

壹、問答題 (30%)

Brown & Brown, CPAs, was engaged by the board of directors of Cook Industries, Inc. to audit Cook's calendar year 19X5 financial statements. The following report was drafted by an audit assistant at the completion of the engagement. It was submitted to Brown, the partner with client responsibility for review on March 7, 19X6, the date of the completion of field work. Brown has reviewed matters thoroughly and properly concluded that an adverse opinion was appropriate.

Brown also became aware of a March 14, 19X6, subsequent event that the client has properly disclosed in the notes to the financial statements. Brown wants responsibility for subsequent events to be limited to the specific event referred to in the applicable note to the client's financial statements.

The financial statements of Cook Industries, Inc. for the calendar year 19X4 were audited by predecessor auditors who also expressed an adverse opinion and have not reissued their report. The financial statements for 19X4 and 19X5 are presented in comparative form.

*Report of Independent Accountants*

To the President of Cook Industries, Inc.:

We have audited the financial statements of Cook Industries, Inc., which are the responsibility of management, for the year ended December 31, 19X5. Our responsibility is to express an opinion on these financial statements.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. As discussed in Note K to the financial statements, the Company has properly disclosed a subsequent event dated March 14, 19X6.

As discussed in Note G to the financial statements, the Company carries its property and equipment at appraisal values, and provides depreciation on the basis of such values. Further, the Company does not provide for income taxes with respect to differences between financial income and taxable income arising because of the use, for income tax purposes, of the installment method of reporting gross profit from certain types of sales.

In our opinion, the financial statements referred to above do not present fairly the financial position of Cook Industries, Inc. as of December 31, 19X5, or the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Brown & Brown, CPAs  
March 7, 19X6

**REQUIRED**

Identify *13* deficiencies in the draft of the proposed report. Do not redraft the report or discuss corrections.

(背面仍有題目,請繼續作答)

試 選擇題 (每題 2%) 從新頁開始答起。

1. 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 does exist is referred to as
  - a. Audit risk.
  - b. Inherent risk.
  - c. Control risk.
  - d. Detection risk.
  
2. Auditors try to identify predictable relationships when using analytical procedures. Relationships involving transactions from which of the following accounts most likely would yield the highest level of evidence?
  - a. Accounts receivable.
  - b. Interest expense.
  - c. Accounts payable.
  - d. Travel and entertainment expense.
  
3. Which of the following is required documentation in an audit in accordance with generally accepted auditing standards?
  - a. A flowchart or narrative of the accounting system describing the recording and classification of transactions for financial reporting.
  - b. An audit program setting forth in detail the procedures necessary to accomplish the engagement's objectives.
  - c. A planning memorandum establishing the timing of the audit procedures and coordinating the assistance of entity personnel.
  - d. An internal control questionnaire identifying policies and procedures that assure specific objectives will be achieved.
  
4. The diagram below depicts the auditor's estimated maximum deviation rate compared with the tolerable rate, and also depicts the true population deviation rate compared with the tolerable rate.

Auditor's estimate based on sample results	True state of population	
	Deviation rate is less than tolerable rate	Deviation rate exceeds tolerable rate
Maximum deviation rate is less than tolerable rate	I.	III.
Maximum deviation rate exceeds tolerable rate	II.	IV.

- As a result of tests of controls, the auditor assesses control risk higher than necessary and thereby increases substantive testing. This is illustrated by situation
- a. I.
  - b. II.
  - c. III.
  - d. IV.

5 Which of the following combinations results in a decrease in sample size in a sample for attributes?

	<b>Risk of Assessing Control Risk Too Low</b>	<b>Tolerable Rate</b>	<b>Expected Population Deviation Rate</b>
a.	Increase	Decrease	Increase
b.	Decrease	Increase	Decrease
c.	Increase	Increase	Decrease
d.	Increase	Increase	Increase

6 An auditor plans to examine a sample of 20 checks for countersignatures as prescribed by the client's internal control procedures. One of the checks in the chosen sample of 20 cannot be found. The auditor should consider the reasons for this limitation and

- Evaluate the results as if the sample size had been 19.
- Treat the missing check as a deviation for the purpose of evaluating the sample.
- Treat the missing check in the same manner as the majority of the other 19 checks, that is, countersigned or not.
- Choose another check to replace the missing check in the sample.

7 What is an auditor's evaluation of a statistical sample for attributes when a test of 50 documents results in 3 deviations if the tolerable rate is 7%, the expected population deviation rate is 5%, and the allowance for sampling risk is 2%.

- Modify the planned assessed level of control risk because the tolerable rate plus the allowance for sampling risk exceeds the expected population deviation rate.
- Accept the sample results as support for the planned assessed level of control risk because the sample deviation rate plus the allowance for sampling risk exceeds the tolerable rate.
- Accept the sample results as support for the planned assessed level of control risk because the tolerable rate less the allowance for sampling risk equals the expected population deviation rate.
- Modify the planned assessed level of control risk because the sample deviation rate plus the allowance for sampling risk exceeds the tolerable rate.

8 In a probability-proportional-to-size sample with a sampling interval of \$10,000, an auditor discovered that a selected account receivable with a recorded amount of \$5,000 had an audit amount of \$2,000. The projected error of this sample was

- \$3,000
- \$4,000
- \$6,000
- \$8,000

9 What is the primary objective of using stratification as a sampling method in auditing?

- To increase the risk of incorrect acceptance at which a decision will be reached from the results of the sample selected.
- To determine the deviation rate for a given characteristic in the population being studied.
- To decrease the effect of variance in the total population.
- To determine the precision interval of the sample selected.

- 10 While performing a substantive test of details during an audit, the auditor determined that the sample results supported the conclusion that the recorded account balance was materially misstated. It was, in fact, not materially misstated. This situation illustrates the risk of
- Incorrect rejection.
  - Incorrect acceptance.
  - Assessing control risk too low.
  - Assessing control risk too high.

- 11 Using statistical sampling to assist in verifying the year-end accounts payable balance, an auditor has accumulated the following data:

	Number of Accounts	Book Balance	Balance Determined by the Auditor
Population	4,100	\$5,000,000	?
Sample	200	\$ 250,000	\$300,000

With the ratio estimation technique, the auditor's estimate of the year-end accounts payable balance would be

- \$6,150,000
  - \$6,000,000
  - \$5,125,000
  - \$5,050,000
- 12 When an auditor tests a computerized accounting system, which of the following is true of the test data approach?
- Test data must consist of all possible valid and invalid conditions.
  - The program tested is different from the program used throughout the year by the client.
  - Several transactions of each type must be tested.
  - Test data are processed by the client's computer programs under the auditor's control.
- 13 A primary advantage of using generalized audit software packages to audit the financial statements of a client that uses an EDP system is that the auditor may
- Consider increasing the use of substantive tests of transactions in place of analytical procedures.
  - Substantiate the accuracy of data through self-checking digits and hash totals.
  - Reduce the level of required tests of controls to a relatively small amount.
  - Access information stored on computer files while having a limited understanding of the client's hardware and software features.
- 14 An auditor most likely would review an entity's periodic accounting for the numerical sequence of shipping documents and invoices to support management's financial statement assertion of
- Existence or occurrence.
  - Rights and obligations.
  - Valuation or allocation.
  - Completeness.
- 15 The questions below appear on an Internal Control Questionnaire. Which question, if answered NO, would have disclosed that the cashier diverted cash received over the counter from a customer to his or her own use and wrote off the receivable as a bad debt?
- Are aging schedules of accounts receivable prepared periodically and reviewed by a responsible official?
  - Are journal entries approved by a responsible official?
  - Are receipts given directly to the cashier by the person who opens the mail?
  - Are remittance advices, letters, or envelopes that accompany receipts separated and given directly to the accounting department?

- 16 The negative request form of accounts receivable confirmation is useful particularly when the

	Assessed Level of Control Risk Relating to Receivables is	Number of Small Balances is	Consideration by the Recipient is
a.	Low	Many	Likely
b.	Low	Few	Unlikely
c.	High	Few	Likely
d.	High	Many	Likely

- 17 Which of the following most likely would be detected by an auditor's review of a client's sales cutoff?

- Unrecorded sales for the year.
- Lapping of year-end accounts receivable.
- Excessive sales discounts.
- Unauthorized goods returned for credit.

- 18 Which of the following controls would be most effective in assuring that recorded purchases are free of material misstatements?

- The receiving department compares the quantity ordered on purchase orders with the quantity received on receiving reports.
- Vendors' invoices are compared with purchase orders by an employee who is independent of the receiving department.
- Receiving reports require the signature of the individual who authorized the purchase.
- Purchase orders, receiving reports, and vendors' invoices are independently matched in preparing vouchers.

- 19 In performing tests of controls over authorization of cash disbursements, which of the following sampling methods would be most appropriate?

- Ratio.
- Attributes.
- Variables.
- Stratified.

- 20 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.
- Request the client to schedule the physical inventory count at the end of the year.

- 21 Effective internal control procedures over the payroll function may include

- Reconciliation of totals on job time tickets with job reports by employees responsible for those specific jobs.
- Verification of agreement of job time tickets with employee clock card hours by a payroll department employee.
- Preparation of payroll transaction journal entries by an employee who reports to the supervisor of the personnel department.
- Custody of rate authorization records by the supervisor of the payroll department.

- 22 Which of the following controls would be most effective in assuring that the proper custody of assets in the investing cycle is 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.

- 23 Which of the following cash transfers results in a misstatement of cash at December 31, 1987?

Transfer	Bank Transfer Schedule			
	Disbursement		Receipt	
	Recorded in books	Paid by bank	Recorded in books	Received by bank
a.	12/31/87	1/4/88	12/31/87	12/31/87
b.	1/4/88	1/5/88	12/31/87	1/4/88
c.	12/31/87	1/5/88	12/31/87	1/4/88
d.	1/4/88	1/11/88	1/4/88	1/4/88

- 24 A client acquired 25% of its outstanding capital stock after year-end and prior to completion of the auditor's field work. The auditor should
- Advise management to adjust the balance sheet to reflect the acquisition.
  - Issue pro-forma financial statements giving effect to the acquisition as if it had occurred at year-end.
  - Advise management to disclose the acquisition in the notes to the financial statements.
  - Disclose the acquisition in the opinion paragraph of the auditor's report.
- 25 Hall accepted an engagement to audit the 19X5 financial statements of XYZ Company. XYZ completed the preparation of the 19X5 financial statements on February 13, 19X6, and Hall began the field work on February 17, 19X6. Hall completed the field work on March 24, 19X6, and completed the report on March 28, 19X6. The client's representation letter normally would be dated
- February 13, 19X6.
  - February 17, 19X6.
  - March 24, 19X6.
  - March 28, 19X6.
- 26 Restrictions imposed by a client prohibit the observation of physical inventories, which account for 35% of all assets. Alternative auditing procedures cannot be applied, although the auditor was able to examine satisfactory evidence for all other items in the financial statements. The auditor should issue a(an)
- "Except for" qualified opinion.
  - Disclaimer of opinion.
  - Unqualified opinion with a separate explanatory paragraph.
  - Unqualified opinion with an explanation in the scope paragraph.
- 27 If a publicly held company issues financial statements that purport to present its financial position and results of operations but omits the statement of cash flows, the auditor ordinarily will express a(an)
- Unqualified opinion with a separate explanatory paragraph.
  - Disclaimer of opinion.
  - Adverse opinion.
  - Qualified opinion.

- 28 How do the scope, procedures, and purpose of an engagement to express an opinion on an entity's internal control structure compare with those for obtaining an understanding of the internal control structure and assessing control risk as part of an audit?

Scope	Procedures	Purpose
a. Similar	Different	Similar
b. Different	Similar	Similar
c. Different	Different	Different
d. Different	Similar	Different

- 29 . Accepting an engagement to *examine* an entity's financial *projection* most likely would be appropriate if the projection were to be distributed to
- All employees who work for the entity.
  - Potential stockholders who request a prospectus or a registration statement.
  - A bank with which the entity is negotiating for a loan.
  - All stockholders of record as of the report date.
30. An auditor wishes to perform tests of controls on a client's cash disbursements procedures. If the control procedures leave *no* audit trail of documentary evidence, the auditor most likely will test the procedures by
- Confirmation and observation.
  - Observation and inquiry.
  - Analytical procedures and confirmation.
  - Inquiry and analytical procedures.

- 31 When control risk is assessed at the maximum level for all financial statement assertions, an auditor should document the auditor's

	Understanding of the entity's internal control structure components	Conclusion that control risk is at the maximum level	Basis for concluding that control risk is at the maximum level
a.	Yes	No	No
b.	Yes	Yes	No
c.	No	Yes	Yes
d.	Yes	Yes	Yes

- 32 During consideration of the internal control structure in a financial statement audit, an auditor is **not** obligated to
- Search for significant deficiencies in the operation of the internal control structure.
  - Understand the internal control environment and the accounting system.
  - Determine whether the control procedures relevant to audit planning have been placed in operation.
  - Perform procedures to understand the design of the internal control structure policies.
- 33 When obtaining an understanding of an entity's control environment, an auditor should concentrate on the substance of management's policies and procedures rather than their form because
- The auditor may believe that the policies and procedures are inappropriate for that particular entity.
  - The board of directors may not be aware of management's attitude toward the control environment.
  - Management may establish appropriate policies and procedures but not act on them.
  - The policies and procedures may be so weak that no reliance is contemplated by the auditor.

- 34 Which one of the following statements is correct concerning the concept of materiality?
- Materiality is determined by reference to guidelines established by the AICPA.
  - Materiality depends only on the dollar amount of an item relative to other items in the financial statements.
  - Materiality depends on the nature of an item rather than the dollar amount.
  - Materiality is a matter of professional judgment.
- 35 A CPA is most likely to refer to one or more of the three general auditing standards in determining
- The nature of the CPA's report qualification.
  - The scope of the CPA's auditing procedures.
  - Requirements for the review of the internal control structure.
  - Whether the CPA should undertake an audit engagement.