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Part I: Multiple-Choice Questions: Select the best answer for each of the following question (2 points for each question) (60 points)

1. Auditors often request that the audit client send a letter of inquiry to those attorneys who have been consulted with respect to litigation, claims, or assessments. The primary reason for this request is to provide the auditors with:
- A. An estimate of the dollar amount of the probable loss.
B. An expert opinion as to whether a loss is possible, probable or remote.
C. Information concerning the progress of cases to date.
D. Corroborative audit evidence.
2. Which of the following audit tests would be regarded as a test of a control?
- A. Tests of the specific items making up the balance in a given general ledger account.
B. Tests confirming receivables.
C. Tests of the signatures on canceled checks to board of director's authorizations.
D. Tests of the additions to property, plant, and equipment by physical inspection.
3. When expressing an opinion on a specified account or item in the financial statements, the auditor need only consider that account or item. However, the auditor must have audited the entire set of financial statements if this engagement requires a report on the entity's
- A. Net income B. Retained earnings C. Assets D. Working capital
4. Accepting an engagement to examine an entity's financial projection most likely would be appropriate if the projection were to be distributed to:
- A. All employees who work for the entity.
B. Potential stockholders who request a prospectus or a registration statement.
C. A bank with which the entity is negotiating for a loan.
D. All stockholders of record as of the report date.
5. During an audit engagement pertinent data are prepared and included in the audit working papers. The working papers primarily are considered to be:
- A. A client-owned record of conclusions reached by the auditors who performed the engagement.
B. Evidence supporting financial statements.
C. Support for the auditors' representations as to compliance with generally accepted auditing standards.
D. A record to be used as a basis for the following year's engagement.

(背面仍有題目,請繼續作答)

系所組別：會計學系甲組

考試科目：審計學

考試日期：0306，節次：2

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6. Which of the following best describes the reason why independent auditors report on financial statements?
- A. A management fraud may exist and it is more likely to be detected by independent auditors.
B. Different interests may exist between the company preparing the statements and the persons using the statements.
C. A misstatement of account balances may exist and is generally corrected as the result of the independent auditors' work.
D. Poorly designed internal control may be in existence.
7. An approach that quantifies the total likely misstatement as of the current year-end based on the effects of reflecting misstatements during the current year (and not considering any unadjusted previous year misstatements) is referred to as the:
- A. Evaluation materiality approach. B. Iron curtain approach.
C. Projected misstatement approach. D. Rollover approach.
8. Various factors influence the sample size for a substantive test of details of an account balance. All other factors being equal, which of the following would lead to a larger sample size?
- A. Lower assessment of control risk. B. Greater reliance on analytical procedures.
C. Smaller expected frequency of misstatements. D. Smaller measure of tolerable misstatement.
9. When considering the use of management's written representations as audit evidence about the completeness assertion, an auditor should understand that such representations:
- A. Complement, but do not replace, substantive procedures designed to support the assertion.
B. Constitute sufficient evidence to support the assertion when considered in combination with a moderate assessed level of control risk.
C. Are generally sufficient audit evidence to support the assertion regardless of the assessed level of control risk.
D. Replace the assessed level of control risk as evidence to support the assertions.
10. A typical objective of an operational audit is for the auditor to:
- A. Determine whether the financial statements fairly present the entity's operations.
B. Evaluate the feasibility of attaining the entity's operational objectives.
C. Make recommendations for improving performance.
D. Report on the entity's relative success in attaining profit maximization.

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11. A company's labor distribution report requires extensive corrections each month because of labor hours charged to inactive jobs. Which of the following data processing input controls appears to be missing?
- A. Completeness test. B. Validity test. C. Limit test. D. Control total.
12. A CPA who wishes to perform a WebTrust engagement need *not*:
- A. Agree to adhere to the WebTrust professional standards.
B. Participate in a quality assurance program.
C. Pass an examination on WebTrust principles and criteria.
D. Take continuing education courses on the WebTrust program.
13. An auditor may report on condensed financial statements that are derived from complete financial statements if the
- A. Condensed financial statements are distributed to shareholders along with the complete financial statements
B. Auditor describes the additional procedures performed on the condensed financial statements
C. Auditor indicates whether the information in the condensed financial statements is fairly stated in all material respects in relation to the complete financial statements from which it has been derived
D. Condensed financial statements are presented in comparative form with the prior year's condensed financial statements
14. An internal control questionnaire indicates that an approved receiving report is required to accompany every check request for payment of merchandise. Which of the following procedures provides the greatest assurance that this control is operating effectively?
- A. Select and examine receiving reports and ascertain that the related canceled checks are dated no earlier than the receiving reports.
B. Select and examine receiving reports and ascertain that the related canceled checks are dated no later than the receiving reports.
C. Select and examine canceled checks and ascertain that the related receiving reports are dated no earlier than the checks.
D. Select and examine canceled checks and ascertain that the related receiving reports are dated no later than the checks.
15. When performing an internal control audit under PCAOB requirements, one or more material

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系所組別：會計學系甲組

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考試日期：0308，節次：2

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weaknesses in internal control that exist at year-end may result in what type of report(s):

	Qualified	Adverse
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

A. Option A

B. Option B

C. Option C

D. Option D

16. When there has been a change in accounting principle that materially affects the comparability of the comparative financial statements presented and the auditor concurs with the change, the auditor should

Concur Explicitly
In the Change

Issue an "Except for"
Qualified Opinion

Refer to the Change in
an Explanatory Paragraph

A) No

No

Yes

B) Yes

No

Yes

C) Yes

Yes

No

D) No

Yes

No

A. Option A

B. Option B

C. Option C

D. Option D

17. A CPA firm establishes quality control policies and procedures for deciding whether to accept a new client or continue to perform services for a current client. The primary purpose for establishing such policies and procedures is:

A. To enable the auditor to attest to the integrity or reliability of a client.

B. To comply with the quality control standards established by regulatory bodies.

C. To minimize the likelihood of association with clients whose managements lack integrity.

D. To lessen the exposure to litigation resulting from failure to detect fraud in client financial statements.

18. If all other factors specified in an attributes sampling plan remain constant, changing the specified tolerable rate from 6% to 10%, and changing the specified risk of assessing control risk too low from 3% to 7% would cause the required sample size to:

A. Increase.

B. Remain the same.

C. Decrease.

D. Change by 4%.

19. Within the context of quality control, the primary purpose of continuing professional education and training activities is to enable a CPA firm to provide personnel within the firm with:

A. Technical training that assures proficiency as an auditor.

B. Knowledge required to fulfill assigned responsibilities and to progress within the firm.

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- C. Professional education that is required in order to perform with due professional care.
D. Knowledge required in order to perform a peer review.
20. Which of the following is **not** a financial statement assertion relating to account balances?
A. Completeness B. Existence. C. Rights and obligations. D. Valuation and allowances.
21. Once a CPA has determined that accounts receivable have increased due to slow collections in a "tight money" environment, the CPA would be likely to:
A. Increase the balance in the allowance for bad debts accounts.
B. Review the going concern ramifications.
C. Review the credit and collection policy.
D. Expand tests of collectability.
22. An auditor selects a sample from the file of shipping documents to determine whether invoices were prepared. This test is performed to satisfy the audit objective of:
A. Accuracy. B. Completeness. C. Control. D. Existence.
23. An audit should be designed to achieve reasonable assurance of detecting material misstatements due to:
A. Errors.
B. Errors and fraud.
C. Errors, fraud, and those illegal acts with a direct effect on financial statement amounts.
D. Errors, fraud and illegal acts.
24. The top-down risk assessment process refers to:
A. Evaluating upper management prior to evaluating line management
B. Assessing the risk of material misstatement by examining the entity's business processes
C. Starting the audit by examining sales and then working down the income statement
D. Evaluating specific assertions and then considering the business processes
25. With respect to the auditor's planning of a year-end audit, which of the following statements is always true?
A. An engagement should not be accepted after the fiscal year-end.
B. An inventory count must be observed at the balance sheet date.
C. The client's audit committee should not be told of any specific audit procedures which will be

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考試日期：0306，節次：2

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- performed.
- D. It is an acceptable practice to carry out parts of the examination at interim dates.
26. An entity's financial statements were misstated over a period of years due to large amounts of revenue being recorded in journal entries that involved debits and credits to an illogical combination of accounts. The auditor could most likely have been alerted to this fraud by
- A. Scanning the general journal for unusual entries
- B. Performing a revenue cutoff test at year-end
- C. Tracing a sample of journal entries to the general ledger
- D. Examining documentary evidence of sales returns and allowances recorded after year-end
27. The audit client's board of directors and audit committee refused to take any action with respect to an immaterial illegal act which was brought to their attention by the auditor. Because of their failure to act, the auditor withdrew from the engagement. The auditor's decision to withdraw was primarily due to doubts concerning
- A. Adequate financial statement disclosures
- B. Compliance with the Foreign Corrupt Practices Act
- C. Scope limitations resulting from their inaction
- D. Reliance on management's representations
28. Which one of the following would the auditor consider to be an incompatible operation if the cashier receives remittances from the mailroom?
- A. The cashier prepares the daily deposit.
- B. The cashier makes the daily deposit at a local bank.
- C. The cashier posts the receipts to the accounts receivable subsidiary ledger.
- D. The cashier endorses the checks.
29. Dexter and Co., CPAs, issued an unqualified opinion on the 20X3 financial statements of Bart Corp. Late in 20X4, Bart determined that its treasurer had embezzled over \$1,000,000. Dexter was unaware of the embezzlement. Bart has decided to sue Dexter to recover the \$1,000,000. Bart's suit is based upon Dexter's failure to discover the missing money while performing the audit. Which of the following is Dexter's best defense?
- A. That the audit was performed in accordance with GAAS.
- B. Dexter had no knowledge of the embezzlement.
- C. The financial statements were presented in conformity with GAAP.

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考試日期：0306 · 節次：2

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D. The treasurer was Bart's agent and as such had designed the controls which facilitated the embezzlement.

30. Which of the following is the best evidence of continuous ownership of property?

- A. Examination of the deed.
- B. Examination of rent receipts from lessees of the property.
- C. Examination of the title policy.
- D. Examination of canceled check in payment for the property.

PART II: Problems (40 points)

1. The following is a list of circumstances that might be faced by a public accounting firm. If the circumstance represents a violation of one of the rules of the AICPA Code of Professional Conduct, provide the title of the rule. Write "no violation" in the space if the circumstance does not represent a violation of a rule. (10 points)

Circumstance	Rule Violated
1 The dependent-son of a partner in a CPA firm owns ten share of stock in an audit client.	
2 In preparing a tax return, a CPA takes a deduction at the client's request, that the CPA believes is not justified.	
3 A CPA robs a bank.	
4 A CPA owns 100 shares of stock in a consulting client.	
5 A CPA charges an audit fee that depends on the amount of credit the client obtains.	
6 A CPA advertises in a local newspaper.	
7 A CPA issues an unqualified opinion on financial statements that materially depart from an FASB standard; the CPA believes that the departure is not justified.	
8 A CPA receives a commission for selling computer equipment to an audit client.	
9 A CPA discloses information about a client because the information was subpoenaed.	
10 A CPA does not follow generally accepted auditing standards.	

2. Listed below are four interbank cash transfers, indicated by the letters a, b, c and d, of a client for late December 20X1, and early January 20X2. Your answer choice for the next two questions should be

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selected from this list.

	Bank Account One		Bank Account Two	
	Disbursing Date		Receiving Date	
	(Month Day)		(Month Day)	
	Per Bank	Per Books	Per Bank	Per Books
a.	1 02	12 30	12 31	12 30
b.	1 04	12 31	1 02	12 31
c.	1 03	12 31	1 02	1 02
d.	1 02	1 02	12 31	1 02

For each of transfers a through d indicate whether cash is understated, unaffected, or overstated by the transfer and provide a brief example of what could cause the situation in which cash is either understated or overstated. (8 points)

3. For each of the following brief scenarios, assume that you are reporting on a client's financial statements. Reply as to the type or types of opinion possible in the circumstance:

S: Standard unqualified.

U: Unqualified with explanatory language.

Q: Qualified.

D: Disclaimer

A: Adverse

Since more than one report may be possible in several of the circumstances, a second 'type of opinion' column is added for each circumstance. In certain cases you will not need to use the second column (you can mark as 'Not Applicable'). Do not read more into the circumstance than what is presented, and do not consider the possibility of an 'emphasis of a matter' paragraph being added to the audit report. Unless stated otherwise, assume that the information presented is material to the financial statements. (16 points)

Situation	Opinion	Opinion
1. A company in its first year of existence is valuing inventory at current replacement cost. While you believe that the inventory costs do approximate replacement costs, these costs do not approximate any GAAP inventory valuation method.		
2. Due to recurring operating losses and working capital deficiencies, you have substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. The notes to the financial statements adequately disclose the substantial doubt situation.		
3. You have discovered that a client has made illegal payoffs to a candidate for president of the United States. You are unable to determine the amounts associated		

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考試日期：0306，節次：2

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with the payoffs because of the client's inadequate record retention policies. The client has added a note to the financial statements to describe this all, and has stated that the amounts of the payments are not determinable.		
4. In auditing the long-term investments account of a new client, you find that a large contingent liability exists that is material to the consolidated company. It is probable that this contingent liability will be resolved with a material loss in the future, and this amount is reasonably estimable as \$2 million. Although no adjusting entry has been made, the client has provided a note to the financial statements that describes the matter in detail and includes the \$2 million estimate in that note.		
5. A client is issuing 2 years of comparative financial statements. The first year was audited by another auditor who is not being asked to reissue her audit report.		
6. An entity changes its depreciation method for production equipment from the straight-line to the units-of-production method based on hours of utilization. You concur with the change.		
7. A client has changed from the method it uses to calculate post employment benefits from one acceptable method to another one. The effect of the change is immaterial this year, but expected to be material in the future.		
8. A client has departed from GAAP, because both the client and you believe that because of relatively unique circumstances following GAAP would lead to misleading results.		

4. Analytical procedures are substantive procedures that may be used to provide evidence about specific accounts and classes of transactions. (6 points)
- Describe three major types of comparisons the auditor might make in performing analytical procedures.
 - At what stages of the audit are analytical procedures performed and what purpose do they serve at each stage?