

**PART I: Multiple Choice Questions –(2 Points Each).** Choose the **one best** response that you believe is most appropriate (60 points)

1. The opinion paragraph of the CPA's report states: "In our opinion, with the exception of the effects such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the foreign affiliate investment and earnings, the financial statements referred to above present fairly, in all material respects, ..." This paragraph expresses a(an):
  - a. Unqualified opinion with an explanatory paragraph.
  - b. Qualified "except for" opinion only.
  - c. Adverse opinion.
  - d. Qualified scope and opinion.
2. Ford, CPA audited the financial statements of Arthur Dent, Inc., a privately-held corporation. Ford expressed an unqualified opinion, and did not detect an embezzlement by Arthur Dent's controller. Liability to Dent:
  - a. Will not be imposed because the auditor cannot guarantee that s(he) will detect fraud.
  - b. Depends upon whether a signed engagement letter exists between Ford and Dent.
  - c. Depends on Ford's intent.
  - d. Depends upon Ford's compliance with GAAS.
3. In evaluating the adequacy of the allowance for doubtful accounts, an auditor most likely reviews the entity's aging of receivables to support management's financial statement assertion of
  - a. Existence or occurrence.
  - b. Completeness.
  - c. Valuation or allocation.
  - d. Rights and obligations.
4. Which of the following auditing procedures most likely would assist the auditor in identifying related party transactions?
  - a. Inspecting correspondence with lawyers for evidence of unreported contingent liabilities.
  - b. Vouching accounting records for recurring transactions recorded just after the balance sheet date.
  - c. Reviewing confirmations of loans receivables for indications of guarantees.
  - d. Performing analytical procedures for indications of financial difficulties.

(背面仍有題目,請繼續作答)

5. Which of the following statements best describes Statements on Auditing Standards (SASs)?
- They reflect the consensus among independent auditors.
  - They are specific audit objectives generally accepted for audit engagements.
  - They are recommendations as to the performance of the audit.
  - They interpret the 10 generally accepted auditing standards (GAAS), and have the status of GAAS.

6. What assurance does the auditor provide regarding the following misstatements?

	<u>Immaterial Errors</u>	<u>Material Financial Reporting Fraud</u>	<u>Immaterial Misappropriation of Assets</u>
a.	Limited	Reasonable	None
b.	Reasonable	Reasonable	Reasonable
c.	None	Reasonable	None
d.	None	Limited	Limited

7. An entity changed from the straight-line method to the declining-balance method of depreciation for all newly acquired assets. This change has no material effect on the current year's financial statements, but is reasonably certain to have a substantial effect in later years. If the change is disclosed in the notes to the financial statements, the auditor should issue a report with a(an):
- Qualified opinion.
  - Unqualified opinion with explanatory paragraph.
  - Unqualified opinion.
  - Qualified opinion with explanatory paragraph regarding consistency.
8. In the first audit of a client, an auditor was not able to gather sufficient evidence about the consistent application of accounting principles between the current and prior year, as well as the amounts of assets and liabilities at the beginning of the current year. If the amounts in question could materially affect current operating results, the auditor would:
- Be unable to express an opinion on the current year's income statement and statement of cash flows.
  - Express a disclaimer of opinion on all the financial statements because of a client-imposed scope limitation.
  - Withdraw from the engagement and refuse to be associated with the financial statements.
  - Specifically state that the financial statements are not comparable to the prior year due to an uncertainty.



9. Analytical procedures can be performed in the planning phase, as a substantive test in the testing phase, and in the review stage of the audit. In which phases are analytical procedures **required**?

	<u>Planning Stage</u>	<u>Substantive Testing Stage</u>	<u>Completion Stage</u>
a.	Yes	Yes	Yes
b.	No	Yes	Yes
c.	Yes	Yes	No
d.	Yes	No	Yes

10. Which of the following statements about the Securities Act of 1933 is **not** true?
- The third party user does not have the burden of proof that she/he relied on the financial statements.
  - The third party has the burden of proof that the auditor was either negligent or fraudulent in doing the audit.
  - The third party user does not have the burden of proof that the loss was caused by the misleading financial statements.
  - The auditor will not be liable if she/he can demonstrate due diligence in performing the audit.
11. In designing written audit programs, an auditor should establish specific audit objectives that relate primarily to the
- Timing of the audit procedures.
  - Cost-benefit of gathering evidence.
  - Selected audit techniques.
  - Financial statement assertions.
12. Inherent risk and control risk differ from detection risk in that they:
- Arise from the misapplication of auditing procedures.
  - May be assessed in either quantitative or nonquantitative terms.
  - Exist independently of the financial statement audit.
  - Can be changed at the auditor's discretion.
13. Which of the following internal control procedures most likely would assure that all billed sales are correctly posted to the accounts receivable ledger?
- Daily sales summaries are compared to daily postings to the accounts receivable ledger.
  - Each sales invoice is supported by a prenumbered shipping document.
  - The accounts receivable ledger is reconciled daily to the control account in the general ledger.
  - Each shipment on credit is supported by a prenumbered sales invoice.

(背面仍有題目,請繼續作答)

14. When a customer fails to include a remittance advice with a payment, it is common practice for the person opening the mail to prepare one. Consequently, mail should be opened by which of the following four company employees:
- Credit manager.
  - Sales manager.
  - Accounts receivable clerk.
  - Receptionist.
15. One of the axioms of auditing is that the auditor's reliance on the performance of substantive tests may properly vary with the extent of reliance on control procedures, as measured by the assessed level of control risk. Which of the following statements, if any, represents an improper interpretation of this axiom, when material financial statement dollar amounts are involved?
- Rely 100% on substantive tests, 0% on internal control.
  - Rely 0% on substantive tests, 100% on internal control.
  - Rely 50% on substantive tests, 50% on internal control.
  - None of the above is improper.
16. Which of the following audit risk components may be assessed in nonquantitative terms?
- |    | <u>Control Risk</u> | <u>Detection Risk</u> | <u>Inherent Risk</u> |
|----|---------------------|-----------------------|----------------------|
| a. | Yes                 | Yes                   | No                   |
| b. | Yes                 | No                    | Yes                  |
| c. | Yes                 | Yes                   | Yes                  |
| d. | No                  | No                    | No                   |
17. After obtaining an understanding of the internal control structure and assessing control risk, an auditor decided to perform tests of controls. The auditor most likely decided that
- It would be efficient to perform tests of controls that would result in a reduction in planned substantive tests.
  - Additional evidence to support a further reduction in control risk is **not** available.
  - An increase in the assessed level of control risk is justified for certain financial statement assertions.
  - There were many internal control structure weaknesses that could allow errors to enter the accounting system.

18. The actual operation of an internal control system may be most objectively evaluated by
- Substantive tests of account balances based on the auditor's assessment of internal control strength.
  - Selection of items processed by the system and determination of the presence or absence of errors and compliance deviations.
  - Review of the previous year's audit working papers to update the report of internal control evaluation.
  - Completing a questionnaire and flowchart related to the accounting system in the year under audit.
19. Which audit procedure is most effective in testing credit sales for overstatement?
- Trace a sample of postings from the sales journal to the sales account in the general ledger.
  - Vouch a sample of recorded sales from the sales journal to shipping documents.
  - Prepare an aging of accounts receivable.
  - Trace a sample of initial sales orders (or customer orders) to sales recorded in the sales journal.
  - None of the above would be effective in testing sales for overstatement.
20. To provide assurance that each voucher is submitted and paid only once, an auditor most likely would examine a sample of paid vouchers and determine whether each voucher is
- Supported by a vendor's invoice.
  - Stamped "paid" by the check signer.
  - Prenumbered and accounted for.
  - Approved for authorized purchases.
21. The risk that an auditor will conclude, based on substantive tests, that a material error does **not** exist in an account balance when, in fact, such error does exist is referred to as
- Inherent risk.
  - Detection risk.
  - Sampling risk.
  - Nonsampling risk.

(背面仍有題目,請繼續作答)



22. Regardless of the assessed level of control risk, an auditor would perform some
- Tests of controls to determine the effectiveness of internal control policies.
  - Analytical procedures to verify the design of internal control procedures.
  - Substantive tests to restrict detection risk for significant transaction classes.
  - Dual-purpose tests to evaluate both the risk of monetary misstatement and preliminary control risk.
23. While observing a client's annual physical inventory, an auditor recorded test counts for several items and noticed that certain test counts were higher than the recorded quantities in the client's perpetual records. This could be the result of the client's failure to record:
- Purchase discounts.
  - Purchase returns.
  - Sales.
  - Sales returns.
24. In which of the following cases would the auditor be most likely to conclude that all of the items in an account under consideration should be examined, rather than tested on a sample basis?
- |    | <i>The measure<br/>of tolerable<br/>misstatement is</i> | <i>Misstatement<br/>frequency is<br/>expected to be</i> |
|----|---|---|
| a. | Large   | Low   |
| b. | Small   | High  |
| c. | Large   | High  |
| d. | Small   | Low   |
25. During the audit, an auditor will normally prepare a schedule of unrecorded entries (summary of possible adjustments) for errors for which an entry was not proposed at the time the error was uncovered. The purpose of this schedule is:
- Point out to company officials errors made by company personnel.
  - Summarize necessary adjustments for preparing corporate tax returns.
  - To identify the potential financial statement effect of errors considered to be immaterial at the time they were uncovered.
  - To summarize errors made by the company so they can correct them after the audit.
26. Which of the following audit procedures is normally performed last?
- Obtaining a management representation letter.
  - Testing the sales function.
  - Reading the minutes of directors' meetings.
  - Confirming accounts receivable.

27. Miller Co. uses the first-in, first-out method of costing for its international subsidiary's inventory and the last-in, first-out method of costing for its domestic inventory. Under these circumstances, Miller should issue an auditor's report with an:
- "Except for" qualified opinion.
  - Unqualified opinion.
  - Explanatory paragraph as to consistency.
  - Qualified opinion due to lack of consistency.
28. Should the auditor communicate the following items to an audit committee of a public entity?
- |    | <i>Significant audit<br/>adjustments recorded<br/>by the entity</i> | <i>Management's consultation<br/>with other accountants<br/>about significant<br/>accounting matters</i> |
|----|---|--|
| a. | Yes   | Yes  |
| b. | Yes   | No   |
| c. | No  | Yes  |
| d. | No  | No   |
29. Auditor confirmation of accounts payable balances at the balance sheet date may be unnecessary because:
- This is a duplicate of cutoff tests.
  - Accounts payable balances at the balance sheet date may not be paid before the audit is completed.
  - Correspondence with the audit client's attorney will reveal all legal action by vendors for nonpayment.
  - There is likely to be other reliable external evidence to support the balances.
30. An auditor concluded that no excessive costs for idle plant were charged to inventory. This conclusion most likely related to the auditor's objective to obtain evidence about the financial statement assertions regarding inventory, including presentation and disclosure and:
- Valuation and allocation.
  - Completeness.
  - Existence or occurrence.
  - Rights and obligations.

(背面仍有題目,請繼續作答)

**PART II: Problem (40points)****Problem 1- Analytical Procedures (14 points)**

Note: Please use ending balance for Accounts Receivable and Inventory turnover ratio.

- a. **Quantifying changes in ratios** (4 points) - The following financial information is given for Vial-Tech:

	2004	2003
Sales	30,000,000	27,000,000
Cost of Sales	24,510,000	22,491,000
Accounts receivable	5,555,000	5,000,000
Inventory	5,312,000	4,500,000

- Calculate the effect of the change in gross margin percentage. (2 points)
  - Calculate the effect of the change in inventory turnover. Show calculation (2 points)
  - Your audit supervisor suspects fictitious sales at Vial-tech. (4 points)  
Do you agree? Explain.
- b. The following are certain errors that might affect the financial statements. For each error, indicate whether it would increase, decrease, or have no effect on the reported ratio. Assume the client took a complete physical inventory of goods on hand at year-end (6 points)

Financial statement error	Ratio (Increase, decrease, or no change)		
	Inventory Turnover	Gross Margin %	Accounts Receivable Turnover
Company shipped goods that weren't ordered by customers to meet sales targets.			
Company failed to record sales returns			
Company recorded fictitious sales in the same of amounts as real sales.			
Company understated inventory by excluding quantities from its inventory listing.			



**Problem 2 - Internal Control - Sales and Cash Receipts (12 points)**

The following are a list of possible errors or fraud in the sales and cash receipts cycle.

For each error or fraud, select one internal control procedure that could most likely assist in preventing or detecting the error or fraud.

Each response in the list of internal control procedures may be selected **once, more than once, or not at all.**

**List of internal control procedures**

- a. Shipping clerks compare goods received from warehouse with details on shipping documents.
- b. Daily sales summaries are compared with control total of invoices.
- c. Control amounts posted to the accounts receivable ledger are compared with the control totals of invoices.
- d. The cashier examines each check for proper endorsement.
- e. Remittance advices are separated from the checks in the mailroom and forwarded to the accounting department.
- f. Total amounts posted to the accounts receivable subledger from remittance advices are compared with the validated bank deposit slip.
- g. Monthly statements are mailed to customers with outstanding balances.
- h. An employee, other than the bookkeeper, periodically prepares a bank reconciliation.

**Possible errors or fraud (indicate letter of control procedure)**

- \_\_\_\_\_ 1. Customer checks are credited to incorrect customer accounts.
- \_\_\_\_\_ 2. Invoices for goods sold are posted to incorrect customer accounts.
- \_\_\_\_\_ 3. Customer checks are properly credited to customer accounts and are properly deposited, but errors are made in recording receipts in the cash receipts journal.
- \_\_\_\_\_ 4. Invoices are sent for shipped goods, but are not recorded in the sales journal.
- \_\_\_\_\_ 5. Different customer accounts are each credited for the same cash receipt.
- \_\_\_\_\_ 6. Customers' checks are misappropriated before being forwarded to the cashier for deposit.

(背面仍有題目,請繼續作答)

**Problem 3 - TODB Sampling (Total 14 points)****Evaluation of TODB sample**

Book value of accounts receivable	2,000,000
Assurance factor	2
Tolerable misstatement	50,000

1. **Calculate the required sample size** assuming no individually material accounts (4 points)

Assume that an actual sample of 100 was selected from the population described above. The sample was tested as a single strata (there were no individually material accounts). The table below summarizes the results of the tests of these accounts, which were tested using confirmations and alternative procedures.

Account	Recorded Value	Errors	Untested Amounts
X	15,000	0	5,000
Y	10,000	5,000	0
Z	100,000	10,000	0
All others (97 accounts)	375,000	0	0
Sample total	500,000	15,000	5,000

The following information is available for the two errors:

- Y - Due to computer error, the customer was billed for twice the quantity shipped.
- Z - This is the company's largest customer. Contract has an incentive clause that provides for an accounts receivable adjustment based on quantities shipped. The client forgot to record the adjustment.

2. **Calculate the projected error** (ignore sampling risk) (4 points)
3. **Evaluate the acceptability of the population.** (Ignore results of other tests and overall materiality for this decision). If not acceptable, identify the specific course(s) of action that you would take in the circumstance, and explain why. (6 points)