

PART I: Multiple Choice Questions – (2 Points Each). Choose the **one best** response that you believe is most appropriate (70 points)

1. Sarbanes-Oxley requires auditors of a public company to attest to management's report on the effectiveness of internal control over financial reporting. Which of the following reports options is available to the auditor?
 - a. The auditor must issue two separate reports.
 - b. The auditor must issue a combined report.
 - c. There is no guidance on what type of report to issue in this instance.
 - d. The auditor may issue either two separate reports or may issue a combined report.

2. Most auditors believe that financial statements are "presented fairly" when the statements are in accordance with generally accepted accounting principles, and that it is also necessary to
 - a. determine that they are not in violation of FASB statements.
 - b. examine the substance of transactions and balances for possible misinformation.
 - c. review the statements using the accounting principles promulgated by the Securities and Exchange Commission.
 - d. assure investors that the net income reported this year will be equaled or exceeded in the future.

3. The primary difference between an audit of the balance sheet and an audit of the income statement lies in the fact that the audit of the income statement deals with the verification of
 - a. transactions.
 - b. authorizations.
 - c. costs.
 - d. cutoffs.

4. In describing the cycle approach to segmenting an audit, which of the following statements is not true?
 - a. All general ledger accounts and journals are included at least once.
 - b. Some journals and general ledger accounts are included in more than one cycle.
 - c. The "capital acquisition and repayment" cycle is closely related to the "acquisition of goods and services and payment" cycle.
 - d. The "inventory and warehousing" cycle may be audited at any time during the engagement since it is unrelated to the other cycles.

5. Negative confirmations of accounts receivable are less effective than positive confirmations of accounts receivable because when using negative confirmations,
 - a. they do not produce evidential matter that is statistically quantifiable.
 - b. the auditor cannot infer that all nonrespondents have verified their account information.
 - c. some recipients may report incorrect balances that require extensive follow-up.
 - d. a majority of recipients usually lack the willingness to respond objectively.

(背面仍有題目,請繼續作答)

6. Which of the following statements is not correct concerning audit documentation?
- Audit documentation is merely required to defend against claims that the auditor performed a deficient audit.
 - The only time anyone has a legal right to examine audit documentation is when the documentation is subpoenaed by a court as legal evidence.
 - Audit documentation is the primary frame of reference used by supervisory personnel to evaluate the sufficiency of evidence.
 - All of the above are incorrect statements.
7. Which of the following statements is not correct?
- Analytical procedures are used to isolate accounts or transactions that should be investigated more extensively.
 - For certain immaterial accounts, analytical procedures may be the only evidence needed.
 - In some instances, other types of evidence may be reduced when analytical procedures indicate that an account balance appears reasonable.
 - Analytical procedures use comparisons and relationships to determine which account balances are in error.
8. It is common in IT systems to have certain types of transactions initiated automatically by the computer. Which of the following activities would not be an appropriate candidate for automatic computer initialization?
- In a bank, quarterly calculation of interest on savings accounts.
 - In a manufacturing facility, the ordering of inventory when pre-specified order levels are reached.
 - In a hospital, the ordering of additional tanks of oxygen when pre-specified levels are achieved.
 - In an investment brokerage firm, the sale of pharmaceutical stocks when the Dow-Jones Industrial Average falls below a certain level.
9. When are auditors likely to encounter judgment problems in the use of analytical procedures?
- Whenever the auditor places reliance on management's explanations for unusual fluctuations in account balances without first developing independent expectations.
 - Whenever the auditor allows unaudited balances to unduly influence his/her expectations of current balances.
 - Whenever the auditor fails to consider the pattern reflected by several unusual fluctuations when trying to explain what caused them.
 - The auditor is likely to encounter judgment problems in each of the above instances.
10. When discussing acceptable audit risk (AAR) and the audit risk model, which of the following statements is true?
- The terms audit assurance, overall assurance, or level of assurance are synonyms for AAR.
 - AAR is objectively determined by the auditor.
 - AAR is the risk that the auditor is willing to take that the financial statements are fairly stated after the audit is completed and an unqualified opinion has been reached.
 - When the auditor decides on a lower acceptable audit risk, it means the auditor wants to be more certain that the financial statements are not materially misstated.

11. Research in auditing has shown that if a revised risk is used in the audit risk model to determine a revised planned detection risk, there is a danger of
- not decreasing the evidence sufficiently.
 - not increasing the evidence sufficiently.
 - over-auditing.
 - increased lawsuits against the auditor for failure to follow GAAS.
12. The audit risk against which the auditor requires reasonable protection is a combination of two separate risks. The first of these is that material errors will occur in the accounting process by which the financial statements are developed, and the second is that
- a company's system of internal control is not adequate to detect errors and frauds.
 - those errors that occur will not be detected in the auditor's examination.
 - management may possess an attitude that lacks integrity.
 - evidential matter is not competent enough for the auditor to form an opinion based on reasonable assurance.
13. Significant deficiencies are matters that come to an auditor's attention, which should be communicated to an entity's audit committee because they represent
- material frauds perpetrated by high-level management.
 - internal control deficiencies that could adversely affect the ability to properly initiate, record, process, and report financial data.
 - flagrant violations of the entity's documented conflict-of-interest policies.
 - intentional attempts by client personnel to limit the scope of the auditor's field work.
14. An internal control narrative indicates that an approved voucher is required to support every check request for payment of merchandise. Which of the following procedures provides the greatest assurance that this control is operating effectively?
- Select and examine canceled checks and ascertain that the related vouchers are dated no later than the checks.
 - Select and examine vouchers and ascertain that the related canceled checks are dated no earlier than the vouchers.
 - Select and examine canceled checks and ascertain that the related vouchers are dated no earlier than the checks.
 - Select and examine vouchers and ascertain that the related canceled checks are dated no later than the vouchers.
15. 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
- management may establish appropriate policies and procedures but not act on them.
 - the board of directors may not be aware of management's attitude toward the control environment.
 - the auditor may believe that the policies and procedures are inappropriate for that particular entity.
 - the policies and procedures may be so weak that no reliance is contemplated by the auditor.

(背面仍有題目,請繼續作答)

16. The predecessor auditor is required to respond to the request of the successor auditor for information, but the response can be limited to stating that no information will be provided when
- predecessor auditor has poor relations with successor auditor.
 - client is dissatisfied with predecessor's work.
 - there are legal problems between client and predecessor.
 - predecessor believes that client lacks integrity.
17. Many clients have their data processed at an independent computer service center (IT outsourcing). The difficulty the independent auditor faces when a computer service center is used is
- gaining the permission of the service center to review their work.
 - finding compatible programs that will analyze the service center's programs.
 - in determining the adequacy of the service center's internal controls.
 - in trying to abide by the *Code of Professional Conduct* to maintain the security and confidentiality of client's data..
18. Which of the following would be the best protection for a company that wishes to prevent the "lapping" of trade accounts receivable?
- Segregate duties so that the bookkeeper in charge of the general ledger has no access to incoming mail.
 - Segregate duties so that no employee has access to both checks from customers and currency from daily cash receipts.
 - Have customers send payments directly to the company's depository bank.
 - Request that customer's payment checks be made payable to the company and addressed to the treasurer.
19. For the most part, the evidence gathered during the audit of the sales and collection cycle can be subjectively combined with the other parts of the audit
- as the evidence accumulation process proceeds.
 - only when all fieldwork processes of the engagement are completed.
 - only after the audit of the sales and collection cycle is concluded.
 - after the conclusion of both the cash cycle and the sales and collection cycle.
20. Which of the following best illustrates the concept of sampling risk?
- A randomly chosen sample may not be representative of the population as a whole on the characteristics of interest.
 - An auditor may select audit procedures that are not appropriate to achieve the specific objective..
 - An auditor may fail to recognize errors in the documents examined for the chosen sample.
 - The documents related to the chosen sample may not be available for inspection.
21. Assuming excellent internal control exists, which of the following audit procedures would be least likely to be performed?
- Obtain a client representation letter.
 - Confirmation of accounts receivable.
 - Physical inspection of a sample of inventory.
 - Search for unrecorded cash receipts.

22. Which of the following statements is true?
- The audit procedures will vary as a result of using either statistical or nonstatistical sampling.
 - The audit procedures will be the same for either statistical or nonstatistical sampling, but they must be performed differently for each.
 - Statistical sampling requires quantitative audit procedures, whereas nonstatistical sampling requires judgmental audit procedures.
 - The same audit procedures are performed in the same manner for either statistical or nonstatistical sampling.
23. Which of the following statements regarding proper disclosure of accounts receivable is not correct?
- Receivables from officers must be segregated from accounts receivable from customers if the amounts are material.
 - Under SEC requirements, it is necessary to disclose sales and assets for different business segments separately.
 - Proper aggregation of general ledger balances in the financial statements also requires combining account balances that are not relevant for external users.
 - All accounts included in the general ledger must be disclosed separately on the financial statements.
24. If an auditor, planning to use statistical sampling, is concerned with the number of a client's sales invoices that contain mathematical errors, the auditor would most likely utilize
- random sampling with replacement.
 - sampling for attributes.
 - sampling for variables.
 - stratified random sampling.
25. Which of the following is not an important consideration in determining the sample size of confirmations?
- Total annual credit sales.
 - Tolerable misstatement.
 - The types of confirmations being sent; that is, positive or negative..
 - The results of related analytical procedures.
26. Which of the following statements is correct?
- The overhead charged to inventory at the balance sheet date can be understated if the salaries of administrative personnel are inadvertently or intentionally charged to indirect manufacturing overhead.
 - When jobs are billed on a cost-plus basis, revenue and total expenses are both affected by charging labor to incorrect jobs.
 - Payroll is a significant portion of inventory for retail and service industry companies.
 - The valuation of inventory is affected if the direct labor cost of individual employees is improperly charged to the wrong job or process.

(背面仍有題目,請繼續作答)

27. Which of the following statements is not true?
- The ownership objective is an important part of verifying assets but not liabilities.
 - In auditing liabilities, the emphasis is on the search for understatements rather than overstatements.
 - Because of the emphasis on understatements in liability accounts, out-of-period liability tests are important for accounts payable.
 - The success of the auditor's search for unrecorded accounts payable is not dependent upon the materiality of the potential balance in the account.
28. Because tables are used in the calculation of misstatement bounds, the point estimate and sampling error are not calculated. This is because
- they are extraneous and not needed.
 - this method determines the amount of error exactly, and doesn't need to develop a range
 - their calculation is impossible with this method.
 - the tables include both the point estimate and the sampling error to derive the upper bound.
26. When selecting a stratified sample, the sample size is
- determined for the unstratified population and then apportioned to each stratum.
 - determined for each stratum and selected from that stratum.
 - determined for each stratum and selected randomly from the entire unstratified population.
 - always larger than if unstratified sampling had been used.
29. A weak internal control system allows a foreman to clock in daily for a fictitious employee and to approve the time card at the end of the payroll period. This fraud would be detected if other controls were in place, such as having an independent party
- distribute paychecks.
 - recompute hours worked from time cards.
 - foot the payroll journal and trace postings to the general ledger and the payroll master file.
 - compare the date of the recorded check in the payroll journal with the date on the canceled checks and time cards.
31. In determining that the accounts payable cutoff is correct, it is essential that the cutoff tests be coordinated with the
- confirmation of payables.
 - tests on long-term liabilities.
 - observation of inventory.
 - cash count.
32. An auditor would be least likely to use confirmations in connection with the examination of
- inventories.
 - long-term debt.
 - property, plant, and equipment.
 - stockholders' equity.

33. The auditor interviews the plant manager. The auditor is most likely to rely upon this interview as primary support for an audit conclusion on
- capitalization vs. expensing policy.
 - allocation of fixed and variable cost.
 - the necessity to record a provision for deferred maintenance costs.
 - the adequacy of the depreciation expense.
34. For several years, a client's physical inventory count has been lower than what was shown on the books at the time of the count so that downward adjustments to the inventory account were required. Contributing to the inventory problem could be weaknesses in internal control that led to the failure to adjust the accounting records for some
- purchases returned to vendors.
 - sales returns received.
 - sales discounts allowed.
 - cash purchases.
35. Which of the following is an effective internal accounting control measure that encourages receiving department personnel to count and inspect all merchandise received?
- Quantities ordered are excluded from the receiving department copy of the purchase order.
 - Vouchers are prepared by accounts payable department personnel only after they match item counts on the receiving report with the purchase order.
 - Receiving department personnel are expected to match and reconcile the receiving report with the purchase order.
 - Internal auditors periodically examine, on a surprise basis, the receiving department copies of receiving reports.

PART II: Problem (30points)**Problem 1 - Subsequent Events, Discovery and Contingencies (8 points)**

You completed the fieldwork for the December 31, 2004 audit of Dewman Industries on February 15, 2005, and mailed the completed statements with auditor's report on March 1, 2005. For each of the following highly material events, indicate the appropriate action from the alternatives listed below (no explanation is required):

Possible actions:

- Adjust the December 31, 2004 financial statements.
 - Disclose the information in the December 31, 2004 financial statements.
 - Request the client to recall the December 31, 2004 financial statements.
 - No action is required.
1. On February 14th, 2005, you learned that a major customer entered bankruptcy the day before as a result of a catastrophic explosion at their main plant on February 10, 2005. The customer did not have an outstanding balance at December 31, 2004, but made major purchases in January and early February that were still outstanding at the time of the bankruptcy filing.

Action: _____

(背面仍有題目,請繼續作答)

2. On March 23, 2005, you learned that, a customer was severely injured on January 2, 2005 using one of Dewman's products. To keep the issue quiet, Dewman paid a material settlement on February 12, 2005.
- Action: _____
3. On January 2, 2005, a lawsuit was filed against Dewman claiming damages for patent infringement. Dewman's attorney indicated in his written confirmation that it is highly likely Dewman will lose the case. Using a projection based on lost sales, he estimates the damages will be approximately \$400,000, which is material. The case is still pending, and will go to trial next year. However, the lawyer believes a settlement will be reached before then.
- Action: _____
4. On January 31, 2005, the company settled a lawsuit for \$250,000. The lawsuit had originated in the prior year and is currently listed as a contingent liability.
- Action: _____

Problem 2 - Internal Control – Cash Receipts (10 points)

The following are a list of possible errors or fraud in the 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. Customer orders are compared with an approved customer list.
- b. Remittance advices are separated from the checks in the mailroom and forwarded to the accounting department.
- c. The cashier examines each check for proper endorsement.
- d. Total amounts posted to the accounts receivable subledger from remittance advices are compared with the validated bank deposit slip.
- e. Monthly statements are mailed to customers with outstanding balances.
- f. An employee, other than the bookkeeper, periodically prepares a bank reconciliation.
- g. Prenumbered credit memos are used for granting credit for returned goods.

Possible errors or fraud (indicate letter of control procedure)

- _____ 1. Customer checks are misappropriated before being forwarded to the cashier for deposit.
- _____ 2. Customers' checks are misappropriated after being forwarded to the cashier for deposit.
- _____ 3. Different customer accounts are each credited for the same cash receipt.
- _____ 4. Customer checks are properly credited to customer accounts and are properly deposited, but errors are made in recording receipts in the cash receipts journal.

- _____ 5. Customers' checks are received for less than the customers' full account balances, but the customers' full account balances are credited.

Problem 3 - Types of Tests and Objectives (12 points)

For each audit procedure, identify the following (use the abbreviations in bold for a., and the numbers for b). Choose only **one** response for each item.

- a. Whether it is a test of control (**TOC**), a substantive test of transactions (**STOT**), a test of details of balances (**TODB**) or an analytical procedure (**AP**) (1 point each).
- b. The primary audit objective being satisfied. Answer N/A for analytical procedures (1 point each). List only **one response**, even if the test has multiple objectives.

Balance-related Audit Objectives

1. Existence
2. Completeness
3. Accuracy
4. Classification
5. Cutoff
6. Detail tie-in
7. Realizable value
8. Rights and obligations
9. Presentation and Disclosure

Transaction-related Audit Objectives

10. Existence
11. Completeness
12. Accuracy
13. Classification
14. Timing
15. Posting and summarization

1. Account for a sequent of receiving reports and verify that each one has an invoice attached.
a. _____ b. _____
2. Examine dates on sales invoices and shipping documents for a sample of transactions before and after year-end.
a. _____ b. _____
3. Trace entries from the cash receipts journal to the accounts receivable master file.
a. _____ b. _____
4. Examine voucher packages for cancellation.
a. _____ b. _____
5. Examine vendor's invoices and receiving reports supporting amounts on the listing of accounts payable.
a. _____ b. _____
6. Examine duplicate sales invoices for indication that prices were compared to approved price list.
a. _____ b. _____