

※ 考生請注意：本試題不可使用計算機。請於答案卷(卡)作答，於本試題紙上作答者，不予計分。

Part I: Multiple-Choice Questions: Select the best answer for each of the following questions (3 points for each question) (60 points)

1. Jennifer Nelson, CPA, has posted the general ledger and has maintained the financial records of Quinn Corporation. As a part of his responsibilities, he has recorded journal entries and made closing entries without consulting Quinn's management. Which of the following best summarize the AICPA and SEC views as to the following question: Is audit independence impaired?

Item	AICPA	SEC
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

2. Which of the following cash transfers is most likely to result in a misstatement of cash at December 31, 20X7?

Bank Transfer Schedule

	Disbursement		Receipt	
	Recorded in books	Paid by bank	Recorded in books	Received by bank
A)	12/31/X7	1/4/X8	12/31/X7	12/31/X7
B)	1/4/X8	1/5/X8	12/31/X7	1/4/X8
C)	12/31/X7	1/5/X8	12/31/X7	1/4/X8
D)	1/4/X8	1/11/X8	1/4/X8	1/4/X8

- A. Transfer A.
- B. Transfer B.
- C. Transfer C.
- D. Transfer D.

3. The most likely technique for the current year audit of goodwill which was acquired three years ago by a continuing audit client:

- A. Confirmation.
- B. Observation.

- C. Recomputation.
D. Inquiry.
4. On February 9, Brown, CPA, expressed an unmodified (unqualified) opinion on the financial statements of Web Co. On October 9, during a peer review of Brown's practice, the reviewer informed Brown that engagement personnel failed to perform a search for subsequent events for the Web engagement. Brown should first:
- A. Request Web's permission to perform substantive procedures that would provide a satisfactory basis for the opinion.
B. Inquire of Web whether there are persons currently relying, or likely to rely, on the financial statements.
C. Take no additional action because subsequent events have no effect on the financial statements that were reported on.
D. Assess the importance of the omitted procedures to Brown's present ability to support the opinion.
5. Which of the following is **least** likely to be included in an auditor's inquiry of management while obtaining information to identify the risks of material misstatement due to fraud?
- A. Are all financial reporting operations at one location?
B. Does it have knowledge of fraud or suspect fraud?
C. Does it have programs to mitigate fraud risks?
D. Has it reported to the audit committee the nature of the company's internal control?
6. Accrued liabilities generally differ from accounts payable in that accrued liabilities:
- A. Are often based on estimates.
B. Are usually confirmed at year-end.
C. Depend upon the existence of a transaction for original recording of the account.
D. Are never included in cost of goods sold.
7. After performing all necessary procedures, the predecessor auditors reissue a prior-period report on financial statements at the request of the client without revising the original wording. The predecessor auditors should:
- A. Delete the date of the report.
B. Dual-date the report.
C. Use the reissue date.
D. Use the date of the previous report.
8. Accepting an engagement to examine an entity's financial projections most likely would be appropriate if the projections were to be distributed to:

- A. All employees who work for the entity.
 - B. Potential stockholders who request a prospectus or a registration statement.
 - C. A bank with which the entity is negotiating for a loan.
 - D. All stockholders of record as of the report date.
9. Which is **least** likely to be a question asked of employee personnel during a walk-through?
- A. Have you ever been asked to override the process?
 - B. Have you assessed the operating effectiveness of the system?
 - C. What do you do when you find an error?
 - D. What are you looking for to determine if there is an error?
10. The auditors may use data analytics to help test repairs and maintenance expense for overstatement by:
- A. Vouching large repair and maintenance expenditures.
 - B. Identifying expenditures with characteristics that indicate they are capital expenditures.
 - C. Identifying capital expenditures that should have been expensed.
 - D. Identifying expenditures for repairs and maintenance that were not performed.
11. Which of the following is an auditor **least** likely to consider a departure from U.S. generally accepted accounting principles?
- A. Valuing inventory at cost.
 - B. Including in inventory items that are consigned out to vendors, but not yet sold.
 - C. Using standard cost as the measure of inventory cost.
 - D. Including in inventory items shipped subsequent to year-end, but for which valid orders did exist at year-end.
12. When using sampling for tests of controls, which of the following audit consequences may follow?
- A. If sample results indicate that the control is operating effectively, but in fact it is not, control risk will be assessed too low.
 - B. If sample results indicate that the control is operating effectively, but in fact it is not, control risk will be assessed too high.
 - C. If sample results indicate that the control is not operating effectively, but in fact it is operating effectively, the audit is likely to be faulty because of reduced substantive tests.
 - D. If sample results indicate that the control is not operating effectively, but in fact it is operating effectively, control risk will be assessed too low.
13. Which of the following is **least** likely to be a general control over computer activities?
- A. Procedures for developing new programs and systems.

- B. Requirements for system documentation.
 - C. A change request log.
 - D. A validity test.
14. Which of the following is **least** likely to be considered a risk assessment procedure?
- A. Analytical procedures.
 - B. Inspection of documents.
 - C. Observation of the counting of inventory.
 - D. Observation of the performance of certain accounting procedures.
15. Fraudulent sales and accounts receivables recorded at year-end (with no cost of goods sold entry) will:
- A. Decrease recorded net income.
 - B. Decrease the current ratio.
 - C. Increase days of sales in accounts receivable.
 - D. Increase year-end recorded inventory.
16. Which of the following is least likely to be considered an act discreditable to the accounting profession?
- A. Disclosing confidential client information.
 - B. Failure to comply with federal laws regarding the filing of tax returns.
 - C. Knowingly disclosing CPA exam questions.
 - D. Refusing to provide the client with copies of working papers the client prepared for the auditor.
17. A procedure in which a quality control partner periodically tests the application of quality control procedures is most directly related to which quality control element?
- A. Engagement performance.
 - B. Human resources.
 - C. Leadership responsibilities for quality with the firm.
 - D. Monitoring.
18. Assume that \$800,000 in damages are awarded to a plaintiff, and the CPA's percentage of responsibility established at 20%, while others are responsible for the other 80%. Assume the others have no financial resources. As a result the CPA has been required to pay the entire \$800,000. The auditor's liability is most likely based upon which approach to assessing liability?
- A. Joint and several liability.
 - B. Contributory negligence.
 - C. Absolute liability.
 - D. Proportional liability.

19. When the auditors have performed an audit and are asked to report on the client's compliance with aspects of contractual agreements, which of the following is correct?
- A. They may do so and provide reasonable assurance as to compliance.
 - B. They may do so and provide negative assurance as to compliance.
 - C. They only may do so when details of the contracts have been audited.
 - D. They may not do so.
20. The auditor would be least likely to be concerned about internal control as it relates to:
- A. Land and buildings.
 - B. Common stock.
 - C. Shareholder meetings.
 - D. Minutes of board of directors' meetings.

PART II: Problems and Analysis

1. Assume that you were a member of the NCKU Co. audit team in 2017. You were assigned to test the client's year-end inventory cutoff procedures. You selected 50 invoices entered in the accounting records near year-end: 25 in the few days prior to the client's fiscal year-end and 25 in the first few days of the new year. Assume that client personnel were unable to locate 20 of these invoices. How should you and your superiors have respond to this situation? Explain. (4%)
2. Briefly summarize the best internal control design of purchase cycle (you can use flowchart with explanations). Also identify and explain how these internal control designs can prevent what kinds of fraud scheme.(10%)
3. (10%) During the course of the year 2 audit of Smithsone Company, the auditor discovered the following situations that may or may not require an adjusting journal entry. Each audit finding is independent of any of the other findings. Select the account or accounts that would comprise the adjusting journal entry, if required, to correct the audit finding. Accounts may be used once, more than once, or not at all.

Audit finding	Adjusting journal entry	
	Dr.	Cr.
The bank's confirmation reply regarding the company's line of credit indicated that the December, year 2, interest was unpaid at year-end. Accruals for monthly interest expense have been made for 11 months in year 2 by the company.		
Employee overtime pay for hours worked before year-end, but paid in the following year, were not recorded in year 2.		
In the last week of year 2, the company recorded revenue for services rendered to some clients in year 3.		
During year 2, a former client sued the company for inappropriate work. Legal counsel has advised that it is "reasonably possible" that the company will be assessed damages. An amount can be estimated.		
At the end of year 2, a major customer filed for bankruptcy.		

Selection list for amount

Cash	Accrued liabilities	Interest expense
Accounts receivable	Common stock	Other income
Other current assets	Revenues	Accumulated depreciation
Property and equipment	Allowance for doubtful accounts	Disclosure but no entry required
Accounts payable	Operating expenses	No entry or disclosure required

4. (16%) The following reports are unmodified reports issued for a public company -- Wallace Corporation, for the financial statements of 2017 and 2018 separately. Please discuss the differences between the two reports and the reason why PCAOB changed the reporting standards. (Please answer as detailed as you can.)

Report for the financial statements of 2017:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Wallace Inc.

We have audited the accompanying consolidated balance sheets of Wallace Inc. as of December 31, 2017

and December 31, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wallace Inc. at December 31, 2017 and December 31, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

San José, California

February 15, 2018

Report for the financial statements of 2018:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Wallace Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Wallace Inc. as of December 31, 2018 and December 31, 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that

we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

[Include critical audit matters]

Ernst & Young LLP

We have served as the Company's auditor since 2015.

San José, California

February 16, 2019