

Problem 1 (20%)

Late in 1992, the management of Abbott, Inc. announced its intent to dissolve the company. The Chief Executive Officer owns 35 percent of Abbott's stock. Although a plan has not yet been presented to the shareholders, it will probably be approved. Management has been considering the dissolution for some time, possibly as long as six months. However, little has been formalized beyond obtaining ideas from investment bankers as to how much the assets might be worth. No real bids have been received for parts of the company. Management believes that approximately 50 percent of the company is worth substantially more than book value. However, management has not done a complete analysis nor performed an analysis which might support an alternative presentation of information.

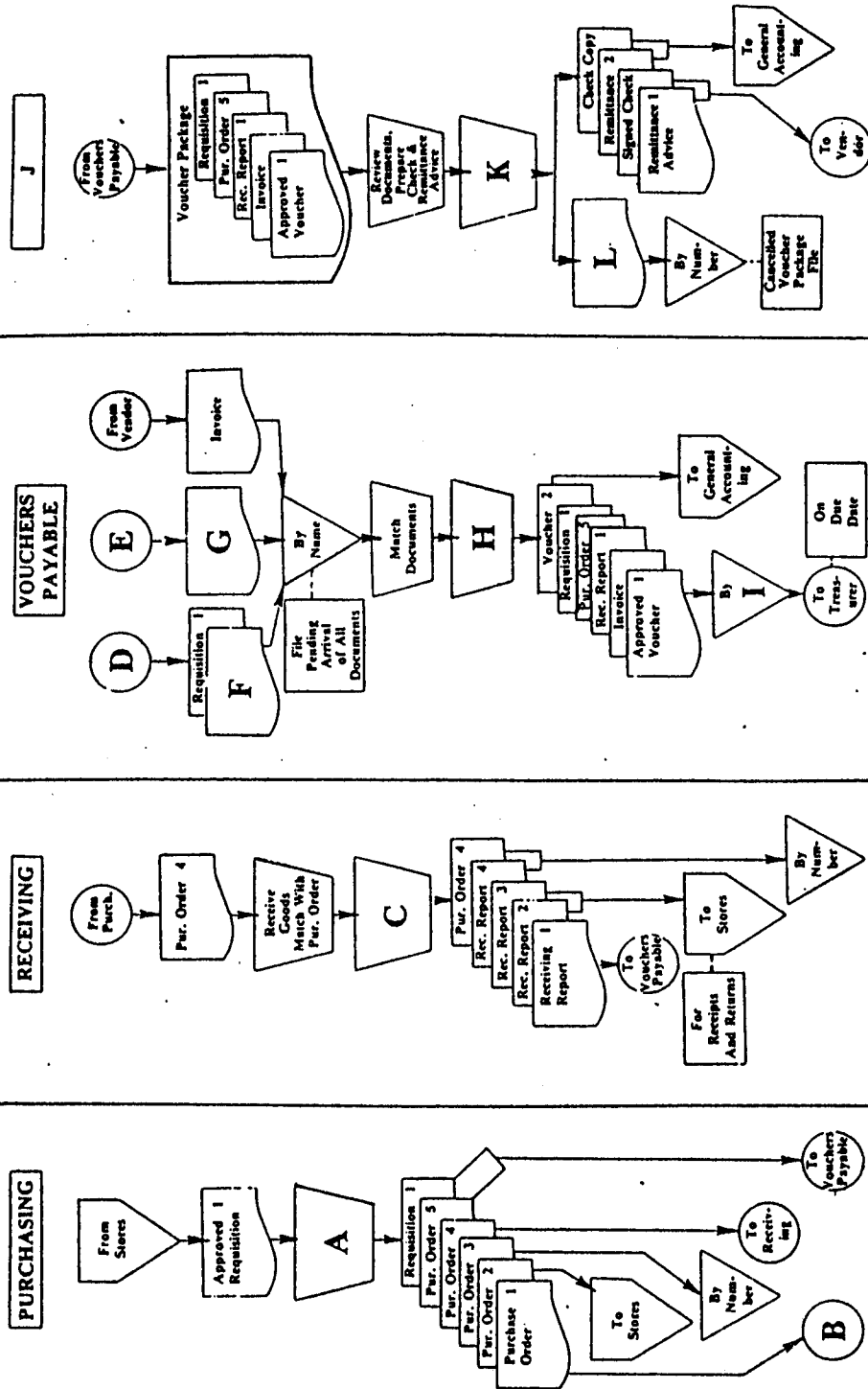
The 1992 financial statements of Abbott have been prepared assuming that the company is a going concern. Management intends to issue these financial statements on the historical cost basis, but wonders if an alternative basis might be more appropriate.

Required: (Hint: you may employ the conceptual framework of financial accounting and the related auditing standards to answer the following questions.)

1. What basis of presentation should be used in preparing the 1992 financial statements? Why? State your reasoning in detail.
2. As the auditor of Abbott, Inc., what type of opinion should you issue on the 1992 financial statements? How do you disclose the plan of your client?

PROBLEM 2 (24%)

The following illustrates a Manual System for Executing Purchases and Cash Disbursements Transactions.



Required: Indicate what each of the letters (A) through (L) represent. Do not discuss adequacies or inadequacies in the internal control structure.

Problem 3 (20%)

You have decided to use Probability Proportional to Size (PPS) sampling, sometimes called dollar-unit sampling, in the audit of a client's accounts receivable balance. Few, if any, misstatements of account balance overstatement are expected.

You plans to use the following PPS sampling table:

TABLE
Reliability Factors for Overstatements

Number of Overstatements	Risk of Incorrect Acceptance				
	1%	5%	10%	15%	20%
0	4.61	3.00	2.31	1.90	1.61
1	6.64	4.75	3.89	3.38	3.00
2	8.41	6.30	5.33	4.72	4.28
3	10.05	7.76	6.69	6.02	5.52
4	11.61	9.16	8.00	7.27	6.73

Required:

- Identify the advantages of using PPS sampling over classical variables sampling.
- Calculate the sampling interval and the sample size you should use given the following information:

Tolerable misstatements	\$15,000
Risk of incorrect acceptance	5%
Number of misstatements allowed	0
Recorded amount of accounts receivable	\$300,000

Note: Requirements b. and c. are not related.

- Calculate the total projected misstatement if the following three misstatements were discovered in a PPS sample:

	Recorded amount	Audited amount	Sampling interval
1st misstatement	\$400	\$320	\$1,000
2nd misstatement	500	0	1,000
3rd misstatement	3,000	2,500	1,000

PROBLEM 4 (20%)

財務報表使用者和會計師之間一向存在着相當程度的“期望差距 (expectation gap)”。

- a. 財務報表使用者對會計師有那些期望?
- b. 會計師對自己在財務驗證方面所扮演的角色及對財務報表使用者有何期望?
- c. 為了縮短上述的“期望差距”，美國會計師協會 (AICPA) 曾經公佈自 SAS NO. 53 到 SAS NO. 61 系列公報，盡你(妳)所知，不用指明公報號碼，分別略述各公報之內容，以及其對縮短“期望差距”的可能。

PROBLEM 5: MULTIPLE CHOICES (16%)

1. An accountant who is not independent of a client is precluded from issuing a
- a. Report on management advisory services.
 - b. Compilation report on historical financial statements.
 - c. Compilation report on prospective financial statements.
 - d. Special report on compliance with contractual agreements.
2. A CPA in public practice must be independent in fact and appearance when providing which of the following services?

	<i>Preparation of a <u>tax return</u></i>	<i>Compilation of a financial <u>forecast</u></i>	<i>Compilation of personal financial <u>statements</u></i>
a.	Yes	No	No
b.	No	Yes	No
c.	No	No	Yes
d.	No	No	No

3. The risk that an auditor's procedures will lead to the conclusion that a material error does not exist in an account balance when, in fact, such error does exist is referred to as
- a. Audit risk.
 - b. Inherent risk.
 - c. Control risk.
 - d. Detection risk.
4. If specific information comes to an auditor's attention that implies the existence of possible illegal acts that could have a material, but indirect effect on the financial statements, the auditor should next
- a. Apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.
 - b. Seek the advice of an informed expert qualified to practice law as to possible contingent liabilities.
 - c. Report the matter to an appropriate level of management at least one level above those involved.
 - d. Discuss the evidence with the client's audit committee, or others with equivalent authority and responsibility.

5 After obtaining an understanding of an entity's internal control structure and assessing control risk, an auditor may next

- a. Perform tests of controls to verify management's assertions that are embodied in the financial statements.
- b. Consider whether evidential matter is available to support a further reduction in the assessed level of control risk.
- c. Apply analytical procedures as substantive tests to validate the assessed level of control risk.
- d. Evaluate whether the internal control structure policies and procedures detected material misstatements in the financial statements.

6 Which of the following internal control procedures would most likely allow for a reduction in the scope of the auditor's tests of depreciation expense?

- a. Review and approval of the periodic equipment depreciation entry by a supervisor who does not actively participate in its preparation.
- b. Comparison of equipment account balances for the current year with the current-year budget and prior-year actual balances.
- c. Review of the miscellaneous income account for salvage credits and scrap sales of partially depreciated equipment.
- d. Authorization of payment of vendors' invoices by a designated employee who is independent of the equipment receiving function.

7 Which of the following circumstances would most likely cause an auditor to suspect that material irregularities exist in a client's financial statements?

- a. Property and equipment are usually sold at a loss before being fully depreciated.
- b. Significantly fewer responses to confirmation requests are received than expected.
- c. Monthly bank reconciliations usually include several in-transit items.
- d. Clerical errors are listed on an EDP-generated exception report.

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8. An auditor did not observe a client's taking of beginning physical inventory and was unable to become satisfied about the inventory by means of other auditing procedures. Assuming no other scope limitations or reporting problems, the auditor could issue an unqualified opinion on the current year's financial statements for
- The balance sheet only.
 - The income statement only.
 - The income and retained earnings statements only.
 - All of the financial statements.