A439: Advance Auditing
Posttest and Final exam
Directions:
The multiple choice take-home exam questions are being used for both the posttest and final
exam. Please complete the post-test first.

Posttest: The post test consists of just the multiple choice questions. Please complete the
SCRANTON distributed in class, clearly marking the “Test No.” space as “Posttest.” Please do
NOT use any additional resources to answer these questions. Thanks.

Final Exam:
- The final exam consists of multiple choice questions and one problem.
- Ground Rules. As a take-home exam you may use notes, the internet, auditing textbooks or
other materials to answer the questions. However, it should be your own work and not that
of others (i.e., it is not appropriate to work together or to share answers).
- For the multiple choice please complete the SCANTRON distributed in class, clearly mark it
as the “Final” in the Test No. space.
- Your solution to the problem should be typed, concise, and well-written.

Due: Tuesday, May 2, 2006 by 5:45 p.m.

Multiple Choice. Please complete the provided Scantron sheet. You may keep the questions.

1. Which of the following procedures concerning accounts receivable would an auditor most
likely perform to obtain evidential matter in support of an assessed level of control risk
below the maximum level?
   A. Observing an entity’s employee prepare the schedule of past due accounts receivable.
   B. Sending confirmation requests to an entity’s principal customers to verify the existence
      of accounts receivable.
   C. Inspecting an entity’s analysis of accounts receivable for unusual balances.
   D. Comparing an entity’s uncollectible accounts expense to actual uncollectible accounts
      receivable.

2. For effective control internal control, the accounts payable department generally should:
   A. Stamp, perforate, or otherwise cancel supporting documentation after payment is
      mailed.
   B. Ascertain that each requisition is approved as to price, quantity, and quality by an
      authorized employee.
   C. Obliterate the quantity ordered on the receiving department copy of the purchase
      order.
   D. Establish the agreement of the vendor’s invoice with the receiving report and purchase
      order.

3. Audit documentation should:
   A. Not be permitted to serve as a reference source for the client.
   B. Not contain critical comment concerning management.
   C. Show that the accounting records agree or reconcile with the financial statements.
   D. Be considered the primary support for the financial statements being audited.
4. 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.

5. To gain assurance that all inventory items in a client’s inventory listing schedule are valid, an auditor most likely would trace:
   A. Inventory tags noted during the auditor’s observation to items listed in the inventory-listing schedule.
   B. Inventory tags noted during the auditor’s observation to items listed in receiving reports and vendors’ invoices.
   C. Items listed in the inventory-listing schedule to inventory tags and the auditor’s recorded count sheets.
   D. Items listed in receiving reports and vendors’ invoices to the inventory-listing schedule.

6. An auditor vouched data for a sample of employees in a payroll register to approved clock card data to provide assurance that
   A. Payments to employees are computed at authorized rates.
   B. Employees work the number of hours for which they are paid.
   C. Segregation of duties exist between the preparation and distribution of the payroll.
   D. Internal controls relating to unclaimed payroll checks are operating effectively.

7. An auditor traced a sample of purchase orders and the related receiving reports to the purchases journal and the cash disbursements journal. The purpose of this substantive audit procedure most likely was to
   A. Identify unusually large purchases that should be investigated further.
   B. Verify that cash disbursements were for goods actually received.
   C. Determine that purchases were properly recorded.
   D. Test whether payments were for goods actually ordered.

8. An auditor selected items for test counts while observing a client’s physical inventory. The auditor then traced the test counts to the client’s inventory listing. This procedure most likely obtained evidence concerning management’s assertion of
   A. Rights and obligations.
   B. Completeness.
   C. Existence and occurrence.
   D. Valuation.

9. An auditor analyzes repairs and maintenance accounts primarily to obtain evidence in support of the audit assertion that all
   A. Noncapitalizable expenditures for repairs and maintenance have been recorded in the proper period.
   B. Expenditures for property and equipment have been recorded in the proper period.
   C. Noncapitalizable expenditures for repairs and maintenance have been properly charged to expense.
   D. Expenditures for property and equipment have not been charged to expense.
10. An auditor most likely would perform substantive tests of details on payroll transactions and balances when
   A. Cutoff tests indicate a substantial amount of accrued payroll expense.
   B. The assessed level of control risk relative to payroll transactions is low.
   C. Analytical procedures indicate unusual fluctuations in recurring payroll entries.
   D. Accrued payroll expense consists primarily of unpaid commissions.

11. Which of the following is a conceptual difference between the attestation standards and generally accepted auditing standards?
   A. The attestation standards provide a framework for the attest function beyond historical financial statements.
   B. The requirement that the practitioner be independent in mental attitude is omitted from the attestation standards.
   C. The attestation standards do not permit an attest engagement to be part of a business acquisition study or a feasibility study.
   D. None of the standards of field work in generally accepted auditing standards are included in the attestation standards.

12. Who establishes generally accepted auditing standards?
   A. Auditing Standards Board.
   B. Financial Accounting Standards Board.
   C. State Boards of Accountancy.
   D. Securities and Exchange Commission.

13. A CPA in public practice is required to comply with the provisions of the Statements on Standards for Attestation Engagements (SSAE) when

<table>
<thead>
<tr>
<th>Testifying as an expert witness in accounting and auditing matters given stipulated facts</th>
<th>Compiling a client’s financial projection that presents a hypothetical course of action</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Yes</td>
<td>No</td>
</tr>
<tr>
<td>C. No</td>
<td>Yes</td>
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<tr>
<td>D. No</td>
<td>No</td>
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</tbody>
</table>

14. In performing an attest engagement, a CPA typically
   A. Supplies litigation support services.
   B. Assesses control risk at a low level.
   C. Expresses a conclusion about an assertion.
   D. Provides management consulting advice.

15. Which of the following professional services would be considered an attest engagement?
   A. A consulting service engagement to provide computer advice to a client.
   B. An engagement to report on compliance with statutory requirements.
   C. An income tax engagement to prepare federal and state tax returns.
   D. The compilation of financial statements from a client’s accounting records.
16. Which of the following is not an attestation standard?
   A. Sufficient evidence shall be obtained to provide a reasonable basis for the conclusion that is expressed in the report.
   B. The report shall identify the subject matter or the assertion being reported on and state the character of the engagement.
   C. The work shall be adequately planned and assistants, if any, shall be properly supervised.
   D. A sufficient understanding of internal control shall be obtained to plan the engagement.

17. Which of the following accounting services most likely may an accountant perform without being required to issue a compilation or review report under the Statements on Standards for Accounting and Review Services?
   I. Preparing a working trial balance
   II. Preparing standard monthly journal entries
   
   A. I only.
   B. II only.
   C. Both I and II.
   D. Neither I nor II.

18. North Co., a privately held entity, asked its tax accountant, King, a CPA in public practice, to generate North’s interim financial statements on King’s personal computer when King prepared North’s quarterly tax return. King should not submit these financial statements to North unless, as a minimum, King complies with the provisions of
   A. Statements on Standards for Accounting and Review Services.
   B. Statements on Standards for Unaudited Financial Services.
   C. Statements on Standards for Consulting Services.
   D. Statements on Standards for Attestation Engagements.

19. Blue Co., a privately held entity, asked its tax accountant, Cook, a CPA in public practice to reproduce Blue’s internally prepared interim financial statements on Cook’s personal computer when Cook prepared Blue’s quarterly tax return. Cook should not transmit these financial statements to Blue unless, as a minimum, Cook complies with the provisions of
   A. Statements on Standards for Tax Services (SSTSs).
   B. Statements on Standards for Accounting and Review Services (SSARSs).
   C. Statements on Standards for Attestation Engagements (SSAEs).
   D. None of the answers are correct.

20. Statements on Standards for Accounting and Review Services establish standards and procedures for which of the following engagements?
   A. Assisting in adjusting the books of account for a partnership.
   B. Reviewing interim financial information required to be filed by public companies with the SEC.
   C. Processing financial data for clients of other accounting firms.
   D. Compiling an individual’s personal financial statement to be used to obtain a mortgage.
21. An accountant has compiled the financial statements of a nonpublic entity in accordance with Statements on Standards for Accounting and Review Services (SSARSs). Do the SSARSs require that the compilation report be printed on the accountant’s letterhead and that the report be manually signed by the accountant?

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<tr>
<th>Printed on the Accountant’s Letterhead</th>
<th>Manually Signed by the Accountant</th>
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<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
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<td>B. Yes</td>
<td>No</td>
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<td>C. No</td>
<td>Yes</td>
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<td>D. No</td>
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22. May an accountant accept an engagement to compile or review the financial statements of a not-for-profit entity if the accountant is unfamiliar with the specialized industry accounting principles but plans to obtain the required level of knowledge before compiling or reviewing the financial statements?

<table>
<thead>
<tr>
<th>Compilation</th>
<th>Review</th>
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<tbody>
<tr>
<td>A. No</td>
<td>No</td>
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<td>B. Yes</td>
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<td>C. No</td>
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<td>D. Yes</td>
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23. If requested to perform a review engagement for a nonpublic entity in which an accountant has an immaterial direct financial interest, the accountant is

A. Not independent and, therefore, may not be associated with the financial statements.
B. Non independent and, therefore, may not issue a review report.
C. No independent and, therefore, may issue a review report, but may not express an auditor’s opinion.
D. Independent because the financial interest is immaterial and, therefore, may issue a review report.

24. In a review engagement, the accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. The understanding should include all of the following except a

A. Description of the nature and limitations of the services to be performed.
B. Description of the report the accountant expects to issue.
C. Provision that the engagement cannot be relied upon to disclose errors, fraud, or illegal acts.
D. Provision that any errors, fraud, or illegal acts that come to the accountant’s attention need not be reported.

25. When third-party use of prospective financial statements is expected, a practitioner may not accept an engagement to

A. Perform a review.
B. Perform a compilation.
C. Perform an examination.
D. Apply agreed-upon procedures.
26. An examination of a financial forecast is a professional service that involves
   A. Compiling or assembling a financial forecast that is based on management’s assumptions.
   B. Restricting the use of the practitioner’s report to management and the board of directors.
   C. Assuming responsibility to update management on key events for one year after the report’s date.
   D. Evaluating the preparation of a financial forecast and the support underlying management’s assumptions.

27. Assurance services are best described as
   A. Services designed for the improvement of operations, resulting in better outcomes.
   B. Independent professional services that improve the quality of information, or its context, for decision makers.
   C. The assembly of financial statements based on assumptions of a responsible party.
   D. Services designed to express an opinion on historical financial statements based on the results of an audit.

28. The objective of assurance services is to
   A. Provide more reliable information.
   B. Enhance decision making.
   C. Compare internal information and policies to those of other firms.
   D. Improve the firm’s outcomes.

29. The AICPA assurance service called CPA Performance Review attempts to provide users with
   A. A profile of the business risks and the appropriate systems in place to manage those risks.
   B. An opinion on whether the financial statements are fairly stated.
   C. An evaluation of whether an entity has reliable measures of performance beyond the traditional financial statements.
   D. An assessment of management’s assertion on internal control and whether the system is meeting the objectives of the organization.

30. Under the assurance service WebTrust, the broad principles relating to websites are security, availability, confidentiality, processing integrity, and
   A. Information disclosure.
   B. Web site performance.
   C. Online privacy.
   D. Transaction assurance.

31. When an accountant performs more than one level of service (for example, a compilation and a review, or a compilation and an audit) concerning the financial statements of a nonpublic entity, the accountant ordinarily should issue the report that is appropriate for
   A. The lowest level of service rendered.
   B. The highest level of service rendered.
   C. A compilation engagement.
   D. A review engagement.
32. Statements on Standards for Accounting and Review Services (SSARSs) require an accountant to report when the accountant has
   A. Typed client-prepared financial statements, without modification, as an accommodation to the client.
   B. Provided a client with a financial statement format that does not include dollar amounts, to be used by the client in preparing financial statements.
   C. Proposed correcting journal entries to be recorded by the client that change client-prepared financial statements.
   D. Prepared, through the use of computer software, financial statements to be used by third parties.

33. An accountant should not submit unaudited financial statements to the management of a nonpublic company unless, at a minimum, the accountant
   A. assists in adjusting the books of account and preparing the trial balance.
   B. Types or reproduces the financial statements.
   C. Complies with the standards applicable to compilation engagements.
   D. Applies analytical procedures to the financial statements.

34. When compiling a nonpublic entity’s financial statements, an accountant is least likely to
   A. Perform analytical procedures designed to identify relationships that appear to be unusual.
   B. Read the compiled financial statements and consider whether they appear to include adequate disclosure.
   C. Omit substantially all of the disclosures required by generally accepted accounting principles.
   D. Issue a compilation report on one or more, but not all, of the basic financial statements.

35. A report on compiled financial statements should state that
   A. A compilation is limited to presenting in the form of financial statements information that is the representation of management.
   B. The accountant has compiled the financial statements in accordance with standards established by the Auditing Standards Board.
   C. A compilation is substantially less in scope than a review or an audit in accordance with generally accepted auditing standards.
   D. The accountant does not express an opinion but expresses only limited assurance on the compiled financial statements.

36. When an accountant attaches a compilation report to a nonpublic entity’s financial statements that omit substantially all disclosures required by GAAP, the accountant should indicate in the compilation report that the financial statements are
   A. Not designed for those who are uninformed about the omitted disclosures.
   B. Prepared in conformity with a comprehensive basis of accounting other than GAAP.
   C. Not compiled in accordance with Statements on Standards for Accounting and Review Services.
   D. Special-purpose financial statements that are not comparable to those of prior periods.
37. An accountant may compile a nonpublic entity’s financial statements intended for third-party use that omit all of the disclosures required by GAAP only if the omission is
   I. Clearly indicated in the accountant’s report
   II. Not undertaken with the intention of misleading the financial statement users
A. I only.
B. II only.
C. Both I and II.
D. Either I or II.

38. When providing limited assurance that the financial statements of a nonpublic entity require no material modifications to be in accordance with generally accepted accounting principles, the accountant should
   A. Understand the accounting principles of the industry in which the entity operates.
   B. Develop audit programs to determine whether the entity’s financial statements are fairly presented.
   C. Assess the risk that a material misstatement could occur in a financial statement assertion
   D. Confirm with the entity’s lawyer that material loss contingencies are disclosed.

39. Which of the following procedures should an accountant perform during an engagement to review the financial statements of a nonpublic entity?
   A. Communicating reportable conditions discovered during the assessment of control risk.
   B. Obtaining a client representation letter from members of management.
   C. Sending bank confirmation letters to the entity’s financial institutions.
   D. Examining cash disbursements in the subsequent period for unrecorded liabilities.

40. Performing inquiry and analytical procedures is the primary basis for an accountant to issue a
   A. Report on compliance with requirements governing major federal assistance programs in accordance with the Single Audit Act.
   B. Review report on prospective financial statements that present an entity’s expected financial position, given one or more hypothetical assumptions.
   C. Management advisory report prepared at the request of a client’s audit committee.
   D. Review report on comparative financial statements for a nonpublic entity in its second year of operations.

41. Which of the following statements is true concerning both an engagement to compile and an engagement to review a nonpublic entity’s financial statements?
   A. The accountant does not contemplate obtaining an understanding of internal control.
   B. The accountant must be independent in fact and appearance.
   C. The accountant expresses no assurance on the financial statements.
   D. The accountant should obtain written management representations.
42. An accountant who reviews the financial statements of a nonpublic entity should issue a report stating that a review
   A. Is substantially less in scope than an audit.
   B. Provides negative assurance that internal control is functioning as designed.
   C. Provides only limited assurance that the financial statements are fairly presented.
   D. Is substantially more in scope than a compilation.

43. An accountant’s standard report on a review of the financial statements of a nonpublic entity should state that the accountant
   A. Does not express an opinion or any form of limited assurance on the financial statements.
   B. Is not aware of any material modifications that should be made to the financial statements for them to conform with GAAP.
   C. Obtained reasonable assurance about whether the financial statements are free of material misstatement.
   D. Examined evidence, on a test basis, supporting the amounts and disclosures in the financial statements.

44. Baker, CPA, was engaged to review the financial statements of Hall Company, a nonpublic entity. Evidence came to Baker’s attention that indicated substantial doubt as to Hall’s ability to continue as a going concern. The principal conditions and events that caused the substantial doubt have been fully disclosed in the notes to Hall’s financial statements. Which of the following statements best describes Baker’s reporting responsibility concerning this matter?
   A. Baker is not required to modify the accountant’s review report.
   B. Baker is not permitted to modify the accountant’s review report.
   C. Baker should issue an accountant’s compilation report instead of a review report.
   D. Baker should express a qualified opinion in the accountant’s review report.

45. Each page of a nonpublic entity’s financial statements reviewed by an accountant should include the following reference:
   A. See Accountant’s Review Report.
   B. Reviewed, No Accountant’s Assurance Expressed.
   C. See Accompanying Accountant’s Notes.
   D. Reviewed, No Material Modifications Required.

46. An auditor who conducts an audit in accordance with generally accepted auditing standards and concludes that the financial statements are fairly presented in accordance with a comprehensive basis of accounting other than generally accepted accounting principles (OCBOA), such as the cash basis of accounting, should issue a
   A. Special report.
   B. Report disclaiming an opinion.
   C. Review report.
   D. Report expressing a qualified opinion.
47. If compiled financial statements presented in conformity with the cash receipts and disbursements basis of accounting do not disclose the basis of accounting used, the accountant should
   A. Recompile the financial statements using generally accepted accounting principles.
   B. Disclose the basis in the notes to the financial statements.
   C. Clearly label each page “unaudited.”
   D. Disclose the basis of accounting in the accountant’s report.

48. When an auditor is requested to express an opinion on the rental and royalty income of an entity, the auditor may
   A. Not accept the engagement because to do so would be tantamount to agreeing to express a piecemeal opinion.
   B. Not accept the engagement unless also engaged to audit the full financial statements of the entity.
   C. Accept the engagement provided the auditor’s opinion is expressed in a special report.
   D. Accept the engagement provided use of the auditor’s report is restricted to the entity’s management.

49. An Auditor’s report issued in connection with which of the following is generally not considered to be a special report?
   A. Compliance with aspects of contractual agreements unrelated to audited financial statements.
   B. Specified elements, accounts, or items of a financial statement presented in a document.
   C. Financial statements prepared in accordance with an entity’s income tax basis.
   D. Financial information presented in a prescribed schedule that requires a prescribed form of auditor’s report.

50. A practitioner may accept an agreed-upon procedures engagement to calculate the rate of return on a specified investment and verify that the percentage agrees with the percentage in an identified schedule provided that
   A. The practitioner’s report does not enumerate the procedures performed.
   B. The practitioner accepts responsibility for the sufficiency of the procedures.
   C. Use of the practitioner’s report is restricted.
   D. The practitioner is also the entity’s continuing auditor.

**Problem:** From *Core Concepts of Consulting for Accountants* do Problem 6-11.