traces payment credits to remittance worksheets and bank deposits, the auditor is testing the control objective of completeness.

- True
→ False

True / False

*TB 11-55 If an auditor selects a
sample of customer account...*

award:
494. 1.00 point

TB 11-56 Selecting a sample of recorded sales invoices from...

Selecting a sample of recorded sales invoices from the sales journal and comparing the quantity billed to the quantity shipped is an example of a test to satisfy the control objective of accuracy.

- True
 False

True / False

*TB 11-56 Selecting a sample of
recorded sales invoices from...*

award:
495. 1.00 point

TB 11-57 Substantive procedures are designed to obtain dire...

Substantive procedures are designed to obtain direct evidence about the dollar amounts in account balances.

- True
 False

True / False

*TB 11-57 Substantive procedures are
designed to obtain dire...*

award:
496. 1.00 point

TB 11-58 One of the key assertions to consider in obtaining...

One of the key assertions to consider in obtaining evidence about accounts receivable is completeness.

- True
→ False

True / False

*TB 11-58 One of the key assertions
to consider in obtaining...*

award:
497. 1.00 point

TB 11-59 The use of positive confirmations provides better ...

The use of positive confirmations provides better evidence than the use of negative confirmations.

- True
 False

True / False

TB 11-59 The use of positive confirmations provides better ...

award:
498. 1.00 point

TB 11-60 The findings of risk assessments are the basis for...

The findings of risk assessments are the basis for the selection of appropriate substantive tests and procedures.

- True
 False

True / False

TB 11-60 The findings of risk assessments are the basis for...

award:
499. 1.00 point

TB 11-61 Evidence of ownership can be obtained by studying ...

Evidence of ownership can be obtained by studying the title documents for assets.

- True
 False

True / False

TB 11-61 Evidence of ownership can be obtained by studying ...

award:
500. 1.00 point

TB 11-62 A cutoff bank statement is a special statement pri...

A cutoff bank statement is a special statement printed by the bank which does not include all paid cheques and deposit slips.

- True
→ False

True / False

TB 11-62 A cutoff bank statement is a special statement pri...

award:
501. 1.00 point

TB 11-63 Auditors should consider the possibility of kiting...

Auditors should consider the possibility of kiting if there are frequent deposits of round amounts.

- True
 False

True / False

*TB 11-63 Auditors should consider
the possibility of kiting...*

award:
502. 1.00 point

TB 11-64 What are the general internal control objectives f...

What are the general internal control objectives for the revenue cycle?

The general internal control objectives for the revenue cycle are:

- a. Recorded sales are valid and documented.
- b. Valid sales transactions are recorded and none is omitted.
- c. Sales are authorized according to company policy.
- d. Sales invoices are accurately prepared.
- e. Sales transactions are properly classified.
- f. The accounting for sales transactions is proper.
- g. Sales transactions are recorded in the proper period.

Essay

*TB 11-64 What are the general
internal control objectives f...*

award:
503. 1.00 point

TB 11-65 What is dual-direction testing?

What is dual-direction testing?

Dual-direction testing involves samples selected to obtain evidence about control over completeness in one direction and control over validity in the other direction. The completeness direction determines whether all transactions that occurred were recorded. The validity direction determines whether recorded transactions actually occurred.

Essay

*TB 11-65 What is dual-direction
testing?*

award:
504.1.00 point

TB 11-66 Is the confirmation of cash and accounts receivabl...

Is the confirmation of cash and accounts receivable required according to auditing standards? Explain.

The *CICA Handbook* considers confirmation of bank balances and accounts receivable to be a standard audit procedure. Section 5303.28 of the *Handbook* requires the confirmation of trade accounts receivable except in the following circumstances: (1) the combined level of inherent risk and control risk is low and other substantive procedures would provide sufficient, appropriate evidence; or (2) confirmation would be ineffective in providing reliable evidence. In addition, auditing standards apply only to material items—if the accounts receivable balance is not material, then other procedures such as analytical review may be sufficient. Usually confirmations are in writing, which provides better evidence than verbal enquiries.

Essay

*TB 11-66 Is the confirmation of cash
and accounts receivabl...*

award:
505.1.00 point

TB 11-67 In-Line Company records accounts receivable from c...

In-Line Company records accounts receivable from customers arising from both the sale of in-line skates and the provision of repair service. The CA firm of King & King is auditing the financial statements of In-Line Company. Lyon, the audit manager, is aware that the confirmation of customer accounts receivable is a substantive procedure normally used in the audit of accounts receivable. Selected balances from In-Line's financial statements are as follows: accounts receivable, \$7,000; current assets, \$322,000; total assets, \$630,000; shareholders' equity, \$570,000; net income, \$190,000.

Required:

- A) How can Lyon justify deciding not to confirm In-Line's accounts receivable?
- B) Briefly describe two types of positive confirmation Lyon could send to In-Line's customers.
- C) What alternative procedures can Lyon perform if In-Line's customers fail to respond to the confirmation requests?

A) Justification—all of the possible justifications listed below would have to be supported.

- i. Accounts receivables are immaterial to both the balance sheet and the income statement.
- ii. Confirmation will not be effective for this client.
- iii. Audits in previous years showed indicate that confirmation response will be unreliable.
- iv. Other procedures will provide sufficient, appropriate evidence.
- v. Other procedures reduce audit risk to an acceptable low level.

B) Two types of positive confirmation.

- i. A positive confirmation that provides the balance outstanding and asks whether or not the customer agrees with the amount provided.
- ii. A blank positive confirmation that asks the customer to provide the balance outstanding.

C) Alternative procedures

- i. Vouch recorded amounts to sales invoices and shipping documents.
- ii. Vouch recorded customer payments to cash receipts records.
- iii. Vouch recorded balances to subsequent payment by customers.
- iv. Trace customer names and addresses to telephone and business directories and incorporation records.

Essay

*TB 11-67 In-Line Company records
accounts receivable from c...*

award:
506.1.00 point

TB 11-68 Define the response rate as it pertains to positiv...

Define the response rate as it pertains to positive accounts receivable confirmations. Describe methods that can be utilized to increase the response rate.

Response rate is the portion of total confirmations sent which have been returned to the auditor. Generally, in order to increase the response rate, the auditor will send second and in some cases third requests. The response rate can be increased by:

- i. Using a postcard sent in advance notifying the debtor that a confirmation is coming.
- ii. Using special delivery mail.
- iii. Using first-class postage to mail responses instead of a postage meter.
- iv. Using a stamp on the envelope saying "confirmation enclosed; examine contents carefully."
- v. Contacting the debtor and asking them to respond by facsimile.

These efforts will increase the cost of confirmation procedures, but the benefit is a better response rate and more sufficient appropriate audit evidence about existence.

Essay

TB 11-68 Define the response rate as it pertains to positiv...

award:
507.1.00 point

TB 11-69 Will the confirmation of accounts, loans, and note...

Will the confirmation of accounts, loans, and notes receivable always provide sufficient appropriate audit evidence to cover the ownership assertion made by the client?

No. The respondents to the confirmations will not be able to determine if the client has sold or factored their accounts to a third party. Auditors need to perform additional procedures to get evidence of ownership of the receivable and of the disclosures required with respect to financing arrangement secured by the receivables.

Essay

TB 11-69 Will the confirmation of accounts, loans, and note...

award:
508.1.00 point

TB 11-70 In testing controls related to a client's processi...

In testing controls related to a client's processing of credit sales transactions, auditors need to define "deviations" in advance. Give seven examples of deviations from control objectives.

- a. Validity—recorded sales are not supported by shipping documentation and sales orders; therefore, fictitious sales might be recorded.
- b. Completeness—the numerical sequence of shipping documentation is not accounted for; therefore, shipments to customers might not be recorded as sales.
- c. Authorization—there is no evidence of the approval of customer sales orders; therefore, goods might be shipped to customers without credit approval.
- d. Accuracy—there is no evidence that sales invoices have been checked to ensure that the quantity shipped and/or the unit prices billed are correct; therefore, billed amounts may be incorrect.
- e. Classification—there is no chart of accounts; therefore, sales might be recorded in the wrong revenue account.
- f. Accounting and posting—there is no internal verification of posting; therefore, sales transactions could be posted to the wrong customer account.
- g. Proper period—there is no internal verification that all sales transactions are recorded on a daily basis; therefore, sales could be recorded on the wrong date.

Essay

*TB 11-70 In testing controls related to
a client's processi...*

award:
509.1.00 point

TB 11-71 Audit procedures to test controls over sales and a...

Audit procedures to test controls over sales and accounts receivable could include the procedures listed below. Match each of the procedures numbered 1 through 5 to the appropriate control objective (A through G) and place the identifying letter in the space provided.

- A. Validity
- B. Completeness
- C. Authorization
- D. Accuracy
- E. Classification
- F. Accounting and posting
- G. Proper period accounting

- ____ 1. Account for the integrity of the numerical sequence of shipping documents and sales invoices.
- ____ 2. Recalculate pricing, extensions, and footings on sales invoices.
- ____ 3. Examine sales orders and shipping documents for evidence of approval.
- ____ 4. Trace sales invoices to the sales journal, foot the journal, and trace postings to the general ledger and the accounts receivable subsidiary ledger.
- ____ 5. Trace sales journal entries to sales invoices and shipping documents.

- 1. B
- 2. D
- 3. C
- 4. F
- 5. A

Essay

*TB 11-71 Audit procedures to test
controls over sales and a...*

award:
510.1.00 point

TB 11-72 For each of the following audit procedures (1 thro...

For each of the following audit procedures (1 through 5) used to test controls over cash receipts, match the audit procedure to the correct control objective (A through G) and place the identifying letter in the space provided.

- A. Validity
- B. Completeness
- C. Authorization
- D. Accuracy
- E. Classification
- F. Accounting and posting
- G. Proper period accounting

- ____ 1. Compare dates in the cash receipts journal and the prelisting of cash receipts with dates of deposits
- ____ 2. Trace from daily cash reports to the cash receipts journal.
- ____ 3. Trace entries from cash receipts journal to the bank statement.
- ____ 4. Review monthly bank reconciliations.
- ____ 5. Foot the cash receipts journal and trace the postings to the general ledger and the accounts receivable subsidiary ledger.

- 1. G
- 2. B
- 3. A
- 4. D
- 5. F

Essay

*TB 11-72 For each of the following
audit procedures (1 thro...*

award:
511.1.00 point

TB 12-01 What is the usual source of journal entries to rec...

What is the usual source of journal entries to record the purchase of inventory in the general ledger?

- Sales invoices updated with cost data from the inventory records department.
- Purchase invoices updated with cost data from the inventory records department.
- Bid quotes updated with cost data from the inventory records department.
- Receiving reports updated with cost data from the accounts payable department.

Multiple Choice

*TB 12-01 What is the usual source of
journal entries to rec...*

award:
512. 1.00 point

TB 12-02 Which of the following situations indicates a pote...

Which of the following situations indicates a potential material weakness in internal control over acquisitions and expenditures?

- Purchase orders are not prepared for services that are acquired directly under authorization of department heads.
 - The person who approves purchases also signs the cheques.
 - Unacceptable goods are not recorded on receiving reports.
 - The person who signs the cheques also stamps "paid" on the vouchers.
-

Multiple Choice

TB 12-02 Which of the following situations indicates a pote...

award:
513. 1.00 point

TB 12-03 What documentary evidence is appropriate in attemp...

What documentary evidence is appropriate in attempting to determine if recorded purchase transactions are valid and prices on the vendors' invoices are correct?

- Purchase requisitions and accounts payable entries.
 - Receiving reports and purchase orders.
 - Purchase requisitions and purchases orders.
 - Purchase orders and bid quotes.
-

Multiple Choice

TB 12-03 What documentary evidence is appropriate in attemp...

award:
514. 1.00 point

TB 12-04 Martinez CA was auditing his client, Marvelous Ret...

Martinez CA was auditing his client, Marvelous Retail Limited. He selected a sample of inventory items from the perpetual records and vouched all additions to receiving reports. This procedure was intended to satisfy which control objective?

- Authorization.
 - Completeness.
 - Validity.
 - Accuracy.
-

Multiple Choice

TB 12-04 Martinez CA was auditing his client, Marvelous Ret...

award:
515.1.00 point

TB 12-05 Which of the following internal control procedures...

Which of the following internal control procedures is most likely to be used in order to maintain accurate inventory records?

- Perpetual inventory records are periodically compared with the current cost of individual inventory items.
- A just-in-time inventory ordering system keeps inventory levels at a desired minimum.
- Requisitions, receiving reports, and purchase orders are independently matched before payment is approved.
- Periodic inventory counts are used to adjust the perpetual inventory records.

Multiple Choice

*TB 12-05 Which of the following
internal control procedures...*

award:
516.1.00 point

TB 12-06 When auditing merchandise inventory at year-end, t...

When auditing merchandise inventory at year-end, the auditor performs a purchase cutoff test to obtain evidence that _____.

- all goods purchased before year-end are received before the physical inventory count
- goods held on consignment for customers are not included in the inventory balance
- the stock of inventory on hand at year-end is neither pledged nor sold
- all goods owned at year-end are included in the inventory balance

Multiple Choice

*TB 12-06 When auditing
merchandise inventory at year-end,
t...*

award:
517.1.00 point

TB 12-07 Purchase cutoff procedures should be designed to p...

Purchase cutoff procedures should be designed to produce evidence about whether or not merchandise that is included in the inventory of the company _____.

- has been paid for
- is physically present in the warehouse
- is owned by the company (legal title has been transferred)
- relates to the shipping documents for the merchandise issued in the company's name

Multiple Choice

*TB 12-07 Purchase cutoff procedures
should be designed to p...*

award:
518. 1.00 point

TB 12-08 Quantities recorded during the physical count of i...

Quantities recorded during the physical count of inventories are greater than the quantities in the perpetual records. This could be the result of a failure to record _____.

- sales
- sales discounts
- purchases
- purchase discounts

Multiple Choice

*TB 12-08 Quantities recorded during
the physical count of i...*

award:
519. 1.00 point

TB 12-09 Mary Monitor CA noted that ABC Co. Ltd. received g...

Mary Monitor CA noted that ABC Co. Ltd. received goods prior to year-end and included them in the physical inventory but did not record them in the accounting records. In this case, which of the following adjustments should be made?

- Debit Purchases, credit Cost of Goods Sold.
- No adjustment is necessary.
- Debit Inventory, credit Accounts Payable.
- Debit Cost of Goods Sold, credit Accounts Payable.

Multiple Choice

*TB 12-09 Mary Monitor CA noted
that ABC Co. Ltd. received g...*

award:
520. 1.00 point

TB 12-10 Observe if personnel in the purchasing department...

"Observe if personnel in the purchasing department are following company policies" is an audit procedure intended to test which control objective?

- Environment.
- Accuracy.
- Accounting and posting.
- Proper period recording.

Multiple Choice

*TB 12-10 Observe if personnel in the
purchasing department...*

award:
521. 1.00 point

TB 12-11 To determine whether accounts payable is complete,...

To determine whether accounts payable is complete, an auditor performs a test to verify that all merchandise received is recorded. The population of documents for this test consists of all _____.

- payment vouchers
- receiving reports
- purchase requisitions
- vendor's invoices

Multiple Choice

TB 12-11 To determine whether accounts payable is complete,...

award:
522. 1.00 point

TB 12-12 The statement that items on the accounts payable r...

The statement that items on the accounts payable register must be supported by a completed voucher package containing a services purchase order and evidence the service was provided is a specific example of which control objective?

- Environment.
- Validity.
- Completeness.
- Accounting and posting.

Multiple Choice

TB 12-12 The statement that items on the accounts payable r...

award:
523. 1.00 point

TB 12-13 The control objective associated with selecting a ...

The control objective associated with selecting a sample of receiving reports and tracing them to the perpetual inventory records is _____.

- accuracy
- completeness
- validity
- classification

Multiple Choice

TB 12-13 The control objective associated with selecting a ...

award:
524. 1.00 point

TB 12-14 Which control objective is associated with observi...

Which control objective is associated with observing the inventory record-keeping personnel as they perform their work?

- Authorization.
- Completeness.
- Environment.
- Accuracy.

Multiple Choice

TB 12-14 Which control objective is associated with observi...

award:
525. 1.00 point

TB 12-15 Brown CA was auditing her client Red Manufacturing...

Brown CA was auditing her client Red Manufacturing Company. She selected a sample of inventory item recorded as issues in the perpetual records and vouched them to production requisitions. Brown's audit procedure was intended to satisfy which control objective?

- Validity.
- Completeness.
- Authorization.
- Accuracy.

Multiple Choice

TB 12-15 Brown CA was auditing her client Red Manufacturing...

award:
526. 1.00 point

TB 12-16 In assessing control risk for purchases, an audito...

In assessing control risk for purchases, an auditor vouches a sample of entries in the accounts payable trial balance to the supporting documents. Which account assertion would this test of controls most likely support?

- Completeness.
- Existence or occurrence.
- Valuation or allocation.
- Presentation

Multiple Choice

TB 12-16 In assessing control risk for purchases, an audito...

527. ^{award:} 1.00 point

TB 12-17 A client maintains perpetual inventory records in ...

A client maintains perpetual inventory records in both quantities and dollars. If the assessed level of control risk is high, an auditor would probably _____.

- insist that the client perform physical counts of inventory items several times during the year
 - apply gross profit tests to ascertain the reasonableness of the physical counts
 - increase the extent of tests of controls of the inventory cycle
 - ask the client to schedule the physical inventory count at the end of the year and with a large number of test counts
-

Multiple Choice

TB 12-17 A client maintains perpetual inventory records in ...

528. ^{award:} 1.00 point

TB 12-18 Which of the following procedures is an auditor mo...

Which of the following procedures is an auditor most likely to perform in searching for unrecorded payables?

- Reconcile receiving reports with related cash payments made just prior to year-end.
 - Compare the ratio of accounts payable to purchases with the prior year's ratio.
 - Vouch a sample of creditor balances to supporting invoices, receiving reports, and purchase orders.
 - Compare cash payments occurring after the balance sheet date with the accounts payable trial balance.
-

Multiple Choice

TB 12-18 Which of the following procedures is an auditor mo...

529. ^{award:} 1.00 point

TB 12-19 Which of the following audit procedures is best fo...

Which of the following audit procedures is best for identifying unrecorded trade accounts payable?

- Reviewing cash disbursements recorded subsequent to the balance sheet date to determine whether the related payables apply to the prior period.
 - Investigating payables recorded just prior to and just subsequent to the balance sheet date to determine whether receiving reports support them.
 - Examining unusual relationships between monthly accounts payable balances and recorded cash payments.
 - Reconciling vendors' statements to the file of receiving reports to identify items received just prior to the balance sheet date.
-

Multiple Choice

TB 12-19 Which of the following audit procedures is best fo...

award:
530. 1.00 point

TB 12-20 When confirming accounts payable, emphasis should ...

When confirming accounts payable, emphasis should be put on what kind of accounts?

- Accounts with small or zero balances.
 - All accounts should be equally emphasized.
 - Accounts with large balances.
 - Accounts listed in the accounts payable subsidiary ledger.
-

Multiple Choice

TB 12-20 When confirming accounts payable, emphasis should ...

award:
531. 1.00 point

TB 12-21 The auditor decided to test accounts payable by se...

The auditor decided to test accounts payable by sending confirmations to selected vendors. The auditor's best approach in selecting the vendor accounts to confirm is to _____.

- select vendor accounts with large balances
 - select vendor accounts at random in order to apply a statistical sampling procedure
 - select vendor accounts with small or zero balances
 - select vendor accounts that are past due
-

Multiple Choice

TB 12-21 The auditor decided to test accounts payable by se...

award:
532. 1.00 point

TB 12-22 When using confirmations to provide evidence about...

When using confirmations to provide evidence about the completeness assertion for accounts payable, the appropriate population most likely would be _____.

- vendors with whom the entity has previously done business
 - amounts recorded in the accounts payable subsidiary ledger
 - payees of cheques drawn in the month after the year-end
 - invoices filed in the company's open invoice file
-

Multiple Choice

TB 12-22 When using confirmations to provide evidence about...

award:
533. 1.00 point

TB 12-23 When the auditor selects a sample of inventory ite...

When the auditor selects a sample of inventory items from the perpetual inventory master file then searches out these items in the inventory warehouse, the auditor is collecting evidence to support which assertion?

- Presentation.
- Valuation.
- Completeness.
- Existence.

Multiple Choice

TB 12-23 When the auditor selects a sample of inventory ite...

award:
534. 1.00 point

TB 12-24 Rather than counting the entire inventory at year-...

Rather than counting the entire inventory at year-end, a company may make periodic, or cycle counts, of selected inventory items at various times during the year. Which of the following is necessary if the auditor plans to observe inventories at interim dates?

- Complete recounts by independent teams are performed.
- Perpetual inventory records are maintained.
- Unit cost records are integrated with production accounting records.
- Inventory balances are rarely at low levels.

Multiple Choice

TB 12-24 Rather than counting the entire inventory at year-...

award:
535. 1.00 point

TB 12-25 Audit procedures used in the observation of a clie...

Audit procedures used in the observation of a client's physical inventory count are designed primarily to _____.

- test and observe the client's physical count of inventory
- independently verify the physical counts recorded by the client
- assist the client in taking test counts of year-end inventory
- determine whether inventory contains obsolete goods

Multiple Choice

TB 12-25 Audit procedures used in the observation of a clie...

award:
536. 1.00 point

TB 12-26 In Retread Tires, J. Lock stole money by selling...

In "Retread Tires", J. Lock stole money by selling the company's new tires and replacing them with retread tires. The key weakness in the control system that failed to prevent or detect this scheme to continue was that _____.

- Lock often prepared purchase orders
 - Lock was the chief accountant
 - the president of the company signed cheques without reviewing any supporting documentation
 - no one noticed the invoices for the retread tires
-

Multiple Choice

TB 12-26 In Retread Tires, J. Lock stole money by selling...

award:
537. 1.00 point

In Amortize the 'Drum' Slowly, Candid Prod...

In "Amortize the 'Drum' Slowly", Candid Production overvalued net assets by taking too little amortization. Which of the following was the lesson for the auditors in this case?

- Check the client's calculations regardless of how simple they appear.
 - Understand special industry accounting before accepting an engagement.
 - Maintain professional skepticism when evaluating a client's accounting estimates.
 - Always investigate a client's background before accepting an engagement.
-

Multiple Choice

In Amortize the 'Drum' Slowly, Candid Prod...

award:
538. 1.00 point

TB 12-28 A good environmental control over purchases and pa...

A good environmental control over purchases and payables would be to have _____.

- the accounting department independent of the sales department
 - the purchasing department independent of the receiving department
 - the information systems department independent of the accounting department
 - the sales department independent of the shipping department
-

Multiple Choice

TB 12-28 A good environmental control over purchases and pa...

award:
539.1.00 point

TB 12-29 The statement that all purchase orders must be su...

The statement that "all purchase orders must be supported by properly approved purchase requisitions" is a specific example of which general objective?

- Valuation.
- Completeness.
- Authorization.
- Classification.

Multiple Choice

*TB 12-29 The statement that all
purchase orders must be su...*

award:
540.1.00 point

TB 12-30 A company's internal control system requires that ...

A company's internal control system requires that an approved payables voucher, supported by a purchase order and a receiving report, accompany every cheque requisition. To determine whether cheques are being issued for unauthorized expenditures, an auditor is most likely to select items for testing from the population of all _____.

- purchase orders
- cancelled cheques
- receiving reports
- approved vouchers

Multiple Choice

*TB 12-30 A company's internal
control system requires that ...*

award:
541.1.00 point

TB 12-31 An auditor wants to perform tests of controls on a...

An auditor wants to perform tests of controls on a client's cash disbursement procedures. If the control procedures leave no audit trail or documentary evidence, the auditor is most likely to test the procedures by _____.

- confirmation and observation
- observation and inquiry
- analytical procedures and confirmation
- inquiry and analytical procedures

Multiple Choice

*TB 12-31 An auditor wants to perform
tests of controls on a...*

award:
542. 1.00 point

TB 12-32 Which of the following accounts would the auditor ...

Which of the following accounts would the auditor review in order to obtain reasonable assurance that additions to the equipment (fixed asset) account are not understated?

- Amortization expense.
 - Gain on disposal of equipment.
 - Accounts payable.
 - Repairs and maintenance expense.
-

Multiple Choice

TB 12-32 Which of the following accounts would the auditor ...

award:
543. 1.00 point

TB 12-33 Employees in the receiving department should inspe...

Employees in the receiving department should inspect materials received as to quality and quantity and prepare a receiving report.

- True
 - False
-

True / False

TB 12-33 Employees in the receiving department should inspe...

award:
544. 1.00 point

TB 12-34 Limiting access to blank documents, such as purcha...

Limiting access to blank documents, such as purchase orders, is part of the custody duty in the acquisition and expenditure cycle.

- True
 - False
-

True / False

TB 12-34 Limiting access to blank documents, such as purcha...

award:
545. 1.00 point

TB 12-35 A credit balance in a client's inventory records w...

A credit balance in a client's inventory records would suggest failure to record purchases.

- True
 False

True / False

*TB 12-35 A credit balance in a
client's inventory records w...*

award:
546. 1.00 point

TB 12-36 Comparing the results of a physical inventory coun...

Comparing the results of a physical inventory count to the perpetual inventory records is considered a part of the recording function.

- True
→ False

True / False

*TB 12-36 Comparing the results of a
physical inventory coun...*

award:
547. 1.00 point

TB 12-37 The accounts payable trial balance is a list of pa...

The accounts payable trial balance is a list of payable amounts by vendor. This total should equal the control account total in the general ledger.

- True
 False

True / False

*TB 12-37 The accounts payable trial
balance is a list of pa...*

award:
548. 1.00 point

TB 12-38 The accounts payable trial balance should not incl...

The accounts payable trial balance should not include vendors with nonzero balances.

- True
→ False

True / False

*TB 12-38 The accounts payable trial
balance should not incl...*

award:
549. 1.00 point

TB 12-39 The requirement that supplier invoices in the acco...

The requirement that supplier invoices in the accounts payable register be matched with purchase orders and receiving reports is an example that satisfies the "accounting and posting" internal control objective for purchases.

- True
→ False

True / False

*TB 12-39 The requirement that
supplier invoices in the acco...*

award:
550. 1.00 point

TB 12-40 Information gathering about the control structure ...

Information gathering about the control structure often begins with an internal control questionnaire.

- True
 False

True / False

*TB 12-40 Information gathering about
the control structure ...*

award:
551. 1.00 point

TB 12-41 The requirement that perpetual inventory records ...

The requirement that "perpetual inventory records must be updated as of the date goods are received" is an example of a control that satisfies the "proper period" internal control objective.

- True
 False

True / False

*TB 12-41 The requirement that
perpetual inventory records ...*

award:
552. 1.00 point

TB 12-42 If the auditor selects a sample of open accounts p...

If the auditor selects a sample of open accounts payable and vouches the details to supporting purchase documents, the auditor is testing the objective of validity.

- True
 False

True / False

*TB 12-42 If the auditor selects a
sample of open accounts p...*

award:
553. 1.00 point

TB 12-43 If the auditor traces a sample of receiving report...

If the auditor traces a sample of receiving reports to the perpetual inventory records, the auditor is testing the control of validity.

- True
→ False

True / False

TB 12-43 If the auditor traces a sample of receiving report...

award:
554. 1.00 point

TB 12-44 Auditors must place more emphasis on the existence...

Auditors must place more emphasis on the existence and rights assertions when obtaining evidence about accounts payable.

- True
→ False

True / False

TB 12-44 Auditors must place more emphasis on the existence...

award:
555. 1.00 point

TB 12-45 An auditor should not be concerned if a cross-refe...

An auditor should not be concerned if a cross-reference of vendor addresses with employee addresses reveals that there are matches.

- True
→ False

True / False

TB 12-45 An auditor should not be concerned if a cross-refe...

award:
556. 1.00 point

TB 12-46 When auditors trace the test counts they took at t...

When auditors trace the test counts they took at the physical inventory count to the final inventory summary, they are gathering evidence on the completeness assertion.

- True
 False

True / False

TB 12-46 When auditors trace the test counts they took at t...

award:
557.1.00 point

TB 12-47 Risk assessments and the results of any control te...

Risk assessments and the results of any control testing are taken into account in selecting the nature, timing, and extent of further substantive procedures.

- True
 False

True / False

TB 12-47 Risk assessments and the results of any control te...

award:
558.1.00 point

TB 12-48 Identify the accounts payable audit objectives tha...

Identify the accounts payable audit objectives that the auditors must consider in determining the audit procedures to be performed.

The auditor must first determine the adequacy of internal controls for processing and payment of invoices. The auditor must also prove that the amounts shown on the balance sheet are in agreement with supporting accounting records. Finally, the auditor must ensure that all of the liabilities that the company has at year-end have been recorded and presented on the balance sheet.

Essay

TB 12-48 Identify the accounts payable audit objectives tha...

award:
559.1.00 point

TB 12-49 Why are payables vouchers marked paid after cheq...

Why are payables vouchers marked "paid" after cheques have been issued in payment of vendor invoices?

To show that they have been processed so they cannot re-enter the accounting system and be paid again.

Essay

TB 12-49 Why are payables vouchers marked paid after cheq...

award:
560. 1.00 point

TB 12-50 Auditors can perform detail tests of control audit...

Auditors can perform detail tests of control audit procedures to determine whether the client throughout the period of intended reliance is actually performing controls that are said to be in place and operating. What two characteristics must a detail test of controls audit procedure have in order to be successful?

The auditor must identify the population of the data that the sample will be extracted from. The auditor must also express what action will be taken to produce relevant evidence. In general, the actions will involve vouching, tracing, observing, scanning, and recalculating amounts and transactions in the normal course of business.

Essay

TB 12-50 Auditors can perform detail tests of control audit...

award:
561. 1.00 point

TB 12-51 Briefly explain why the auditor's inventory tests ...

Briefly explain why the auditor's inventory tests counts are conducted in two directions.

To test for completeness, the auditor's test counts proceed from assets to records, that is, the auditor counts selected inventory items in the warehouse and then checks to see if they are properly included in the perpetual records. To test for validity, the auditor's test counts proceed from records to assets, that is, the auditor selects some inventory items from the perpetual records then checks to see if they are, in fact, on hand in the warehouse.

Essay

TB 12-51 Briefly explain why the auditor's inventory tests ...

award:
562. 1.00 point

TB 12-52 Explain why auditors must put greater emphasis on ...

Explain why auditors must put greater emphasis on the completeness assertion when auditing accounts payable. Contrast this with the audit of assets.

Auditors are more concerned about overstatement of equity than understatement. As a result, auditors need to ensure that there are no unrecorded liabilities, that is, that the accounts payable records are complete. Controls over the timely recording of expenses and liabilities are not as stringent as controls over assets. Companies control their assets very closely but often rely on their suppliers for control over liabilities. Even as they send statements to their customers, they know that their suppliers will send statements to them. In contrast, the emphasis in the case of assets is the existence assertion—do all recorded assets exist. It is easier to verify existence than completeness. In verifying existence, the auditor is examining items that have been recorded—the population is known. In verifying completeness, however, the auditor is looking for items that are not recorded—the population is unknown.

Essay

TB 12-52 Explain why auditors must put greater emphasis on ...

award:
563.1.00 point

TB 12-53 Jack PA is the auditor of Jill Corporation. Jack f...

Jack PA is the auditor of Jill Corporation. Jack followed last year's working papers in selecting accounts payable to confirm. Jack mailed confirmations to 50 of Jill's 200 suppliers. The sample was designed to select accounts with the largest balances. Jack and Jill spent a lot of time reconciling minor differences between the confirmation amounts and the accounts payable trial balance.

Required:

Do you believe that Jack should have used the same sample design for accounts payable confirmations this year? If not, what suggestions can you give to improve the design?

Because of concern about the possible understatement of liabilities, auditors are more concerned with the completeness and obligations assertions for accounts payable. As a result, auditors concentrate their work on account balances that are more likely to be understated. Therefore, accounts with small and zero balances should be included in the sample design as well as accounts with a high level of activity during the year.

Essay

*TB 12-53 Jack PA is the auditor of
Jill Corporation. Jack f...*

award:
564.1.00 point

TB 12-54 When performing procedures to search for unrecorde...

When performing procedures to search for unrecorded liabilities, the auditor can obtain several sources of audit evidence, for example, documents, files, and enquiries of management and clerical personnel.

Required:

List at least five, but no more than eight, sources of audit evidence that could be accumulated in the search for unrecorded liabilities. (Do not write procedures or reasons for using the sources.)

- i. Open purchase order file.
- ii. Unmatched vendor invoice file.
- iii. Unmatched receiving report file.
- iv. Cash disbursements journal entries in the subsequent accounting period.
- v. Purchase journal entries in the subsequent accounting period.
- vi. Bank confirmations.
- vii. Canada Customs and Revenue Agency assessment or re-assessment notices.
- viii. Confirmation of small dollar and zero-balance accounts payable.
- ix. Accounts payable trial balance.
- x. Response—as to letters of enquiry sent to lawyers.
- xi. Oral and written representations from management.
- xii. Sales commitment documentation.
- xiii. Purchase commitment documentation.
- xiv. Loan confirmations.
- xv. Debt refinancing agreements.

Essay

*TB 12-54 When performing
procedures to search for unrecorde...*

award:
565.1.00 point

TB 12-55 Identify situations when the auditor should use ac...

Identify situations when the auditor should use accounts payable confirmations and discuss whether they are required to use them.

In general, the auditors are not required to use accounts payable confirmation procedures. Auditors have external evidence such as vendor invoices and statements that may be used in the audit or accounts payable. However, in the event that internal controls are weak, the company is slow in paying bills or is in a tight money situation, the auditor may consider confirmations. The auditor may also consider sending confirmations if the suppliers do not send monthly statements, or when vendor amounts include unusual transactions. When an auditor is sending out confirmations, the auditor will send them out as "open ended", meaning that there is no amount on these confirms. The supplier is asked to provide to the auditor directly, a copy of the statement or at the very least, a list of outstanding invoices and their balances. This will enable the auditor to assess the completeness of accounts payable.

Essay

TB 12-55 Identify situations when the auditor should use ac...

award:
566.1.00 point

TB 12-56 If a client uses the cycle method of counting inve...

If a client uses the cycle method of counting inventory and never takes "wall to wall" inventory on a single date, what must the auditor do in order to avoid requesting the client to take a full inventory count?

The auditor must understand the cycle counts and evaluate the appropriateness of the client's methods. If the client has chosen this method, they are asserting that they have accurate perpetual inventory records and they are carrying out the inventory counts as a method of ensuring and maintaining the accuracy of their records. The auditor must be present during some of these counts to ensure that the plans are valid and to observe their execution. Test counts must be made and the audit team is responsible to draw a conclusion regarding the accuracy of the perpetual records and to ensure that sufficient appropriate audit evidence is gathered during these counts to ensure the existence and accuracy of the perpetual counts.

Essay

TB 12-56 If a client uses the cycle method of counting inve...

award:
567 .1.00 point

TB 12-57 What issues must the auditor consider if the clien...

What issues must the auditor consider if the client has inventory located away from the client's place of business?

The auditor must determine where the inventory is and what the value of this inventory is. The auditor must also determine if the inventory is in the hands of consignees or in public warehouse facilities. If the amounts are material, the auditor must assess if the controls over the inventory is strong. If the amounts are material, and the control over this type of inventory is not particularly strong, the auditor considers counting the inventory himself. If the controls are fairly strong, the auditor can confirm with the custodian of this inventory the amounts involved and this would be considered sufficient appropriate audit evidence about the existence of this inventory.

Essay

*TB 12-57 What issues must the
auditor consider if the clien...*

TB 12-58 This question requires knowledge about specific ac...

This question requires knowledge about specific account balance assertions, general audit procedures, and trade accounts payable.

You are assigned to audit trade accounts payable at Green Corporation, whose business is wholesale and retail trade. Green purchases products from 1,000-2,000 manufacturers and sells the products to its retail and wholesale customers. The general ledger shows a trade accounts payable balance as of the balance sheet date in the amount of \$42 million (the balance comprises 70% of current liabilities, 50% of total liabilities, and 35% of total liabilities and shareholders' equity). Green's accountants post summary entries from the purchases journal and from the cash disbursements journal to the accounts payable control account each month. The accounts payable manager gave you a detailed trial balance that lists all the recorded, unpaid invoices (recording date, vendor name, vendor invoice number, invoice date, and amount) subtalled by vendor.

Other members of the audit team have already decided to assess control risk at maximum for accounts payable. The engagement manager gave you last year's audit working papers and told you not to use the audit program from last year because it was no longer appropriate. The first part of your assignment is to write the audit program for the audit of Green's trade accounts payable.

Required:

For each of the general assertions EXISTENCE, COMPLETENESS, and VALUATION, write two or more specific audit procedures designed to produce appropriate evidence about Green's trade accounts payable balance.

EXISTENCE

- i. Select a sample of recorded accounts payable and send confirmations to vendors.
- ii. Select a sample of recorded accounts payable and vouch them to suppliers' statements received after the balance sheet date.

COMPLETENESS

- i. Select a sample of small and zero account payable balances and send confirmations to vendors.
- ii. Examine documentation for all cash disbursements made during the two weeks following the year-end to determine whether they should have been recorded as accounts payable prior to year-end.
- iii. Trace all receiving reports issued in the last two weeks before year-end to vendor's invoices and determine if they were recorded in accounts payable prior to year-end.
- iv. List unmatched vendor invoices and determine when the good were received. Determine whether the invoices should have been recorded prior to year-end.
- v. Examine the open purchase order file for old orders that might have been received but not recorded. Ask the client why the orders are outstanding and assess the reasonableness of the explanations.
- vi. Scan the accounts payable trial balance for unusual items such as debit balances in vendor accounts.

VALUATION

- i. Interview the accounts payable manager and determine if any accounts are in dispute.
- ii. Reconcile confirmations returned from vendors to the accounts payable subsidiary ledger and determine if any accounts are in dispute.
- iii. Obtain written representations from the client about the completeness and valuation of accounts payable.
- iv. Review the response letter from the client's lawyer for evidence of any accounts that are in dispute.

Essay

*TB 12-58 This question requires
knowledge about specific ac...*

award:
569.1.00 point

TB 12-59 An internal control questionnaire for purchases an...

An internal control questionnaire for purchases and accounts payable could include the following questions. Match the question to the appropriate control objective and place the identifying letter in the space provided.

- A: Environment
- B: Validity
- C: Completeness
- D: Authorization
- E: Accuracy
- F: Classification
- G: Accounting
- H: Proper period

- ___ 1. Are receiving reports pre-numbered and accounted for?
- ___ 2. Are all purchases orders supported by properly approved purchase requisitions?
- ___ 3. Are vendors' invoices listed immediately upon receipt?
- ___ 4. Are vendors' invoices matched against purchase orders and receiving reports before a liability is recorded?
- ___ 5. Is the purchasing department independent of the accounting, receiving, and shipping departments?
- ___ 6. Are vendors' invoices checked against purchase orders and receiving reports for quantities, prices, and terms?
- ___ 7. Does the accounting procedures manual require that transactions be recorded on the date that goods and services are received?
- ___ 8. Are all goods returned to vendors supported by properly approved shipping documents?
- ___ 9. Is the chart of accounts adequate?
- ___ 10. Are vouchers and attached documents cancelled after being recorded?

- 1. C
- 2. D
- 3. C
- 4. B
- 5. A
- 6. E
- 7. H
- 8. D
- 9. F
- 10. B

Essay

*TB 12-59 An internal control
questionnaire for purchases an...*

award:
570.1.00 point

TB 12-60 Audit procedures to test controls over inventory r...

Audit procedures to test controls over inventory records could include the procedures listed below. Match each of the procedures numbered 1 through 5 to the appropriate control objective (A through G) and place the identifying letter in the space provided.

- A: Validity
- B: Completeness
- C: Authorization
- D: Accuracy
- E. Classification
- F. Accounting
- G. Proper period

- _____ 1. Account for the integrity of the numerical sequence of shipping documents used to relieve stock from the inventory records.
- _____ 2. Examine material requisitions for evidence of approval by the production supervisor.
- _____ 3. Review the reconciliation of the daily summary of goods shipped per shipping bills to the daily summary of stock removed from inventory per the perpetual inventory records.
- _____ 4. Trace quantities shipped per shipping bills to the perpetual inventory records.
- _____ 5. Review material requisitions for evidence of internal verification of general ledger account numbers.

--

- 1. A
- 2. C
- 3. D
- 4. B
- 5. 1

Essay

TB 12-60 Audit procedures to test controls over inventory r...

award:
571.1.00 point

TB 13-01 Production accounting generates important informat...

Production accounting generates important information for management decisions but also is a source of audit risk because _____.

- production accountants may not be competent
- production processes require a lot of allocations
- goods produced may not be marketable
- goods claimed as produced may not exist

Multiple Choice

TB 13-01 Production accounting generates important informat...

award:
572. 1.00 point

TB 13-02 Which of the following accounts is not considered ...

Which of the following accounts is not considered in the production cycle?

- Inventory.
 - Cost of goods sold.
 - Amortization expense.
 - Sales.
-

Multiple Choice

TB 13-02 Which of the following accounts is not considered ...

award:
573. 1.00 point

TB 13-03 A bill of materials is associated with which duty?

A bill of materials is associated with which duty?

- Authorization.
 - Custody.
 - Record keeping.
 - Periodic reconciliation.
-

Multiple Choice

TB 13-03 A bill of materials is associated with which duty?

award:
574. 1.00 point

TB 13-04 Cost accounting can be performed by those who also...

Cost accounting can be performed by those who also _____.

- authorize production
 - allocate overhead charges
 - have custody of assets
 - reconcile labour reports
-

Multiple Choice

TB 13-04 Cost accounting can be performed by those who also...

award:
575. 1.00 point

TB 13-05 Reconciling the open production cost reports to th...

Reconciling the open production cost reports to the work-in-process inventory control account is a procedure designed to test the control objective of _____.

- environment
- validity
- completeness
- authorization

Multiple Choice

*TB 13-05 Reconciling the open
production cost reports to th...*

award:
576. 1.00 point

TB 13-06 Selecting a sample of job orders from the job cost..

Selecting a sample of job orders from the job cost summary and matching them to bills of material and the schedule of production labour requirements is a procedure designed to test the control objective of _____.

- accounting
- accuracy
- completeness
- validity

Multiple Choice

*TB 13-06 Selecting a sample of job
orders from the job cost...*

award:
577. 1.00 point

TB 13-07 If controls over production accounting are found t..

If controls over production accounting are found to be strong, an auditor can plan to do less testing over _____.

- the existence assertion of inventory
- the valuation assertion of inventory
- the completeness assertion of inventory
- the rights assertion over inventory

Multiple Choice

*TB 13-07 If controls over production
accounting are found t...*

award:
578. 1.00 point

TB 13-08 Which of the following documents is NOT included i...

Which of the following documents is NOT included in the payroll cycle?

- payroll cheques
- timekeeping records
- termination notices
- supplier invoices

Multiple Choice

TB 13-08 Which of the following documents is NOT included i...

award:
579. 1.00 point

TB 13-09 Which of the following procedures carried out by t...

Which of the following procedures carried out by the personnel department best reduces the risk of payroll fraud and represents an appropriate responsibility for the department?

- Distributing paycheques.
- Authorizing overtime hours.
- Authorizing the addition or removal of employees from the payroll.
- Collecting and retaining unclaimed paycheques.

Multiple Choice

TB 13-09 Which of the following procedures carried out by t...

award:
580. 1.00 point

TB 13-10 The purpose of segregating the duties of hiring pe...

The purpose of segregating the duties of hiring personnel and distributing payroll cheques is to separate the _____.

- human resources function from the controllership function
- administrative controls from the internal accounting controls
- authorization of transactions from the custody of related assets
- operational responsibility from the record-keeping responsibility

Multiple Choice

TB 13-10 The purpose of segregating the duties of hiring pe...

award:
581. 1.00 point

TB 13-11 An auditor is most likely to assess control risk a...

An auditor is most likely to assess control risk at maximum if the payroll department supervisor is responsible for _____.

- examining authorization forms for new employees
 - authorizing payroll rate changes for all employees
 - comparing payroll registers with original batch transmittal data
 - hiring all subordinate payroll department employees
-

Multiple Choice

TB 13-11 An auditor is most likely to assess control risk a...

award:
582. 1.00 point

TB 13-12 Which of the following is most likely to approve c...

Which of the following is most likely to approve changes in pay rates and deductions from employee salaries?

- Personnel department.
 - Treasurer.
 - Controller.
 - Payroll department.
-

Multiple Choice

TB 13-12 Which of the following is most likely to approve c...

award:
583. 1.00 point

TB 13-13 In the area of payroll, which of the following pro...

In the area of payroll, which of the following procedures represents proper control over the custody of assets?

- The supervisor receives a copy of the payroll register for a chance to approve the payroll after it is completed.
 - Individual paycheques are prepared.
 - Unclaimed payroll cheques are held in the office of the chief financial officer.
 - Signatures from employees are obtained for calculation of deductions.
-

Multiple Choice

TB 13-13 In the area of payroll, which of the following pro...

award:
584. 1.00 point

TB 13-14 Small Corporation uses a Wages Clearing Account fo...

Small Corporation uses a Wages Clearing Account for its payroll disbursements. At the end of February, a reasonably large debit balance remained in this account. What is the most likely reason?

- More labour cost had been assigned to the expense accounts than had been paid.
 - Some labour cost had not been properly classified in the expense accounts.
 - Some employees had not yet cashed their cheques.
 - Not enough cash had been transferred to the bank account.
-

Multiple Choice

*TB 13-14 Small Corporation uses a
Wages Clearing Account fo...*

award:
585. 1.00 point

TB 13-15 Which of the following is NOT a major risk in the ...

Which of the following is NOT a major risk in the payroll cycle?

- Paying fictitious employees.
 - Paying employees more than a market wage.
 - Overpayment for time or production.
 - Incorrect accounting for costs and expenses.
-

Multiple Choice

*TB 13-15 Which of the following is
NOT a major risk in the ...*

award:
586. 1.00 point

TB 13-16 Selecting a sample of time clock cards and examini...

Selecting a sample of time clock cards and examining them for evidence of approval by a supervisor then tracing the hours recorded to the payroll registers is a procedure designed to obtain evidence about the control objective(s) of _____.

- validity only
 - authorization only
 - completeness only
 - authorization and completeness.
-

Multiple Choice

*TB 13-16 Selecting a sample of time
clock cards and examini...*

award:
587.1.00 point

TB 13-17 The sampling unit in a test of controls relating t...

The sampling unit in a test of controls relating to the validity of payroll transactions is ordinarily a(n) _____.

- clock card or time ticket
- employee T-4 form
- employee personnel record
- payroll register entry

Multiple Choice

*TB 13-17 The sampling unit in a test
of controls relating t...*

award:
588.1.00 point

TB 13-18 Tracing selected items from the payroll register t...

Tracing selected items from the payroll register to approved, employee time cards provides evidence that _____.

- internal controls relating to payroll disbursements were operating effectively
- payroll cheques were signed by an appropriate officer independent of the payroll preparation process
- only bona fide employees worked and their pay was properly computed
- employees worked the number of hours for which their pay was computed

Multiple Choice

*TB 13-18 Tracing selected items from
the payroll register t...*

award:
589.1.00 point

TB 13-19 To best ensure that employees are paid authorized ...

To best ensure that employees are paid authorized rates, the auditor should trace wage rates from the _____.

- master files to payroll journal
- payroll journal to master files
- personnel files to master files
- cheque register to payroll journal

Multiple Choice

*TB 13-19 To best ensure that
employees are paid authorized ...*

award:
590. 1.00 point

TB 13-20 Selecting a sample of payroll summaries and vouchi...

Selecting a sample of payroll summaries and vouching the details to time records is a procedure designed to test the control objective of _____.

- environment
 - validity
 - completeness
 - classification
-

Multiple Choice

TB 13-20 Selecting a sample of payroll summaries and vouchi...

award:
591. 1.00 point

TB 13-21 Which of the following would raise a red flag in t...

Which of the following would raise a red flag in the audit of payroll?

- One person in the company is authorized to sign all payroll cheques.
 - The endorsement on a cancelled payroll cheque included the words "for deposit only" above the payee's signature.
 - The endorsement on a cancelled payroll cheque included the signature of a supervisor below the signature of the payee.
 - A supervisor initialled the time card of an employee.
-

Multiple Choice

TB 13-21 Which of the following would raise a red flag in t...

award:
592. 1.00 point

TB 13-22 Overall production authorization starts with produ...

Overall production authorization starts with production planning, which usually is based on a sales forecast.

- True
 - False
-

True / False

TB 13-22 Overall production authorization starts with produ...

award:
593. 1.00 point

TB 13-23 Finished goods inventory is low in inherent risk s...

Finished goods inventory is low in inherent risk since production is so well understood.

- True
→ False

True / False

*TB 13-23 Finished goods inventory is
low in inherent risk s...*

award:
594. 1.00 point

TB 13-24 Most of the transactions in the production cycle a...

Most of the transactions in the production cycle are cost accounting allocations, unit cost determinations, and standard cost calculations.

- True
 False

True / False

*TB 13-24 Most of the transactions in
the production cycle a...*

award:
595. 1.00 point

TB 13-25 A materials requisition is the document that autho...

A materials requisition is the document that authorizes the inventory custodian to release raw materials and supplies to production personnel.

- True
 False

True / False

*TB 13-25 A materials requisition is
the document that autho...*

award:
596. 1.00 point

TB 13-26 Only supervisors have physical custody of material...

Only supervisors have physical custody of materials, equipment, and labour while the production work is performed.

- True
→ False

True / False

*TB 13-26 Only supervisors have
physical custody of material...*

award:
597. 1.00 point

TB 13-27 It is permissible for accounting personnel to auth...

It is permissible for accounting personnel to authorize production orders since they do not have custody of the assets.

- True
→ False

True / False

*TB 13-27 It is permissible for
accounting personnel to auth...*

award:
598. 1.00 point

TB 13-28 A test of the validity objective is to examine a s...

A test of the validity objective is to examine a sample of production cost reports and recalculate all costs entered.

- True
→ False

True / False

*TB 13-28 A test of the validity
objective is to examine a s...*

award:
599. 1.00 point

TB 13-29 Recalculating all costs entered on a sample of ope...

Recalculating all costs entered on a sample of open and closed job cost reports is a test of the accuracy objective.

- True
 False

True / False

*TB 13-29 Recalculating all costs
entered on a sample of ope...*

award:
600. 1.00 point

TB 13-30 The payroll cycle starts with keeping track of att...

The payroll cycle starts with keeping track of attendance and ends with payment to the employee.

- True
→ False

True / False

*TB 13-30 The payroll cycle starts
with keeping track of att...*

award:
601. 1.00 point

TB 13-31 The payroll register is the primary original recor...

The payroll register is the primary original record for payroll accounting.

- True
 False

True / False

*TB 13-31 The payroll register is the
primary original recor...*

award:
602. 1.00 point

TB 13-32 Federal Form T4 Summary is the employer's annual f...

Federal Form T4 Summary is the employer's annual federal employee remittance return.

- True
 False

True / False

*TB 13-32 Federal Form T4 Summary
is the employer's annual f...*

award:
603. 1.00 point

TB 13-33 A payroll clearing account is a temporary accoun...

A payroll "clearing account" is a temporary account that holds payroll transactions until final accounting entries are prepared.

- True
 False

True / False

*TB 13-33 A payroll clearing account
is a temporary accoun...*

award:
604. 1.00 point

TB 13-34 One procedure in an audit program for tests of con...

One procedure in an audit program for tests of controls reads: "Select a sample of employees from the payroll register and vouch identification numbers, pay rates, and authorized deductions to the personnel files." This procedure is designed to test the validity of payroll information for employees.

- True
→ False

True / False

*TB 13-34 One procedure in an audit
program for tests of con...*

award:
605.1.00 point

TB 13-35 A test of the completeness objective is selecting ...

A test of the completeness objective is selecting a sample of payroll register entries and vouching them to employee data in the personnel files such as employee identification, rate of pay, and authorized deductions.

- True
→ False

True / False

*TB 13-35 A test of the completeness
objective is selecting ...*

award:
606.1.00 point

TB 13-36 Audit procedures to test controls over payroll cou...

Audit procedures to test controls over payroll could include the procedures listed below. Match each of the procedures numbered 1 through 5 to the appropriate control objective (A through H) and place the identifying letter in the space provided.

- | | |
|------------------|---|
| 1. Accuracy | Foot the payroll journal and trace summary totals to management reports and to the general ledger. #5 |
| 2. Validity | Select a sample of payroll register entries and recalculate gross pay, deductions, and net pay. #1 |
| 3. Authorization | Select a sample of payroll register entries and trace pay rate data to union contracts and personnel files. #3 |
| 4. Completeness | Select a sample of cost accounting analyses of payroll and reconcile periodic totals with payroll payments for the same periods. #4 |
| 5. Accounting | Obtain control of a periodic payroll and conduct a surprise distribution of pay cheques. #2 |

Matching

*TB 13-36 Audit procedures to test
controls over payroll cou...*

award:
607 .1.00 point

TB 13-37 The five functional responsibilities for the payro...

The five functional responsibilities for the payroll cycle are (1) personnel and labour relations, (2) supervision, (3) timekeeping and cost accounting, (4) payroll accounting, and (5) payroll distribution. For each responsibility, identify the type of duty or duties (authorization, custody, record-keeping, periodic reconciliation) associated with the function and briefly describe the activity involved.

- a. Personnel and labour relations: Authorization. This function is responsible for the hiring and firing of personnel and for obtaining authorizations from employees for payroll deductions.
- b. Supervision: Authorization. This function is responsible for approving the number of hours worked by employees.
- c. Timekeeping and cost accounting: Authorization. This function takes care of payroll preparation and cost accounting analyses.
- d. Payroll accounting: Record-keeping. This function is responsible for preparing cheques and related payroll reports.
- e. Payroll distribution: Custody. This function has custody of the cheques and is responsible for distributing them to the employees.

Essay

TB 13-37 The five functional responsibilities for the payro...

award:
608 .1.00 point

TB 13-38 The accounting department at Blue Manufacturing Li...

The accounting department at Blue Manufacturing Limited receives production information at the end of each week. The production floor supervisor reports time and production data and the payroll department reports labour cost data. How will the accounting department use this information? Why?

The accounting department is receiving data about labour hours and costs from two independent sources. The accounting department should reconcile the information from the two sources as to hours worked and dollars paid or accrued. This reconciliation ensures that the accounting department is using accurate payroll data and that the payroll department is paying only for work performed.

Essay

TB 13-38 The accounting department at Blue Manufacturing Li...

award:
609.1.00 point

TB 13-39 What is a clearing account? What are the risks ass...

What is a clearing account? What are the risks associated with this type of account?

A clearing account is a temporary storage place for transactions awaiting final accounting. All clearing accounts, or suspense accounts as they are sometimes called, should have a zero balance at the end of each accounting period. If not managed properly or addressed on a timely basis, clearing accounts may become cumbersome and result in poor accounting practices as well as errors. These errors may include misclassifications and income errors.

Essay

TB 13-39 What is a clearing account? What are the risks ass...

award:
610.1.00 point

TB 13-40 Describe the major risk areas associated with the ...

Describe the major risk areas associated with the payroll cycle.

- Paying fictitious employees (invalid transactions, employees do not exist)
- Overpaying for time or production (inaccurate transactions, improper valuations)
- Incorrect accounting for costs and expenses (incorrect classification, improper or inconsistent presentation and disclosure)

Essay

TB 13-40 Describe the major risk areas associated with the ...

award:
611.1.00 point

TB 13-41 In the audit of payroll, auditors often examine th...

In the audit of payroll, auditors often examine the endorsements on a sample of cancelled payroll cheques. What is the purpose of this procedure?

The auditor is looking for indications that endorsements are invalid. An endorsement should be that of the payee (the employee). Second endorsements, such as those of a supervisor, could indicate a problem. In such a circumstance, the payee could be a fictitious employee or an employee who had been terminated but not removed from the personnel records. The supervisor could be defrauding the company by keeping an unclaimed cheque, forging the payee's signature, and then cashing the cheque for his or her own benefit.

Essay

TB 13-41 In the audit of payroll, auditors often examine th...

award:
612.1.00 point

TB 13-42 Match each of the examples of specific control obj...

Match each of the examples of specific control objectives in the production cycle listed 1 through 5 below with the appropriate general control objectives (A through G) and place the identifying letter in the space provided.

- A. Validity
- B. Completeness
- C. Authorization
- D. Accuracy
- E. Accuracy
- F. Classification
- G. Accounting
- H. Proper period

___1. Entries derived from job cost sheets are subject to independent verification.

___2. Labour usage reports are compared to job time tickets.

___3. The production foreman is required to record all material and labour used as being either direct labour or indirect labour.

___4. Production reports summarizing material and labour used are prepared weekly and transmitted to the accounting department.

___5. All documents are pre-numbered and the numerical sequence is accounted for.

- 1. D
- 2. A
- 3. E
- 4. G
- 5. B

Essay

*TB 13-42 Match each of the
examples of specific control obj...*

award:
613. 1.00 point

TB 13-43 Audit procedures to test controls over work-in-pro...

Audit procedures to test controls over work-in-process inventory could include the procedures listed below. Match each of the procedures numbered 1 through 5 to the appropriate control objective (A through H) and place the identifying letter in the space provided.

- A. Environment
- B. Validity
- C. Completeness
- D. Authorization
- E. Accuracy
- F. Classification
- G. Accounting
- H. Proper period

- ___1. Reconcile the open job cost sheets to the work-in-process inventory control account.
- ___2. For a sample of open and closed job cost sheets, vouch labour costs to job tickets and labour reports.
- ___3. For a sample of open and closed job cost sheets, compare labour reports to payroll summaries.
- ___4. Select a sample of production orders and examine for proper approvals.
- ___5. Select a sample of production orders and match details to bills of material and labour requirements.

--

- 1. C
- 2. B
- 3. G
- 4. D
- 5. C

Essay

TB 13-43 Audit procedures to test controls over work-in-pro...

award:
614. 1.00 point

TB 14-01 Off the balance sheet means that _____.

Off the balance sheet means that _____.

- obligations and commitments are recorded only in the income statement accounts
- obligations and commitments are recorded only in the statement of cash flows
- capital budgets are properly authorized and approved
- obligations and commitments are not recorded in the accounts of the company

Multiple Choice

TB 14-01 Off the balance sheet means that _____.

award:
615. 1.00 point

TB 14-02 A typical activity performed in the finance and in...
A typical activity performed in the finance and investment cycle would be _____.

- analysis of excess cash funds
- reconciliation of cash balances
- authorization of cash disbursements
- preparation of the cash flow statement

Multiple Choice

*TB 14-02 A typical activity performed
in the finance and in...*

award:
616. 1.00 point

TB 14-03 Transactions in debt and shareholder equity are ty...
Transactions in debt and shareholder equity are typically handled by _____.

- payroll
- accounting staff
- accounting supervisors
- upper management

Multiple Choice

*TB 14-03 Transactions in debt and
shareholder equity are ty...*

award:
617. 1.00 point

TB 14-04 Which of the following questions is an auditor mos...
Which of the following questions is an auditor most likely to include on an internal control questionnaire?

- Are the assets that secure notes payable critically needed for the entity's continued existence?
- Are two or more authorized signatures required on cheques that repay notes payable?
- Are the proceeds from notes payable used for the purchase of non-current assets?
- Are direct borrowings on notes payable authorized by the board of directors?

Multiple Choice

*TB 14-04 Which of the following
questions is an auditor mos...*

award:
618. 1.00 point

TB 14-05 The decision of a company to have a transfer agent...

The decision of a company to have a transfer agent handle the exchange of shares is related primarily to which functional responsibility?

- Authorization.
- Custody.
- Record-keeping.
- Periodic reconciliation.

Multiple Choice

TB 14-05 The decision of a company to have a transfer agent...

award:
619. 1.00 point

TB 14-06 What is the most appropriate control to prevent im...

What is the most appropriate control to prevent improper use of share or bond instruments?

- Authorization to purchase shares by a senior financial officer.
- Use of a registered broker to purchase and sell all shares.
- Proper custodial control of securities.
- Registration of bond instruments with the exchange authorities.

Multiple Choice

TB 14-06 What is the most appropriate control to prevent im...

award:
620. 1.00 point

TB 14-07 In the finance and investment cycle, which of the ...

In the finance and investment cycle, which of the following controls would be most effective in ensuring that proper custody of assets has been maintained?

- Direct access to securities in the safety deposit box is limited to only one corporate officer.
- Personnel who post investment transactions to the general ledger are not permitted to update the investment subsidiary ledger.
- The purchase and sale of investments are executed on the specific authorization of the board of directors.
- The recorded balances in the investment subsidiary ledger are periodically compared with the contents of the safety deposit box by independent personnel.

Multiple Choice

TB 14-07 In the finance and investment cycle, which of the ...

award:
621.1.00 point

TB 14-08 Accounting estimates include which of the followin...

Accounting estimates include which of the following?

- Trade payable balances.
- Cash balances.
- Capital assets at cost.
- Amortization expense.

Multiple Choice

TB 14-08 Accounting estimates include which of the followin...

award:
622.1.00 point

TB 14-09 Who is responsible for making accounting estimates...

Who is responsible for making accounting estimates?

- Auditors.
- Management.
- Boards of directors.
- Shareholders.

Multiple Choice

TB 14-09 Who is responsible for making accounting estimates...

award:
623.1.00 point

TB 14-10 Which of the following is a substantive procedure ...

Which of the following is a substantive procedure in the audit of estimates made by auditor?

- Observing whether estimates are prepared by qualified personnel.
- Recalculating the mathematical estimate.
- Scanning for evidence of review by senior management.
- Ensuring estimates are recorded in the right accounts.

Multiple Choice

TB 14-10 Which of the following is a substantive procedure ...

award:
624. 1.00 point

TB 14-11 Which of the following is not an example of manage...

Which of the following is not an example of management's policies and procedures over the preparation of accounting estimates?

- Accumulation of relevant, sufficient, and reliable data.
 - Preparation of estimates by qualified personnel.
 - Review by the independent auditor.
 - Consideration by management of whether the accounting estimates are consistent with the company's operational plans.
-

Multiple Choice

TB 14-11 Which of the following is not an example of manage...

award:
625. 1.00 point

TB 14-12 This internal control questionnaire item%u2014Ar...

This internal control questionnaire item—"Are interest payments and accruals monitored for due dates?"—relates to the control objective of _____.

- validity
 - completeness
 - accounting
 - proper period recording
-

Multiple Choice

TB 14-12 This internal control questionnaire item%u2014Ar...

award:
626. 1.00 point

TB 14-13 Selecting a sample of paid notes and tracing inter...

Selecting a sample of paid notes and tracing interest costs to the general ledger expense account is a test of the control objective of _____.

- accounting
 - accuracy
 - completeness
 - validity
-

Multiple Choice

TB 14-13 Selecting a sample of paid notes and tracing inter...

award:
627.1.00 point

TB 14-14 If an auditor decided to confirm share capital, th...

If an auditor decided to confirm share capital, the auditor would obtain the confirmation from _____.

- management
 - the board of directors
 - shareholders
 - an independent registrar
-

Multiple Choice

TB 14-14 If an auditor decided to confirm share capital, th...

award:
628.1.00 point

TB 14-15 Which management assertion is of most importance t...

Which management assertion is of most importance to auditors in examining long-term debt?

- Existence.
 - Completeness.
 - Rights and obligations.
 - Presentation and disclosure.
-

Multiple Choice

TB 14-15 Which management assertion is of most importance t...

award:
629.1.00 point

TB 14-16 Which of the following management assertions for l...

Which of the following management assertions for long-term liabilities is related to completeness?

- All material long-term liabilities are recorded.
 - Assumption of new long-term liabilities and repayment of debt are properly authorized.
 - Terms, conditions, and restrictions relating to long-term debt are adequately disclosed.
 - Disclosure of five-year repayment schedule and debt maturity dates is accurate and adequate.
-

Multiple Choice

TB 14-16 Which of the following management assertions for l...

award:
630.1.00 point

TB 14-17 In Off-Balance-Sheet Inventory Financing, Verity...

In "Off-Balance-Sheet Inventory Financing," Verity Distillery used the product repurchase ploy to _____.

- overstate assets and understate liabilities by borrowing money and not recording the liability
 - increase owners' equity by recording the sale of inventory without recording any cost of goods sold
 - understate assets and understate liabilities by borrowing money through an undisclosed related party transaction and disguising it as a sale
 - understate assets and understate liabilities by loaning money to its officers
-

Multiple Choice

*TB 14-17 In Off-Balance-Sheet
Inventory Financing, Verity...*

award:
631.1.00 point

TB 14-18 Debt covenant violations have a significant impact...

Debt covenant violations have a significant impact on a company since they can affect _____.

- the ability of the entity to function as a going concern
 - overall liability relationships in the financial statements
 - the nature of disclosures required in the audit report
 - how loan agreements should be structured
-

Multiple Choice

*TB 14-18 Debt covenant violations
have a significant impact...*

award:
632.1.00 point

TB 14-19 The purchase of fixed assets is part of the financ...

The purchase of fixed assets is part of the finance and investment cycle.

- True
 - False
-

True / False

*TB 14-19 The purchase of fixed
assets is part of the financ...*

award:
633. 1.00 point

TB 14-20 The inherent risk associated with the finance and ...

The inherent risk associated with the finance and investment cycle is less than that associated with other cycles, especially given the low number of transactions typically involved.

- True
→ False

True / False

*TB 14-20 The inherent risk
associated with the finance and ...*

award:
634. 1.00 point

TB 14-21 The sale of share capital and the decision to fina...

The sale of share capital and the decision to finance the company with debt are transactions usually authorized by shareholders.

- True
→ False

True / False

*TB 14-21 The sale of share capital
and the decision to fina...*

award:
635. 1.00 point

TB 14-22 Auditors should expect to find the authorizing sig...

Auditors should expect to find the authorizing signatures of the CEO, CFO, chair of the board of directors, and perhaps other high-ranking officers on financing documents.

- True
 False

True / False

*TB 14-22 Auditors should expect to
find the authorizing sig...*

award:
636. 1.00 point

TB 14-23 Letters of credit are an example of off-balance-s...

Letters of credit are an example of "off-balance-sheet" financing.

- True
 False

True / False

*TB 14-23 Letters of credit are an
example of off-balance-s...*

637. ^{award:} 1.00 point

TB 14-24 It is easier to segregate functional responsibilit...

It is easier to segregate functional responsibilities in middle management than in upper-level management.

- True
 False

True / False

*TB 14-24 It is easier to segregate
functional responsibilit...*

638. ^{award:} 1.00 point

TB 14-25 In the area of finance and investment, the involve...

In the area of finance and investment, the involvement of two or more persons in each important functional responsibility could be considered a compensating control.

- True
 False

True / False

*TB 14-25 In the area of finance and
investment, the involve...*

639. ^{award:} 1.00 point

TB 14-26 The auditor's tests of controls over the appropria...

The auditor's tests of controls over the appropriateness of accounting estimates consist primarily of enquiry and observation.

- True
 False

True / False

*TB 14-26 The auditor's tests of
controls over the appropria...*

640. ^{award:} 1.00 point

TB 14-27 The auditor selected a sample of journal entries r...

The auditor selected a sample of journal entries related to notes payable and traced interest expense to the general ledger. The auditor is testing controls over accuracy.

- True
→ False

True / False

*TB 14-27 The auditor selected a
sample of journal entries r...*

award:
641. 1.00 point

TB 14-28 It is very common for auditors to perform substant...

It is very common for auditors to perform substantive procedures on 100% of the transactions and general ledger balances for investment accounts and finance accounts.

- True
 False

True / False

TB 14-28 It is very common for auditors to perform substant...

award:
642. 1.00 point

TB 14-29 The auditor's primary concern in the verification ...

The auditor's primary concern in the verification of long-term liabilities is that all liabilities are recorded and that the interest expense is properly paid or accrued.

- True
 False

True / False

TB 14-29 The auditor's primary concern in the verification ...

award:
643. 1.00 point

TB 14-30 Confirmation requests should be sent to lenders on...

Confirmation requests should be sent to lenders only if there is a balance owing to the lender at the confirmation date.

- True
→ False

True / False

TB 14-30 Confirmation requests should be sent to lenders on...

award:
644. 1.00 point

TB 14-31 Management's statement that a marketable security ...

Management's statement that a marketable security is a long-term investment may be the only evidence available to support classifying the investment as a non-current asset.

- True
 False

True / False

TB 14-31 Management's statement that a marketable security ...

award:
645.1.00 point

TB 14-32 If the auditor suspects that the financial statements...

If the auditor suspects that the financial statements are intentionally misstated, he or she should perform procedures to confirm or dispel that suspicion.

- True
 False

True / False

TB 14-32 If the auditor suspects that the financial statements...

award:
646.1.00 point

TB 14-33 For each of the internal control questions for notes payable...

For each of the internal control questions for notes payable listed below, match the question (1 through 5) to the correct control objective (A through H) and place the identifying letter in the space provided.

- | | |
|-----------------|---|
| 1. Accounting | Are paid notes cancelled by stamping them "paid" and then filed away? #5 |
| 2. Completeness | Is the subsidiary ledger of notes payable reconciled with the general ledger control account on a regular basis? #1 |
| 3. Accuracy | Are bank notices compared with the record of unpaid liabilities? #3 |
| 4. Environment | Are notes payable in the custody of personnel who cannot sign notes or cheques? #4 |
| 5. Validity | Are all loans that have been authorized by the directors traced to the accounting records by an independent employee to verify that they have been recorded? #2 |

Matching

TB 14-33 For each of the internal control questions for notes payable...

award:
647.1.00 point

TB 14-34 Discuss the custody of investments and intangible ...

Discuss the custody of investments and intangible assets.

Custody of investments and intangible assets depend on the nature of the asset. Negotiable certificates represent some investments such as bonds. The actual certificate may be kept by a third party such as a stock broker or a bank. In such cases, the custody rests with the official who is authorized to buy or sell the instrument. Some instruments may also be in the custody or possession of the actual company. If they are kept by the company, they should be locked away in a safety deposit box or a safe. Only high-ranking officials should have access to them.

Other types of investments do not have formal certificates. In such cases, custody may take the form of formal responsibility over the transactions in that area. In examples such as patents, trademarks, and the like, the legal documents such as contracts may be the only evidence of existence. Custody of these intangibles may be in the hands of the accountant who calculates them and the amortization on them. Company managers may be assigned responsibility to protect the exclusive rights granted by the various intangibles.

Essay

*TB 14-34 Discuss the custody of
investments and intangible ...*

award:
648.1.00 point

TB 14-35 What is a compensating control? Describe a compens...

What is a compensating control? Describe a compensating control in the finance and investment cycle.

A compensating control is an alternative control that an auditor relies on when a standard control procedure is not present. In the finance and investment cycle, upper-level managers are normally involved in making decisions. Therefore, the traditional notion of segregation of duties may not exist. In this cycle, a common compensating control is to have two or more persons involved in each important functional responsibility. If this is not possible, then an independent review by management may suffice.

Essay

*TB 14-35 What is a compensating
control? Describe a compens...*

award:
649.1.00 point

TB 14-36 What are the contributions that a board of directo...

What are the contributions that a board of directors can make to internal control?

- i. Approving and monitoring mission, vision, and strategy.
- ii. Approving and monitoring the organization's ethical values.
- iii. Monitoring management control.
- iv. Evaluating senior management.
- v. Overseeing external communications.
- vi. Assessing the board's effectiveness.

Essay

*TB 14-36 What are the contributions
that a board of directo...*

award:
650.1.00 point

TB 14-37 According to generally accepted auditing standards...

According to generally accepted auditing standards, the relevant aspects of a control system over the preparation of accounting estimates include:

- Identifying where accounting estimates are required.
- Gathering relevant, sufficient, and reliable data for the estimates.
- Developing assumptions about the estimates.
- Preparation of estimates by qualified personnel.
- Adequate review and approval by appropriate levels of authority.
- Comparison of previous estimates with actual results.
- Consideration by management of whether the accounting estimates are reasonable and consistent with the company's operational plans.

Required:

- A) How would the auditor test controls over the preparation of accounting estimates?
- B) What substantive audit procedures could the auditor use in testing the estimates?

- A) An auditor uses inquiry and observation to obtain an understanding of the policies and procedures over the preparation of the accounting estimate. This aids the auditor in determining the nature, extent, and timing of substantive procedures.
- B) Substantive audit procedures include the following:
- i. Apply knowledge of the business and the industry.
 - ii. Assess risk and materiality.
 - iii. Understand the policies and procedures over preparation of the estimate.
 - iv. Assess the underlying assumptions.
 - v. Verify the calculations.
 - vi. Compare to prior periods.
 - vii. Assess the consistency with other audit evidence.

Essay

*TB 14-37 According to generally
accepted auditing standards...*

award:
651.1.00 point

TB 14-38 Name the typical specific management assertions re...

Name the typical specific management assertions relating to long-term liabilities.

- i. All important long-term liabilities are recorded.
- ii. Liabilities are properly classified according to their current or long-term status. The current portion of long-term debt is properly valued and classified.
- iii. New long-term liabilities and debt retirement are properly authorized.
- iv. Terms conditions and restrictions relating to noncurrent debt are adequately disclosed.
- v. Disclosures of maturity for the next five years and the capital and operating lease disclosures are accurate and adequate.
- vi. All important contingencies are either accrued in the accounts or explained in the notes to the financial statements.

Essay

*TB 14-38 Name the typical specific
management assertions re...*

award:
652.1.00 point

TB 14-39 What is off-balance-sheet financing? Define the te...

What is off-balance-sheet financing? Define the term and provide at least two examples.

Off-balance-sheet financing exists when a company enters into an obligation or commitment and does not record the transactions as a liability in the accounts. Clever wording of the contract or the nature of the obligation can allow the entity to flout the definition of a liability. Examples include leases, endorsements on discounted notes, the guarantee of the obligation of another company, letters of credit, repurchase agreements, commitments to purchase at fixed prices, commitments to sell at fixed prices, and certain kinds of stock options.

Essay

*TB 14-39 What is off-balance-sheet
financing? Define the te...*

award:
653.1.00 point

TB 14-40 The auditor can use analytical procedures in the a...

The auditor can use analytical procedures in the audit of interest expense related to long-term debt. Describe how this is done.

Through confirmation and other audit procedures, the auditor knows the loan balance at the beginning and the end of the year, knows the number and amount of the payments and increases on the loan, and the interest rate on the debt. The auditor can estimate interest expense by multiplying the average balance of the loan by the average interest rate during the year. If the loan balance or the interest rate has fluctuated widely during the year, the auditor can estimate interest expense on a quarterly or monthly basis. However derived, the auditor will then compare the estimated amount of interest expense for the year to the amount recorded in the accounts and decide if the recorded amount is reasonable. If the auditor decides that there is a significant difference between the two amounts, additional audit work will be required.

Essay

*TB 14-40 The auditor can use
analytical procedures in the a...*

award:
654.1.00 point

TB 14-41 Red Corporation had a temporary cash squeeze near ...

Red Corporation had a temporary cash squeeze near its balance sheet date. It needed cash badly to cover a seasonal dip in sales. However, if any additional money were borrowed, the company would violate a loan covenant requiring that a defined debt/equity ratio be maintained. To get around this requirement, the top two officers Red Corporation set up another corporation called Pink, Inc. Red made a large sale of inventory to Pink at cost. Pink used the inventory as collateral for a three-month loan from a local bank. The money from the loan was used to pay Red for the inventory transaction. At the end of the three-month period, Red intended to repurchase the inventory from Pink at a price that would allow Pink repay the loan plus interest.

Required:

- A) How would this transaction enable Red Corporation to maintain its required debt/equity ratio and obtain the cash it needs?
- B) What tests of controls and/or substantive procedures would lead an auditor to detect this scheme?

A) By devising this transaction as a sale at cost, Red obtained the cash it needed without recording a liability. The asset cash replaced the asset inventory on the balance sheet thus maintaining the debt/equity ratio. In substance, Red has actually borrowed the money by using a sham corporation. If the proper entry were made, both assets and liabilities would increase, thus increasing the debt/equity ratio.

B) In testing controls, an auditor enquires about any large or unusual financing transactions, but this would not normally flow through the accounts. Because this transaction was large, it may have been detected using tests of controls in the revenue and collection cycle, for example, comparing prices on invoices to approved prices on the price list. Substantive procedures that could help to detect the scheme include analytical procedures such as scanning the journals for large and unusual transactions and calculating inventory and cost of sales ratios and comparing them to previous years. Enquiry about the existence of related parties and transactions with them might also lead to discovering this transaction. Because the amount of the transaction is very large, the auditor would probably confirm the balance. Since Pink is a sham corporation, the confirmation would either not be returned or would be returned bearing the signature of one of Red's officers. In either case, the auditor would follow up to obtain additional evidence such as checking the ownership of Pink and is likely to discover the scheme. An analysis of accounts receivable and subsequent collections could also bring the transaction to the auditor's attention.

Essay

*TB 14-41 Red Corporation had a
temporary cash squeeze near ...*

award:
655.1.00 point

TB 15-01 The audit of the year-end franchise revenue balanc...

The audit of the year-end franchise revenue balances is normally conducted in conjunction with which related account group?

- Fixed assets, receivables.
 - Receivables, intangibles.
 - Receivables, investments.
 - Revenues, receivables.
-

Multiple Choice

TB 15-01 The audit of the year-end franchise revenue balanc...

award:
656.1.00 point

TB 15-02 Procedures for the audit of warranty expense are g...

Procedures for the audit of warranty expense are generally coordinated with which of the following audit programs?

- Inventory and liabilities.
 - Inventory, sales, and repairs and maintenance.
 - Investments and intangibles.
 - Sales, inventory, and interest expense.
-

Multiple Choice

TB 15-02 Procedures for the audit of warranty expense are g...

award:
657.1.00 point

TB 15-03 An auditor analyzes repairs and maintenance accoun...

An auditor analyzes repairs and maintenance accounts primarily to obtain evidence in support of the audit assertion that all expenditures for _____.

- repairs and maintenance have been recorded in the proper period
 - property and equipment have been recorded in the proper period
 - repairs and maintenance have not been charged to capital accounts
 - property and equipment have not been charged to expense
-

Multiple Choice

TB 15-03 An auditor analyzes repairs and maintenance accoun...

award:
658.1.00 point

TB 15-04 The primary objective of performing analytical pro...

The primary objective of performing analytical procedures in the final review stage of an audit is to _____.

- obtain evidence from details tested to corroborate management assertions
 - obtain evidence on the validity of the assessment of control risk
 - assist the auditor in evaluating the overall financial statement presentation
 - identify areas that represent specific risks relevant to the audit
-

Multiple Choice

TB 15-04 The primary objective of performing analytical pro...

award:
659.1.00 point

TB 15-05 An entity's income statements were misstated due t...

An entity's income statements were misstated due to the recording of a journal entry that involved debits and credits to an unusual combination of expense and revenue accounts. The auditor most likely to detect this irregularity by _____.

- tracing a sample of journal entries to the general ledger
 - evaluating the effectiveness of the internal control system policies and procedures
 - investigating the reconciliation of control accounts with the subsidiary records
 - performing analytical procedures designed to disclose differences between the balances in the accounts and budgeted amounts
-

Multiple Choice

TB 15-05 An entity's income statements were misstated due t...

award:
660.1.00 point

TB 15-06 At the review stage of an audit, the application o...

At the review stage of an audit, the application of analytical procedures is _____.

- recommended by auditing standards
 - not mentioned by auditing standards
 - not useful, since detailed substantive tests have already been performed
 - required by auditing standards
-

Multiple Choice

TB 15-06 At the review stage of an audit, the application o...

award:
661. 1.00 point

TB 15-07 Analytical procedures used in the overall review s...

Analytical procedures used in the overall review stage of an audit generally include _____.

- considering unusual or unexpected account balances that were not previously identified
 - performing tests of transactions to corroborate management's financial statement assertions
 - gathering evidence concerning account balances that have not changed from the prior year
 - retesting control procedures that appeared to be ineffective during the assessment of control risk
-

Multiple Choice

*TB 15-07 Analytical procedures used
in the overall review s...*

award:
662. 1.00 point

TB 15-08 The primary source of information that the auditor...

The primary source of information that the auditor can use in corroborating information about litigation, claims, and assessments is the _____.

- client's lawyer
 - court records
 - client's management
 - independent auditor
-

Multiple Choice

*TB 15-08 The primary source of
information that the auditor...*

award:
663. 1.00 point

TB 15-09 The primary reason an auditor asks that enquiry le...

The primary reason an auditor asks that enquiry letters be sent to a client's lawyers is to provide the auditor with _____.

- the probable outcome of asserted claims and pending or threatened litigation
 - corroboration of the information furnished by management about litigation, claims, and assessments
 - the lawyer's opinion of the client's historical experiences in recent similar litigation
 - a description and evaluation of litigation, claims, and assessments that existed at the balance sheet date
-

Multiple Choice

*TB 15-09 The primary reason an
auditor asks that enquiry le...*

award:
664. 1.00 point

TB 15-10 A major means by which an auditor obtains evidence...

A major means by which an auditor obtains evidence about material contingencies is _____.

- examining documents in the client's possession concerning contingencies
 - enquiring and discussing them with management
 - obtaining a response from the client's lawyer to the client's letter of enquiry
 - reading minutes of shareholders' meeting
-

Multiple Choice

TB 15-10 A major means by which an auditor obtains evidence...

award:
665. 1.00 point

TB 15-11 The refusal by a client's lawyer to provide a repr...

The refusal by a client's lawyer to provide a representation about the legality of an act committed by the client is generally _____.

- sufficient reason to issue an adverse opinion
 - considered to be a scope limitation
 - insufficient reason to modify the auditor's report due to the lawyer's obligation of confidentiality
 - proper grounds to withdraw from the engagement
-

Multiple Choice

TB 15-11 The refusal by a client's lawyer to provide a repr...

award:
666. 1.00 point

TB 15-12 Which of the following representations would be ma...

Which of the following representations would be made by the client in writing?

- Losses from sales commitments.
 - Unasserted claims and assessments.
 - That all transactions have been recorded.
 - Noncompliance with contractual agreements.
-

Multiple Choice

TB 15-12 Which of the following representations would be ma...

award:
667.1.00 point

TB 15-13 Which of the following items would appear in a man...

Which of the following items would appear in a management letter of representation?

- That a physical inventory was taken, and properly valued.
 - That the control systems are operating effectively.
 - That management has adequate insurance to ensure its ongoing operations.
 - That all financial records and related data were made available to the auditors.
-

Multiple Choice

TB 15-13 Which of the following items would appear in a man...

award:
668.1.00 point

TB 15-14 An auditor is most likely to suspect the existence...

An auditor is most likely to suspect the existence of undisclosed related parties by noticing _____.

- large-sales transactions
 - abnormally long collection terms for a receivable
 - a large number of sales to numbered corporations
 - a significant increase in sales over the prior year
-

Multiple Choice

TB 15-14 An auditor is most likely to suspect the existence...

award:
669.1.00 point

TB 15-15 Having identified related party transactions, the ...

Having identified related party transactions, the auditor should _____.

- confirm the terms and amounts of the transactions with the related parties
 - inform the audit committee in writing
 - consult with a fraud specialist to consider extended procedures
 - consider including an emphasis of matter paragraph in the audit opinion
-

Multiple Choice

TB 15-15 Having identified related party transactions, the ...

award:
670. 1.00 point

TB 15-16 For audit purposes, subsequent events are defined ...

For audit purposes, subsequent events are defined as events that occur after the _____.

- balance sheet date
 - date of the audit report
 - balance sheet date but prior to the date of the audit report
 - date of the audit report and concern contingencies that are not reflected in the financial statements
-

Multiple Choice

*TB 15-16 For audit purposes,
subsequent events are defined ...*

award:
671. 1.00 point

TB 15-17 Which of the following can illustrate a subsequent...

Which of the following can illustrate a subsequent event that requires disclosure but not adjustment?

- Settlement of long outstanding litigation.
 - Collection of a customer debt that had been written off.
 - Loss of inventory as a result of a flood occurring after year-end.
 - An additional tax assessment on prior income.
-

Multiple Choice

*TB 15-17 Which of the following can
illustrate a subsequent...*

award:
672. 1.00 point

TB 15-18 Auditors must complete phases of an audit after th...

Auditors must complete phases of an audit after the balance sheet date. This subsequent period extends from the balance sheet date to the date of the _____.

- audit report
 - final review of the audit working papers
 - public issuance of the financial statements
 - delivery of the audit report to the client
-

Multiple Choice

*TB 15-18 Auditors must complete
phases of an audit after th...*

award:
673. 1.00 point

TB 15-19 The impact of a subsequent event on the audit repo...

The impact of a subsequent event on the audit report depends on whether it is detected before or after the _____.

- balance sheet date
 - audit report date
 - year-end date
 - dual date
-

Multiple Choice

*TB 15-19 The impact of a
subsequent event on the audit repo...*

award:
674. 1.00 point

TB 15-20 Auditors have a responsibility to perform audit pr...

Auditors have a responsibility to perform audit procedures _____.

- after the report date
 - until the report date
 - after the report issuance date
 - after the report date for events between the report date and a later dual dated event
-

Multiple Choice

*TB 15-20 Auditors have a
responsibility to perform audit pr...*

award:
675. 1.00 point

TB 15-21 A working paper reference index reflects _____.

A working paper reference index reflects _____.

- all balance sheet accounts
 - all income statement accounts
 - all trial balance accounts
 - all capital assets
-

Multiple Choice

*TB 15-21 A working paper reference
index reflects _____.*

award:
676.1.00 point

TB 15-22 A subsequent event involving the issue of bonds pa...

A subsequent event involving the issue of bonds payable or share capital requires _____.

- financial statement disclosure only
 - restatement of prior years' financial statements
 - adjustment to financial statement numbers
 - no disclosure or financial statement adjustment
-

Multiple Choice

*TB 15-22 A subsequent event
involving the issue of bonds pa...*

award:
677.1.00 point

TB 15-23 Lawyers' letters should be written _____.

Lawyers' letters should be written _____.

- at the interim audit
 - anytime before the audit report date
 - anytime before the balance sheet date
 - at the final stages of the audit work
-

Multiple Choice

*TB 15-23 Lawyers' letters should be
written _____.*

award:
678.1.00 point

TB 15-24 A second-partner review of the working papers and ...

A second-partner review of the working papers and financial statements is performed to ensure that the _____.

- to-do lists are reviewed and cleared
 - audit program procedures are signed off as evidence of completion
 - tick-mark notations are cleared
 - audit work meets the quality standards of the firm
-

Multiple Choice

*TB 15-24 A second-partner review of
the working papers and ...*

award:
679. 1.00 point

TB 15-25 Management letters are a means of _____.

Management letters are a means of _____.

- reporting recommendations to the client
 - making the client aware of the firm's consulting services
 - communicating matters related to control risk
 - identifying frauds and material misstatements
-

Multiple Choice

TB 15-25 Management letters are a means of _____.

award:
680. 1.00 point

TB 15-26 Toward the end of an audit, it is not necessary th...

Toward the end of an audit, it is not necessary that external auditors consider the revenue and expense accounts that were not audited in connection with balance sheet accounts.

- True
 - False
-

True / False

TB 15-26 Toward the end of an audit, it is not necessary th...

award:
681. 1.00 point

TB 15-27 An analysis of the comparative balances of minor e...

An analysis of the comparative balances of minor expense accounts is often sufficient to decide whether the amounts are fairly presented.

- True
 - False
-

True / False

TB 15-27 An analysis of the comparative balances of minor e...

award:
682. 1.00 point

TB 15-28 All revenue accounts designated miscellaneous or...

All revenue accounts designated "miscellaneous" or "other" are generally immaterial in amount and, therefore, not audited.

- True
 - False
-

True / False

TB 15-28 All revenue accounts designated miscellaneous or...

award:
683. 1.00 point

TB 15-29 Analytical procedures are used during the overall ...

Analytical procedures are used during the overall evaluation of the financial statements.

- True
 False

True / False

TB 15-29 Analytical procedures are used during the overall ...

award:
684. 1.00 point

TB 15-30 The client signs the enquiry letter about claims a...

The client signs the enquiry letter about claims and possible claims that is sent to the company's law firm for confirmation.

- True
 False

True / False

TB 15-30 The client signs the enquiry letter about claims a...

award:
685. 1.00 point

TB 15-31 Auditors draft the letter of representation that w...

Auditors draft the letter of representation that will be prepared on company letterhead and signed by the officers of the company.

- True
 False

True / False

TB 15-31 Auditors draft the letter of representation that w...

award:
686. 1.00 point

TB 15-32 A written letter of representation from a client c...

A written letter of representation from a client can provide a good defence for not performing audit procedures.

- True
→ False

True / False

TB 15-32 A written letter of representation from a client c...

award:
687. 1.00 point

TB 15-33 A type of subsequent event that provides new infor...

A type of subsequent event that provides new information regarding financial conditions that existed at the date of the balance sheet requires only footnote disclosure.

- True
→ False

True / False

*TB 15-33 A type of subsequent event
that provides new infor...*

award:
688. 1.00 point

TB 15-34 A loss on uncollectible trade accounts receivable ...

A loss on uncollectible trade accounts receivable resulting from the bankruptcy of a major customer requires financial statement disclosure only.

- True
→ False

True / False

*TB 15-34 A loss on uncollectible
trade accounts receivable ...*

award:
689. 1.00 point

TB 15-35 The primary purpose of the second partner review i...

The primary purpose of the second partner review is to help in forming the audit opinion.

- True
→ False

True / False

*TB 15-35 The primary purpose of the
second partner review i...*

award:
690. 1.00 point

TB 15-36 Settlement of litigation when the event giving ris...

Settlement of litigation when the event giving rise to the claim took place after the balance sheet date requires financial statement disclosure only.

- True
 False

True / False

*TB 15-36 Settlement of litigation
when the event giving ris...*

award:
691 1.00 point

TB 15-37 Match each statement or description (1 through 5) ...

Match each statement or description (1 through 5) with the term (A through F) to which it is most likely related and place the identifying letter in the space provided.

- | | |
|------------------------------------|--|
| 1. Second-partner review | Working papers and financial statements are subject to a final review. #1 |
| 2. Management letter | Based on the facts known to us and after a full investigation, it is our opinion that the claims and possible claims are properly described. #4 |
| 3. Client letter of representation | Audit procedures performed several weeks or months before the balance sheet date. #5 |
| 4. Lawyer's letter | There have been no irregularities involving managers or other employees who have significant roles in the control system. #3 |
| 5. Interim audit work | We discussed the following recommendation for streamlining the receiving department document flow with Ms. Phyllis Cook, the receiving department supervisor. #2 |

Matching

TB 15-37 Match each statement or description (1 through 5) ...

award:
692 1.00 point

TB 15-38 What procedures should an auditor perform if he or...

What procedures should an auditor perform if he or she auditing the financial statements of a company and finds out that the company has several clearing accounts?

Clearing and other miscellaneous accounts could contain items such as sales or capital assets that the accounting staff did not know how to record or classify properly. These accounts should be itemized line by line, vouched to supporting documents, and then classified properly. The auditor should recommend the proper adjusting entries to the client.

Essay

TB 15-38 What procedures should an auditor perform if he or...

award:
693.1.00 point

TB 15-39 *In the audit of revenue and expense accounts, a nu...*

In the audit of revenue and expense accounts, a number of accounts will have been audited in connection with related balance sheet accounts. For each of the revenue and expense accounts listed in column A, indicate the related balance sheet account(s). If no account is specifically related, indicate if the account should be analyzed in detail or simply compared to the balance in the previous year.

a.	Lease revenue	a.	_____
b.	Dividends and interest	b.	_____
c.	Sales and sales returns	c.	_____
d.	Miscellaneous income	d.	_____
e.	Purchases, cost of goods sold	e.	_____
f.	Rental property expense	f.	_____
g.	Bad debt expense	g.	_____
h.	Professional fees	h.	_____
i.	Repairs and maintenance	i.	_____
j.	Heat, light and power	j.	_____

--

a.	Lease revenue	a.	Fixed assets, receivables
b.	Dividends and interest	b.	Receivables, investments
c.	Sales and sales returns	c.	Receivables
d.	Miscellaneous income	d.	Analyze in detail
e.	Purchases, cost of goods sold	e.	Inventory, accounts payable
f.	Rental property expense	f.	Investments
g.	Bad debt expense	g.	Accounts receivable
h.	Professional fees	h.	Analyze in detail
i.	Repairs and maintenance	i.	Fixed assets, liabilities
j.	Heat, light and power	j.	Compare to prior periods

Essay

TB 15-39 In the audit of revenue and expense accounts, a nu...

award:
694.1.00 point

TB 15-40 According to the CICA Handbook, auditors should wa...

According to the *CICA Handbook*, auditors should watch for unusual transactions in the course of their audit. List four examples of these transactions.

- i. Transactions that are made with unusual or unfamiliar enterprises.
- ii. Transactions that are unusual in nature and size.
- iii. Transactions that are different in substance than they are in form.
- iv. Transactions that lack an apparent business reason.

Essay

TB 15-40 According to the CICA Handbook, auditors should wa...

award:
695.1.00 point

TB 15-41 What are the three key features that must be inclu...

What are the three key features that must be included in the management representation letter?

- i. That management has fulfilled its responsibility for the preparation and presentation of the financial statements.
- ii. That management has provided the auditor with all relevant information to conduct the audit engagement.
- iii. That all transactions have been recorded and are reflected in the financial statements.

Essay

TB 15-41 What are the three key features that must be inclu...

award:
696.1.00 point

TB 15-42 Why do auditors ask about related party transactio...

Why do auditors ask about related party transactions and where do they typically do this?

Auditors ask about involvement with related party transactions in the engagement letter. Auditors have a responsibility to obtain reasonable assurance that related parties have been identified and disclosed in the financial statements. These types of transactions occur at non–arm's length and therefore may not reflect the normal terms of trade that occur with arm's-length transactions.

Essay

TB 15-42 Why do auditors ask about related party transactio...

award:
697.1.00 point

TB 15-43 What are the two types of subsequent events?

What are the two types of subsequent events?

The two types are (1) subsequent events that require adjustment in the financial statement numbers, and (2) subsequent events that require financial statement disclosure only.

Essay

TB 15-43 What are the two types of subsequent events?

award:
698.1.00 point

TB 15-44 Regarding subsequent events, when would pro forma ...

Regarding subsequent events, when would pro forma financial statement be the best disclosure?

This type of disclosure is best when the subsequent event requiring financial statement disclosure only is so significant that the presentation of financial statements "as if" the event had occurred on the date of the balance sheet would be of great assistance to financial statement users. This type of disclosure would be given in a note to the financial statements.

Essay

TB 15-44 Regarding subsequent events, when would pro forma ...

award:
699.1.00 point

TB 15-45 What are the auditors' responsibilities regarding ...

What are the auditors' responsibilities regarding subsequent events?

Auditors have an active, procedural responsibility for discovering both types of subsequent events up to the audit report date and for ensuring that they are properly reported in the financial statements, but they are not required to perform procedures after the audit report date.

Essay

TB 15-45 What are the auditors' responsibilities regarding ...

award:
700. 1.00 point

TB 16-01 Known misstatements _____.

Known misstatements _____.

- are those actually identified during the audit, so there is no uncertainty about their existence
 - are those that probably exist, based on audit evidence examined
 - are those that could exist over and above the total of known and likely misstatements because of the fundamental limitations of auditing
 - are those for which the amount of possible misstatement cannot be precisely quantified
-

Multiple Choice

TB 16-01 Known misstatements
_____.

award:
701. 1.00 point

TB 16-02 Likely misstatements _____.

Likely misstatements _____.

- are those actually identified during the audit, so there is no uncertainty about their existence
 - are those that probably exist, based on audit evidence examined
 - are those that could exist over and above the total of known and likely misstatements because of the fundamental limitations of auditing
 - are those for which the amount of possible misstatement cannot be precisely quantified
-

Multiple Choice

TB 16-02 Likely misstatements
_____.

award:
702. 1.00 point

TB 16-03 A reply to a lawyer's letters should be issued ____...

A reply to a lawyer's letters should be issued _____.

- at the audit report date
 - near the end of the audit
 - before the engagement
 - throughout the audit
-

Multiple Choice

*TB 16-03 A reply to a lawyer's letters
should be issued* ____...

award:
703. 1.00 point

TB 16-04 Further possible misstatements _____.

Further possible misstatements _____.

- are those actually identified during the audit, so there is no uncertainty about their existence
 - are those that probably exist, based on audit evidence examined
 - are those that could exist over and above the total of known and likely misstatements because of the fundamental limitations of auditing
 - are those for which the amount of possible misstatement cannot be precisely quantified
-

Multiple Choice

TB 16-04 Further possible misstatements _____.

award:
704. 1.00 point

TB 16-05 Which of the following statements about forming an...

Which of the following statements about forming an audit opinion is FALSE?

- Auditors need to form an opinion on whether the financial statements are presented fairly in all material respects and in accordance with GAAP.
 - The auditor must make a number of professional judgments as set out in CAS 700.
 - The auditor must decide whether the audit team has obtained sufficient appropriate audit evidence providing reasonable assurance that the financial statements as a whole are free from material misstatement due to fraud or error.
 - The auditor must decide if any uncorrected misstatements are material individually but not in aggregate.
-

Multiple Choice

TB 16-05 Which of the following statements about forming an...

award:
705. 1.00 point

TB 16-06 To assess fair presentation, the audit engagement ...

To assess fair presentation, the audit engagement partner considers the results of the final overall financial statement analysis, and assesses whether the overall presentation, structure, and content of the financial statements and notes represent the underlying transactions and events fairly, from the perspective of users. The auditor must be satisfied that the information presented in the financial statements is all of the following EXCEPT _____.

- relevant
 - reliable
 - confidential
 - understandable
-

Multiple Choice

TB 16-06 To assess fair presentation, the audit engagement ...

706. ^{award:} 1.00 point

TB 16-07 Which of the following statements regarding fair p...

Which of the following statements regarding fair presentation is FALSE?

- Fair presentation also requires the financial statements to adequately disclose the significant accounting policies applied so that users can understand the effect of transactions and events on the information.
- The auditor assesses whether the terminology used and the titles of financial statements are appropriate and understandable.
- The final analysis considers the qualitative aspects of the accounting used.
- The final analysis does not consider indications of management bias in selecting accounting policies and making accounting estimates.

Multiple Choice

TB 16-07 Which of the following statements regarding fair p...

707. ^{award:} 1.00 point

TB 16-08 Which of the following statements regarding audito...

Which of the following statements regarding auditor communication with audit committees is FALSE?

- Both the auditor and management should be present in meetings with the audit committee to discuss these reports, which may be written or oral.
- The auditor and management should, in advance, review the information to be covered with the audit committee.
- On all matters, management should report to the audit committee first, and the auditor then comments.
- When the auditor communicates in writing, the report should indicate that it is intended solely for use by the audit committee.

Multiple Choice

TB 16-08 Which of the following statements regarding audito...

708. ^{award:} 1.00 point

TB 16-09 Auditors consider materiality at each of the follo...

Auditors consider materiality at each of the following stages of an audit EXCEPT _____.

- at the planning stage
- at the interim audit to assess internal controls
- while performing the year-end audit
- at the final evaluation stage when forming the audit opinion

Multiple Choice

TB 16-09 Auditors consider materiality at each of the follo...

award:
709.1.00 point

TB 16-10 When should an independence letter be received?

When should an independence letter be received?

- At the audit report date.
- Near the end of the audit.
- Before the engagement.
- Throughout the audit.

Multiple Choice

TB 16-10 When should an independence letter be received?

award:
710.1.00 point

TB 16-11 Arithmetical mistakes, use of inappropriate accoun...

Arithmetical mistakes, use of inappropriate accounting principles, incorrect application of accounting principles, and disagreements about valuation or other estimates are the causes of _____.

- fraud
- misstatements
- materiality
- adjustments

Multiple Choice

TB 16-11 Arithmetical mistakes, use of inappropriate accoun...

award:
711.1.00 point

TB 16-12 Which of the following statements regarding manage...

Which of the following statements regarding management estimates is FALSE?

- Complications in audit evaluation can arise from measurements involving management estimates.
- Auditors typically do not keep track of the differences between management estimates and the most reasonable estimates supported by audit evidence.
- They also identify estimates with high risk due to forecast errors, and assess whether these are fairly presented in the circumstances.
- In areas where GAAP are evolving, the auditor needs to exercise judgment, guided by general principles and reporting objectives, to assess fair presentation.

Multiple Choice

TB 16-12 Which of the following statements regarding manage...

award:
712. 1.00 point

TB 16-13 CAS 200 provides a framework for the key principle...

CAS 200 provides a framework for the key principles that guide the conduct of a financial statement audit in accordance with generally accepted auditing standards. It defines all of the following with respect to Canadian Auditing Standards EXCEPT their _____.

- scope
- authority
- interrelationship
- structure

Multiple Choice

TB 16-13 CAS 200 provides a framework for the key principle...

award:
713. 1.00 point

TB 16-14 In the current CAS 700 audit report, the descripti...

In the current CAS 700 audit report, the description of an auditor's responsibilities and the work performed is covered in _____.

- three paragraphs
- half a paragraph
- one paragraph
- two paragraphs

Multiple Choice

TB 16-14 In the current CAS 700 audit report, the descripti...

award:
714. 1.00 point

TB 16-15 The most common reporting framework in Canada is t...

The most common reporting framework in Canada is the _____.

- fair presentation framework
- special purpose framework
- compliance framework
- general purpose framework

Multiple Choice

TB 16-15 The most common reporting framework in Canada is t...

award:
715. 1.00 point

TB 16-16 The three criteria for fairness of presentation re...

The three criteria for fairness of presentation reporting suggest _____ reasoning for accounting.

- compliance-based
 - principles-based
 - engagement-based
 - fairness-based
-

Multiple Choice

*TB 16-16 The three criteria for
fairness of presentation re...*

award:
716. 1.00 point

TB 16-17 _____ paragraphs refer only to information pres...

_____ paragraphs refer only to information presented or disclosed in the financial statements.

- Scope
 - Other Matter
 - Opinion
 - Emphasis of Matter
-

Multiple Choice

*TB 16-17 _____ paragraphs refer
only to information pres...*

award:
717. 1.00 point

TB 16-18 _____ paragraphs relate to information that is ...

_____ paragraphs relate to information that is not required to be disclosed in the financial statements.

- Scope
 - Other Matter
 - Opinion
 - Emphasis of Matter
-

Multiple Choice

*TB 16-18 _____ paragraphs
relate to information that is ...*

award:
718. 1.00 point

TB 16-19 The Orange Corporation was audited for the year-en...

The Orange Corporation was audited for the year-ended December 31, the fieldwork was completed on January 25, and the audit report was delivered on February 15. The auditor learned about a two-for-one stock split on February 1. How should the report be dated?

- December 31 and January 25.
 - January 25 and February 1.
 - January 25 and February 15.
 - February 1 and February 15.
-

Multiple Choice

*TB 16-19 The Orange Corporation
was audited for the year-en...*

award:
719. 1.00 point

TB 16-20 Auditors have a responsibility to perform audit pr...

Auditors have a responsibility to perform audit procedures _____.

- after the report date
 - until the report date
 - after the report issuance date
 - after the report date for events between the report date and a later dual dated event
-

Multiple Choice

*TB 16-20 Auditors have a
responsibility to perform audit pr...*

award:
720. 1.00 point

TB 16-21 Subsequent to the issuance of the audit report, th...

Subsequent to the issuance of the audit report, the auditor became aware of facts existing at the report date that would have affected the report had the auditor then been aware of such facts. After determining that the information is reliable, the auditor should _____.

- determine whether there are persons relying or likely to rely on the financial statements who would attach importance to the information
 - request that management disclose the newly discovered information by issuing revised financial statements
 - issue revised pro forma financial statements taking into consideration the newly discovered information
 - give public notice that the auditor is no longer associated with the financial statements
-

Multiple Choice

*TB 16-21 Subsequent to the
issuance of the audit report, th...*

award:
721. 1.00 point

TB 16-22 If an audit report contains information relating t...

If an audit report contains information relating to a company's MD&A, it would be found in a(n) _____ paragraph.

- Opinion
- Scope
- Other Matter
- Emphasis of Matter

Multiple Choice

TB 16-22 If an audit report contains information relating t...

award:
722. 1.00 point

TB 16-23 Before adjusting entries proposed by the auditors ...

Before adjusting entries proposed by the auditors are included in financial statements, they must be approved by the _____.

- client's management
- audit manager
- engagement partner
- cold review partner

Multiple Choice

TB 16-23 Before adjusting entries proposed by the auditors ...

award:
723. 1.00 point

TB 16-24 If information is included the audit report relati...

If information is included the audit report relating to a discrepancy between a company's MD & A and comparative information from other periods, it would appear in a(n) _____ paragraph.

- Scope
- Other Matter
- Opinion
- Emphasis of Matter

Multiple Choice

TB 16-24 If information is included the audit report relati...

award:
724. 1.00 point

TB 16-25 Auditors are responsible to search for both types ...

Auditors are responsible to search for both types of subsequent events between _____.

- the financial statement year-end date and the audited financial statement issue date
 - the audit report date and the audited financial statement issue date
 - the financial statement year-end date and the audit report date
 - the interim audit date and the audit report date
-

Multiple Choice

TB 16-25 Auditors are responsible to search for both types ...

award:
725. 1.00 point

TB 16-26 Likely misstatements are those that probably exist...

Likely misstatements are those that probably exist, based on audit evidence examined.

- True
 - False
-

True / False

TB 16-26 Likely misstatements are those that probably exist...

award:
726. 1.00 point

TB 16-27 Dual dating refers to instances of dating the audi...

Dual dating refers to instances of dating the audit report as of the date that financial statements are approved by the auditee's responsible parties (e.g., the company's board of directors) and attaching an additional later date to disclosure of a significant subsequent event that requires financial statements to be amended.

- True
 - False
-

True / False

TB 16-27 Dual dating refers to instances of dating the audi...

award:
727. 1.00 point

TB 16-28 The auditor actively seeks audit evidence up to th...

The auditor actively seeks audit evidence up to the date of the audit report. After that date, the auditor does not seek new evidence.

- True
 False

True / False

*TB 16-28 The auditor actively seeks
audit evidence up to th...*

award:
728. 1.00 point

TB 16-29 Emphasis of Matter paragraphs refer only to inform...

Emphasis of Matter paragraphs refer only to information presented or disclosed in the financial statements.

- True
 False

True / False

*TB 16-29 Emphasis of Matter
paragraphs refer only to inform...*

award:
729. 1.00 point

TB 16-30 An Other Matter is like an Emphasis of Matter para...

An Other Matter is like an Emphasis of Matter paragraph except that it relates to information that is not required to be disclosed in the financial statements.

- True
 False

True / False

*TB 16-30 An Other Matter is like an
Emphasis of Matter para...*

award:
730. 1.00 point

TB 16-31 Further possible misstatements are those that coul...

Further possible misstatements are those that could exist over and above the total of known and likely misstatements because of the fundamental limitations of auditing.

- True
 False

True / False

*TB 16-31 Further possible
misstatements are those that coul...*

731. ^{award:} 1.00 point

TB 16-32 The auditor must decide if any uncorrected misstat...

The auditor must decide if any uncorrected misstatements are material individually but not in aggregate.

- True
→ False

True / False

TB 16-32 The auditor must decide if any uncorrected misstat...

732. ^{award:} 1.00 point

TB 16-33 Auditors typically do not keep track of the differ...

Auditors typically do not keep track of the differences between management estimates and the most reasonable estimates supported by audit evidence.

- True
→ False

True / False

TB 16-33 Auditors typically do not keep track of the differ...

733. ^{award:} 1.00 point

TB 16-34 When a report is double-dated, the auditor has no ...

When a report is double-dated, the auditor has no responsibility for other events that have occurred after the end of fieldwork.

- True
 False

True / False

TB 16-34 When a report is double-dated, the auditor has no ...

734. ^{award:} 1.00 point

TB 16-35 Dual dating is used to cut off the subsequent even...

Dual dating is used to cut off the subsequent event procedural responsibility at the earlier date.

- True
 False

True / False

TB 16-35 Dual dating is used to cut off the subsequent even...

award:
735.1.00 point

TB 16-36 The auditor typically writes a letter to the audit...

The auditor typically writes a letter to the audit committee concerning material weaknesses in internal controls.

- True
 False

True / False

*TB 16-36 The auditor typically writes
a letter to the audit...*

award:
736.1.00 point

TB 16-37 What are the various causes of misstatements? Are ...

What are the various causes of misstatements? Are they intentional?

Misstatements have various causes, such as arithmetical mistakes (e.g., an addition error in a physical inventory count), use of inappropriate accounting principles, incorrect application of accounting principles, and disagreements about valuation or other estimates. They may occur accidentally or through misunderstanding, be the result of embezzlement, or be deliberate misrepresentations. A key qualitative factor in the auditor's assessment is evidence of deliberate misstatements intended to improve or defer earnings to achieve management's goals. These goals, such as obtaining an earnings-based bonus, may not be aligned with those of the company's capital providers, who are usually the most important users of the audited financial statements.

Essay

*TB 16-37 What are the various
causes of misstatements? Are ...*

award:
737.1.00 point

TB 16-38 What are the three categories of uncorrected misst...

What are the three categories of uncorrected misstatements?

For evaluation, uncorrected misstatements can be classified into three main categories: known, likely, and further possible. Known misstatements are those actually identified during the audit, so there is no uncertainty about their existence. Likely misstatements are those that probably exist, based on audit evidence examined; for example, the projected effect of misstatements identified in representative samples or management accounting estimates or of policy choices that the auditor considers unreasonable. Further possible misstatements are those that could exist over and above the total of known and likely misstatements because of the fundamental limitations of auditing; for example, sampling and non sampling risks, forecasting uncertainties in accounting estimates, and minimum review accounts (those subjected to minimal verification as they have a very low assessed risk of misstatement). The amount of possible misstatement cannot be precisely quantified, but the auditor must exercise professional judgment in addressing this possibility, particularly when the total approaches materiality, or when misstatements are due to general control breakdowns rather than isolated instances.

Essay

*TB 16-38 What are the three
categories of uncorrected misst...*

award:
738.1.00 point

TB 16-39 List the most important matters arising from the a...

List the most important matters arising from the audit of financial statements that should be communicated to the audit committee.

The audit committee's expectations need to be clarified and put in writing. The most important matters arising from the audit of financial statements that should be communicated to the audit committee include the following:

Auditor responsibility under GAAS

Planning of the current audit

Material weaknesses in internal controls

Illegal acts

Fraud

Significant accounting principles and policies selected by management

Management judgments and accounting estimates

Misstatements, adjusted and uncorrected

Other information in annual reports (e.g., narrative information)

Disagreements with management

Consultation with other accountants by management

Significant findings of the audit

Difficulties encountered in performing the audit (e.g., unreasonable delays in obtaining information from management)

Effects of new developments in accounting standards, or of legislative or regulatory requirements, on the auditee's financial reporting

Use of experts

Audit and nonaudit services that the auditor is providing to the auditee

Summary of the audit approach

Essay

TB 16-39 List the most important matters arising from the a...

award:
739.1.00 point

TB 16-40 What is dual dating in the audit report?

What is "dual dating" in the audit report?

Dual dating refers to instances of dating the audit report as of the date that financial statements are approved by the auditee's responsible parties (e.g., the company's board of directors) and attaching an additional later date to disclosure of a significant subsequent event that requires financial statements to be amended. Sometimes, after completion of the audit but before issuance of the report, a significant event comes to the audit team's attention. The purpose of dual dating is twofold: (1) to provide a means of inserting important information learned after the audit report date into the financial statement note disclosures, and (2) to inform users that the auditor takes full responsibility for discovering subsequent events only up to the audit report date and for the specifically identified later event. However, responsibility is not taken for other events that may have occurred after the audit report date. Dual dating is used to cut off the subsequent event procedural responsibility at the earlier date.

Essay

TB 16-40 What is dual dating in the audit report?

award:
740.1.00 point

TB 16-41 Summarize the communications that auditors are req...

Summarize the communications that auditors are required to make throughout the audit process. Indicate when these various communications need to take place.

Type	From	To	Time
Engagement letter (acceptance)	Auditor (auditee)	Auditee (auditor)	Before engagement
Independence letter	Auditor	Auditee	Before engagement
Internal control deficiencies	Auditor	Auditee	Interim or after audit
Confirmations (replies)	Auditee (third parties)	Third parties (auditor)	Throughout the audit
Lawyer's letter (reply)	Auditee Lawyer	Lawyer (auditor)	Near end of audit
Management representation letter	Auditee management	Auditor	Audit report date
Communication with those charged with governance of auditee (e.g., audit committee)	Auditor	Directors	Planning, during audit, and after audit report

Essay

TB 16-41 Summarize the communications that auditors are req...

award:
741.1.00 point

TB 16-42 Briefly explain the auditor's responsibility for t...

Briefly explain the auditor's responsibility for the subsequent discovery of facts that occurred between the date of the financial statements and the date of the auditor's report.

Auditors are responsible for actively searching for these to ensure they are properly reflected in the financial statements. Procedures to search for subsequent events that are relevant to the assertions in the financial statements will be included in every audit program.

Essay

*TB 16-42 Briefly explain the auditor's
responsibility for t...*

award:
742.1.00 point

TB 16-43 You are auditing Green Corporation for the calenda...

You are auditing Green Corporation for the calendar year 2012. Among other items related to the audit, Green is being sued for personal injury resulting from the malfunction of one of its products. Sue Ewe filed the lawsuit in September 2004. The officers of the company and its outside legal counsel estimate that the loss from the suit will be approximately \$250,000. This amount has been accrued and properly disclosed in the footnotes of the financial statements. You have no reason to believe that the estimate is wrong. You completed your audit and dated your report March 2, 2013. The financial statements were issued on March 14, 2013. The trial was in progress at that date. On March 20, 2013, you read in a national business periodical that the jury in the trial awarded Sue Ewe \$1.5 million.

Required:

Discuss the nature of these events and what responsibility the auditor has, if any, regarding the news of March 20.

The auditor has no responsibility with regard to the March 20 outcome because it occurred after the fieldwork was completed and after the financial statements were issued. Since the best estimate had been properly recorded and disclosed in the financial statements issued, the auditor has no additional responsibility in this situation.

Essay

*TB 16-43 You are auditing Green
Corporation for the calenda...*

award:
743. 1.00 point

TB 16-44 What is an Emphasis of Matter (EOM) paragraph?

What is an Emphasis of Matter (EOM) paragraph?

One or more paragraphs added to the audit report regarding something in the financial statements that the auditor believes readers should consider important or useful, even when the auditor intends to write an unmodified opinion paragraph. EOMs refer only to information presented or disclosed in the financial statements.

Essay

TB 16-44 What is an Emphasis of Matter (EOM) paragraph?

award:
744. 1.00 point

TB 16-45 What is an Other Matter (OM) paragraph?

What is an Other Matter (OM) paragraph?

An OM is like a EOM paragraph except that it relates to information that is not required to be disclosed in the financial statements. For example, OMs can refer to information contained in the MD & A.

Essay

TB 16-45 What is an Other Matter (OM) paragraph?

award:
745. 1.00 point

TB 17-01 XYZ Ltd. has prepared financial statements that ar...

XYZ Ltd. has prepared financial statements that are not in accordance with GAAP. The review report should _____.

- ensure that the nature of the departure is described in the notes
- contain a reservation describing the nature of the departure from GAAP
- be a standard review report, since a review is not an audit
- indicate the dollar effect of restatement for each account affected

Multiple Choice

TB 17-01 XYZ Ltd. has prepared financial statements that ar...

746. ^{award:} 1.00 point

TB 17-02 Which of the following procedures would not be per...

Which of the following procedures would not be performed in a review of the financial statements of a private company?

- Enquire about the accounting system and bookkeeping procedures.
- Perform analytical procedures to identify relationships and individual items that appear to be unusual.
- Obtain a lawyer's letter about claims and possible claims.
- Study the financial statements for indications that they conform to generally accepted accounting principles.

Multiple Choice

*TB 17-02 Which of the following
procedures would not be per...*

747. ^{award:} 1.00 point

TB 17-03 Ordinarily, which of the following procedures shou...

Ordinarily, which of the following procedures should be applied when an independent accountant conducts a review of interim financial information of a publicly held company?

- Verify changes in key account balances.
- Read the minutes of the board of directors' meetings.
- Inspect the open purchase order file.
- Perform cutoff tests for cash receipts and disbursements.

Multiple Choice

*TB 17-03 Ordinarily, which of the
following procedures shou...*

748. ^{award:} 1.00 point

TB 17-04 Which of the following procedures should an accoun...

Which of the following procedures should an accountant perform during an engagement to review the financial statements of a private company?

- Communicate internal control system weaknesses that were discovered during the assessment of control risk.
- Obtain a letter of representation signed by top-level management.
- Send bank confirmations to the company's financial institutions.
- Examine cash disbursements in the subsequent period for evidence of unrecorded liabilities.

Multiple Choice

*TB 17-04 Which of the following
procedures should an accoun...*

award:
749.1.00 point

TB 17-05 An accountant's review engagement report would NOT...

An accountant's review engagement report would NOT include a statement that _____.

- the engagement was performed in accordance with generally accepted auditing standards (GAAS)
 - an accountant reviews information supplied by the company
 - a review does not constitute an audit and an audit opinion is not expressed on the financial statements
 - the accountant is not aware of any material departure from generally accepted accounting standards (GAAP)
-

Multiple Choice

TB 17-05 An accountant's review engagement report would NOT...

award:
750.1.00 point

TB 17-06 If an accountant is engaged to compile the financi...

If an accountant is engaged to compile the financial statements of a private entity and the statements omit substantially all disclosures required by GAAP, which of the following alternatives is correct?

- If the accountant concludes that the omissions result in misleading financial statements and the matter cannot be resolved, the accountant should withdraw from the engagement.
 - The report should be amended to state that the financial statements have been prepared in accordance with a comprehensive basis of accounting other than GAAP.
 - The report should be amended to state that the financial statements have not been compiled in accordance with standards for compilation and review engagements.
 - The report should indicate that the statements are special-purpose financial statements that are not comparable to those of prior periods.
-

Multiple Choice

TB 17-06 If an accountant is engaged to compile the financi...

award:
751.1.00 point

TB 17-07 Which of the following statements about a compilat...

Which of the following statements about a compilation engagement is NOT true?

- The accountant must have adequate technical training and proficiency in accounting.
 - The accountant does not have to have an objective state of mind.
 - The statements must comply with generally accepted accounting principles.
 - The accountant should adequately plan and properly execute the work.
-

Multiple Choice

TB 17-07 Which of the following statements about a compilat...

award:
752. 1.00 point

TB 17-08 An accountant's communication on the financial sta...

An accountant's communication on the financial statements in a compilation engagement would NOT include a statement that _____.

- the statements may not be appropriate for the purposes of users
 - the financial statement information has been compiled
 - a compilation engagement consists primarily of inquiries of company personnel and analytical procedures applied to financial data
 - financial statements have not been audited or reviewed and the accountant did not attempt to verify accuracy or completeness.
-

Multiple Choice

*TB 17-08 An accountant's
communication on the financial sta...*

award:
753. 1.00 point

TB 17-09 When compiling the financial statements of a priva...

When compiling the financial statements of a private company, an accountant should _____.

- review agreements with financial institutions for restrictions on cash balances
 - study and understand the client's business
 - enquire of key personnel concerning related parties and subsequent events
 - perform ratio analyses of the financial data of comparable prior periods
-

Multiple Choice

*TB 17-09 When compiling the
financial statements of a priva...*

award:
754. 1.00 point

TB 17-10 CA is a minority shareholder in ABC Co., and has j...

CA is a minority shareholder in ABC Co., and has just completed a compilation engagement for the company. The Notice to Reader should _____.

- disclaim an opinion
 - provide negative assurance
 - include a statement that CA is not objective
 - not be issued, since CA is not objective
-

Multiple Choice

*TB 17-10 CA is a minority
shareholder in ABC Co., and has j...*

award:
755. 1.00 point

TB 17-11 When unaudited financial statements are presented ...

When unaudited financial statements are presented in comparative form with audited financial statements, such statements should be _____.

- | | | |
|-----------------------|------------------------|-------------------------------------|
| Marked as "unaudited" | Withheld until audited | Referred to in the auditor's report |
| Yes | No | No |
- | | | |
|-----------------------|------------------------|-------------------------------------|
| Marked as "unaudited" | Withheld until audited | Referred to in the auditor's report |
| Yes | No | Yes |
- | | | |
|-----------------------|------------------------|-------------------------------------|
| Marked as "unaudited" | Withheld until audited | Referred to in the auditor's report |
| No | Yes | Yes |
- | | | |
|-----------------------|------------------------|-------------------------------------|
| Marked as "unaudited" | Withheld until audited | Referred to in the auditor's report |
| No | Yes | No |

Multiple Choice

TB 17-11 When unaudited financial statements are presented ...

award:
756. 1.00 point

TB 17-12 The primary purpose for the development of standar...

The primary purpose for the development of standards by the Criteria of Control Committee was to _____.

- provide guidance for companies developing best practice control systems
- provide a basis similar to GAAP for reporting on controls
- provide detailed tests of controls for audits of financial statements
- provide clarity on who is responsible for controls

Multiple Choice

TB 17-12 The primary purpose for the development of standar...

award:
757. 1.00 point

TB 17-13 In providing guidance to accountants, which ranks ...

In providing guidance to accountants, which ranks highest?

- Research study.
- Criteria of Control guidance.
- *Handbook* Recommendation.
- Handbook* Guideline.

Multiple Choice

TB 17-13 In providing guidance to accountants, which ranks ...

award:
758. 1.00 point

TB 17-14 Which of the following best describes a CA's engag...

Which of the following best describes a CA's engagement to report on an entity's internal controls over financial reporting?

- An assurance engagement to examine and report on management's written assertions about the effectiveness of its internal control system.
 - An audit engagement to render an opinion on the entity's internal control system.
 - A prospective engagement to project, for a period of time not to exceed one year, and report on the expected benefits of the entity's internal control structure.
 - A consulting engagement to provide constructive advice to the entity on its internal control system.
-

Multiple Choice

TB 17-14 Which of the following best describes a CA's engag...

award:
759. 1.00 point

TB 17-15 An auditor has been engaged to report on managemen...

An auditor has been engaged to report on management's report on internal control. Management's report points to a material weakness in its system of internal controls over inventory. The auditor's report should be a(n) _____.

- adverse opinion
 - qualified opinion for a GAAP departure
 - clean opinion
 - clean opinion with an emphasis of matter paragraph
-

Multiple Choice

TB 17-15 An auditor has been engaged to report on managemen...

award:
760. 1.00 point

TB 17-16 Snow, CA, was engaged by Master Limited to examine...

Snow, CA, was engaged by Master Limited to examine and report on management's written assertion about the effectiveness of Master's internal control system over financial reporting. Snow's report should state that _____.

- because of the inherent limitations in any system of internal control, errors or irregularities may occur and not be detected.
 - management's assertion is based on criteria established by the Canadian Institute of Chartered Accountants.
 - the results of Snow's tests will form the basis for Snow's opinion on the fairness of Master's financial statements in conformity with GAAP.
 - the purpose of the engagement is to enable Snow to plan an audit and determine the nature, timing, and extent of tests to be performed.
-

Multiple Choice

TB 17-16 Snow, CA, was engaged by Master Limited to examine...

award:
761.1.00 point

TB 17-17 The auditor learned the following in the course of...

The auditor learned the following in the course of an audit engagement. Which of the items, discovered by the auditor, need NOT be communicated to the audit committee?

- The theft of several items of inventory by warehouse employees.
 - Management's significant accounting policies.
 - Significant audit adjustments recommended by the auditors.
 - All of these items should be communicated to the audit committee.
-

Multiple Choice

TB 17-17 The auditor learned the following in the course of...

award:
762.1.00 point

TB 17-18 With compilation engagements, the minimum standard...

With compilation engagements, the minimum standard is that financial statements _____.

- not be false or misleading
 - be accurate
 - be fairly presented
 - be prepared in accordance with GAAP
-

Multiple Choice

TB 17-18 With compilation engagements, the minimum standard...

award:
763.1.00 point

TB 17-19 The level of assurance provided by a review engage...

The level of assurance provided by a review engagement can best be described as _____.

- comparable to that of an audit
 - moderate
 - high
 - nonexistent
-

Multiple Choice

TB 17-19 The level of assurance provided by a review engage...

award:
764. 1.00 point

TB 17-20 With a compilation service, the procedures perform...

With a compilation service, the procedures performed by a professional accountant can be described as _____.

- extensive
 - few, if any
 - comparable to a review service
 - comparable to an audit
-

Multiple Choice

*TB 17-20 With a compilation service,
the procedures perform...*

award:
765. 1.00 point

TB 17-21 An auditor is most concerned that interim financia...

An auditor is most concerned that interim financial statements are not misleading relative to _____.

- the prior year's interim financial statements
 - the annual report
 - pro forma financial statements
 - the prior year's annual financial statements
-

Multiple Choice

*TB 17-21 An auditor is most
concerned that interim financia...*

award:
766. 1.00 point

TB 17-22 Reviews of interim financial information consist p...

Reviews of interim financial information consist primarily of _____.

- substantive procedures
 - recalculation
 - external confirmations
 - enquiry and analytical procedures
-

Multiple Choice

*TB 17-22 Reviews of interim
financial information consist p...*

award:
767. 1.00 point

TB 17-23 The review of interim financial information should...

The review of interim financial information should ideally take place _____.

- at or near year-end
- just after the cutoff date
- at or near the date of the interim information
- six months into the fiscal year

Multiple Choice

TB 17-23 The review of interim financial information should...

award:
768. 1.00 point

TB 17-24 According to the Guidance on Criteria of Control (...)

According to the Guidance on Criteria of Control (COCO), control is effected by _____.

- senior management
- the board of directors
- people throughout the organization
- the audit committee

Multiple Choice

TB 17-24 According to the Guidance on Criteria of Control (...)

award:
769. 1.00 point

TB 17-25 According to auditing standards, reportable matter...

According to auditing standards, reportable matters _____.

- must be searched for by auditors
- must be reported by auditors if they come to their attention
- may only be reported to management
- may be reported on verbally or in writing

Multiple Choice

TB 17-25 According to auditing standards, reportable matter...

award:
770. 1.00 point

TB 17-26 The scope of a review engagement is _____.

The scope of a review engagement is _____.

- similar to that of an audit
 - less than that of a compilation
 - less than that of an audit
 - more than that of an audit
-

Multiple Choice

TB 17-26 The scope of a review engagement is _____.

award:
771. 1.00 point

TB 17-27 Substantive and compliance testing are applicable ...

Substantive and compliance testing are applicable to _____.

- audits only
 - reviews and audits
 - compilations and audits
 - reviews and compilations
-

Multiple Choice

TB 17-27 Substantive and compliance testing are applicable ...

award:
772. 1.00 point

TB 17-28 Auditing standards apply to work on all audited fi...

Auditing standards apply to work on all audited financial statements but not to work on other assurance engagements.

- True
 - False
-

True / False

TB 17-28 Auditing standards apply to work on all audited fi...

award:
773. 1.00 point

TB 17-29 A review engagement consists primarily of enquiry,...

A review engagement consists primarily of enquiry, analytical procedures, and discussion.

- True
 False

True / False

*TB 17-29 A review engagement
consists primarily of enquiry,...*

award:
774. 1.00 point

TB 17-30 Review engagement standards require that the accou...

Review engagement standards require that the accountant performing the engagement have an objective state of mind.

- True
 False

True / False

*TB 17-30 Review engagement
standards require that the accou...*

award:
775. 1.00 point

TB 17-31 In a compilation engagement, the accountant perfor...

In a compilation engagement, the accountant performs no audit procedures.

- True
 False

True / False

*TB 17-31 In a compilation
engagement, the accountant perfor...*

award:
776. 1.00 point

TB 17-32 An accountant who is not independent can compile f...

An accountant who is not independent can compile financial statements for a private company as long as the fact of lack of independence is disclosed in the body of the report.

- True
 False

True / False

*TB 17-32 An accountant who is not
independent can compile f...*

award:
777. 1.00 point

TB 17-33 Accounting principles require that interim financi...
Accounting principles require that interim financial statements be prepared.

- True
→ False

True / False

*TB 17-33 Accounting principles
require that interim financi...*

award:
778. 1.00 point

TB 17-34 When providing assurance on internal control, the ...
When providing assurance on internal control, the auditor provides a negative assurance report.

- True
→ False

True / False

*TB 17-34 When providing assurance
on internal control, the ...*

award:
779. 1.00 point

TB 17-35 Under CICA rules, the auditor verifies the accurac...
Under CICA rules, the auditor verifies the accuracy of management's internal controls statement just as he or she verifies the accuracy of financial statements.

- True
 False

True / False

*TB 17-35 Under CICA rules, the
auditor verifies the accurac...*

award:
780. 1.00 point

TB 17-36 Review engagements provide a moderate level of ass...
Review engagements provide a moderate level of assurance.

- True
 False

True / False

*TB 17-36 Review engagements
provide a moderate level of ass...*

award:
781. 1.00 point

TB 17-37 Financial statements must be presented fairly as a...

Financial statements must be presented fairly as a result of a compilation engagement.

- True
→ False

True / False

*TB 17-37 Financial statements must
be presented fairly as a...*

award:
782. 1.00 point

TB 17-38 Few, if any, procedures are performed during a com...

Few, if any, procedures are performed during a compilation engagement.

- True
 False

True / False

*TB 17-38 Few, if any, procedures are
performed during a com...*

award:
783. 1.00 point

TB 17-39 The scope of a review engagement is similar to tha...

The scope of a review engagement is similar to that of an audit.

- True
→ False

True / False

*TB 17-39 The scope of a review
engagement is similar to tha...*

award:
784. 1.00 point

TB 17-40 Review engagements involve both substantive and co...

Review engagements involve both substantive and compliance testing.

- True
→ False

True / False

*TB 17-40 Review engagements
involve both substantive and co...*

award:
785. 1.00 point

TB 17-41 In a compilation engagement, the financial stateme...

In a compilation engagement, the financial statements must at least comply with GAAP.

- True
→ False

True / False

*TB 17-41 In a compilation
engagement, the financial stateme...*

award:
786. 1.00 point

TB 17-42 Personal financial planning has become a big sourc...

Personal financial planning has become a big source of business for professional accounting firms.

- True
 False

True / False

*TB 17-42 Personal financial planning
has become a big sourc...*

award:
787. 1.00 point

TB 17-43 Auditors are obligated to search for reportable m...

Auditors are obligated to search for "reportable matters."

- True
→ False

True / False

*TB 17-43 Auditors are obligated to
search for reportable m...*

award:
788. 1.00 point

TB 17-44 Interim financial information is a basic and neces...

Interim financial information is a basic and necessary element of financial statements that conform to GAAP.

- True
→ False

True / False

*TB 17-44 Interim financial
information is a basic and neces...*

award:
789.1.00 point

TB 17-45 A review engagement consists primarily of enquiry,...

A review engagement consists primarily of enquiry, analytical procedures, and discussion. List some specific examples of the question the accountant could ask or the procedures the accountant could perform on a review engagement.

Typical review procedures could include the following:

- i. Obtain knowledge of the client's business, for example, the nature of the business, unique characteristics of the industry, structure of the company, major risks and laws and regulations that affect the company.
- ii. Enquire about the accounting system, for example, manual or computerized, application software used, revenue recognition policy, cost flow assumptions for inventory,
- iii. Perform analytical procedures to identify relationships that are consistent with expectations as well as those that appear to be unusual, for example, vertical and horizontal analysis, time series analysis, calculation of financial statement ratios.
- iv. Enquire about actions taken at important meetings.
- v. Read the financial statements and discuss them with management to determine if they conform to GAAP, for example, how was inventory valuation determined, has the bank balance been reconciled, what is the method for determining the collectability of accounts receivable, and are any assets pledged as security for loans?
- vi. Perform additional procedures if the plausibility of some information is in doubt.
- vii. Document everything that is important to support the content of the report.
- viii. Obtain a letter of representation signed by management.

Essay

*TB 17-45 A review engagement
consists primarily of enquiry,...*

award:
790.1.00 point

TB 17-46 George Wilson CA is on the board of directors of a...

George Wilson CA is on the board of directors of a small manufacturing company, Smith Plastics, Inc. The president of the company, John Smith, has asked George to prepare financial statements for the company to be submitted to Vancouver Dominion Bank as part of a loan request. Mr. Smith tells George that the bank would like a review or an audit, but would settle for a compilation from a CA. He would like George to do the compilation.

Required:

Under what conditions, if any, would George Wilson be allowed to compile the financial statements of Smith Plastics, Inc.?

George Wilson is not independent of Smith Plastics since he is a director. However, this does not prevent him from compiling the financial statements and issuing the appropriate communication. A separate last paragraph of the report should state: "I am not independent with respect to Smith Plastics, Inc." No reason should be given for the lack of independence.

Essay

*TB 17-46 George Wilson CA is on
the board of directors of a...*

award:
791.1.00 point

TB 17-47 Donna Prima, PA, was engaged to review the financi...

Donna Prima, PA, was engaged to review the financial statements of Rooster Restaurants, Inc., a private company. During her review, Donna found that Rooster had not capitalized leases as required under GAAP. The result was so material, that Donna modified the standard review report to state that "the financial statements are not in accordance with GAAP."

Required:

Is Prima's report in accordance with professional standards? If not, what should she have done under the circumstances? Explain.

Prima's report is not strictly in accordance with the provisions of S. 8100.31 of the *CICA Handbook*. Her report should draw attention to the reservation in a paragraph immediately preceding the negative assurance paragraph. The negative assurance paragraph should include wording appropriate to the type of reservation and should refer to the reservation paragraph. The reservation paragraph should describe the reservation and how it affects the financial statements, however, care should be taken to avoid wording that could imply that the auditor has verified the information giving rise to the reservation.

Essay

TB 17-47 Donna Prima, PA, was engaged to review the financi...

award:
792.1.00 point

TB 17-48 List three matters which the auditor is responsibl...

List three matters which the auditor is responsible for reporting on to the audit committee of a public company.

Any three of:

- i. Independent auditors' responsibilities regarding financial statements and other information in documents that include the audited financial statements (e.g., the annual report to shareholders and filings with the regulatory agencies such as the OSC or Superintendent of Financial Institutions).
- ii. Management's significant accounting policies.
- iii. Management judgments about accounting estimates used in the financial statements.
- iv. Significant audit adjustments recommended by the auditors.
- v. Disagreements with management about accounting principles, accounting estimates, scope of the audit, disclosures in the notes, and wording of the audit report.
- vi. The auditor's view on accounting matters on which management has consulted with other accountants.
- vii. Major accounting and auditing issues discussed with management in connection with beginning or continuing an auditor-client relationship.
- viii. Illegal acts.
- ix. Difficulties with management encountered while performing the audit: delays in starting the audit or providing information, unreasonable time schedule, unavailability of client personnel, and failure of client personnel to complete data schedules.

Essay

TB 17-48 List three matters which the auditor is responsibl...

award:
793. 1.00 point

TB 17-49 When should reviews of interim financial informati...

When should reviews of interim financial information be performed?

review procedures should be performed at or near the date of the interim information. Starting the engagement prior to the cutoff date will give auditors a chance to deal with problems and questions without undue deadline pressures.

Essay

*TB 17-49 When should reviews of
interim financial informati...*

award:
794. 1.00 point

TB 17-50 What does the extent of review procedures of inter...

What does the extent of review procedures of interim financial information depend on?

The extent of these procedures depends on the auditor's professional judgment about problem areas in the system of internal control, the severity of the unique accounting principle problems, and the errors that have occurred in the past.

Essay

*TB 17-50 What does the extent of
review procedures of inter...*

award:
795. 1.00 point

TB 17-51 What is meant by audit of internal control over f...

What is meant by "audit of internal control over financial reporting?"

This refers to the direct reporting audits of internal control. This standard is intended to meet the requirements of the Canadian Securities Administrators (CSA). Under current CSA rules, internal control statements are required for public companies, but the audits of internal controls are optional.

Essay

*TB 17-51 What is meant by audit of
internal control over f...*

award:
796.1.00 point

TB 17-52 This question relates to other public accounting s...

This question relates to other public accounting services and reports. For each statement numbered 1 through 5, match the statement to the correct engagement or report (A through F) and place the identifying letter in the space provided.

- A. A review engagement of the financial statements of a private company
- B. A compilation engagement
- C. A review of the interim financial statements of a public company
- D. A report on financial statements prepared in accordance with an appropriate disclosed basis of accounting
- E. Accuracy

- ___ 1. The information should be in accordance with to generally accepted accounting principles.
- ___ 2. In our opinion, the schedule of accounts receivable referred to above presents fairly, in all material respects.
- ___ 3. from information provided by management.
- ___ 4. As described in Note 2, these financial statements were prepared in accordance with accounting principles prescribed for School Boards in Ontario.
- ___ 5. does not constitute an audit and consequently I do not express an audit opinion.

- 1. A or C
- 2. E
- 3. B
- 4. D
- 5. A

Essay

TB 17-52 This question relates to other public accounting s...

award:
797.1.00 point

TB 18-01 In the interest of independence, CPAB and SOX requ...

In the interest of independence, CPAB and SOX require the rotation of the lead audit partner and/or concurring review partner every _____.

- year
- two years
- five years
- ten years

Multiple Choice

TB 18-01 In the interest of independence, CPAB and SOX requ...

award:
798. 1.00 point

TB 18-02 Which of the following conditions is consistent wi...

Which of the following conditions is consistent with a contingency fee?

- Its terms must be contracted for before any services are performed.
 - Its terms must be contracted for after any services are performed.
 - The fees are fixed by a court.
 - The amount paid for the performance is not affected by the results obtained.
-

Multiple Choice

TB 18-02 Which of the following conditions is consistent wi...

award:
799. 1.00 point

TB 18-03 ICAO Rule 214 regarding fee quotation is ultimatel...

ICAO Rule 214 regarding fee quotation is ultimately concerned with _____.

- auditor independence
 - confidentiality
 - audit quality
 - contingency fees
-

Multiple Choice

TB 18-03 ICAO Rule 214 regarding fee quotation is ultimatel...

award:
800. 1.00 point

TB 18-04 Withholding a client's books and records when the ...

Withholding a client's books and records when the client has requested their return is an example of _____.

- a contingency
 - a discreditable act
 - fraud
 - self-regulation
-

Multiple Choice

TB 18-04 Withholding a client's books and records when the ...

award:
801.1.00 point

TB 18-05 Regarding honorary positions in nonprofit organiza...

Regarding honorary positions in nonprofit organizations, which of the following statements is FALSE?

- Professional accountants can be honorary directors of charity hospitals, fund drives, symphony orchestra societies, and other nonprofit organizations, as long as the position is purely honorary.
- The professional accountant cannot be identified as an honorary director on letterheads and other literature.
- The only form of participation is the use of the professional accountant's name.
- The professional accountant does not vote with the board or participate in management functions.

Multiple Choice

*TB 18-05 Regarding honorary
positions in nonprofit organiza...*

award:
802.1.00 point

TB 18-06 Which of the following statements regarding indepe...

Which of the following statements regarding independence with respect to accounting and other services is FALSE?

- If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services.
- If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, it might be perceived that the PA has both prepared the financial statements or other data and given an audit report or other assurance on his or her own work.
- The PA cannot perform the bookkeeping for a company and also provide assurance services.
- The PA can counsel the client management about the accounting principle choices, but in the final analysis the management must be able to say, "These are our financial statements (or other data); we made the choices of accounting principles; we take primary responsibility for them."

Multiple Choice

*TB 18-06 Which of the following
statements regarding indepe...*

803. ^{award:} 1.00 point

TB 18-07 Which of the following statements regarding confid...

Which of the following statements regarding confidentiality principles is FALSE?

- The general principle of confidentiality is that a PA must not disclose any confidential information without the specific consent of the client.
- These principles allow a PA to ignore the obligation to comply with a validly issued subpoena or summons.
- Members of any professional association involved with professional practice reviews may not disclose any confidential client information that comes to their attention in carrying out those reviews, but neither should it restrict any exchange of information that is necessary for the review.
- Confidential information is information that should not be disclosed to outside parties unless demanded by a court or an administrative body with the power to do so.

Multiple Choice

*TB 18-07 Which of the following
statements regarding confid...*

804. ^{award:} 1.00 point

TB 18-08 The interpretation of the phrase acts discredita...

The interpretation of the phrase "acts discreditable to the profession" would NOT include _____.

- membership in an activist political party
- withholding a client's books until a professional fee is paid
- being convicted of a criminal offence
- permitting others to make misleading entries in records

Multiple Choice

*TB 18-08 The interpretation of the
phrase acts discredita...*

805. ^{award:} 1.00 point

TB 18-09 Which of the following statements regarding advert...

Which of the following statements regarding advertising is FALSE?

- Advertising may not create false or unjustified expectations of favourable results.
- Advertising may not imply the ability to influence any court, tribunal, regulatory agency, or similar body or official.
- Advertising may contain a fee estimate even if the PA knows it is likely to be substantially increased.
- Advertising may not contain any representation that is likely to cause a reasonable person to misunderstand or be deceived, or that contravenes professional good taste.

Multiple Choice

*TB 18-09 Which of the following
statements regarding advert...*

806. ^{award:} 1.00 point

TB 18-10 Which of the following statements regarding commun...

Which of the following statements regarding communications between predecessor and successor auditors is FALSE?

- Successor auditors are required to make certain enquiries of predecessor auditors when a new client is obtained.
 - The successor auditor should ask the new client to notify the predecessor auditor of the proposed change.
 - The successor auditor should then ask the predecessor "whether there are any circumstances that should be taken in account which might influence the potential successors' decision whether to accept the appointment."
 - When enquiries are made, the successor auditor does not need the client's permission for the predecessor auditor to disclose confidential information.
-

Multiple Choice

TB 18-10 Which of the following statements regarding commun...

807. ^{award:} 1.00 point

TB 18-11 Which of the following statements regarding indepe...

Which of the following statements regarding independence and litigation is FALSE?

- When a PA and a client move into an adversary relationship and away from the cooperative one needed in an assurance engagement, independence is threatened by appearances of the PA trying to serve his or her own best interests.
 - PAs are still considered independent even if company management threatens to start a lawsuit against them.
 - PAs are not considered to be independent when company management actually starts a lawsuit against them.
 - PAs are not considered to be independent when company management alleges deficiencies in audit or other assurance work.
-

Multiple Choice

TB 18-11 Which of the following statements regarding indepe...

808. ^{award:} 1.00 point

TB 18-12 Which of the following statement regarding adverti...

Which of the following statement regarding advertising is FALSE?

- Advertising consists of messages designed to attract business and are broadcast widely (e.g., through print, radio, television, billboards, and pop-up ads on various websites) to an undifferentiated audience.
 - The advertising guidelines basically prohibit false, misleading, and deceptive messages.
 - Firms commonly obtain new clients through advertising.
 - Overall, except for some isolated examples of creative advertising by some firms, the profession has not pursued advertising aggressively.
-

Multiple Choice

TB 18-12 Which of the following statement regarding adverti...

award:
809.1.00 point

TB 18-13 According to the profession's rules of conduct, an...

According to the profession's rules of conduct, an auditor would be considered independent in which of the following instances?

- The auditor is the officially appointed stock transfer agent of a client.
 - The auditor has a personal chequing account in a branch of a client bank.
 - The client has not paid its audit fees for the past three years.
 - The client is the only tenant in a commercial building owned by the auditor.
-

Multiple Choice

TB 18-13 According to the profession's rules of conduct, an...

award:
810.1.00 point

TB 18-14 In which of the following situations would a PA st...

In which of the following situations would a PA still be considered independent?

- The PA received a set of professional-quality, graphite golf clubs from a client as an expression of appreciation for the quality of the work performed.
 - The PA is suing the client for non-payment of fees.
 - The fees from one audit client comprise 65% of the PA's total billings for the year.
 - The PA serves in an honorary and non-participating role as a director for a nonprofit audit client.
-

Multiple Choice

TB 18-14 In which of the following situations would a PA st...

award:
811.1.00 point

TB 18-15 The interpretations related to the rules governing...

The interpretations related to the rules governing objectivity or independence allow _____.

- a PA to hold a material indirect interest in a client
 - a PA to finance a home mortgage with a client if the mortgage is made under the client's normal lending procedures and terms
 - a PA's spouse to hold a position as a director of a client's organization
 - a PA to serve as a trustee of the pension fund of a client
-

Multiple Choice

TB 18-15 The interpretations related to the rules governing...

award:
812. 1.00 point

TB 18-16 How are competence and due care best described?

How are competence and due care best described?

- Competence and due care both refer to PAs doing their best for their clients.
 - Competence refers to technical ability; due care refers to strictly following official pronouncements of accounting principles.
 - Competence is knowing what do; due care is doing it to the best of one's abilities.
 - Competence and due care both refer to ongoing technical training.
-

Multiple Choice

TB 18-16 How are competence and due care best described?

award:
813. 1.00 point

TB 18-17 The duty of confidentiality requires a PA to do wh...

The duty of confidentiality requires a PA to do which of the following?

- Not disclose client information under any circumstances.
 - Not disclose client information if it is deemed to be confidential.
 - Not disclose client information unless required to do so by a validly issued subpoena or summons.
 - Not disclose evidence of illegal acts to the relevant authorities.
-

Multiple Choice

TB 18-17 The duty of confidentiality requires a PA to do wh...

award:
814. 1.00 point

TB 18-18 Canada Customs and Revenue Agency has requested th...

Canada Customs and Revenue Agency has requested the taxes payable working papers of ABC Co. from CA. CA should

- request client permission, and then provide the working papers
 - not provide the working papers nor discuss the matter with the client
 - inform the client that the working papers should not be provided
 - provide the working papers immediately to avoid tax problems
-

Multiple Choice

TB 18-18 Canada Customs and Revenue Agency has requested th...

award:
815.1.00 point

TB 18-19 In which of the following circumstances would a CA...

In which of the following circumstances would a CA be in violation of the "Rules of Professional Conduct" in quoting a fee to a client?

- A fee fixed by a court.
 - A fee based on the approval of a bank loan.
 - A fee based on the time estimated to complete the engagement plus out-of-pocket expenses.
 - A fee based on the complexity of the engagement.
-

Multiple Choice

TB 18-19 In which of the following circumstances would a CA...

award:
816.1.00 point

TB 18-20 Which of the following statements is FALSE when a ...

Which of the following statements is FALSE when a PA has an investment in a nonclient investor?

- This investment may be a direct or material indirect financial interest that will diminish independence with respect to a client investee.
 - Independence is not impaired, as long as the PA does not have significant influence over the actions or financial statements of the nonclient investor.
 - Independence is impaired when the PA's investment gives him or her significant influence over the actions of the nonclient investor, which might in turn influence the client investee.
 - The independence of the PA is always impaired when a PA has an investment in a nonclient investor because it puts him or her in a position similar to that of a member of management of the client investee.
-

Multiple Choice

TB 18-20 Which of the following statements is FALSE when a ...

award:
817.1.00 point

TB 18-21 If a discipline committee requires a member to tak...

If a discipline committee requires a member to take continuing professional education, and the member fails to complete it in the required time, what is the likely further penalty?

- More continuing education courses will be assigned.
 - The member will be fined or suspended from the institute.
 - The member will be expelled from the institute as a second offender.
 - The member will have to complete a period of supervised practice.
-

Multiple Choice

TB 18-21 If a discipline committee requires a member to tak...

award:
818. 1.00 point

TB 18-22 If a CA is expelled from his or her provincial ins...

If a CA is expelled from his or her provincial institute, what does that mean in practical terms?

- The member can no longer use the initials CA behind his or her name on any cards or correspondence.
- The member can no longer practise as an accountant.
- The member will no longer be permitted to practise as a public accountant in Canada.
- The member will no longer be permitted to receive copies of the CA magazine.

Multiple Choice

TB 18-22 If a CA is expelled from his or her provincial ins...

award:
819. 1.00 point

TB 18-23 Any complaint against a member must be submitted i...

Any complaint against a member must be submitted in writing.

- True
- False

True / False

TB 18-23 Any complaint against a member must be submitted i...

award:
820. 1.00 point

TB 18-24 Whenever there is a conflict-of-interest situation...

Whenever there is a conflict-of-interest situation for the auditor, there is a potential to create a threat to the auditor's independent state of mind.

- True
- False

True / False

TB 18-24 Whenever there is a conflict-of-interest situation...

award:
821. 1.00 point

TB 18-25 When a PA and a client move into an adversary rela...

When a PA and a client move into an adversary relationship and away from the cooperative one needed in an assurance engagement, independence is threatened by appearances of the PA trying to serve his or her own best interests.

- True
- False

True / False

TB 18-25 When a PA and a client move into an adversary rela...

award:
822. 1.00 point

TB 18-26 Independence is not impaired if a PA serves on an ...
Independence is not impaired if a PA serves on an organization's board of directors.

- True
→ False

True / False

*TB 18-26 Independence is not
impaired if a PA serves on an ...*

award:
823. 1.00 point

TB 18-27 Under the limited liability partnership (LLP) form...
Under the limited liability partnership (LLP) form of organization, the only partners with personal assets at risk are those involved in the litigated engagement, while the others risk only their investment in the partnership.

- True
 False

True / False

*TB 18-27 Under the limited liability
partnership (LLP) form...*

award:
824. 1.00 point

TB 18-28 Successor auditors are required to make certain en...
Successor auditors are required to make certain enquiries of predecessor auditors when a new client is obtained.

- True
 False

True / False

*TB 18-28 Successor auditors are
required to make certain en...*

award:
825. 1.00 point

TB 18-29 If a PA performs the bookkeeping and makes account...
If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services.

- True
 False

True / False

*TB 18-29 If a PA performs the
bookkeeping and makes account...*

826. ^{award:} 1.00 point

TB 18-30 Confidentiality principles allow a PA to ignore th...

Confidentiality principles allow a PA to ignore the obligation to comply with a validly issued subpoena or summons.

- True
→ False

True / False

TB 18-30 Confidentiality principles allow a PA to ignore th...

827. ^{award:} 1.00 point

TB 18-31 Once PAs retire from a firm, they are no longer re...

Once PAs retire from a firm, they are no longer required to maintain independence from former clients.

- True
→ False

True / False

TB 18-31 Once PAs retire from a firm, they are no longer re...

828. ^{award:} 1.00 point

TB 18-32 Firms commonly obtain new clients through advertis...

Firms commonly obtain new clients through advertising.

- True
→ False

True / False

TB 18-32 Firms commonly obtain new clients through advertis...

829. ^{award:} 1.00 point

TB 18-33 A PA in a large firm has been asked to take over t...

A PA in a large firm has been asked to take over the audit of a client in the pharmaceutical industry from another PA who quit abruptly. The PA is unfamiliar with the pharmaceutical industry. The PA should trust that the work was properly planned by the previous PA and should follow that plan carefully.

- True
→ False

True / False

TB 18-33 A PA in a large firm has been asked to take over t...

award:
830. 1.00 point

TB 18-34 The ICAO Rules of Professional Conduct prohibit CA...

The ICAO Rules of Professional Conduct prohibit CAs from accepting contingency fees under any and all circumstances.

- True
→ False

True / False

*TB 18-34 The ICAO Rules of
Professional Conduct prohibit CA...*

award:
831. 1.00 point

TB 18-35 As self-regulating bodies, professional institutes...

As self-regulating bodies, professional institutes have a duty to investigate all written complaints received about their members and students accepted into their programs.

- True
 False

True / False

*TB 18-35 As self-regulating bodies,
professional institutes...*

award:
832. 1.00 point

TB 18-36 Summarize the professional competence and due care...

Summarize the professional competence and due care rules of the codes of conduct.

The professional competence and due care rules of the codes of conduct can be summarized as follows:

Professional competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

Due professional care. Exercise due professional care in the performance of professional services.

Planning and supervision. Adequately plan and supervise the performance of professional services.

Sufficient relevant data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Essay

*TB 18-36 Summarize the
professional competence and due
care...*

award:
833. 1.00 point

TB 18-37 Describe how actual or threatened litigation affect...

Describe how actual or threatened litigation affects auditor independence.

When a PA and a client move into an adversary relationship and away from the cooperative one needed in an assurance engagement, independence is threatened by appearances of the PA trying to serve his or her own best interests. PAs are considered not independent when (1) company management threatens or actually starts a lawsuit against them, alleging deficiencies in audit or other assurance work, or (2) the PA threatens or starts litigation against the company management, alleging fraud or deceit. Such cases may be rare, but auditors get out of such difficult audit situations by ending the assurance engagement. Essentially, the PA-client relationship ends, and the litigation begins a new relationship.

Essay

*TB 18-37 Describe how actual or
threatened litigation affect...*

award:
834. 1.00 point

TB 18-38 Discuss how a PA can preserve independence while a...

Discuss how a PA can preserve independence while accepting an honorary position in nonprofit organizations.

Ordinarily, independence is impaired if a PA serves on an organization's board of directors. However, members can be honorary directors of charity hospitals, fund drives, symphony orchestra societies, and other nonprofit organizations as long as (1) the position is purely honorary, (2) the PA is identified as an honorary director on letterheads and other literature, (3) the only form of participation is the use of the PA's name, and (4) the PA does not vote with the board or participate in management functions. When all these criteria are satisfied, the PA/board member can perform assurance services because the appearances of independence will have been preserved.

Essay

*TB 18-38 Discuss how a PA can
preserve independence while a...*

award:
835. 1.00 point

TB 18-39 Discuss the rules relating to the provision of acc...

Discuss the rules relating to the provision of accounting and other services by a PA.

If a PA performs the bookkeeping and makes accounting decisions for a company and the management does not know enough about the financial statements to take primary responsibility for them, the PA cannot be considered independent for assurance services. It might be perceived that the PA has both prepared the financial statements or other data and given an audit report or other assurance on his own work. The PA can perform the bookkeeping and counsel the client management about the accounting principle choices, but in the final analysis the management must be able to say, "These are our financial statements (or other data); we made the choices of accounting principles; we take primary responsibility for them."

Essay

*TB 18-39 Discuss the rules relating
to the provision of acc...*

award:
836.1.00 point

TB 18-40 Discuss the deficiencies in professional codes of ...

Discuss the deficiencies in professional codes of conduct for PAs.

Whenever there is a conflict-of-interest situation for the auditor, there is a potential to create a threat to the auditor's independent state of mind. Brooks identified the following deficiencies in professional codes of conduct:

No or insufficient prioritization is put forward to resolve conflicting interests.

Consultation on ethical matters is encouraged for some members, but is inhibited for others.

A fair reporting/hearing process is not indicated, so members are uncertain whether to come forward.

Protection is not offered to a whistle-blower.

Sanctions are often unclear, and their applicability is not defined.

Resolution mechanisms for conflicts between professionals and firms, or employers, or employing corporations are not put forward.

Essay

TB 18-40 Discuss the deficiencies in professional codes of ...

award:
837.1.00 point

TB 18-41 Discuss self-regulation discipline and public regu...

Discuss self-regulation discipline and public regulation discipline.

Self-regulation discipline: Accounting firms, as well as individuals, are subject to the rules of professional conduct of the institutes, associations, or societies only if they choose to join these organizations. But anyone wishing to practise public accounting finds that the added credibility of belonging to a professional group greatly improves the chances of establishing a successful practice. Thus, enforcing the rules of conduct is an important means of regulating the profession. Regulators can suspend a member's activities on certain exchanges, and the professional bodies can initiate other disciplinary proceedings.

Public regulation discipline: Some provincial institutes of chartered accountants, associations of CGAs, and societies of CMAs are self-governing agencies. Depending on the province's *Public Accounting Act*, they issue licences to practise accounting in their jurisdictions or certificates indicating that standards to be a PA have been met. Most provinces require a licence or certification procedure to use the CA, or *Chartered Accountant*, designation, and some limit the assurance (audit) function to license holders. Most provinces do not regulate work in areas of management consulting, tax practice, or bookkeeping services.

Provincial institutes, associations, and societies have rules of conduct and disciplinary processes as outlined above. Through the disciplinary process, these organizations can admonish a licence holder; but, more importantly, they can suspend or revoke the licence to practise in some provinces—severe penalties because a person then can no longer use the PA title or sign audit reports. When candidates have successfully passed the PA examination or fulfilled other requirements and are ready to become PAs, some provincial institutes administer an ethics examination or an ethics course intended to familiarize new PAs with the rules of professional conduct.

Essay

TB 18-41 Discuss self-regulation discipline and public regu...

award:
838.1.00 point

TB 18-42 Briefly describe the process followed by the ICAO ...

Briefly describe the process followed by the ICAO when investigating and charging a member with violating one of the rules of professional conduct.

Any complaint against a member must be submitted in writing. The Professional Conduct Committee investigates complaints and decides whether further action is necessary. If charges are laid, then the Professional Conduct Committee refers the matter to the Discipline Committee. The Discipline Committee follows a process similar to a court of law to render a verdict of guilty or not guilty. The defendant is entitled to legal representation and witnesses are called to present evidence. If found guilty, the member can appeal to the Appeals Committee.

Essay

*TB 18-42 Briefly describe the
process followed by the ICAO ...*

award:
839.1.00 point

TB 18-43 What are the sanctions that can be imposed by the ...

What are the sanctions that can be imposed by the ICAO if a member is found guilty of violating one of the rules of professional conduct?

Sanctions include:

- reprimand
- imposition of fines and/or costs
- suspension
- being struck from the register of students
- expulsion
- being required to complete professional development courses
- supervision in practice
- other disciplinary actions at the discretion of the committee
- publication of the decision and the member/student's name

Essay

*TB 18-43 What are the sanctions that
can be imposed by the ...*

award:
840.1.00 point

TB 18-44 Discuss communications between predecessor and suc...

Discuss communications between predecessor and successor auditors.

Successor auditors are required to make certain enquiries of predecessor auditors when a new client is obtained (e.g., Rule 302 of Professional Conduct of ICAO). Rule 302 and similar rules of other accounting bodies apply to all public accounting engagements, including compilation and review work.

Interpretation to Rule 302 gives advice to PAs when communicating with the predecessor. First, the successor PA should ask the new client to notify the predecessor (incumbent) PA of the proposed change. The successor should then ask the predecessor "whether there are any circumstances that should be taken in account which might influence the potential successors' decision whether to accept the appointment," per Interpretation 302. Normally, the successor should wait for the reply before commencing work for the new client. The interpretation also requires the predecessor to reply promptly. When enquiries are made, the successor must have the client's permission for the predecessor to disclose confidential information. When confidentiality is in doubt, legal advice should be obtained. The effort the predecessor should make in supplying information to the successor is an important issue. The interpretation suggests that, as a minimum, "reasonable information about the work being assumed" should be discussed, and it then gives advice on what constitutes "reasonable."

In addition to the rules of professional conduct, PAs should be aware of any federal and provincial legislation, including securities legislation, regulating changes in professional appointments.

Essay

*TB 18-44 Discuss communications
between predecessor and suc...*

award:
841.1.00 point

TB 18-45 Discuss the rules allowing members to practise in ...

Discuss the rules allowing members to practise in any form of organization.

The rules allow members to practise in any form of organization permitted by provincial laws and regulations —proprietorships, partnerships, professional corporations, limited liability partnerships, limited liability corporations, and ordinary corporations. Most provincial accountancy laws prohibit the general corporate form of organization for PAs, but, because of increased legal risk, there has been a recent push for the limited liability partnership structure. In the traditional form of partnership, all partners' personal assets are at risk. Under the limited liability partnership (LLP) form of organization, the only partners with personal assets at risk are those involved in the litigated engagement, while the others risk only their investment in the partnership. Thus, the limited liability partnership is a great improvement at a time of increased litigation, and many PA firms are now LLPs.

Essay

*TB 18-45 Discuss the rules allowing
members to practise in ...*

award:
842. 1.00 point

TB 19-01 An approximation of a monetary amount in the absen...

An approximation of a monetary amount in the absence of a precise means of measurement is known as _____.

- estimation uncertainty
 - an accounting estimate
 - management bias
 - management's point estimate
-

Multiple Choice

*TB 19-01 An approximation of a
monetary amount in the absen...*

award:
843. 1.00 point

TB 19-02 The actual monetary amount which results from reso...

The actual monetary amount which results from resolution of the underlying transaction(s), event(s), or condition(s) addressed by the accounting estimate is known as _____.

- estimation uncertainty
 - outcome of an accounting estimate
 - management bias
 - management's point estimate
-

Multiple Choice

*TB 19-02 The actual monetary
amount which results from reso...*

award:
844. 1.00 point

TB 19-03 Generally accepted accounting principles are based...

Generally accepted accounting principles are based on the going-concern concept. Thus, an opinion that financial statements are in conformity with GAAP means that continued existence may be presumed for a "reasonable time", which is considered to be _____.

- at least one year beyond the date of the financial statements
 - at least six months beyond the date of the financial statements
 - at least two years beyond the date of the financial statements
 - at least five years beyond the date of the financial statements
-

Multiple Choice

*TB 19-03 Generally accepted
accounting principles are based...*

award:
845. 1.00 point

TB 19-04 It is reasonable to assume the going-concern ass...

It is "reasonable" to assume the going-concern assumption for financial reporting when the degree of doubt is no higher than _____.

- 50%
- 80%
- 20%
- 10%

Multiple Choice

*TB 19-04 It is reasonable to assume
the going-concern ass...*

award:
846. 1.00 point

TB 19-05 A(n) _____ is an existing condition, or situati...

A(n) _____ is an existing condition, or situation, involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur.

- going concern
- estimate
- management bias
- contingency

Multiple Choice

*TB 19-05 A(n) _____ is an
existing condition, or situati...*

award:
847. 1.00 point

TB 19-06 Misstatements are defined as the difference between...

Misstatements are defined as the difference between _____ and the nearest point of the reasonable range.

- management's point estimate
- the auditor's point estimate
- estimation uncertainty
- the outcome of an accounting estimate

Multiple Choice

*TB 19-06 Misstatements are defined
as the difference between...*

award:
848. 1.00 point

TB 19-07 An auditor's analysis of specific accounts receiva...

An auditor's analysis of specific accounts receivable and recent trends in bad debt losses as a percent of sales may cause the auditor to conclude that the allowance for doubtful accounts should be between \$130,000 and \$160,000. If management's recorded estimate falls within that range, the auditor ordinarily would conclude that the recorded amount is reasonable, and no difference would be aggregated. If management's recorded estimate is \$110,000, how much would be aggregated as a misstatement?

- 0.
- \$30,000.
- \$20,000.
- \$110,000.

Multiple Choice

*TB 19-07 An auditor's analysis of
specific accounts receiva...*

award:
849. 1.00 point

TB 19-08 Which of the following statements regarding the go...

Which of the following statements regarding the going concern concept is FALSE?

- Generally accepted accounting principles are based on the going-concern concept.
- Dealing with questions of going concern is difficult because auditors are forced to evaluate matters of financial analysis, business strategy, and financial forecasting.
- Management is responsible for determining whether there is a significant doubt about a company's ability to continue as a going concern.
- Financial difficulties, labour problems, loss of key personnel, litigation, and other such things may be important signals.

Multiple Choice

*TB 19-08 Which of the following
statements regarding the go...*

award:
850. 1.00 point

TB 19-09 Quantified uncertainty is referred to as _____.

Quantified uncertainty is referred to as _____.

- AudR
- estimation
- probability
- AccR

Multiple Choice

*TB 19-09 Quantified uncertainty is
referred to as _____.*

award:
851. 1.00 point

TB 19-10 According to Cockburn, which of the following stat...

According to Cockburn, which of the following statements relating to auditors' reasonable ranges is FALSE?

- The key issue is factors to consider in determining the width of the range.
 - The auditor must accept the reality of the uncertainty that may be associated with the range.
 - Specialists such as engineers, actuaries, and economists may need to be consulted.
 - The range estimate must be made at the year-end date.
-

Multiple Choice

*TB 19-10 According to Cockburn,
which of the following stat...*

award:
852. 1.00 point

TB 19-11 The audit process can be viewed as having two stag...

The audit process can be viewed as having two stages. Which of the following statements regarding these stages is FALSE?

- The two stages reflect the two major categories of audit report reservations: accounting deficiency reservations based on stage one, and audit deficiency reservations based on stage two.
 - The distinction between audit and accounting uncertainties is critical for audit report reservations.
 - Stage one deals with audit evidence uncertainties, those related to the amount of evidence gathered.
 - In stage two, the auditor uses the evidence obtained in stage one to make a determination of the appropriateness of financial reporting relative to GAAP and fairness of presentation criteria.
-

Multiple Choice

*TB 19-11 The audit process can be
viewed as having two stag...*

award:
853. 1.00 point

TB 19-12 The prediction that people estimate frequency or p...

The prediction that people estimate frequency or probability by the ease with which instances or occurrences of the event can be brought to mind is known as the _____.

- heuristic bias
 - availability heuristic
 - representative heuristic
 - halo effect
-

Multiple Choice

*TB 19-12 The prediction that people
estimate frequency or p...*

award:
854. 1.00 point

TB 19-13 The tendency to value what we have because it is o...

The tendency to value what we have because it is ours, regardless of its intrinsic value, is known as the _____.

- endowment effect
 - availability heuristic
 - representative heuristic
 - halo effect
-

Multiple Choice

TB 19-13 The tendency to value what we have because it is o...

award:
855. 1.00 point

TB 19-14 Which of the following statements regarding audit ...

Which of the following statements regarding audit risk (AudR) and accounting risk (AccR) is FALSE?

- AccR is largely geared to reflect business risks of the auditee.
 - AccR is the material difference between an estimate involving future events and its outcome.
 - AudR is something that is relevant to the auditee but not to the auditor.
 - The auditor has to consider both AudR and AccR and somehow combine them using professional judgment.
-

Multiple Choice

TB 19-14 Which of the following statements regarding audit ...

award:
856. 1.00 point

TB 19-15 Which of the following statements regarding the RB...

Which of the following statements regarding the RBR matrix is FALSE?

- The RBR matrix is an attempt to summarize all the possibilities of accounting uncertainties that an auditor may encounter and classify them by reporting types.
 - The RBR matrix focuses on AudR levels.
 - Under the RBR system of risk-based reasoning for accounting estimates, there are three possible ranges or regions of probabilities of payoffs to consider.
 - The main use of the RBR matrix is to provide a convenient decision aid for any reporting situation involving future events.
-

Multiple Choice

TB 19-15 Which of the following statements regarding the RB...

857. ^{award:} 1.00 point

TB 19-16 From Cockburn's perspective, which of the followin...

From Cockburn's perspective, which of the following statements is FALSE?

- Reasonable ranges were getting too narrow.
- Reasonable ranges were getting too wide.
- Reasonable ranges are crucial for deciding if there is a misstatement in accounting estimates.
- Auditors must consider the riskiness of the accounting estimates.

Multiple Choice

TB 19-16 From Cockburn's perspective, which of the followin...

858. ^{award:} 1.00 point

TB 19-17 Accounting estimate nirvana is _____.

Accounting estimate nirvana is _____.

- the width of the reasonable range is greater than the material misstatement but not greater than two times the material misstatement, which means an estimate with no significant risk can be found within the reasonable range
- the width of the reasonable range is less than or equal to the material misstatement, which means that there is no significant risk for any estimates within the reasonable range
- the width of reasonable range is greater than or equal to the material misstatement, which means that there is no significant risk for any estimates within the reasonable range
- the width of reasonable range is less than the material misstatement but not greater than two times the material misstatement, which means an estimate with no significant risk can be found within the reasonable range

Multiple Choice

TB 19-17 Accounting estimate nirvana is _____.

859. ^{award:} 1.00 point

TB 19-18 Which of the following statements regarding calibr...

Which of the following statements regarding calibration is FALSE?

- A calibrated person is one who, when asked a large number of questions, will get about as many correct as he or she expected.
- An uncalibrated person who is systematically overconfident may be 90% confident of his or her correctness over a large number of questions, where in the end that person will only get 60% or 70% of them correct.
- Calibration is achieved through the use of heuristics, which improves the quality of experts' estimates.
- If the environment is predictable and an expert has learned through calibration training to identify the situations where intuition misleads him or her, then the feedback will have corrected the expert's intuitions.

Multiple Choice

TB 19-18 Which of the following statements regarding calibr...

award:
860.1.00 point

TB 19-19 The tendency to exaggerate the inevitability of ca...

The tendency to exaggerate the inevitability of causal sequences is known as the _____.

- heuristic bias
 - availability heuristic
 - representative heuristic
 - hindsight bias
-

Multiple Choice

TB 19-19 The tendency to exaggerate the inevitability of ca...

award:
861.1.00 point

TB 19-20 CIFIr's progress report proposes a framework for a...

CIFIr's progress report proposes a framework for accounting judgments consisting of which two components?

- A critical and good-faith thought process and documentation.
 - Calibration and estimation.
 - Professional accounting judgment and professional auditing judgment.
 - Heuristics and accounting risk.
-

Multiple Choice

TB 19-20 CIFIr's progress report proposes a framework for a...

award:
862.1.00 point

TB 19-21 Under the RBR system of risk-based reasoning for a...

Under the RBR system of risk-based reasoning for accounting estimates, in the _____ region, the probability of payoff is 1.00 to (one minus acceptable AccR).

- ignore
 - record
 - heuristic
 - disclose
-

Multiple Choice

TB 19-21 Under the RBR system of risk-based reasoning for a...

award:
863. 1.00 point

TB 19-22 Uncertainty situations may cause audit reports to ...

Uncertainty situations may cause audit reports to be qualified for departures from GAAP.

- True
 False

True / False

*TB 19-22 Uncertainty situations may
cause audit reports to ...*

award:
864. 1.00 point

TB 19-23 A lack of neutrality by management in the preparat...

A lack of neutrality by management in the preparation and presentation of information is known as estimation uncertainty.

- True
→ False

True / False

*TB 19-23 A lack of neutrality by
management in the preparat...*

award:
865. 1.00 point

TB 19-24 Generally accepted accounting principles are based...

Generally accepted accounting principles are based on the going-concern concept.

- True
 False

True / False

*TB 19-24 Generally accepted
accounting principles are based...*

award:
866. 1.00 point

TB 19-25 Risks associated with forecasting future outcomes ...

Risks associated with forecasting future outcomes or events in accounting estimates are increasingly recognized as the biggest source of error in accounting estimates.

- True
 False

True / False

*TB 19-25 Risks associated with
forecasting future outcomes ...*

award:
867.1.00 point

TB 19-26 The difference between what was reported and what ...

The difference between what was reported and what should have been reported, an auditor's traditional perspective of misstatement, is the basis of the concept of auditing risk.

- True
→ False

True / False

*TB 19-26 The difference between
what was reported and what ...*

award:
868.1.00 point

TB 19-27 There are huge pressures on the auditor from manag...

There are huge pressures on the auditor from management regarding recording of estimates because such estimates are essentially subjective in nature, and the major source of disagreement is likely the assumptions made about future-event outcomes.

- True
 False

True / False

*TB 19-27 There are huge pressures
on the auditor from manag...*

award:
869.1.00 point

TB 19-28 In CAS 540, quantified uncertainty is referred to ...

In CAS 540, quantified uncertainty is referred to as probability or risk.

- True
 False

True / False

*TB 19-28 In CAS 540, quantified
uncertainty is referred to ...*

award:
870.1.00 point

TB 19-29 Under the RBR system of risk-based reasoning for a...

Under the RBR system of risk-based reasoning for accounting estimates, in the ignore region, the probability of payoff is 1.00 to (one minus acceptable AccR).

- True
→ False

True / False

*TB 19-29 Under the RBR system of
risk-based reasoning for a...*

award:
871. 1.00 point

TB 19-30 The tendency to exaggerate the inevitability of ca...

The tendency to exaggerate the inevitability of causal sequences is known as the availability heuristic.

- True
→ False

True / False

TB 19-30 The tendency to exaggerate the inevitability of ca...

award:
872. 1.00 point

TB 19-31 The RBR matrix is an attempt to summarize all the ...

The RBR matrix is an attempt to summarize all the possibilities of accounting uncertainties that an auditor may encounter and classify them by reporting types.

- True
 False

True / False

TB 19-31 The RBR matrix is an attempt to summarize all the ...

award:
873. 1.00 point

TB 19-32 AccR is largely geared to reflect business risks o...

AccR is largely geared to reflect business risks of the auditee.

- True
 False

True / False

TB 19-32 AccR is largely geared to reflect business risks o...

award:
874. 1.00 point

TB 19-33 Calibration is achieved through repetition and fee...

Calibration is achieved through repetition and feedback, which improves the quality of expert's estimates.

- True
 False

True / False

TB 19-33 Calibration is achieved through repetition and fee...

award:
875. 1.00 point

TB 19-34 Accounting estimate nirvana occurs when the width ...

Accounting estimate nirvana occurs when the width of the reasonable range is less than or equal to the material misstatement, which means that there is no significant risk for any estimates within the reasonable range.

- True
 False

True / False

*TB 19-34 Accounting estimate
nirvana occurs when the width ...*

award:
876. 1.00 point

TB 19-35 Auditors are susceptible to judgmental biases beca...

Auditors are susceptible to judgmental biases because of the use of shortcuts or heuristics in the reasoning process.

- True
 False

True / False

*TB 19-35 Auditors are susceptible to
judgmental biases beca...*

award:
877. 1.00 point

TB 19-36 What are the key concepts and related definitions ...

What are the key concepts and related definitions relating to CAS 540.07?

- (a) **Accounting estimate**—an approximation of a monetary amount in the absence of a precise means of measurement. If the estimate involves only measurement at fair value, the term "fair value accounting estimate" is used.
- (b) **Auditor's point estimate or auditor's range**—the amount or range of amounts, respectively, derived from audit evidence for use in evaluating management's point estimate.
- (c) **Estimation uncertainty**—the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.
- (d) **Management bias**—a lack of neutrality by management in the preparation and presentation of information.
- (e) **Management's point estimate**—the amount selected by management in the preparation and presentation of information.
- (f) **Outcome of an accounting estimate**—the actual monetary amount which results from resolution of the underlying transaction(s), event(s), or condition(s) addressed by the accounting estimate.

Essay

*TB 19-36 What are the key concepts
and related definitions ...*

award:
878.1.00 point

TB 19-37 What are the three types of misstatements accordin...

What are the three types of misstatements according to CAS 540?

There are three types of misstatements:

1. *Factual*—misstatements about which there is no doubt
2. *Judgmental*—management's judgments that the auditor considers unreasonable (e.g., forecast errors. This type also includes auditors' nonsampling errors).
3. *Projected misstatements*—projection of misstatements from samples to the entire population.

Essay

*TB 19-37 What are the three types of
misstatements accordin...*

award:
879.1.00 point

TB 19-38 Provide an example to illustrate what is meant by ...

Provide an example to illustrate what is meant by a reasonable estimate and what a misstatement is relative to an estimate according to AuG-41.

The auditor's analysis of specific accounts receivable and recent trends in bad debt losses as a percent of sales may cause the auditor to conclude that the allowance for doubtful accounts should be between \$130,000 and \$160,000. If management's recorded estimate falls within that range, the auditor ordinarily would conclude that the recorded amount is reasonable, and no difference would be aggregated. If management's recorded estimate falls outside the auditor's range of acceptable amounts, the difference between the recorded amount and the amount at the closest end of the auditor's range would be aggregated as a misstatement. For example, if management has recorded \$110,000 as the allowance, the amount by which the recorded estimate falls outside the range (e.g., \$20,000) would be aggregated as a misstatement.

Essay

*TB 19-38 Provide an example to
illustrate what is meant by ...*

award:
880.1.00 point

TB 19-39 Under Canadian audit standard CAS 706, the auditor...

Under Canadian audit standard CAS 706, the auditor may decide to place a "red flag" paragraph drawing attention to the uncertainty in the report. If there is material uncertainty about the going-concern assumption, for example, then CAS 706 requires that an emphasis of matter paragraph be added even when there is proper disclosure in the financial statements. Under what circumstances would uncertainty situations cause audit reports to be qualified for departures from GAAP?

Uncertainty situations may cause audit reports to be qualified for departures from GAAP, if (1) management's disclosure of the uncertainty is inadequate, (2) management uses inappropriate accounting principles to account for the uncertainty, or (3) management makes unreasonable accounting estimates in connection with the effects of the uncertainty. The audit report also may be qualified because of a scope limitation regarding available evidence about an uncertainty.

Essay

*TB 19-39 Under Canadian audit
standard CAS 706, the auditor...*

award:
881.1.00 point

TB 19-40 List the various factors that need to be considere...

List the various factors that need to be considered regarding the nature and scope of an issue prior to the exercise of professional judgment.

Professional judgment should be based on a critical and reasoned evaluation made in good faith, prior to the exercise of the judgment, of an identified issue, including the nature and scope of the issue based on the following:

1. An analysis of the transaction, including the substance and business purpose of the transaction.
2. The material facts reasonably available at the time that the financial statements are issued.
3. A thorough review and analysis of relevant literature, including the relevant underlying principles.
4. Alternative views or estimates, including pros and cons for reasonable alternatives.
5. The rationale for the choice selected, including reasons for the alternative or estimate selected and linkage of the rationale to investors' information needs and the judgments of competent external parties.
6. Linkage of the alternative or estimate selected to the substance and business purpose of the transaction or issue being evaluated.
7. Known diversity in practice regarding the alternatives or estimates.
8. The consistency of application of alternatives or estimates to similar transactions.
9. The appropriateness and reliability of the assumptions and data used.

Essay

*TB 19-40 List the various factors that
need to be considere...*

award:
882.1.00 point

TB 19-41 What is an RBR matrix and what is it used for?

What is an RBR matrix and what is it used for?

The RBR matrix is an attempt to summarize all the possibilities of accounting uncertainties that an auditor may encounter and classify them by reporting types. It really is a generalization of Beaver's observation of classification of contingencies uncertainties reporting. From the auditor's point of view, these uncertainties also include the evidence-gathering uncertainties in AudR, but since the auditor controls AudR at a low level, the major uncertainty is AccR. Also, from the client's point of view, since the client presumably knows all the facts of the situation, the real issue is dealing with various levels of AccR. For these two reasons, the RBR matrix focuses on AccR levels.

Essay

TB 19-41 What is an RBR matrix and what is it used for?

award:
883.1.00 point

TB 19-42 The nature of any adjustment depends on how wide t...

The nature of any adjustment depends on how wide the range is, as was first noted by Cockburn. Whether the reasonable range (RR) is sufficiently narrow is determined by the level of acceptable accounting risk (AccR). What are the generic rules of thumb for high-assurance engagements involving reasonable ranges that capture high probabilities of future outcomes?

These rules, using MM to represent material misstatement, are as follows.

- **Accounting estimate nirvana:** The width of RR is less than or equal to MM, which means that there is no significant risk for any estimates within RR.
- **Accounting estimate problem (i.e., Cockburn's problem):** The width of RR is greater than MM but not greater than two times MM, which means an estimate with no significant risk can be found within RR.
- **Accounting estimate nightmare:** The width of RR is greater than two times MM, which means all values in RR may have significant risk of CAS 540.11 (and also that all estimates outside RR have significant risks). In other words, there is no estimate with an insignificant estimation risk possible in a nightmare situation.

Essay

TB 19-42 The nature of any adjustment depends on how wide t...

award:
884.1.00 point

TB 19-43 The AccR is influenced by the reasonable ranges an...

The AccR is influenced by the reasonable ranges and how well they are calibrated. What are the steps involved to achieve their calibration?

Calibration is achieved through repetition and feedback, which improves the quality of expert's estimates. If the environment is predictable and an expert has learned through training to identify the situations where their intuition misleads them, then the feedback will have corrected their intuitions. This the basis of calibration training for assessing reasonable ranges of accounting estimates in new or changing conditions. According to Hubbard (2009), calibration can be summarized in the following steps:

1. Repetition and feedback. Take several tests in succession, assessing how well you did after each one and attempting to improve your performance in the next one. Continue to track performance after training is complete. For example, an expert can be asked to estimate the return on the TSX over a stated period of time. Two estimates can be asked: a value they are 95% sure is too high, and one they are 95% sure is too low. The range between these two estimates is the "90% confidence interval" and outcomes outside this interval can be viewed as "surprises". A well-calibrated expert who assesses such confidence intervals multiple times can expect 10% of the outcomes to be surprises. As Kahneman notes however, managers can be grossly overconfident in their ability to predict markets or even their own company's performance. Actual surprises might be three times higher than estimated. This indicates that perhaps auditors should be encouraged to develop their own reasonable ranges and get their ranges better calibrated through estimation exercises involving repetition and feedback. For example, answer Trivial Pursuit type questions involving ranges, or imagine an equivalent bet or critical-thinking exercise.
2. Equivalent bets. For each estimate, set up the equivalent bet to test whether that range or probability really reflects your uncertainty.
3. Consider two pros and cons. Think of at least two reasons why you should be confident in your assessment and two ways you could be wrong.
4. Avoid anchoring. Think of range questions as two separate binary questions of the form "Are you 95% certain that the true value is over/under (pick one) the lower/upper (pick one) bound?"

Essay

*TB 19-43 The AccR is influenced by
the reasonable ranges an...*

award:
885.1.00 point

TB 20-01 Which of the following statements represents an au...

Which of the following statements represents an audit failure?

- A client goes bankrupt or has serious financial difficulty.
- An auditor failed to conduct an audit in accordance with GAAS.
- An auditor cannot collect the audit fees from the client.
- An auditor is sued by a third party.

Multiple Choice

*TB 20-01 Which of the following
statements represents an au...*

award:
886. 1.00 point

TB 20-02 Sun Corp. approved a merger plan with Cord Corp. O...

Sun Corp. approved a merger plan with Cord Corp. One of the factors that led to the approval of the merger was the fact that the Cord's financial statements were audited by Frank & Co. CAs. Sun had engaged Frank to audit Cord's financial statements. While performing the audit, Frank failed to discover certain irregularities that later caused Sun to suffer substantial losses. For the lawsuit to be successful, Sun must prove that Frank & Co., CAs _____.

- knew of the irregularities
 - failed to exercise due care
 - was grossly negligent
 - acted with scienter
-

Multiple Choice

*TB 20-02 Sun Corp. approved a
merger plan with Cord Corp. O...*

award:
887. 1.00 point

TB 20-03 Third-party plaintiffs bringing action under commo...

Third-party plaintiffs bringing action under common law need NOT prove _____.

- they were damaged or suffered a loss
 - reliance on the financial statements
 - the financial statements were direct cause of loss
 - breach of contract
-

Multiple Choice

*TB 20-03 Third-party plaintiffs
bringing action under commo...*

award:
888. 1.00 point

TB 20-04 When referring to public accountants, what does br...

When referring to public accountants, what does breach of contract mean?

- A lawsuit involving a client and an auditor.
 - Services were not performed as agreed.
 - Auditor bills clients for extra services.
 - There is no engagement letter signed by the client.
-

Multiple Choice

*TB 20-04 When referring to public
accountants, what does br...*

award:
889.1.00 point

TB 20-05 In a common law action against an accountant, lack...

In a common law action against an accountant, lack of privity is a viable defence if the plaintiff _____.

- is the client's creditor who sues the accountant for negligence
 - can prove the presence of gross negligence that amounts to a reckless disregard for the truth
 - is the accountant's client
 - bases the action upon fraud
-

Multiple Choice

*TB 20-05 In a common law action
against an accountant, lack...*

award:
890.1.00 point

TB 20-06 Which of the following is NOT an element of a succ...

Which of the following is NOT an element of a successful negligence action against auditors?

- There must be proof that damage resulted.
 - The plaintiff must be a known user of the financial statements.
 - There must be a legal duty of care to the plaintiff.
 - There must be a reasonable connection between the breach of duty of care and resulting losses.
-

Multiple Choice

*TB 20-06 Which of the following is
NOT an element of a succ...*

award:
891.1.00 point

TB 20-07 Which of the following elements, if present, would...

Which of the following elements, if present, would support a finding of constructive fraud on the part of a CA?

- Gross negligence in applying generally accepted auditing standards.
 - Ordinary negligence in applying generally accepted accounting principles.
 - Identified third-party users.
 - Scierter.
-

Multiple Choice

*TB 20-07 Which of the following
elements, if present, would...*

award:
892. 1.00 point

TB 20-08 Beckler & Associates CAs issued an unqualified...

Beckler & Associates CAs issued an unqualified opinion on the financial statements of Queen Ltd. The financial statements contained misstatements that resulted in a material overstatement of Queen's net worth. Queen provided the audited financial statements to Mac Bank in connection with a loan made by Mac to Queen. Beckler knew that the financial statements would be provided to Mac. Queen defaulted on the loan. Mac sued Beckler to recover the losses associated with Queen's default. Which of the following must Mac prove in order to recover?

- I. Beckler was negligent in conducting the audit.
II. Mac relied on the financial statements.

- I only.
 II only.
→ Both I and II.
 Neither I nor II.
-

Multiple Choice

*TB 20-08 Beckler & Associates CAs
issued an unqualified...*

award:
893. 1.00 point

TB 20-09 A company whose partners' liability is limited to ...

A company whose partners' liability is limited to the capital they have invested in the business is known as a _____.

- partnership
 corporation
 proprietorship
→ limited liability partnership
-

Multiple Choice

*TB 20-09 A company whose partners'
liability is limited to ...*

award:
894. 1.00 point

TB 20-10 An important case that limits the auditor's liabil...

An important case that limits the auditor's liability to those third parties of which the auditor had knowledge was _____.

- Dupuis v. Pan American Mines*
 Hedley Byrne & Co. Ltd. v. Heller & Partners Ltd.
→ *Caparo Industries PLC.v.Dickman et al.*
 Haig v. Bamford et al.
-

Multiple Choice

*TB 20-10 An important case that
limits the auditor's liabil...*

award:
895.1.00 point

TB 20-11 Under the common law, in a lawsuit concerning audi...

Under the common law, in a lawsuit concerning auditor liability, the primary beneficiary is _____.

- the recipient of funds when someone dies
- a party for whose benefit the audit or service is being performed
- the client
- the shareholders of the company

Multiple Choice

*TB 20-11 Under the common law, in
a lawsuit concerning audi...*

award:
896.1.00 point

TB 20-12 Foreseeable third parties are best described as ___...

Foreseeable third parties are best described as _____.

- management of the company
- those that have direct involvement through a contract
- those third parties who will rely on the audit and are specifically known by the auditor
- those third parties who potentially will rely on the audit but are not specifically known by the auditor

Multiple Choice

*TB 20-12 Foreseeable third parties
are best described as ___...*

award:
897.1.00 point

TB 20-13 Under common law, which of the following statement...

Under common law, which of the following statements most accurately reflects the liability of a CA who gives a fraudulent opinion on an audit of a client's financial statements?

- The CA is liable only to third parties who are in privity of contract with the CA.
- The CA is liable only to known users of the financial statements.
- The CA probably is liable to any person who suffered a loss as a result of the fraud.
- The CA probably is liable to the client even if the client was aware of the fraud and did not rely on the opinion.

Multiple Choice

*TB 20-13 Under common law, which
of the following statement...*

award:
898.1.00 point

TB 20-14 When an auditor is found guilty of a fraudulent mi...

When an auditor is found guilty of a fraudulent misrepresentation, there is liability owed to _____.

- third parties with privity and contracted parties
 - any party that suffered a loss
 - shareholders only
 - all parties with privity
-

Multiple Choice

*TB 20-14 When an auditor is found
guilty of a fraudulent mi...*

award:
899.1.00 point

TB 20-15 During a review engagement, CA discovers that the ...

During a review engagement, CA discovers that the gross margin has increased by 20% over the last few years. To avoid potential liability due to possibly misstated financial statements, what should CA do?

- Correct the gross margin to be consistent with prior years.
 - Obtain additional information to correct or substantiate the figures.
 - No additional work is required for review engagements.
 - Downgrade the assignment to a compilation engagement.
-

Multiple Choice

*TB 20-15 During a review
engagement, CA discovers that the
...*

award:
900.1.00 point

TB 20-16 The lessons for accountants that are inherent in t...

The lessons for accountants that are inherent in the *1136 Tenants' Corporation v. Rothenberg & Co.* case include all of the following EXCEPT which one?

- Engagement letters are as essential for accounting engagements as they are for audit engagements.
 - Regardless of the nature of the engagement, a public accountant should be alert for and should follow up on any unusual items such as missing invoices.
 - Accountants should clearly communicate the extent of their association with financial information.
 - Public accountants cannot be held liable to third parties in nonaudit or review engagements.
-

Multiple Choice

*TB 20-16 The lessons for
accountants that are inherent in t...*

award:
901. 1.00 point

TB 20-17 A CA may be liable to any purchaser of a security ...

A CA may be liable to any purchaser of a security if the CA issued a clean opinion on materially misstated financial statements. The CA usually will not be liable to the purchaser _____.

- if the purchaser is guilty of contributory negligence
 - if the CA can prove due care in the audit
 - unless the purchaser can prove privity with the CA
 - unless the purchaser can prove scienter on the part of the CA
-

Multiple Choice

TB 20-17 A CA may be liable to any purchaser of a security ...

award:
902. 1.00 point

TB 20-18 While conducting an audit, Larson Associates CAs f...

While conducting an audit, Larson Associates CAs failed to detect a material misstatement in its client's financial statements. Larson's unqualified opinion was included with the financial statements in a registration statement and prospectus for a public offering of securities made by the client. Larson knew that its opinion and the financial statements would be used for this purpose. In a suit by a purchaser against Larson for common law negligence, Larson's best defence would be that the _____.

- audit was conducted in accordance with generally accepted auditing standards
 - client was aware of the misstatements
 - purchaser was not in privity of contract with Larson
 - identity of the purchaser was not known to Larson at the time of the audit
-

Multiple Choice

TB 20-18 While conducting an audit, Larson Associates CAs f...

award:
903. 1.00 point

TB 20-19 While conducting an audit, Larson & Larson Cha...

While conducting an audit, Larson & Larson Chartered Accountants failed to detect a material misstatement in its client's financial statements. Larson's unqualified opinion was included with the financial statements in a prospectus for a public offering of securities made by the client. Larson knew that its opinion and the financial statements would be used for this purpose. Which of the following statements is correct with regard to a suit against Larson and the client by a purchaser of the securities?

- The purchaser must prove that Larson was negligent in conducting the audit.
 - The purchaser must prove that Larson knew of the material misstatements.
 - Larson will not be liable if they had reasonable grounds to believe the financial statements were accurate.
 - Larson will be liable unless the purchaser did not rely on the financial statements.
-

Multiple Choice

TB 20-19 While conducting an audit, Larson & Larson Cha...

award:
904. 1.00 point

TB 20-20 A letter where accountants sign that they have bee...

A letter where accountants sign that they have been notified that a particular recipient of the financial statements and audit report intends to rely upon them for particular purposes is known as a(n) _____.

- management letter
- compliance letter
- reliance letter
- engagement letter

Multiple Choice

*TB 20-20 A letter where accountants
sign that they have bee...*

award:
905. 1.00 point

TB 20-21 To protect themselves, before an engagement letter...

To protect themselves, before an engagement letter is submitted to a client, what should an auditor complete to assist in deciding whether to accept a particular client for an engagement?

- Management letter.
- Client acceptance checklist.
- Reliance letter.
- Limited liability letter.

Multiple Choice

*TB 20-21 To protect themselves,
before an engagement letter...*

award:
906. 1.00 point

TB 20-22 If a professional accountant is able to reasonably...

If a professional accountant is able to reasonably foresee a limited class of potential users for his or her work, liability may then be imposed for _____.

- ordinary negligence
- constructive fraud
- gross negligence
- fraud

Multiple Choice

*TB 20-22 If a professional accountant
is able to reasonably...*

907. ^{award:} 1.00 point

TB 20-23 A relationship of direct involvement between parti...

A relationship of direct involvement between parties to a contract is known as privity

- True
 False

True / False

TB 20-23 A relationship of direct involvement between parti...

908. ^{award:} 1.00 point

TB 20-24 The Securities and Exchange Commission in the Unit...

The Securities and Exchange Commission in the United States will hold a negligent auditor liable under common law.

- True
→ False

True / False

TB 20-24 The Securities and Exchange Commission in the Unit...

909. ^{award:} 1.00 point

TB 20-25 A breach of contract suit is a claim that could be...

A breach of contract suit is a claim that could be brought by a client against an accountant that accounting services were not performed in the manner agreed upon.

- True
 False

True / False

TB 20-25 A breach of contract suit is a claim that could be...

910. ^{award:} 1.00 point

TB 20-26 In a common law action against an accountant, all ...

In a common law action against an accountant, all that a plaintiff must prove is that the accountant was negligent, grossly negligent, fraudulent, or otherwise responsible for the damages claimed.

- True
→ False

True / False

TB 20-26 In a common law action against an accountant, all ...

award:
911. 1.00 point

TB 20-27 Accountants are liable under the common law for br...

Accountants are liable under the common law for breach of contract if they fail to fulfill their contractual obligations with their clients and for negligence if they fail to exercise due care in the performance of services for their clients

- True
 False

True / False

*TB 20-27 Accountants are liable
under the common law for br...*

award:
912. 1.00 point

TB 20-28 Constructive fraud is characterized by an intentio...

Constructive fraud is characterized by an intentional act designed to deceive, mislead or injure the rights of another person.

- True
→ False

True / False

*TB 20-28 Constructive fraud is
characterized by an intentio...*

award:
913. 1.00 point

TB 20-29 A plaintiff, who is a normal trade creditor, can c...

A plaintiff, who is a normal trade creditor, can collect damages under common law for negligence from the corporation's auditors.

- True
→ False

True / False

*TB 20-29 A plaintiff, who is a normal
trade creditor, can c...*

award:
914. 1.00 point

TB 20-30 Primary beneficiaries are third parties who have p...

Primary beneficiaries are third parties who have paid to have an audit performed.

- True
→ False

True / False

*TB 20-30 Primary beneficiaries are
third parties who have p...*

award:
915. 1.00 point

TB 20-31 Due professional care occurs when an auditor obser...

Due professional care occurs when an auditor observes all the rules of conduct for the profession and applies all the standards of the profession.

- True
 False

True / False

TB 20-31 Due professional care occurs when an auditor obser...

award:
916. 1.00 point

TB 20-32 Due professional care implies that the practitione...

Due professional care implies that the practitioner is conducting his or her work to the highest possible standard and will make no errors.

- True
→ False

True / False

TB 20-32 Due professional care implies that the practitione...

award:
917. 1.00 point

TB 20-33 In the London v.General Bank (1895) case, it was h...

In the *London v.General Bank (1895)* case, it was held that the auditor takes complete responsibility for detecting fraud in a set of financial statements they are auditing.

- True
→ False

True / False

TB 20-33 In the London v.General Bank (1895) case, it was h...

award:
918. 1.00 point

TB 20-34 Auditors are increasingly obligated to report ille...

Auditors are increasingly obligated to report illegal acts to third parties outside the company in which they occurred.

- True
 False

True / False

TB 20-34 Auditors are increasingly obligated to report ille...

919. ^{award:} 1.00 point

TB 20-35 Accountants are not liable for misstatements in co...

Accountants are not liable for misstatements in compilation or review engagements.

- True
→ False

True / False

TB 20-35 Accountants are not liable for misstatements in co...

920. ^{award:} 1.00 point

TB 20-36 A defendant accountant will likely first try to ar...

A defendant accountant will likely first try to argue that it had no privity relationship with the plaintiff.

- True
 False

True / False

TB 20-36 A defendant accountant will likely first try to ar...

921. ^{award:} 1.00 point

TB 20-37 Under common law, a plaintiff who is owed a legal ...

Under common law, a plaintiff who is owed a legal duty of care must prove reliance on misleading statements and damages suffered because of that reliance.

- True
 False

True / False

TB 20-37 Under common law, a plaintiff who is owed a legal ...

922. ^{award:} 1.00 point

TB 20-38 The OSC in Canada has powers to decide what is GAA...

The OSC in Canada has powers to decide what is GAAP, similar to the SEC in the United States.

- True
→ False

True / False

TB 20-38 The OSC in Canada has powers to decide what is GAA...

award:
923. 1.00 point

TB 20-39 Joint and several liability is a doctrine that all...

Joint and several liability is a doctrine that allows a successful plaintiff to recover the full amount of damage award from the defendants who have money or insurance.

- True
 False

True / False

TB 20-39 Joint and several liability is a doctrine that all...

award:
924. 1.00 point

TB 20-40 A reasonably foreseeable third party would include...

A reasonably foreseeable third party would include current shareholders but not lenders.

- True
→ False

True / False

TB 20-40 A reasonably foreseeable third party would include...

award:
925. 1.00 point

TB 20-41 Even in a review engagement, the accountant cannot...

Even in a review engagement, the accountant cannot merely accept client-supplied information that appears to be false or misleading.

- True
 False

True / False

TB 20-41 Even in a review engagement, the accountant cannot...

award:
926.1.00 point

TB 20-42 For each of the following statements numbered 1 th...

For each of the following statements numbered 1 through 7, match the statement to the related legal case (A through G) and place the identifying letter in the space provided.

- | | |
|---|---|
| 1. <i>CIT Financial Corp. v. Glover</i> | Privity may not serve as a defence when third-party beneficiaries are known. #1 |
| 2. <i>McKesson v. Robbins, Inc</i> | First American case involving an auditor. #3 |
| 3. <i>Smith v. London Assurance Corp</i> | Auditors failed to employ basic professional standards and as a result failed to discover a gross overstatement of both inventory and accounts receivable. #2 |
| 4. <i>Haig v. Bamford</i> | There is no third-party liability for ordinary negligence because of the lack of privity between the third party and the auditor. #7 |
| 5. <i>1136 Tenants' Corp. v. Rothenberg</i> | Even in a review engagement, the accountant cannot merely accept client-supplied information that appears to be false or misleading. #5 |
| 6. <i>State Street Trust v. Ernst</i> | Reckless misstatements, even if not deliberate, can be the basis for liability to third parties. #6 |
| 7. <i>Ultramares v. Touche</i> | Auditors owe a duty of care to a third-parties if they have actual knowledge of a limited class who will rely on the audited statements. #4 |

Matching

TB 20-42 For each of the following statements numbered 1 th...

award:
927.1.00 point

TB 20-43 What is privity?

What is privity?

A relationship of direct involvement between parties to a contract is known as privity. When privity exists, a plaintiff usually need only show that the defendant accountant was negligent.

Essay

TB 20-43 What is privity?

award:
928.1.00 point

TB 20-44 Negligence is the failure to perform a duty with t...

Negligence is the failure to perform a duty with the requisite standard of care. What are the four elements of negligence and what would be an auditor's defence against them?

There existed a legal duty of care to the plaintiff which was breached by the auditor and there is proof that damage resulted from that breach in duty. There must also be a reasonably proximate connection between the breach of duty and the resulting damage. The auditor's best defence is that one of the four elements is missing. For example, that the duty of care was not breached by the auditor (he followed GAAP and GAAS) and that there was contributory negligence by the plaintiff.

Essay

*TB 20-44 Negligence is the failure to
perform a duty with t...*

award:
929.1.00 point

TB 20-45 Who would be considered a reasonably foreseeable t...

Who would be considered a reasonably foreseeable third party for an auditor?

A reasonably foreseeable third party would include current shareholders and lenders as well as the limited classes of prospective shareholders and lenders. Auditors owe a duty to third parties of which they have an actual knowledge of the limited class that will actually use and rely on the financial statements. The auditor must be aware of all known third parties and reasonably foreseeable third parties who will rely on the financial statements.

Essay

*TB 20-45 Who would be considered
a reasonably foreseeable t...*

TB 20-46 Sleek Corporation is a public corporation whose st...

Sleek Corporation is a public corporation whose stock is traded on several provincial securities exchanges. Sleek engaged Garson & Garson CAs to audit Sleek's financial statements. Sleek was planning a business expansion program and needed the audit in order to obtain financing through borrowing and making a public stock offering. Before the engagement began, Fred Hedge, the president of Sleek, told Garson's managing partner that the audited financial statements would be submitted to Sleek's banks to obtain the necessary loans. During the course of the audit, Garson's managing partner found that Hedge and other Sleek officers had embezzled substantial amounts of money from the corporation. These embezzlements threatened Sleek's financial stability.

When these findings were brought to Hedge's attention, Hedge promised that the money would be repaid and begged that the auditor not disclose the fraud. Hedge also told Garson's managing partner that several friends and relatives of Sleek's officers had been advised about the projected business expansion and proposed stock offering, and had purchased significant amounts of Sleek's stock based on this information.

Garson submitted an unqualified opinion on Sleek's financial statements, which did not include adjustments for or disclosures about the embezzlements and insider stock transactions. The financial statements and audit report were submitted to Sleek's regular banks including Knox Bank. Knox, relying on the financial statements and Garson's report, gave Sleek a \$2,000,000 loan. Sleek's audited financial statements were also incorporated into a prospectus. The prospectus filed by Sleek with the OSC offered 100,000 shares of its common stock at \$100 per share. An OSC investigation of Sleek disclosed the embezzlements and the insider trading. Trading in Sleek's stock was suspended and Sleek defaulted on the Knox loan. As a result, the following legal actions were taken:

1. Knox sued Garson.
2. The general public purchasers of Sleek's stock offering sued Garson.

Required:

- A. Would Knox recover from Garson for fraud?
- B. Would the general public purchasers of Sleek's stock offerings recover from Garson?

A. Knox would recover from Garson for fraud. The elements of fraud are:

- a. the misrepresentation of a material fact Garson issued an unqualified opinion on misleading financial statements. Garson's opinion did not include adjustments for or disclosures about the embezzlements and insider stock trading.
- b. a loss was sustained
- c. by Knox as a direct result of Sleek's default on the loan.

B. The general public purchasers of Sleek's stock offerings would recover from Garson for the same reasons.

- a. Under the facts presented, Garson could not establish a due diligence defence because they knew that the prospectus failed to disclose material facts. Garson's knowledge that the prospectus failed to disclose a material fact, such as the insider trading and the embezzlements, is considered a fraudulent action. The omission was material.
- b. Garson's action was intentional or, at a minimum, a result of gross negligence or recklessness (scienter).
- c. These purchasers relied on Garson's opinion on the financial statements and incurred a loss.

Essay

*TB 20-46 Sleek Corporation is a
public corporation whose st...*

award:
931 1.00 point

TB 20-47 Some people argue that there is a legal liability ...

Some people argue that there is a legal liability crisis for auditors in Canada. Do you agree or disagree? Provide some evidence supporting this argument, and some evidence contradicting this argument.

Auditors are increasingly being held to high standards by the public and by public regulators who wish to extend audit liability beyond what the courts have held. One result is that auditors have shied away from performing audit services wherever they perceive a high risk of business failure. This has especially hurt smaller companies attempting to raise funds by going public and who need an audit opinion on a prospectus. Because of the extra risks involved, they are unable to get an audit done, and consequently unable to raise funds in Canada.

Another result is that auditors are facing double digit increases in their liability insurance premiums, if they can get it at all. Some firms have had to join together to create their own insurance company in order to protect themselves.

Compared to the United States however, where pending suits total about US\$20 billion, it can be argued that there is no crisis. Jury trials are rare in Canada, and judges are appointed to the bench from among skilled lawyers, not elected as they are in the United States. As a result, the outcome will be decided based on a skilled examination of the facts rather than the drama of the courtroom setting.

As well, punitive damages are not available for mere negligence in Canada and class actions are much rarer in Canada. However, class actions are an increasing part of the Canadian legal landscape, as are contingency fees. This reduces the cost of launching a law suit. Often, merely going to court can do enough damage to an auditor's reputation that an out of court settlement will be negotiated.

The most compelling argument leading to a conclusion that there is a liability crisis for auditors in Canada is the statement by Joel Cohen that auditors are limiting their liability by limiting access to their services. In other words, the public is not being served. If the public is not being served, then something will have to be changed and one definition of a crisis is as a "turning point".

Essay

*TB 20-47 Some people argue that
there is a legal liability ...*

award:
932 1.00 point

TB 20-48 What is joint and several liability?

What is joint and several liability?

This is a doctrine that allows a successful plaintiff to recover the full amount of damage award from the defendants who have money or insurance. In other words, any of several defendants who have caused part of the damages are liable to the plaintiffs for the entire amount of damages. The accounting profession would like to replace this doctrine such that defendants pay damages only to the extent that they are at fault.

Essay

*TB 20-48 What is joint and several
liability?*

award:
933. 1.00 point

TB 20-49 What is a primary beneficiary?

What is a primary beneficiary?

A primary beneficiary is a third party for whose primary benefit the audit or other accounting services performed. Many cases indicate that proof of ordinary negligence may be sufficient to make accountants liable for damages to primary beneficiaries.

Essay

TB 20-49 What is a primary beneficiary?

award:
934. 1.00 point

TB 20-50 What are the legal liabilities of professional acc...

What are the legal liabilities of professional accountants under the common law?

Accountants are liable under the common law for breach of contract if they fail to fulfill their contractual obligations with their clients and for negligence if they fail to exercise due care in the performance of services for their clients. Auditors may also be liable to third parties in some circumstances.

Essay

TB 20-50 What are the legal liabilities of professional acc...

award:
935. 1.00 point

TB 21-01 Before reporting on the financial statements of a ...

Before reporting on the financial statements of a Canadian entity that have been prepared in accordance with the accounting principles of another country, an auditor practising in Canada should _____.

- understand the accounting principles that are generally accepted in the other country
- be certified by the appropriate auditing or accountancy board of the other country
- notify management that the auditor is required to deny an opinion on the financial statements
- recast the financial statements according to Canadian GAAP

Multiple Choice

TB 21-01 Before reporting on the financial statements of a ...

936. ^{award:} 1.00 point

TB 21-02 The term significance as used in the assurance sta...

The term significance as used in the assurance standards refers to _____.

- the concept of materiality extended to nonfinancial factors
- an amount greater than materiality for audit purposes
- an estimate of risk in an assurance engagement
- the importance of a criterion for evaluation of information

Multiple Choice

TB 21-02 The term significance as used in the assurance sta...

937. ^{award:} 1.00 point

TB 21-03 When independent CAs in public practice take engag...

When independent CAs in public practice take engagements to audit governmental units or entities that receive financial assistance from governmental units, they must follow _____.

- GAAS only
- GAAS and PS
- PS only
- internal auditing standards

Multiple Choice

TB 21-03 When independent CAs in public practice take engag...

938. ^{award:} 1.00 point

TB 21-04 Auditors of governmental units would be presumed t...

Auditors of governmental units would be presumed to be lacking in independence if they were _____.

- free from sources of external impairment
- organizationally independent
- members of a political party that campaigned against the program under audit
- auditing in a level of government other than the one to which they are normally assigned

Multiple Choice

TB 21-04 Auditors of governmental units would be presumed t...

award:
939. 1.00 point

TB 21-05 An operational audit would NOT include determining...

An operational audit would NOT include determining _____.

- Whether the entity is acquiring, protecting, and using its resources effectively.
 - The effectiveness of an organization and its programs, activities, and functions.
 - The causes of inefficiencies or uneconomical practices.
 - Whether the entity has complied with laws and regulations.
-

Multiple Choice

TB 21-05 An operational audit would NOT include determining...

award:
940. 1.00 point

TB 21-06 The purpose of an operational audit is to _____ ...

The purpose of an operational audit is to _____.

- determine the effectiveness of internal controls
 - detect material misstatements in the company's financial statements
 - provide assurance on fair presentation of company financial statements
 - assess the economy, efficiency, and effectiveness of resources and objectives
-

Multiple Choice

TB 21-06 The purpose of an operational audit is to _____ ...

award:
941. 1.00 point

TB 21-07 Economy is related to _____.

Economy is related to _____.

- efficiency variance
 - volume variance
 - price variance
 - capacity variance
-

Multiple Choice

TB 21-07 Economy is related to _____.

award:
942. 1.00 point

TB 21-08 One of the key differences between a financial sta...

One of the key differences between a financial statement audit and a value for money (VFM) audit is _____.

- in most cases, VFM audits have mandates established through legislation or contracts
 - in a financial statement audit, the auditor has to use his or her professional judgment to redefine the broad mandate in specific terms with specific objectives
 - in a VFM audit, standards are defined by professions and associations
 - in a financial statement audit, sufficient appropriate evidence must be obtained to afford a reasonable basis to support the content of the auditor's report
-

Multiple Choice

*TB 21-08 One of the key differences
between a financial sta...*

award:
943. 1.00 point

TB 21-09 In 2012, Marg Levy, PA, performed an environmental...

In 2012, Marg Levy, PA, performed an environmental audit of Scoop Mining. As a result of that engagement, she prepared a report which included several recommendations to improve compliance with environmental protection laws. In 2012, Ms. Levy has been approached to perform another audit of environmental protection procedures, some of which are based on her earlier recommendations. Which of the following statements is TRUE?

- Ms. Levy must decline the audit as it conflicts with her independence.
 - Ms. Levy must restrict herself to performing specified tests of procedures that were not in her recommendations in order to protect her independence.
 - Ms. Levy may perform the audit including work on her recommended procedures, as independence is less important in an environmental compliance audit than in a financial statement audit.
 - Ms. Levy may perform the audit including work on her recommended procedures since she cannot be associated with nonfinancial information, so the concept of independence does not apply.
-

Multiple Choice

*TB 21-09 In 2012, Marg Levy, PA,
performed an environmental...*

award:
944. 1.00 point

TB 21-10 Which of the following statements regarding agreed...

Which of the following statements regarding agreed-upon procedures is FALSE?

- They amount to an audit.
 - They do not meet with generally accepted auditing standards.
 - They have a limited scope.
 - They are typically initiated by the client.
-

Multiple Choice

*TB 21-10 Which of the following
statements regarding agreed...*

award:
945.1.00 point

TB 21-11 Comparing the data on a fraud suspect's spending w...

Comparing the data on a fraud suspect's spending with known income is an extended procedure known as _____.

- horizontal analysis
- vertical analysis
- expenditure analysis
- surveillance

Multiple Choice

*TB 21-11 Comparing the data on a
fraud suspect's spending w...*

award:
946.1.00 point

TB 21-12 A good reason for involving fraud auditors in the ...

A good reason for involving fraud auditors in the planning of a regular audit of financial statements is _____.

- when there are many fraud risk factors
- when the audit committee authorizes further investigation
- it makes the client aware of how seriously the auditor takes its fraud detection responsibility
- it improves the documentation standards of the financial statement audit

Multiple Choice

*TB 21-12 A good reason for involving
fraud auditors in the ...*

award:
947.1.00 point

TB 21-13 In the audit of financial statements, which of the...

In the audit of financial statements, which of the following procedures would the auditor call an "extended procedure?"

- Measure the time lag between the date that cash receipts are recorded in the accounting records and the date that the deposit is credited to the bank account.
- Observe the client's physical inventory count and take test counts of stock in the warehouse.
- Send positive confirmations on accounts receivable balances.
- Interview the staff in the accounting department and document the controls over the recording of sales transactions.

Multiple Choice

*TB 21-13 In the audit of financial
statements, which of the...*

award:
948. 1.00 point

TB 21-14 Horizontal analysis can be used in fraud detection...

Horizontal analysis can be used in fraud detection by _____.

- checking the trend in earnings from year to year of persons suspected of fraud
 - looking for significant changes in financial statement amounts and ratios across several fiscal periods
 - looking for odd relations of one account to a base such as sales
 - looking for the change in net worth of a suspect from the beginning to the end of a period
-

Multiple Choice

TB 21-14 Horizontal analysis can be used in fraud detection...

award:
949. 1.00 point

TB 21-15 Forensic accounting can be defined as _____.

Forensic accounting can be defined as _____.

- investigating possible fraud
 - designing internal controls and other corporate governance mechanisms
 - calculating estimates used in financial reports
 - applying accounting and auditing skills in an action under civil or criminal law
-

Multiple Choice

TB 21-15 Forensic accounting can be defined as _____.

award:
950. 1.00 point

TB 21-16 A PA's audit client is a small charity which funds...

A PA's audit client is a small charity which funds development projects in a small foreign country. Most of its donations come in the form of cash, with tax receipts issued to the donors. Included in the cash receipts are weekly donations by one person, Mr. X, whose last name is easily identifiable as coming from that foreign country. Some of these cash donations exceed \$10,000. The PA once asked about Mr. X and accepted as an answer that Mr. X was a wealthy entrepreneur but the PA has done no other work. Which of the following statements is TRUE?

- Assuming the PA has performed all other necessary and appropriate procedures, he may provide a clean opinion.
 - Assuming the PA does no further investigation of this matter, the PA may be considered willfully blind and complicit in an illegal act.
 - The PA may be associated with misleading information and should withdraw from the audit.
 - The PA should try to count the cash as it comes in order to avoid issuing a scope limitation report.
-

Multiple Choice

TB 21-16 A PA's audit client is a small charity which funds...

award:
951. 1.00 point

TB 21-17 In a(n) _____ engagement, the practitioner offers a conclusion on the accountable party's written assertion.

In a(n) _____ engagement, the practitioner offers a conclusion on the accountable party's written assertion.

- attest
 - direct reporting
 - forensic
 - compilation
-

Multiple Choice

*TB 21-17 In a(n) _____
engagement, the practitioner offers a...*

award:
952. 1.00 point

TB 21-18 In a direct reporting engagement, the assertions _...

In a direct reporting engagement, the assertions _____.

- must be in written form
 - are expressed verbally
 - may only be implied
 - can be in written form or expressed verbally
-

Multiple Choice

*TB 21-18 In a direct reporting
engagement, the assertions _...*

award:
953. 1.00 point

TB 21-19 The most common reporting framework in Canada is t...

The most common reporting framework in Canada is the _____.

- compliance framework
 - special purpose framework
 - prospective framework
 - fair presentation framework
-

Multiple Choice

*TB 21-19 The most common
reporting framework in Canada is t...*

award:
954. 1.00 point

TB 21-20 The objective of internal auditing is service to _...

The objective of internal auditing is service to _____.

- management
- a specific department
- the organization
- the audit committee

Multiple Choice

TB 21-20 The objective of internal auditing is service to _...

award:
955. 1.00 point

TB 21-21 A financial _____ depends on one or more hypoth...

A financial _____ depends on one or more hypothetical assumptions.

- statement
- projection
- plan
- forecast

Multiple Choice

TB 21-21 A financial _____ depends on one or more hypoth...

award:
956. 1.00 point

TB 21-22 If a prospectus is issued more than 90 days beyond...

If a prospectus is issued more than 90 days beyond the balance sheet date, the auditor will need to perform procedures on interim financial statement information prior to permitting the use of their audit opinion in the prospectus.

- True
- False

True / False

TB 21-22 If a prospectus is issued more than 90 days beyond...

award:
957. 1.00 point

TB 21-23 Since the Management Discussion & Analysis rep...

Since the Management Discussion & Analysis report is not part of the financial statements, the auditor bears no responsibility for it.

- True
- False

True / False

*TB 21-23 Since the Management
Discussion & Analysis rep...*

award:
958. 1.00 point

TB 21-24 Federal and provincial governments and their agenc...

Federal and provincial governments and their agencies and local governments use the CICA Public Sector Standards to guide their audits.

- True
- False

True / False

*TB 21-24 Federal and provincial
governments and their agenc...*

award:
959. 1.00 point

TB 21-25 Effectiveness refers to outputs of resources maxim...

Effectiveness refers to outputs of resources maximized for the related inputs and inputs minimized for the related outputs.

- True
- False

True / False

*TB 21-25 Effectiveness refers to
outputs of resources maxim...*

award:
960. 1.00 point

TB 21-26 In Value for Money audits, the focus is on the fin...

In Value for Money audits, the focus is on the financial statements.

- True
- False

True / False

*TB 21-26 In Value for Money audits,
the focus is on the fin...*

award:
961. 1.00 point

TB 21-27 A VFM audit will tend to use a multidisciplinary a...

A VFM audit will tend to use a multidisciplinary audit team with expertise in different areas such as like economics or engineering.

- True
 False

True / False

TB 21-27 A VFM audit will tend to use a multidisciplinary a...

award:
962. 1.00 point

TB 21-28 The environmental audit evaluates a company's oper...

The environmental audit evaluates a company's operations and performance in terms of conformity with federal, provincial, and municipal laws and regulations.

- True
 False

True / False

TB 21-28 The environmental audit evaluates a company's oper...

award:
963. 1.00 point

TB 21-29 An environmental audit focuses on compliance with ...

An environmental audit focuses on compliance with legislation rather than the effect of compliance on the financial statements.

- True
→ False

True / False

TB 21-29 An environmental audit focuses on compliance with ...

award:
964. 1.00 point

TB 21-30 Fraud examiners refer to people engaged specifical...

Fraud examiners refer to people engaged specifically in the work of fraud investigation.

- True
 False

True / False

TB 21-30 Fraud examiners refer to people engaged specifical...

award:
965. 1.00 point

TB 21-31 Designing tight control systems is likely the best...

Designing tight control systems is likely the best long-term solution to preventing fraud.

- True
→ False

True / False

TB 21-31 Designing tight control systems is likely the best...

award:
966. 1.00 point

TB 21-32 When financial auditors suspect financial reportin...

When financial auditors suspect financial reporting fraud, they should discuss their suspicions with the client to see there is an alternative explanation.

- True
→ False

True / False

TB 21-32 When financial auditors suspect financial reportin...

award:
967. 1.00 point

TB 21-33 Unlike other auditors, fraud examiners think of ma...

Unlike other auditors, fraud examiners think of materiality as a cumulative amount.

- True
 False

True / False

TB 21-33 Unlike other auditors, fraud examiners think of ma...

award:
968. 1.00 point

TB 21-34 The nature of extended procedures regarding fraud ...

The nature of extended procedures regarding fraud auditing is limited only by an auditor's imagination.

- True
 False

True / False

TB 21-34 The nature of extended procedures regarding fraud ...

award:
969.1.00 point

TB 21-35 Auditors should mark the evidence, identifying the...

Auditors should mark the evidence, identifying the location, condition, date, time, and circumstances as soon as it appears to be a signal of fraud.

- True
 False

True / False

TB 21-35 Auditors should mark the evidence, identifying the...

award:
970.1.00 point

TB 21-36 What does willfully blind mean within the contex...

What does "willfully blind" mean within the context of fraud?

Accountants need to be careful not to be considered accomplices to fraud under the concept of willful blindness, which is very close to actual knowledge. This is said to occur when a person prefers to remain ignorant despite having well-founded suspicions that something is amiss. It is, in effect, an act of complicity.

Essay

TB 21-36 What does willfully blind mean within the contex...

award:
971.1.00 point

TB 21-37 Briefly distinguish between a compliance audit and...

Briefly distinguish between a compliance audit and a value-for-money audit.

- i. A value-for-money audit is concerned with the economy or efficiency of an entity, or the effectiveness of an entity in carrying out its mandate. A compliance audit is concerned with whether or not an entity has complied with specific rules, and to report any breaches of those rules.
- ii. Where they may appear to be similar is that a compliance audit is concerned with whether or not the rules have been followed regardless of effectiveness, whereas a value-for-money audit may concern itself with whether or not the rules have been followed, and if followed, whether they have been effective.

Essay

TB 21-37 Briefly distinguish between a compliance audit and...

award:
972.1.00 point

TB 21-38 Explain briefly the purpose of a value-for-money (...)

Explain briefly the purpose of a value-for-money (VFM) audit.

VFM auditing is a form of auditing that focuses on the economical, efficient, and effective use of resources within an organization. A VFM audit is normally conducted in the public sector. The audit is designed to examine and report on:

- i. the adequacy of management systems, controls, and practices.
- ii. the extent to which resources have been managed economically and efficiently.
- iii. the extent to which programs, operations, or activities of an entity have been effective

Essay

*TB 21-38 Explain briefly the purpose
of a value-for-money (...)*

award:
973.1.00 point

TB 21-39 What must prospective financial statements contain...

What must prospective financial statements contain?

Prospective financial statements must contain the following items:

- Sales or gross revenue
- Gross profit or cost of sales
- Unusual or infrequently recurring items
- Provision for income taxes
- Discontinued operations or extraordinary items
- Income from continuing operations
- Net income
- Primary and fully diluted earnings per share
- Significant changes in financial position
- Statement that assumptions are based on current information, with a warning that prospective results may not be achieved
- Summary of significant assumptions
- Summary of significant accounting policies.

Essay

*TB 21-39 What must prospective
financial statements contain...*

award:
974. 1.00 point

TB 21-40 The most effective long-run prevention of employee...

The most effective long-run prevention of employee fraud is the practice of management caring for their employees. What can managers do to aid in fraud prevention?

Show genuine concern for the personal and professional needs of their employees and fellow managers.

- i. Eliminate interpersonal competition.
- ii. Eliminate office politics.
- iii. Have staff meetings and encourage personal counselling for employees who exhibit signs of unusual behaviour or stress.
- iv. Daycare centres, counselling programs established to assist staff with their problems.

Essay

TB 21-40 The most effective long-run prevention of employee...

award:
975. 1.00 point

TB 21-41 What is Management's Discussion and Analysis?

What is Management's Discussion and Analysis?

Management Discussion and Analysis or MD&A is an integrated part of a company's annual financial statements. The purpose of the MD&A is to provide a narrative explanation, through the eyes of management, of how an entity has performed in the past, its financial condition, and its future prospects. In so doing, the MD&A attempts to provide investors with complete, fair, and balanced information to help them decide whether to invest or continue to invest in an entity.

Essay

TB 21-41 What is Management's Discussion and Analysis?

award:
976. 1.00 point

TB 21-42 In engagements requiring the use of foreign standa...

In engagements requiring the use of foreign standards, what are the expectations of Canadian auditors?

In such circumstances, Canadian auditors are expected to follow the Canadian general and fieldwork auditing standards, just as they would in any audit. However, there may be differences in accounting that will change some of the audit objectives (e.g., some countries do not permit recognition of deferred taxes, so no deferred tax account balances will exist for the audit).

Essay

TB 21-42 In engagements requiring the use of foreign standa...

award:
977 .1.00 point

TB 21-43 This question is related to other public accountin...

This question is related to other public accounting services and reports. For each description or phrase numbered 1 through 5, match the statement to the correct engagement or report (A through F) and place the identifying letter in the space provided.

- A. Reports on financial information other than financial statements.
- B. Reports on compliance with contractual agreements or regulations.
- C. Reports on the results of applying specified auditing procedures to financial information.
- D. Reports on internal control.
- E. Reports on financial forecasts.
- F. Accuracy.

- ___ 1. Management issues a separate report containing assertions.
- ___ 2. In our opinion, the schedule of inventory referred to above presents fairly, in all material respects.
- ___ 3. The financial statements are based on hypothetical assumptions.
- ___ 4. An opinion as to compliance with the rules and regulations of a regulatory agency.
- ___ 5. The report identifies specific users and describes in detail the procedures specified by the users.

- 1. D
- 2. A
- 3. F
- 4. B
- 5. C

Essay

*TB 21-43 This question is related to
other public accountin...*
