

***** ESSAY QUESTIONS *****

A1. (a) [4%] What is "audit risk"?

(b) [5%] What are two sources of audit risk in (a)? What are they functions of?

(c) [5%] What is "sampling risk" and what is "non-sampling risk" in auditing? How do they occur respectively?

(d) [5%] What are α risk and β risk for tests of controls and substantive tests in auditing respectively.(e) [5%] As an auditor, what risk (α or β) he/she is more concerned with? and why?

A2. [25%]

The following client-prepared bank reconciliation is being examined by Kautz, CPA, during an examination of the financial statements of Cynthia Company:

Cynthia Company
BANK RECONCILIATION
VILLAGE BANK ACCOUNT 2
December 31, 19X2

Balance per bank (a)			\$18,375.91
Deposits in Transit (b)			
12/30	1,471.10		
12/31	<u>2,840.69</u>	4,311.79	
Subtotal			22,687.70
Outstanding checks (c)			
837	6,000.00		
1941	671.80		
1966	320.00		
1984	1,855.42		
1985	3,621.22		
1987	2,576.89		
1991	<u>4,420.88</u>	(19,466.21)	
Subtotal			3,221.49
NSF check returned			200.00
12/29 (d)			5.50
Bank charges			148.10
Error Check No. 1932			
Customer note collected			
by the bank (\$2,750 plus			
\$275 interest) (e)			(3,025.00)
Balance per books (f)			<u>\$ 550.09</u>

REQUIRED

Indicate one or more auditing procedures that should be performed by Kautz in gathering evidence in support of each of the items (a) through (f) above.

(背面仍有題目,請繼續作答)

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***** OBJECTIVE QUESTIONS *****

Choose the best (one) answer for questions B1-B34. ([1.5%] each)

- B1** . After identifying related party transactions, an auditor most likely would
- Substantiate that the transactions were consummated on terms equivalent to those prevailing in arms-length transactions.
 - Discuss the implications of the transactions with third parties, such as the entity's attorneys and bankers.
 - Determine whether the transactions were approved by the board of directors or other appropriate officials.
 - Ascertain whether the transactions would have occurred if the parties had not been related.
- B2** An auditor uses the knowledge provided by the understanding of the internal control structure and the final assessed level of control risk primarily to determine the nature, timing, and extent of the
- Attribute tests.
 - Concurrent tests of controls.
 - Additional tests of controls.
 - Substantive tests.
- B3** As the acceptable level of detection risk decreases, the assurance directly provided from
- Substantive tests should increase.
 - Substantive tests should decrease.
 - Tests of controls should increase.
 - Tests of controls should decrease.
- B4** . The objective of tests of details of transactions performed as tests of controls is to
- Detect material misstatements in the account balances of the financial statements.
 - Evaluate whether an internal control structure policy of procedure operated effectively.
 - Determine the nature, timing, and extent of substantive tests for financial statement assertions.
 - Reduce control risk, inherent risk, and detection risk to an acceptably low level.
- B5** Which of the following is *not* a step in an auditor's decision to assess control risk at below the maximum?
- Evaluate the effectiveness of the internal control procedures with tests of controls.
 - Obtain an understanding of the entity's accounting system and control environment.
 - Perform tests of details of transactions to detect material misstatements in the financial statements.
 - Consider whether control procedures can have a pervasive effect on financial statement assertions.
- B6** The auditor's understanding of the internal control structure is documented to substantiate
- Conformity of the accounting records with GAAP.
 - Compliance with GAAS.
 - Adherence to requirements of management.
 - The fairness of the financial statement presentation.

- B7** The primary objective of procedures performed to obtain an understanding of the internal control structure is to provide an auditor with
- Evidential matter to use in reducing detection risk.
 - Knowledge necessary to plan the audit.
 - A basis from which to modify tests of controls.
 - Information necessary to prepare flowcharts.
- B8** An auditor's primary consideration regarding an entity's internal control structure policies and procedures is whether they
- Prevent management override.
 - Relate to the control environment.
 - Reflect management's philosophy and operating style.
 - Affect the financial statement assertions.
- B9** In developing a preliminary audit strategy, the auditor specifies each of the following components except
- The extent of understanding of the internal control structure to be obtained.
 - The tests of details of transactions and balances to be performed.
 - The planned assessed level of control risk.
 - The extent of tests of controls to be performed.
- B10** The risk that an auditor's procedures will lead to the conclusion that a material misstatement does *not* exist in an assertion when, in fact, such misstatement does exist is referred to as
- Audit risk.
 - Inherent risk.
 - Control risk.
 - Detection risk.
- B11** Which of the following underlies the application of generally accepted auditing standards, particularly the standards of field work and reporting?
- Internal control structure.
 - Corroborating evidence.
 - Materiality and relative risk.
 - Reasonable assurance.
- B12** An abnormal fluctuation in gross profit that might suggest the need for extended audit procedures for sales and inventories would most likely be identified in the planning phase of the audit by the use of
- A review of prior years' working papers.
 - An evaluation of the entity's internal control structure.
 - Specialized audit programs.
 - Analytical procedures.
- B13** The exercise of due professional care requires that an auditor
- Examine all available corroborating evidence.
 - Critically review the judgment exercised at every level of supervision.
 - Reduce control risk below the maximum.
 - Attain the proper balance of professional experience and formal education.
- B14** Which of the following statements concerning working papers is incorrect?
- An auditor may support an opinion by other means in addition to working papers.
 - The form of working papers should be designed to meet the circumstances of a particular engagement.
 - An auditor's working papers may not serve as a reference source for the client.
 - Working papers should show that the internal control structure has been studied and evaluated to the degree necessary.

(背面仍有題目,請繼續作答)

- B15 Which of the following statements relating to the competence of evidential matter is always true?
- Evidential matter gathered by an auditor from outside an enterprise is reliable.
 - Accounting data developed under satisfactory conditions of internal control are more relevant than data developed under unsatisfactory internal control conditions.
 - Oral representations made by management are not valid evidence.
 - Evidence gathered by auditors must be both valid and relevant to be considered competent.
- B16 Which of the following procedures would an auditor most likely perform to verify management's assertion of completeness?
- Compare a sample of shipping documents to related sales invoices.
 - Observe the client's distribution of payroll checks.
 - Confirm a sample of recorded receivables by direct communication with the debtors.
 - Review standard bank confirmations for indications of kiting.
- B17 Which of the following best describes a CPA's engagement to report on an entity's internal control structure over financial reporting?
- An attestation engagement to examine and report on management's written assertions about the effectiveness of its internal control structure.
 - An audit engagement to render an opinion on the entity's internal control structure.
 - 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 structure.
- B18 The objective of a review of interim financial information of a public entity is to provide the accountant with a basis for
- Determining whether the prospective financial information is based on reasonable assumptions.
 - Expressing a limited opinion that the financial information is presented in conformity with generally accepted accounting principles.
 - Deciding whether to perform substantive audit procedures prior to the balance sheet date.
 - Reporting whether material modifications should be made for such information to conform with generally accepted accounting principles.
- B19 When reporting on financial statements prepared on the same basis of accounting used for income tax purposes, the auditor should include in the report a paragraph that
- Emphasizes that the financial statements are not intended to have been examined in accordance with generally accepted auditing standards.
 - Refers to the authoritative pronouncements that explain the income tax basis of accounting being used.
 - States that the income tax basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.
 - Justifies the use of the income tax basis of accounting.
- B20 When reporting on comparative financial statements, an auditor ordinarily should change the previously issued opinions on the prior year's financial statements if
- The prior year's opinion was unqualified and the opinion on the current year's financial statements is modified due to a lack of consistency.
 - The prior year's financial statements are restated following a pooling of interests in the current year.
 - The prior year's financial statements are restated to conform with generally accepted accounting principles.
 - The auditor is a predecessor auditor who has been requested by a former client to reissue the previously issued report.

- B21. When a qualified opinion results from a limitation on the scope of the audit, the situation should be described in an explanatory paragraph
- Preceding the opinion paragraph and referred to only in the scope paragraph of the auditor's report.
 - Following the opinion paragraph and referred to in both the scope and opinion paragraphs of the auditor's report.
 - Following the opinion paragraph and referred to only in the scope paragraph of the auditor's report.
 - Preceding the opinion paragraph and referred to in both the scope and opinion paragraphs of the auditor's report.
- B22. Management of Hill Company has decided not to account for a material transaction in accordance with the provisions of an FASB standard. In setting forth its reasons in a note to the financial statements, management has clearly demonstrated that due to unusual circumstances the financial statements presented in accordance with the FASB standard would be misleading. The auditor's report should include a separate explanatory paragraph and contain a(an)
- "Except for" qualified opinion.
 - "Subject to" qualified opinion.
 - Adverse opinion.
 - Unqualified opinion.
- B23. Auditors should request that an audit client send a letter of inquiry to those attorneys who have been consulted concerning litigation, claims, or assessments. The primary reason for this request is to provide
- Information concerning the progress of cases to date.
 - Corroborative evidential matter.
 - An estimate of the dollar amount of the probable loss.
 - An expert opinion as to whether a loss is possible, probable, or remote.
- B24. An auditor is concerned with completing various phases of the examination after the balance sheet date. This "subsequent period" extends to the date of the
- Auditor's report.
 - Final review of the audit working papers.
 - Public issuance of the financial statements.
 - Delivery of the auditor's report to the client.
- B25. Which of the following computer-assisted auditing techniques allows fictitious and real transactions to be processed together without client operating personnel being aware of the testing process?
- Parallel simulation.
 - Generalized audit software programming.
 - Integrated test facility.
 - Test data approach.
- B26. One of the steps in assessing control risk in an EDP control system is identifying necessary controls to prevent data from being lost, added, duplicated, or altered during processing. An example of this type of control is the
- Authorization and approval of the data in user departments and screening of data by data control groups.
 - Review of data output by data control groups.
 - Use of external and internal file labels.
 - Use of control totals, limit and reasonableness checks, and sequence tests.

- B27. An auditor is performing substantive tests of pricing and extensions of perpetual inventory balances consisting of a large number of items. Past experience indicates numerous pricing and extension errors. Which of the following statistical sampling approaches is most appropriate?
- Unstratified mean-per-unit.
 - Probability-proportional-to-size.
 - Stop or go.
 - Ratio estimation.
- B28. If the achieved allowance for sampling risk of a statistical sample at a given risk level is greater than the desired allowance, this is an indication that the
- Standard deviation was larger than expected.
 - Standard deviation was smaller than expected.
 - Population was larger than expected.
 - Population was smaller than expected.
- B29. An auditor may use either of two statistical sampling approaches in substantive testing, probability-proportional-to-size (PPS) sampling and classical variables sampling. PPS sampling is primarily applicable in testing for
- The number of errors in year-end sales cutoff.
 - An overstatement of accounts receivable.
 - An understatement of accounts payable.
 - Proper segregation of duties in accounts receivable collections.
- B30 & B31 are based on the following:
- An auditor desired to test credit approval on 10,000 sales invoices processed during the year. The auditor designed a statistical sample that would provide 1% risk of assessing control risk too low (99% confidence) that not more than 7% of the sales invoices lacked approval. The auditor estimated from previous experience that about 2½% of the sales invoices lacked approval. A sample of 200 invoices was examined and 7 of them were lacking approval. The auditor then determined the achieved upper precision limit to be 8%.
- B30. In the evaluation of this sample, the auditor decided to increase the level of the preliminary assessment of control risk because the
- Tolerable deviation rate (7%) was less than the achieved upper precision limit (8%).
 - Expected deviation rate (7%) was more than the percentage of errors in the sample (3½%).
 - Achieved upper precision limit (8%) was more than the percentage of errors in the sample (3½%).
 - Expected deviation rate (2½%) was less than the tolerable rate (7%).
- B31. The allowance for sampling risk was
- 5½%
 - 4½%
 - 3½%
 - 1%
- B32. When performing tests of controls over cash disbursements, a CPA may use a systematic sampling technique with a start at any randomly selected item. The biggest disadvantage of this type of sampling is that the items in the population
- Must be recorded in a systematic pattern before the sample can be drawn.
 - May occur in a systematic pattern, thus destroying the sample randomness.
 - May systematically occur more than once in the sample.
 - Must be systematically replaced in the population after sampling.

- B33 Which of the following statements is correct concerning statistical sampling in tests of controls?
- The population size has little or *no* effect on determining sample size except for very small populations.
 - The expected population deviation rate has little or *no* effect on determining sample size except for very small populations.
 - As the population size doubles, the sample size also should double.
 - For a given tolerable rate, a larger sample size should be selected as the expected population deviation rate decreases.
- B34 If fraud or gross error is suspected in the population, the auditor would most likely use
- Variables sampling.
 - Attribute sampling.
 - Discovery sampling.
 - Dollar-unit sampling.