

# Chapter 7: Solutions

## ■ Multiple Choice Questions From CPA Examinations

7-27 a. (2)      b. (1)      c. (4)      d. (4)

7-28 a. (3)      b. (3)      c. (4)      d. (4)

## ■ Discussion Questions And Problems

7-29 a.

1. External	7. Internal	13. Internal
2. Internal	8. Internal	14. External
3. External	9. External	15. Internal
4. External	10. Internal*	16. External
5. Internal*	11. External	17. External
6. Internal	12. External**	18. External

\* Even though these may be signed or initialed by employees, they are still internal documents.

\*\* Bills of lading are ordinarily signed by the freight company. That signature will be included on the top of the bill of lading, therefore, it is an external document.

b. External evidence is considered more reliable than internal evidence because external evidence has been in the hands of both the client and another party, implying agreement about the information and the conditions stated on the document.

7-30

1.	(5)	inquiry of client
2.	(8)	observation
3.	(1)	physical examination
4.	(2)	confirmation
5.	(6)	recalculation
6.	(2)	confirmation
7.	(3)	documentation
8.	(4)	analytical procedures
9.	(5)	inquiry of client
10.	(7)	reperformance
11.	(8)	observation
12.	(1)	physical examination
13.	(4)	analytical procedures
14.	(3)	documentation
15.	(5)	inquiry of client

- 16. (4) analytical procedures
- 17. (3) documentation
- 18. (6) recalculation
- 19. (1) physical examination
- 20. (2) confirmation

**7-34**

<b>AUDIT PROCEDURE</b>	<b>a. TYPE OF AUDIT EVIDENCE</b>	<b>b. BALANCE- RELATED AUDIT OBJECTIVE</b>
1. Test extend unit prices times quantity on the inventory list, test foot the list and compare the total to the general ledger.	Recalculation	Detail tie-in
2. Trace selected quantities from the inventory list to the physical inventory to make sure that it exists and the quantities are the same.	Physical examination	Existence and Accuracy
3. Question operating personnel about the possibility of obsolete or slow-moving inventory.	Inquiry of the client	Realizable value
4. Select a sample of quantities of inventory in the factory warehouse and trace each item to the inventory count sheets to determine if it has been included and if the quantity and description are correct.	Physical examination	Completeness and Accuracy
5. Compare the quantities on hand and unit prices on this year's inventory count sheets with those in the preceding year as a test for large differences.	Analytical procedures	Accuracy
6. Examine sales invoices and contracts with customers to determine whether any goods are out on consignment with customers. Examine vendors' invoices and contracts with vendors to determine if any goods on the inventory listing are owned by vendors.	Documentation	Rights

AUDIT PROCEDURE	a. TYPE OF AUDIT EVIDENCE	b. BALANCE- RELATED AUDIT OBJECTIVE
7. Send letters directly to third parties who hold the client's inventory and request they respond directly to us.	Confirmation	Existence, Completeness, and Accuracy

■ **7-41 – ACL Problem Solution**

- a. There are 44 payroll transactions in the Payroll file. *(This is determined by reading the number at the bottom of the screen.)*
- b. The largest and smallest gross pay amounts for September are \$4,395.83 and \$1,278.33, respectively. *(Use Quick Sort.)*
- c. Total gross pay for September was \$99,585.46. *(Use the Total command.)*
- d. The report on the following page shows gross pay by department. *(Use the Summarize command on the Gross Pay column, save to a file, and print.)* Note that this screenshot was produced using the “Screen” option in the Output tab of the Summarize window. Students’ hardcopy printouts will appear slightly different, but will contain the same departmental totals.

## 7-41 – ACL Problem (continued)

Report for requirement d:

Welcome | Payroll | Summarize

9  
As of: 02/20/2009 13:48:07

Command: SUMMARIZE ON WorkDept SUBTOTAL Gross\_Pay TO SCREEN PRESORT  
Table: Payroll

Work Dept.	Gross Pay	Count
A00	17,020.83	5
B01	3,437.50	1
C01	9,907.49	4
D11	23,051.69	11
D21	14,973.34	7
E01	3,347.92	1
E11	9,782.50	6
E21	16,401.69	8
E83	1,662.50	1
Totals	99,585.46	44

9 records produced

- e. There are no exceptions in the calculation of net pay for September. (Use the following Filter:  $Gross\ Pay - Taxes < > Net\ Pay$ .)
- f. There are no duplicate check numbers. (Use the Duplicates command on the check [cheque] number column). There are four missing checks (#12389 - #12392). The audit concern is that there may be unrecorded payroll transactions. (Use the Gaps command on the check [cheque] number column.)

## 11-33 – ACL Problem

- a. The invoice amount column totals \$278,641.33.
- b. There are no exceptions in the calculation of unit cost x quantity. (Create a filter with the expression  $Unit\_Cost * Quantity < > Invoice\_Amount$ .)
- c. There are three items where the unit cost exceeds \$100 (product # 090584072, 090585322, and 090081001). See the following printout. (Filter used  $Unit\ Cost > 100$ .)

Produced with ACL by: ACL Educational Edition - Not For Commercial Use

INV.DATE	INVNO	PRODNO	QUANTITY	VENDOR_NO	INVOICE_AMT	UNIT_COST
10/21/2002	87	090584072	41	11475	7125.80	173.80
10/21/2002	22	090585322	29	11837	3996.20	137.80
04/09/2002		090081001	3	10134	467.40	155.80
			73		11589.40	467.40

- d. The three vendors with the largest total dollars for 2002 were: vendor #s 10025, 11475, and 12130. (Summarize by vendor number, then Quick Sort to find the largest three.)
- e. The following amounts are over \$15,000: vendor #10025 for \$56,767.20, vendor #11475 for \$20,386.19, and vendor #12130 for \$15,444.80. [Filter used is (VENDOR\_NO = "10025" OR VENDOR\_NO = "11475" OR VENDOR\_NO = "12130") AND INVOICE\_AMOUNT > 15000.]
- f. See the following printout. (Filter, then print report). Total transactions for vendor #10134 = \$22,618.62. (Edit filter to include only vendor #10134 and use Total command)

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INV._DATE	INV._NO	PRODNO	QTY	VENDOR_NO	INVOICE_AMOUNT	UNITCOST
09/29/2002	030303343		100	10134	883.00	8.83
11/12/2002	0302303		458	10134	18883.34	41.23
04/09/2002	090081001		3	10134	467.40	155.80
09/30/2002	010551340		278	10134	1823.68	6.56
02/14/2002	052484405		115	10134	561.20	4.88
10/15/200255	060102096		286	13440	11068.20	38.70
			1240		33686.82	256.00