

A. Essay questions

I. (10 points)

Mr. Wong is the CPA who has examined the financial statements of a publicly held company for the year ended December 31, 1991. He was asked by the same company to perform a limited review of its financial statements for the period ending March 31, 1992. The engagement letter stated that a limited review does not provide a basis for the expression of an opinion.

Questions:

1. What are the review procedures that Mr. Wong should use? What is the purpose of each procedure?
2. Why a limited review will not provide a basis for the expression of an opinion? Explain.

II. (10 points)

What are the implications to the auditors if, during their examination of accounts receivable, some of a client's customers do not respond to the auditors' request for positive confirmation of their accounts receivable?

What Procedures should the auditors perform if there is no response to a second request for a positive confirmation?

B. Multiple choices (2 points each, choose the best answer)

1. When a CPA is associated with the preparation of forecasts, all of the following should be disclosed except the
 - a. Sources of information
 - b. Character of the work performed by the CPA
 - c. Major assumptions in the preparation of the forecasts
 - d. Probability of achieving estimates
2. A CPA who is not independent may issue a
 - a. Review report
 - b. Compilation report
 - c. Comfort letter
 - d. Qualified opinion
3. An auditor performs a test to determine whether all merchandise for which the client was billed was received. The population for this test consists of all
 - a. Merchandise received
 - b. Canceled checks
 - c. Vendors' invoices
 - d. Receiving reports
4. The exercise of due professional care requires an auditor to
 - a. Use error-free judgment
 - b. Critically review the work done at every level of supervision
 - c. Assess internal control risk and conduct tests of control
 - d. Examine all corroborating evidence available

5. A difference of opinion regarding the results of a sample cannot be resolved between the assistant who performed the auditing procedures and the in-charge auditor. The assistant should
- Refuse to perform any further work on the engagement
 - Accept the judgment of the more experienced in-charge auditor
 - Document the disagreement and ask to be disassociated from the resolution of the matter
 - Notify the client that a serious audit problem exists
6. Effective internal control over the purchasing of raw materials usually includes all of the following procedures except
- Obtaining third-party written quality and quantity reports before paying for the raw materials
 - Determining the need for the raw materials before preparing the purchase order
 - Systematically reporting product changes that will affect raw materials
 - Obtaining financial approval before making a commitment
7. When a question arises about an entity's continued existence, the auditor should consider factors tending to mitigate the significance of contrary information concerning the entity's alternative means for maintaining adequate cash flow. An example of such a factor is the
- Possibility of purchasing certain assets rather than leasing them
 - Capability of extending the due dates of existing loans
 - Feasibility of operating at increased levels of production
 - Marketability for property and equipment that management plans to keep
8. Which of the following audit procedures is the least likely to detect an unrecorded liability?
- Analyzing and recomputing interest expense
 - Analyzing and recomputing depreciation expense
 - Mailing standard bank confirmation forms
 - Reading the minutes of the meetings of the board of directors
9. When auditing contingent liabilities, which of the following procedures would be the least effective?
- Reading the minutes of the board of directors
 - Reviewing the bank confirmation letter
 - Examining customer confirmation replies
 - Examining invoices for professional services
10. Which of the following audit procedures would be least likely to help the auditor find unrecorded fixed asset disposals?
- Examination of insurance policies
 - Review of repairs and maintenance expense
 - Review of property tax
 - Scanning of invoices for fixed asset additions

11. The auditing objective applied to segment information is to provide the auditor with a reasonable basis for conducting whether
- The information is useful for comparing a segment of one enterprise with a similar segment of another enterprise
 - A separate opinion on the segment information is necessary due to inconsistent application of accounting principles
 - Sufficient evidential matter has been obtained to allow the auditor to be associated with the segment information
 - The information is presented in conformity with the FASB statement on segment information in relation to the financial statements taken as a whole
12. The auditor's program for the examination of the long-term debt should include steps that require the
- Verification of the bondholders' existence
 - examination of any bond trust indenture
 - Investigation of credits to the bond interest income account
 - Inspection of the accounts payable subsidiary ledger
13. Which of the following explanations might satisfy an auditor who discovers significant debits to an accumulated depreciation account?
- Previous years' depreciation charges were erroneously understated
 - An asset was recorded at its fair value
 - A reserve for possible loss on retirement was recorded.
 - Extraordinary repairs lengthened the life of an asset.
14. The primary objective of a CPA's observation of a client's inventory count is to
- Supervise the conduct of the count so as to obtain assurance that inventory quantities are reasonably accurate
 - Discover whether a client has counted a particular inventory item or group of items
 - Obtain direct knowledge that the inventory exists and has been properly counted
 - Appraise the quality for the merchandise on hand on the day of the count
15. Which of the following procedures would an auditor normally perform when testing payroll transactions?
- Interview employees selected in a statistical sample of payroll transactions
 - Examine signatures on paid salary checks
 - Trace number of hours worked as shown on payroll to time cards and time reports signed by the foreman
 - Confirm amount withheld from employees' salaries with proper governmental authorities