

Auditing and Assurance Services

True / False Questions

1. Financial decision makers demand reliable information that is provided by accountants.

True False

2. Financial decision makers obtain their accounting information from lenders of funds.

True False

3. Four conditions that create demand for reliable information are complexity, remoteness, timeliness, and consequences.

True False

4. The lending of credibility to financial information is known as certification.

True False

5. Independent auditors are employees of the client.

True False

6. Assurance service is the systematic process of objectively obtaining and evaluating evidence.

True False

7. Evidence consists of assertions about economic actions and events.

True False

8. The purpose of obtaining and evaluating evidence is to ascertain the degree of correspondence between the assertions and established criteria.

True False

9. The AICPA Statement on Auditing Standards defines auditing more broadly than the AAA definition of auditing.

True False

10. The PCAOB audit objective related to the completeness assertion is to establish evidence that assets, liabilities, and equities actually exist.

True False

11. The ASB balance audit objective related to valuation or accuracy is to determine whether proper values have been assigned to assets, liabilities, equities, revenues, and expenses.

True False

12. The objective of internal auditing is to assist members of an organization to effectively perform their obligations.

True False

13. Internal auditors perform only operational audits.

True False

14. Government auditors perform both financial and performance audits.

True False

15. Expanded scope governmental auditing includes economy and efficiency and program results audits.

True False

16. The AICPA licenses CPAs to practice in the United States.

True False

17. Professional skepticism is an auditor's tendency not to believe anyone.

True False

18. Assurance services are independent professional services that improve the quality of information or its context for decision makers.

True False

19. The concept "professional skepticism" requires that auditors assume management is dishonest and should not be trusted.

True False

20. For independent auditors of financial statements in the United States, established criteria largely consist of the generally accepted accounting principles (GAAP).

True False

Multiple Choice Questions

21. The audit objective of presenting all transactions and accounts in the financial statements are in fact included is related to which of the PCAOB assertions?

- A. Existence.
- B. Rights and obligations.
- C. Completeness.
- D. Valuation.

22. To be proficient as an auditor, a person must *first* be able to accomplish which of these tasks in a decision-making process?

- A. Identify audit evidence relevant to the verification of assertions management makes in its unaudited financial statements and notes.
- B. Formulate evidence-gathering procedures (audit plan) designed to obtain sufficient, competent evidence about assertions management makes in financial statements and notes.
- C. Recognize the financial assertions made in management's financial statements and footnotes.
- D. Evaluate the evidence produced by the performance of procedures and decide whether management's assertions conform to generally accepted accounting principles and reality.

23. Which of the following is an underlying condition that in part creates the demand by users for reliable information?

- A. Economic transactions are numerous and complex.
- B. Decisions are time sensitive.
- C. Users are separated from accounting records by distance and time.
- D. Financial decisions are important to investors and users.
- E. All of the above.

24. Which of the following is *not* included in The American Accounting Association (AAA) definition of auditing?

- A. Potential conflict of interest.
- B. Systematic process.
- C. Assertions about economic actions.
- D. Established criteria.

25. What is the term used to identify the risk that the client's financial statements may be materially false and misleading?

- A. Business risk.
- B. Information risk.
- C. Client risk.
- D. Risk assessment.

26. Which of the following is *not* a recommendation usually made following the completion of an operational audit?

- A. Economic and efficient use of resources.
- B. Effective achievement of business objectives.
- C. Attesting to the fairness of the financial statements.
- D. Compliance with company policies.

27. In order to be considered as external auditors with respect to government agencies, GAO auditors must be

- A. Organizationally independent.
- B. Empowered as the accounting and auditing agency by the U.S. Congress.
- C. Funded by the federal government.
- D. Guided by standards similar to GAAS.

28. Which of the following is the essential purpose of the audit function?

- A. Detection of fraud.
- B. Examination of individual transactions to certify their validity.
- C. Determination of whether the client's financial statement assertions are fairly stated.
- D. Assurance of the consistent application of correct accounting procedures

29. The audit objective that all the transactions and accounts presented in the financial statements represent real assets, liabilities, revenues, and expenses is related most closely to which of the PCAOB assertions?

- A. Existence or occurrence.
- B. Rights and obligations.
- C. Completeness.
- D. Presentation and disclosure.

30. The audit objective that all transactions are recorded in the proper period is related most closely to which of the Audit Standards Board (ASB) transaction assertions?

- A. Occurrence.
- B. Completeness.
- C. Cutoff.
- D. Accuracy.

31. The audit objective that all transactions are recorded in the proper account is related most closely to which one of the ASB transaction assertions?

- A. Occurrence.
- B. Completeness.
- C. Accuracy.
- D. Classification.

32. The audit objective that all balances include items owned by the client is related most closely to which one of the ASB balance assertions?

- A. Existence.
- B. Rights and obligations.
- C. Completeness.
- D. Valuation.

33. The audit objective that all balances include all items that should be recorded in that account is related most closely to which one of the ASB balance assertions?

- A. Existence.
- B. Rights and obligations.
- C. Completeness.
- D. Valuation.

34. The audit objective that footnotes in the financial statements should be clear and expressed so that the information is easily conveyed to the readers of the financial statements is related most closely with which of the ASB presentation and disclosure assertions?

- A. Occurrence.
- B. Rights and obligations.
- C. Comprehensibility.
- D. Understandability.

35. The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. The auditor reviewed all work orders that were capitalized as part of the equipment costs. Which of the following is the ASB transaction assertion most closely related to the auditor's testing?

- A. Occurrence.
- B. Completeness.
- C. Accuracy.
- D. Classification.

36. The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. When looking at the ending balance for the fixed asset account, the auditor examined all work orders, purchased materials, labor cost reports, and applied overhead that were capitalized as part of the equipment costs. Which of the following is the ASB balance assertion most closely related to the auditor's testing?

- A. Existence.
- B. Completeness.
- C. Rights and obligations.
- D. Valuation.

37. Which of the following best describes the primary role and responsibility of the independent external auditor?

- A. Produce a company's annual financial statements and notes.
- B. Express an opinion on the fairness of a company's annual financial statements and footnotes.
- C. Provide business consulting advice to audit clients.
- D. Obtain an understanding of the client's internal control structure and give management a report about control problems and deficiencies.

38. Which of the following best describes the main reason that independent auditors report on management's financial statements?

- A. Management fraud may exist, and it is likely to be detected by independent auditors.
- B. The management that prepares the statements and the persons who use the statements may have conflicting interests.
- C. Misstated account balances may be corrected as the result of the independent audit work.
- D. The management that prepares the statements may have a poorly designed system of internal control.

39. The auditor's judgment concerning the overall fairness of the presentation of financial position, results of operations, and cash flows is applied within the framework of

- A. Quality control.
- B. Generally accepted auditing standards, which include the concept of materiality.
- C. The auditor's evaluation of the audited company's internal control.
- D. The applicable financial reporting framework (i.e., GAAP in the United States).

40. Assurance services involve all of the following *except*

- A. Relevance as well as the reliability of information.
- B. Nonfinancial information as well as traditional financial statements.
- C. Providing absolute rather than reasonable assurance.
- D. Electronic databases as well as printed reports.

41. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of

- A. Objective judgment.
- B. Independent integrity.
- C. Professional skepticism.
- D. Impartial conservatism.

42. Which of the following best describes assurance services?

- A. Independent professional services that report on the client's financial statements.
- B. Independent professional services that improve the quality of information for decision makers.
- C. Independent professional services that report on specific written management assertions.
- D. Independent professional services that improve the client's operations.

43. Which of the following is *not* a PCAOB assertion about inventory related to presentation and disclosure?

- A. Inventory is properly classified as a current asset on the balance sheet.
- B. Inventory is properly stated at its cost on the balance sheet.
- C. Major inventory categories and their valuation bases are adequately disclosed in notes.
- D. All of the above are PCAOB presentation and disclosure assertions about inventory.

44. Which of the following is *not* an ASB assertion about inventory related to presentation and disclosure?

- A. Inventory is properly classified as a current asset on the balance sheet.
- B. Inventory is properly stated at cost on the balance sheet.
- C. Major inventory categories and their valuation bases are adequately disclosed in notes.
- D. All of the above are ASB presentation and disclosure assertions about inventory.

45. In performing an attestation engagement, a CPA typically

- A. Supplies litigation support services.
- B. Assesses control risk at a low level.
- C. Expresses a conclusion on an assertion about some type of subject matter.
- D. Provides management consulting advice.

46. An attestation engagement is one in which a CPA is engaged to

- A. Issue a report on subject matter or an assertion about the subject matter that is the responsibility of another party.
- B. Provide tax advice or prepare a tax return based on financial information the CPA has not audited or reviewed.
- C. Testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts.
- D. Assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance.

47. The underlying conditions that create demand by users for reliable information include all of the following *except*

- A. Transactions are numerous and complex.
- B. Users lack professional skepticism.
- C. Users are separated from accounting records by distance and time.
- D. Financial decisions are important to investors and users.
- E. Decisions are time sensitive.

48. Cutoff tests designed to detect credit sales made before the end of the year that have been recorded in the subsequent year provide assurance about the PCAOB assertion of

- A. Presentation.
- B. Completeness.
- C. Rights.
- D. Existence.

49. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the PCAOB assertion of

- A. Completeness.
- B. Existence.
- C. Presentation.
- D. Valuation.
- E. Rights and obligations.

50. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the ASB balance assertion of

- A. Completeness.
- B. Existence.
- C. Presentation.
- D. Valuation.
- E. Rights and obligations.

51. The probability that the information circulated by a company will be false or misleading is referred to as

- A. Business risk.
- B. Information risk.
- C. Assurance risk.
- D. Audit risk.

52. The Sarbanes-Oxley Act of 2002 requires that the key company officials *certify* the financial statements. *Certification* means that the company CEO and CFO must sign a statement indicating

- A. They have read the financial statements.
- B. They are not aware of any false or misleading statements (or any key omitted disclosures)
- C. They believe that the financial statements present an accurate picture of the company's financial condition.
- D. All of the above.

53. The process by which a CPA obtains a certificate and license in a state other than the state in which the CPA's certificate was originally obtained is referred to as

- A. Substantial equivalency.
- B. Quid pro quo.
- C. Relicensing.
- D. Re-examination

54. The risk that an entity will fail to meet its objectives is referred to as

- A. Business risk.
- B. Information risk.
- C. Assurance risk.
- D. Audit risk.

55. The four basic requirements for becoming a CPA in most states relate to

- A. Education, the CPA Examination, experience, and substantial equivalency.
- B. The CPA Examination, experience, continuing professional education, and a state certificate.
- C. Continuing professional education, the CPA Examination, experience, and an AICPA certificate.
- D. Education, the CPA Examination, experience, and a state certificate.

56. The study of business operations for the purpose of making recommendations about the efficient use of resources, effective achievement of business objectives, and compliance with company policies is referred to as

- A. Environmental auditing.
- B. Financial auditing.
- C. Compliance auditing.
- D. Operational auditing.

57. The accounting, auditing, and investigating agency of the U.S. Congress that is headed by the U.S. Comptroller General is known as

- A. The Federal Bureau of Investigation (FBI).
- B. The U.S. General Accountability Office (GAO).
- C. The Internal Revenue Service (IRS).
- D. The United States Legislative Auditors (USLA).

58. Which of the following would be considered an assurance engagement?

- A. Giving an opinion on a prize promoter's claims about the amount of sweepstakes prizes awarded in the past.
- B. Giving an opinion on the conformity of the financial statements of a university with generally accepted accounting principles.
- C. Giving an opinion on the fair presentation of a newspaper's circulation data.
- D. Giving assurance about the average drive length achieved by golfers with a client's golf balls.
- E. All of the above.

59. It is always a good idea for auditors to begin an audit with the professional skepticism characterized by the assumption that

- A. A potential conflict of interest always exists between the auditor and the management of the enterprise under audit.
- B. In audits of financial statements, the auditor acts exclusively in the capacity of an auditor.
- C. The professional status of the independent auditor imposes commensurate professional obligations.
- D. Financial statements and financial data are verifiable.

60. In an attestation engagement, a CPA practitioner is engaged to

- A. Compile a company's financial forecast based on management's assumptions without expressing any form of assurance.
- B. Prepare a written report containing a conclusion about the reliability of a management assertion.
- C. Prepare a tax return using information the CPA has not audited or reviewed.
- D. Give expert testimony in court on particular facts in a corporate income tax controversy.

61. A determination of cost savings obtained by outsourcing cafeteria services is most likely to be an objective of

- A. Environmental auditing.
- B. Financial auditing.
- C. Compliance auditing.
- D. Operational auditing.

62. The primary difference between operational auditing and financial auditing is that in operational auditing

- A. The operational auditor is not concerned with whether the audited activity is generating information in compliance with financial accounting standards.
- B. The operational auditor is seeking to help management use resources in the most effective manner possible.
- C. The operational auditor starts with the financial statements of an activity being audited and works backward to the basic processes involved in producing them.
- D. The operational auditor can use analytical skills and tools that are not necessary in financial auditing.

63. According to the AICPA, the purpose of an audit of financial statements is to

- A. Enhance the degree of confidence that intended users can place in the financial statements.
- B. Express an opinion on the fairness with which they present financial position, results of operations, and cash flows in conformity with accounting standards promulgated by the Financial Accounting Standards Board.
- C. Express an opinion on the fairness with which they present financial position, result of operations, and cash flows in conformity with accounting standards promulgated by the U.S. Securities and Exchange Commission.
- D. Obtain systematic and objective evidence about financial assertions and report the results to interested users.

64. Bankers who are processing loan applications from companies seeking large loans will probably ask for financial statements audited by an independent CPA because

- A. Financial statements are too complex to analyze themselves.
- B. They are too far away from company headquarters to perform accounting and auditing themselves.
- C. The consequences of making a bad loan are very undesirable.
- D. They generally see a potential conflict of interest between company managers who want to get loans and the bank's needs for reliable financial statements.

65. The Sarbanes-Oxley Act of 2002 prohibits public accounting firms from providing which of the following services to an audit client?

- A. Bookkeeping services.
- B. Internal audit services.
- C. Valuation services.
- D. All of the above.

66. Independent auditors of financial statements perform audits that reduce

- A. Business risks faced by investors.
- B. Information risk faced by investors.
- C. Complexity of financial statements.
- D. Timeliness of financial statements.

67. The primary objective of compliance auditing is to

- A. Give an opinion on financial statements.
- B. Develop a basis for a report on internal control.
- C. Perform a study of effective and efficient use of resources.
- D. Determine whether auditee personnel are following laws, rules, regulations, and policies.

68. What requirements are *usually* necessary to become licensed as a certified public accountant?

- A. Successful completion of the Uniform CPA Examination.
- B. Experience in the accounting field.
- C. Education.
- D. All of the above.

69. The organization primarily responsible for ensuring that public officials are using public funds efficiently, economically, and effectively is the

- A. Governmental Internal Audit Agency (GIAA).
- B. Central internal auditors (CIA).
- C. Securities and Exchange Commission (SEC).
- D. Government Accountability Office (GAO).

70. Performance audits usually include

- A. Financial audits.
- B. Economy and efficiency audits.
- C. Compliance audits.
- D. Program audits.

71. The objective in an auditor's review of credit ratings of a client's customers is to obtain evidence related to management's financial statement assertion about

- A. Completeness.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

72. Jones, CPA, is planning the audit of Rhonda's Company. Rhonda verbally asserts to Jones that all expenses for the year have been recorded in the accounts. Rhonda's representation in this regard

- A. Is sufficient evidence for Jones to conclude that the completeness assertion is supported for expenses.
- B. Can enable Jones to minimize the work on the gathering of evidence to support Rhonda's completeness assertion.
- C. Should be disregarded because it is not in writing.
- D. Is not considered a sufficient basis for Jones to conclude that all expenses have been recorded.

73. The risk to investors that a company's financial statements may be materially misleading is called

- A. Client acceptance risk.
- B. Information risk.
- C. Moral hazard.
- D. Business risk.

74. When auditing merchandise inventory at year-end, the auditor performs audit procedures to ensure that all goods purchased before year-end are received before the physical inventory count. This audit procedure provides assurance about which management assertion?

- A. Cutoff.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

75. When auditing merchandise inventory at year-end, the auditor performs audit procedures to obtain evidence that no goods held on consignment are included in the client's ending inventory balance. This audit procedure provides assurance about which management assertion?

- A. Completeness.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

76. When an auditor reviews additions to the equipment (fixed asset) account to make sure that repair and maintenance expenses are not understated, she wants to obtain evidence as to management's assertion regarding

- A. Completeness.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

77. The Sarbanes-Oxley Act of 2002 generally prohibits professional service firms from

- A. Acting in a managerial decision-making role for an audit client.
- B. Auditing the firm's own work on an audit client.
- C. Providing tax consulting to an audit client without audit committee approval.
- D. All of the above.

78. Substantial equivalency refers to

- A. An auditor's tendency not to believe management's assertions without sufficient corroboration.
- B. Providing consulting work for another firm's audit client in exchange for the other firm's providing consulting services to one of your clients.
- C. The waiving of certification exam parts for an individual holding an equivalent certification from another professional organization.
- D. Permitting a CPA to practice in another state without having to obtain a license in that state.

79. Which of the following best describes the relationship between auditing and attestation engagements?

- A. Auditing is a subset of attestation engagements that focuses on the certification of financial statements.
- B. Attestation is a subset of auditing that provides lower assurance than that provided by an audit engagement.
- C. Auditing is a subset of attestation engagements that focuses on providing clients with advice and decision support.
- D. Attestation is a subset of auditing that improves the quality of information, or its context, for decision makers.

80. Which of the following *best* describes the focus of the following engagements?

	<u>Auditing Engagement</u>	<u>Attestation Engagement</u>	<u>Assurance Engagement</u>	<u>Consulting Services Engagement</u>
A.	Any information	Financial statements	Advice and decision support	Financial information
B.	Financial information	Advice and decision support	Financial statements	Any information
C.	Advice and decision support	Any information	Financial information	Financial statements
D.	Financial statements	Financial information	Any information	Advice and decision support

- A. Option A
- B. Option B
- C. Option C
- D. Option D

81. Which of the following is a reason to obtain professional certification?

- A. Certification provides credibility that an individual is technically competent.
- B. Certification often is a necessary condition for advancement and promotion within a professional services firm.
- C. Obtaining certification is often monetarily rewarded by an individual's employer.
- D. All of the above.

82. Which of the following is not an underlying condition that creates demand by users for reliable financial information?

- A. Remoteness.
- B. Vagueness.
- C. Consequences.
- D. Complexity.

83. According to the American Accounting Association (AAA), the definition of auditing includes the following statement

- A. An independent appraisal function established within an organization to examine and evaluate its activities.
- B. A process of reducing to a socially acceptable level the information risk to users of financial statements.
- C. An expression of opinion on the fairness of financial statements.
- D. A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events.

84. Which of the following is not a major element of assurance services?

- A. Independence.
- B. Improving the quality of information.
- C. Improving profitability of the client.
- D. Improving the context of information.

85. The goal of operational auditing is to

- A. Help managers discharge their management responsibilities and improve profitability.
- B. Evaluate compliance with specific laws and regulations.
- C. Reduce to a socially acceptable level the information risk to users of financial statements.
- D. Express an opinion on the fairness of financial statements.

86. The PCAOB assertions made by management in financial statements do not include

- A. Existence.
- B. Compliance.
- C. Completeness.
- D. Presentation.

87. Which of the following is not a role of the AICPA?

- A. Refine the body of professional knowledge, regulate membership admissions, and police conduct of members.
- B. Prepare and grade the uniform CPA examination.
- C. License the practices of CPAs in the various states.
- D. Issue public statements on practice standards.

88. The ASB transaction objective that requires the auditor to establish evidence that all transactions and accounts that should be presented in the financial statements are included is?

- A. Completeness.
- B. Existence or occurrence.
- C. Rights and obligations.
- D. Valuation or allocation.

89. Which of the following is an example of a regulatory auditor?

- A. Internal auditors.
- B. Big 4 auditors.
- C. U.S. Internal Revenue Service auditors.
- D. Operational auditors.

90. The definition of performance audits does not include

- A. Economy audits.
- B. Efficiency audits.
- C. Financial audits.
- D. Program audits.

91. CPA certificates and licenses to practice are issued by the

- A. AICPA.
- B. States or territories.
- C. AICPA Examinations Division.
- D. GAO.

Fill in the Blank Questions

92. The risk that the information disseminated by a company will be materially false or misleading is called _____.

93. The audit process involves obtaining and evaluating

_____.

94. The purpose of obtaining and evaluating evidence is to ascertain the degree of correspondence between the _____ and

_____.

95. The objective of the ordinary examination of financial statements by the independent auditor is the expression of a(n) _____ on the _____ of financial statements.

96. _____ refers to recognizing assets and liabilities as of proper date and accounting for revenue, expense, and other transactions in the proper period.

97. The ASB balance objective related to _____ is to establish with evidence that all transactions and accounts that should be presented in the financial statements are included.

98. The ASB transaction objective related to _____ is to determine whether proper values have been assigned to all financial transactions.

99. _____ is the study of business operations for the purpose of making recommendations to managers on how to improve profitability.

100. The _____ is the accounting, auditing, and investigating agency of the U.S. Congress.

101. _____ governmental auditing goes beyond an audit of financial reports and compliance with laws and regulations to include _____ and _____ and _____ audits.

102. The four basic requirements for becoming a CPA are

_____, _____,
_____, and _____.

103. _____ is an auditor's tendency not to believe management assertions.

104.A _____ consists of writing the financial statements from a client's books and records.

105. Through the process of _____, after becoming a CPA licensed in one state, a person can obtain a CPA certificate and license in another state.

106. Examples of _____ are (1) economy and efficiency audits and (2) program audits.

Short Answer Questions

107. Which of the PCAOB assertions (A-E) are best verified by the following audit procedures (1-4)?

- A. Existence or occurrence.
- B. Rights and obligations.
- C. Valuation or allocation.
- D. Completeness.
- E. Presentation and disclosure.

1. Confirming inventory held on consignment by the client with independent third party.
2. Consulting *The Wall Street Journal* for year-end prices of securities held by the client.
3. Physically examine all major property and equipment additions.
4. Review the aged trial balance for significant past due accounts.

108. ABC Company had a major sale to XYZ Company. This sale accounted for 20 percent of the revenue of ABC Company. The auditors performed the audit procedures listed in 1-3. For each audit procedure, select the ASB transaction assertion that is most likely being tested.

- A. Occurrence.
- B. Completeness.
- C. Cutoff.
- D. Accuracy.
- E. Classification.

1. The auditor reviewed the shipping documents to check the date that the product was shipped to XYZ Company.
2. The auditor reviewed the shipping documents to ensure that all product included in the sales revenue to XYZ had been shipped.
3. The auditor reviewed the invoice sent to XYZ Company to ensure that XYZ had been properly billed.

109. Auditors are auditing the warehouse of Huge Lots Corporation. The auditors performed the audit procedures listed in 1-5. For each audit procedure, select the ASB balance assertion that is most likely being tested.

- A. Existence.
- B. Rights and obligations.
- C. Completeness.
- D. Accuracy.
- E. Valuation.

1. The auditors walked through the warehouse looking for obsolete inventory.
2. The auditors compared invoices received from suppliers with the cost of inventory listed in the inventory accounts.
3. The auditors reviewed purchase orders to determine if any inventory was on consignment.
4. The auditors reviewed vendor invoices to determine if freight costs, taxes, tariffs, or other costs had been included in inventory costs.
5. The auditors selected items from the inventory and reviewed inventory records to ensure these items were included in those records.

Essay Questions

110. What are the differences between the American Accounting Association and AICPA definitions and objectives of auditing?

111. What is operational auditing and by whom is it performed?

112.What is information risk? What is business risk?

113.What are the four basic requirements for becoming a CPA?

114.Define assurance, attestation, and auditing in the context of "lending credibility."

115. Audits may be characterized as (a) financial statement audits, (b) compliance audits, or (c) operational audits. The work can be done by (a) independent (external) auditors, (b) internal auditors, or (c) government auditors. Below is a list of several audit engagements. For each engagement indicate (a) the type of audit and (b) who would typically do the audit.

1. Render an opinion on the fairness of the presentation of financial statements of a public corporation.
2. Compare the cost of maintaining a fleet of delivery trucks with the option of using an independent delivery service.
3. Audit reported income on a corporation's tax return.
4. Review contract cost of constructing aircraft engines for the armed services.
5. Report on how the installation of a new computer system would help a client reduce data processing costs and improve financial reporting.

Chapter 01 Auditing and Assurance Services **Answer Key**

True / False Questions

1. Financial decision makers demand reliable information that is provided by accountants.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Topic: User Demand for Reliable Information

2. Financial decision makers obtain their accounting information from lenders of funds.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

3. Four conditions that create demand for reliable information are complexity, remoteness, timeliness, and consequences.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Topic: User Demand for Reliable Information

4. The lending of credibility to financial information is known as certification.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

5. Independent auditors are employees of the client.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

6. Assurance service is the systematic process of objectively obtaining and evaluating evidence.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

7. Evidence consists of assertions about economic actions and events.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Topic: Management's Financial Statement Assertions

8. The purpose of obtaining and evaluating evidence is to ascertain the degree of correspondence between the assertions and established criteria.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Topic: Management's Financial Statement Assertions

9. The AICPA Statement on Auditing Standards defines auditing more broadly than the AAA definition of auditing.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

10. The PCAOB audit objective related to the completeness assertion is to establish evidence that assets, liabilities, and equities actually exist.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Topic: Management's Financial Statement Assertions

11. The ASB balance audit objective related to valuation or accuracy is to determine whether proper values have been assigned to assets, liabilities, equities, revenues, and expenses.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Topic: Management's Financial Statement Assertions

12. The objective of internal auditing is to assist members of an organization to effectively perform their obligations.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Topic: Other Kinds of Engagements and Information Professionals

13. Internal auditors perform only operational audits.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Topic: Other Kinds of Engagements and Information Professionals

14. Government auditors perform both financial and performance audits.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Topic: Other Kinds of Engagements and Information Professionals

15. Expanded scope governmental auditing includes economy and efficiency and program results audits.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Topic: Other Kinds of Engagements and Information Professionals

16. The AICPA licenses CPAs to practice in the United States.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Topic: Become a Professional and Get Certified!

17. Professional skepticism is an auditor's tendency not to believe anyone.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define professional skepticism and explain its key characteristics.

Topic: Professional Skepticism

18. Assurance services are independent professional services that improve the quality of information or its context for decision makers.

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

19. The concept "professional skepticism" requires that auditors assume management is dishonest and should not be trusted.

FALSE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define professional skepticism and explain its key characteristics.

Topic: Professional Skepticism

20. For independent auditors of financial statements in the United States, established criteria largely consist of the generally accepted accounting principles (GAAP).

TRUE

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Topic: Auditing, Attestation, and Assurance Services

Multiple Choice Questions

21. The audit objective of presenting all transactions and accounts in the financial statements are in fact included is related to which of the PCAOB assertions?

- A. Existence.
- B. Rights and obligations.
- C. Completeness.**
- D. Valuation.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: PCAOB Assertions

22. To be proficient as an auditor, a person must *first* be able to accomplish which of these tasks in a decision-making process?
- A. Identify audit evidence relevant to the verification of assertions management makes in its unaudited financial statements and notes.
 - B. Formulate evidence-gathering procedures (audit plan) designed to obtain sufficient, competent evidence about assertions management makes in financial statements and notes.
 - C. Recognize the financial assertions made in management's financial statements and footnotes.
 - D. Evaluate the evidence produced by the performance of procedures and decide whether management's assertions conform to generally accepted accounting principles and reality.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

23. Which of the following is an underlying condition that in part creates the demand by users for reliable information?

- A. Economic transactions are numerous and complex.
- B. Decisions are time sensitive.
- C. Users are separated from accounting records by distance and time.
- D. Financial decisions are important to investors and users.
- E. All of the above.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Reliable Information

24. Which of the following is *not* included in The American Accounting Association (AAA) definition of auditing?

- A. Potential conflict of interest.
- B. Systematic process.
- C. Assertions about economic actions.
- D. Established criteria.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Definition of Auditing

25. What is the term used to identify the risk that the client's financial statements may be materially false and misleading?

- A. Business risk.
- B. Information risk.**
- C. Client risk.
- D. Risk assessment.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Risk Analysis

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Information Risk

26. Which of the following is *not* a recommendation usually made following the completion of an operational audit?

- A. Economic and efficient use of resources.
- B. Effective achievement of business objectives.
- C. Attesting to the fairness of the financial statements.
- D. Compliance with company policies.

AACSB: Communication

AICPA BB: Legal

AICPA FN: Reporting

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

27. In order to be considered as external auditors with respect to government agencies, GAO auditors must be

- A. Organizationally independent.
- B. Empowered as the accounting and auditing agency by the U.S. Congress.
- C. Funded by the federal government.
- D. Guided by standards similar to GAAS.

AACSB: Ethics

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Governmental Auditing

28. Which of the following is the essential purpose of the audit function?
- A. Detection of fraud.
 - B. Examination of individual transactions to certify their validity.
 - C. Determination of whether the client's financial statement assertions are fairly stated.
 - D. Assurance of the consistent application of correct accounting procedures

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Reporting

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

29. The audit objective that all the transactions and accounts presented in the financial statements represent real assets, liabilities, revenues, and expenses is related most closely to which of the PCAOB assertions?

- A. Existence or occurrence.
- B. Rights and obligations.
- C. Completeness.
- D. Presentation and disclosure.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

30. The audit objective that all transactions are recorded in the proper period is related most closely to which of the Audit Standards Board (ASB) transaction assertions?

- A. Occurrence.
- B. Completeness.
- C. Cutoff.
- D. Accuracy.

AACSB: Analytic

AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original
Topic: Assertions

31. The audit objective that all transactions are recorded in the proper account is related most closely to which one of the ASB transaction assertions?

- A. Occurrence.
- B. Completeness.
- C. Accuracy.
- D.** Classification.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original
Topic: Assertions

32. The audit objective that all balances include items owned by the client is related most closely to which one of the ASB balance assertions?

- A. Existence.
- B. Rights and obligations.**
- C. Completeness.
- D. Valuation.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

33. The audit objective that all balances include all items that should be recorded in that account is related most closely to which one of the ASB balance assertions?

- A. Existence.
- B. Rights and obligations.
- C. Completeness.**
- D. Valuation.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

34. The audit objective that footnotes in the financial statements should be clear and expressed so that the information is easily conveyed to the readers of the financial statements is related most closely with which of the ASB presentation and disclosure assertions?
- A. Occurrence.
 - B. Rights and obligations.
 - C. Comprehensibility.
 - D. Understandability.**

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

35. The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. The auditor reviewed all work orders that were capitalized as part of the equipment costs. Which of the following is the ASB transaction assertion most closely related to the auditor's testing?

- A. Occurrence.
- B. Completeness.
- C. Accuracy.
- D.** Classification.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

36. The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. When looking at the ending balance for the fixed asset account, the auditor examined all work orders, purchased materials, labor cost reports, and applied overhead that were capitalized as part of the equipment costs. Which of the following is the ASB balance assertion most closely related to the auditor's testing?

- A. Existence.
- B. Completeness.
- C. Rights and obligations.
- D. Valuation.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

37. Which of the following best describes the primary role and responsibility of the independent external auditor?

- A. Produce a company's annual financial statements and notes.
- B. Express an opinion on the fairness of a company's annual financial statements and footnotes.**
- C. Provide business consulting advice to audit clients.
- D. Obtain an understanding of the client's internal control structure and give management a report about control problems and deficiencies.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

38. Which of the following best describes the main reason that independent auditors report on management's financial statements?
- A. Management fraud may exist, and it is likely to be detected by independent auditors.
 - B.** The management that prepares the statements and the persons who use the statements may have conflicting interests.
 - C. Misstated account balances may be corrected as the result of the independent audit work.
 - D. The management that prepares the statements may have a poorly designed system of internal control.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

39. The auditor's judgment concerning the overall fairness of the presentation of financial position, results of operations, and cash flows is applied within the framework of

- A. Quality control.
- B. Generally accepted auditing standards, which include the concept of materiality.
- C. The auditor's evaluation of the audited company's internal control.
- D. The applicable financial reporting framework (i.e., GAAP in the United States).

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Reporting Framework

40. Assurance services involve all of the following *except*

- A. Relevance as well as the reliability of information.
- B. Nonfinancial information as well as traditional financial statements.
- C. Providing absolute rather than reasonable assurance.
- D. Electronic databases as well as printed reports.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Assurance Services

41. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of
- A. Objective judgment.
 - B. Independent integrity.
 - C. Professional skepticism.
 - D. Impartial conservatism.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Risk Analysis

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-04 Define professional skepticism and explain its key characteristics.

Source: AICPA

Topic: Professional Skepticism

42. Which of the following best describes assurance services?

- A. Independent professional services that report on the client's financial statements.
- B.** Independent professional services that improve the quality of information for decision makers.
- C. Independent professional services that report on specific written management assertions.
- D. Independent professional services that improve the client's operations.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Assurance Services

43. Which of the following is *not* a PCAOB assertion about inventory related to presentation and disclosure?

- A. Inventory is properly classified as a current asset on the balance sheet.
- B.** Inventory is properly stated at its cost on the balance sheet.
- C. Major inventory categories and their valuation bases are adequately disclosed in notes.
- D. All of the above are PCAOB presentation and disclosure assertions about inventory.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

44. Which of the following is *not* an ASB assertion about inventory related to presentation and disclosure?
- A. Inventory is properly classified as a current asset on the balance sheet.
 - B. Inventory is properly stated at cost on the balance sheet.
 - C. Major inventory categories and their valuation bases are adequately disclosed in notes.
 - D. All of the above are ASB presentation and disclosure assertions about inventory.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

45. In performing an attestation engagement, a CPA typically
- A. Supplies litigation support services.
 - B. Assesses control risk at a low level.
 - C. Expresses a conclusion on an assertion about some type of subject matter.
 - D. Provides management consulting advice.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: AICPA

Topic: Attestation

46. An attestation engagement is one in which a CPA is engaged to

- A.** Issue a report on subject matter or an assertion about the subject matter that is the responsibility of another party.
- B. Provide tax advice or prepare a tax return based on financial information the CPA has not audited or reviewed.
- C. Testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts.
- D. Assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: AICPA

Topic: Attestation

47. The underlying conditions that create demand by users for reliable information include all of the following *except*

- A. Transactions are numerous and complex.
- B. Users lack professional skepticism.**
- C. Users are separated from accounting records by distance and time.
- D. Financial decisions are important to investors and users.
- E. Decisions are time sensitive.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Information

48. Cutoff tests designed to detect credit sales made before the end of the year that have been recorded in the subsequent year provide assurance about the PCAOB assertion of

- A. Presentation.
- B. Completeness.**
- C. Rights.
- D. Existence.

AACSB: Analytic

AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: AICPA
Topic: Assertions

49. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the PCAOB assertion of

- A. Completeness.
- B. Existence.
- C. Presentation.
- D.** Valuation.
- E. Rights and obligations.

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Research
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: AICPA
Topic: Assertions

50. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the ASB balance assertion of

- A. Completeness.
- B. Existence.
- C. Presentation.
- D.** Valuation.
- E. Rights and obligations.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: AICPA

Topic: Assertions

51. The probability that the information circulated by a company will be false or misleading is referred to as

- A. Business risk.
- B.** Information risk.
- C. Assurance risk.
- D. Audit risk.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Risk Analysis

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Information Risk

52. The Sarbanes-Oxley Act of 2002 requires that the key company officials *certify* the financial statements. *Certification* means that the company CEO and CFO must sign a statement indicating
- A. They have read the financial statements.
 - B. They are not aware of any false or misleading statements (or any key omitted disclosures)
 - C. They believe that the financial statements present an accurate picture of the company's financial condition.
 - D. All of the above.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the organization of public accounting firms and identify the various services that they offer.

Source: Original

Topic: Sarbanes-Oxley

53. The process by which a CPA obtains a certificate and license in a state other than the state in which the CPA's certificate was originally obtained is referred to as

- A. Substantial equivalency.
- B. Quid pro quo.
- C. Relicensing.
- D. Re-examination

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Substantial Equivalency

54. The risk that an entity will fail to meet its objectives is referred to as

- A. Business risk.
- B. Information risk.
- C. Assurance risk.
- D. Audit risk.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Risk Analysis

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Business Risk

55. The four basic requirements for becoming a CPA in most states relate to
- A. Education, the CPA Examination, experience, and substantial equivalency.
 - B. The CPA Examination, experience, continuing professional education, and a state certificate.
 - C. Continuing professional education, the CPA Examination, experience, and an AICPA certificate.
 - D. Education, the CPA Examination, experience, and a state certificate.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Requirements for Certification

56. The study of business operations for the purpose of making recommendations about the efficient use of resources, effective achievement of business objectives, and compliance with company policies is referred to as

- A. Environmental auditing.
- B. Financial auditing.
- C. Compliance auditing.
- D.** Operational auditing.

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

57. The accounting, auditing, and investigating agency of the U.S. Congress that is headed by the U.S. Comptroller General is known as

- A. The Federal Bureau of Investigation (FBI).
- B.** The U.S. General Accountability Office (GAO).
- C. The Internal Revenue Service (IRS).
- D. The United States Legislative Auditors (USLA).

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Governmental Auditing

58. Which of the following would be considered an assurance engagement?
- A. Giving an opinion on a prize promoter's claims about the amount of sweepstakes prizes awarded in the past.
 - B. Giving an opinion on the conformity of the financial statements of a university with generally accepted accounting principles.
 - C. Giving an opinion on the fair presentation of a newspaper's circulation data.
 - D. Giving assurance about the average drive length achieved by golfers with a client's golf balls.
 - E. All of the above.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Assurance Services

59. It is always a good idea for auditors to begin an audit with the professional skepticism characterized by the assumption that

- A. A potential conflict of interest always exists between the auditor and the management of the enterprise under audit.
- B. In audits of financial statements, the auditor acts exclusively in the capacity of an auditor.
- C. The professional status of the independent auditor imposes commensurate professional obligations.
- D. Financial statements and financial data are verifiable.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-04 Define professional skepticism and explain its key characteristics.

Source: Original

Topic: Professional Skepticism

60. In an attestation engagement, a CPA practitioner is engaged to
- A. Compile a company's financial forecast based on management's assumptions without expressing any form of assurance.
 - B.** Prepare a written report containing a conclusion about the reliability of a management assertion.
 - C. Prepare a tax return using information the CPA has not audited or reviewed.
 - D. Give expert testimony in court on particular facts in a corporate income tax controversy.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Reporting

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Attestation Services

61. A determination of cost savings obtained by outsourcing cafeteria services is most likely to be an objective of

- A. Environmental auditing.
- B. Financial auditing.
- C. Compliance auditing.
- D. Operational auditing.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

62. The primary difference between operational auditing and financial auditing is that in operational auditing
- A. The operational auditor is not concerned with whether the audited activity is generating information in compliance with financial accounting standards.
 - B.** The operational auditor is seeking to help management use resources in the most effective manner possible.
 - C. The operational auditor starts with the financial statements of an activity being audited and works backward to the basic processes involved in producing them.
 - D. The operational auditor can use analytical skills and tools that are not necessary in financial auditing.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

63. According to the AICPA, the purpose of an audit of financial statements is to

- A. Enhance the degree of confidence that intended users can place in the financial statements.
- B. Express an opinion on the fairness with which they present financial position, results of operations, and cash flows in conformity with accounting standards promulgated by the Financial Accounting Standards Board.
- C. Express an opinion on the fairness with which they present financial position, result of operations, and cash flows in conformity with accounting standards promulgated by the U.S. Securities and Exchange Commission.
- D. Obtain systematic and objective evidence about financial assertions and report the results to interested users.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

64. Bankers who are processing loan applications from companies seeking large loans will probably ask for financial statements audited by an independent CPA because
- A. Financial statements are too complex to analyze themselves.
 - B. They are too far away from company headquarters to perform accounting and auditing themselves.
 - C. The consequences of making a bad loan are very undesirable.
 - D. They generally see a potential conflict of interest between company managers who want to get loans and the bank's needs for reliable financial statements.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Risk

65. The Sarbanes-Oxley Act of 2002 prohibits public accounting firms from providing which of the following services to an audit client?

- A. Bookkeeping services.
- B. Internal audit services.
- C. Valuation services.
- D. All of the above.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-05 Describe the organization of public accounting firms and identify the various services that they offer.

Source: Original

Topic: Sarbanes-Oxley

66. Independent auditors of financial statements perform audits that reduce

- A. Business risks faced by investors.
- B. Information risk faced by investors.**
- C. Complexity of financial statements.
- D. Timeliness of financial statements.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Information Risk

67. The primary objective of compliance auditing is to

- A. Give an opinion on financial statements.
- B. Develop a basis for a report on internal control.
- C. Perform a study of effective and efficient use of resources.
- D. Determine whether auditee personnel are following laws, rules, regulations, and policies.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Compliance Audits

68. What requirements are *usually* necessary to become licensed as a certified public accountant?

- A. Successful completion of the Uniform CPA Examination.
- B. Experience in the accounting field.
- C. Education.
- D. All of the above.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Requirements for Certification

69. The organization primarily responsible for ensuring that public officials are using public funds efficiently, economically, and effectively is the

- A. Governmental Internal Audit Agency (GIAA).
- B. Central internal auditors (CIA).
- C. Securities and Exchange Commission (SEC).
- D. Government Accountability Office (GAO).

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Governmental Auditing

70. Performance audits usually include

- A. Financial audits.
- B.** Economy and efficiency audits.
- C. Compliance audits.
- D. Program audits.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Performance Audits

71. The objective in an auditor's review of credit ratings of a client's customers is to obtain evidence related to management's financial statement assertion about

- A. Completeness.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

72. Jones, CPA, is planning the audit of Rhonda's Company. Rhonda verbally asserts to Jones that all expenses for the year have been recorded in the accounts. Rhonda's representation in this regard
- A. Is sufficient evidence for Jones to conclude that the completeness assertion is supported for expenses.
 - B. Can enable Jones to minimize the work on the gathering of evidence to support Rhonda's completeness assertion.
 - C. Should be disregarded because it is not in writing.
 - D. Is not considered a sufficient basis for Jones to conclude that all expenses have been recorded.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-04 Define professional skepticism and explain its key characteristics.

Source: Original

Topic: Professional Skepticism

73. The risk to investors that a company's financial statements may be materially misleading is called

A. Client acceptance risk.

B. Information risk.

C. Moral hazard.

D. Business risk.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Information Risk

74. When auditing merchandise inventory at year-end, the auditor performs audit procedures to ensure that all goods purchased before year-end are received before the physical inventory count. This audit procedure provides assurance about which management assertion?

- A. Cutoff.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

75. When auditing merchandise inventory at year-end, the auditor performs audit procedures to obtain evidence that no goods held on consignment are included in the client's ending inventory balance. This audit procedure provides assurance about which management assertion?

- A. Completeness.
- B. Existence.
- C. Valuation and allocation.
- D. Rights and obligations.**
- E. Occurrence.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

76. When an auditor reviews additions to the equipment (fixed asset) account to make sure that repair and maintenance expenses are not understated, she wants to obtain evidence as to management's assertion regarding

- A. Completeness.
- B. Existence.**
- C. Valuation and allocation.
- D. Rights and obligations.
- E. Occurrence.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

77. The Sarbanes-Oxley Act of 2002 generally prohibits professional service firms from

- A. Acting in a managerial decision-making role for an audit client.
- B. Auditing the firm's own work on an audit client.
- C. Providing tax consulting to an audit client without audit committee approval.
- D. All of the above.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-05 Describe the organization of public accounting firms and identify the various services that they offer.

Source: Original

Topic: Sarbanes-Oxley

78. Substantial equivalency refers to

- A. An auditor's tendency not to believe management's assertions without sufficient corroboration.
- B. Providing consulting work for another firm's audit client in exchange for the other firm's providing consulting services to one of your clients.
- C. The waiving of certification exam parts for an individual holding an equivalent certification from another professional organization.
- D. Permitting a CPA to practice in another state without having to obtain a license in that state.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Substantial Equivalency

79. Which of the following best describes the relationship between auditing and attestation engagements?

- A.** Auditing is a subset of attestation engagements that focuses on the certification of financial statements.
- B. Attestation is a subset of auditing that provides lower assurance than that provided by an audit engagement.
- C. Auditing is a subset of attestation engagements that focuses on providing clients with advice and decision support.
- D. Attestation is a subset of auditing that improves the quality of information, or its context, for decision makers.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Attestation

80. Which of the following *best* describes the focus of the following engagements?

	<u>Auditing Engagement</u>	<u>Attestation Engagement</u>	<u>Assurance Engagement</u>	<u>Consulting Services Engagement</u>
A.	Any information	Financial statements	Advice and decision support	Financial information
B.	Financial information	Advice and decision support	Financial statements	Any information
C.	Advice and decision support	Any information	Financial information	Financial statements
D.	Financial statements	Financial information	Any information	Advice and decision support

- A. Option A
- B. Option B
- C. Option C
- D.** Option D

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 3 Hard

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Type of Service

81. Which of the following is a reason to obtain professional certification?
- A. Certification provides credibility that an individual is technically competent.
 - B. Certification often is a necessary condition for advancement and promotion within a professional services firm.
 - C. Obtaining certification is often monetarily rewarded by an individual's employer.
 - D. All of the above.

Reference: Question also found in textbook

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Certification

82. Which of the following is not an underlying condition that creates demand by users for reliable financial information?

A. Remoteness.

B. Vagueness.

C. Consequences.

D. Complexity.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Reliable Information

83. According to the American Accounting Association (AAA), the definition of auditing includes the following statement

- A. An independent appraisal function established within an organization to examine and evaluate its activities.
- B. A process of reducing to a socially acceptable level the information risk to users of financial statements.
- C. An expression of opinion on the fairness of financial statements.
- D. A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

84. Which of the following is not a major element of assurance services?

- A. Independence.
- B. Improving the quality of information.
- C. Improving profitability of the client.
- D. Improving the context of information.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Assurance Services

85. The goal of operational auditing is to

- A. Help managers discharge their management responsibilities and improve profitability.
- B. Evaluate compliance with specific laws and regulations.
- C. Reduce to a socially acceptable level the information risk to users of financial statements.
- D. Express an opinion on the fairness of financial statements.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

86. The PCAOB assertions made by management in financial statements do not include

A. Existence.

B. Compliance.

C. Completeness.

D. Presentation.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

87. Which of the following is not a role of the AICPA?

- A. Refine the body of professional knowledge, regulate membership admissions, and police conduct of members.
- B. Prepare and grade the uniform CPA examination.
- C. License the practices of CPAs in the various states.
- D. Issue public statements on practice standards.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Certification

88. The ASB transaction objective that requires the auditor to establish evidence that all transactions and accounts that should be presented in the financial statements are included is?

- A. Completeness.
- B. Existence or occurrence.
- C. Rights and obligations.
- D. Valuation or allocation.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

89. Which of the following is an example of a regulatory auditor?

- A. Internal auditors.
- B. Big 4 auditors.
- C. U.S. Internal Revenue Service auditors.
- D. Operational auditors.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Regulatory Auditor

90. The definition of performance audits does not include

- A. Economy audits.
- B. Efficiency audits.
- C. Financial audits.
- D. Program audits.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Performance Audits

91. CPA certificates and licenses to practice are issued by the

- A. AICPA.
- B. States or territories.**
- C. AICPA Examinations Division.
- D. GAO.

Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Certification

Fill in the Blank Questions

92. The risk that the information disseminated by a company will be materially false or misleading is called _____.

information risk

Reference: Question also found in study guide

93. The audit process involves obtaining and evaluating _____.

evidence

Reference: Question also found in study guide

94. The purpose of obtaining and evaluating evidence is to ascertain the degree of correspondence between the _____ and _____.

assertions; established criteria

Reference: Question also found in study guide

95. The objective of the ordinary examination of financial statements by the independent auditor is the expression of a(n) _____ on the _____ of financial statements.

opinion; fairness

Reference: Question also found in study guide

96. _____ refers to recognizing assets and liabilities as of proper date and accounting for revenue, expense, and other transactions in the proper period.

Cutoff

Reference: Question also found in study guide

97. The ASB balance objective related to _____ is to establish with evidence that all transactions and accounts that should be presented in the financial statements are included.

completeness

Reference: Question also found in study guide

98. The ASB transaction objective related to _____ is to determine whether proper values have been assigned to all financial transactions.

accuracy

Reference: Question also found in study guide

99. _____ is the study of business operations for the purpose of making recommendations to managers on how to improve profitability.

Operational auditing

Reference: Question also found in study guide

100. The _____ is the accounting, auditing, and investigating agency of the U.S. Congress.

GAO

Reference: Question also found in study guide

101. _____ governmental auditing goes beyond an audit of financial reports and compliance with laws and regulations to include _____ and _____ and _____ audits.

Expanded-scope; economy; efficiency; program results

Reference: Question also found in study guide

102. The four basic requirements for becoming a CPA are _____, _____, _____, and _____.

education; examination; experience; state certificate and license

Reference: Question also found in study guide

103. _____ is an auditor's tendency not to believe management assertions.

Professional skepticism

Reference: Question also found in study guide

104. A _____ consists of writing the financial statements from a client's books and records.

compilation

Reference: Question also found in study guide

105. Through the process of _____, after becoming a CPA licensed in one state, a person can obtain a CPA certificate and license in another state.

substantial equivalency

Reference: Question also found in study guide

106. Examples of _____ are (1) economy and efficiency audits and (2) program audits.

performance audits

Reference: Question also found in study guide

Short Answer Questions

107. Which of the PCAOB assertions (A-E) are best verified by the following audit procedures (1-4)?

- A. Existence or occurrence.
- B. Rights and obligations.
- C. Valuation or allocation.
- D. Completeness.
- E. Presentation and disclosure.

- 1. Confirming inventory held on consignment by the client with independent third party.
- 2. Consulting *The Wall Street Journal* for year-end prices of securities held by the client.
- 3. Physically examine all major property and equipment additions.
- 4. Review the aged trial balance for significant past due accounts.

1. B, 2. C, 3. A, 4. C

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

108. ABC Company had a major sale to XYZ Company. This sale accounted for 20 percent of the revenue of ABC Company. The auditors performed the audit procedures listed in 1-3. For each audit procedure, select the ASB transaction assertion that is most likely being tested.

- A. Occurrence.
- B. Completeness.
- C. Cutoff.
- D. Accuracy.
- E. Classification.

1. The auditor reviewed the shipping documents to check the date that the product was shipped to XYZ Company.

2. The auditor reviewed the shipping documents to ensure that all product included in the sales revenue to XYZ had been shipped.

3. The auditor reviewed the invoice sent to XYZ Company to ensure that XYZ had been properly billed.

1. C, 2. B, 3. D

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

109. Auditors are auditing the warehouse of Huge Lots Corporation. The auditors performed the audit procedures listed in 1-5. For each audit procedure, select the ASB balance assertion that is most likely being tested.

- A. Existence.
- B. Rights and obligations.
- C. Completeness.
- D. Accuracy.
- E. Valuation.

1. The auditors walked through the warehouse looking for obsolete inventory.
2. The auditors compared invoices received from suppliers with the cost of inventory listed in the inventory accounts.
3. The auditors reviewed purchase orders to determine if any inventory was on consignment.
4. The auditors reviewed vendor invoices to determine if freight costs, taxes, tariffs, or other costs had been included in inventory costs.
5. The auditors selected items from the inventory and reviewed inventory records to ensure these items were included in those records.

1. E, 2. D, 3. B, 4. E, 5. C

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-03 Describe and define the assertions that management makes about the recognition; measurement; presentation; and disclosure of the financial statements and explain why auditors use them as the focal point of the audit.

Source: Original

Topic: Assertions

Essay Questions

110. What are the differences between the American Accounting Association and AICPA definitions and objectives of auditing?

The AAA definition is broad and general enough to encompass independent, internal, and governmental auditing. The AICPA has not defined auditing, but its statement on objectives of financial audits restricts auditing to independent CPA's audit of the traditional financial statements and their footnotes. The AICPA SAS also offers guides to report on internal control, letters to underwriters, and special reports.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Auditing

111. What is operational auditing and by whom is it performed?

Operational auditing is the evaluation of business operations for various purposes. Operational auditing includes (a) testing for compliance with laws and regulations and company policies and procedures, (b) evaluating the effectiveness of operations in achieving goals and objectives, and (c) evaluating the efficiency and economy of operations. Operational audits are normally performed by internal auditors. However, operational audits also may be conducted by independent CPA firms as part of their management advisory services.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 2 Medium

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original

Topic: Operational Auditing

112. What is information risk? What is business risk?

Information risk is the risk that financial statements will be materially false or misleading. Business risk is the risk an entity will fail to meet its objectives.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-01 Define information risk and explain how the financial statement auditing process helps to reduce this risk; thereby reducing the cost of capital for a company.

Source: Original

Topic: Business Risk

113. What are the four basic requirements for becoming a CPA?

Education, the CPA Examination, experience, and a state certificate.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Remember

Difficulty: 1 Easy

Learning Objective: 01-07 List and explain the requirements for becoming a certified information professional.

Source: Original

Topic: Certification Requirements

114. Define assurance, attestation, and auditing in the context of "lending credibility."

Assurance is the "lending of credibility" to information. Attestation is the "lending of credibility" to assertions made by a third party. Auditing is the "lending of credibility" to financial statements.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 01-02 Define and contrast financial statement auditing; attestation; and assurance type services.

Source: Original

Topic: Lending Credibility

115. Audits may be characterized as (a) financial statement audits, (b) compliance audits, or (c) operational audits. The work can be done by (a) independent (external) auditors, (b) internal auditors, or (c) government auditors. Below is a list of several audit engagements. For each engagement indicate (a) the type of audit and (b) who would typically do the audit.

1. Render an opinion on the fairness of the presentation of financial statements of a public corporation.
2. Compare the cost of maintaining a fleet of delivery trucks with the option of using an independent delivery service.
3. Audit reported income on a corporation's tax return.
4. Review contract cost of constructing aircraft engines for the armed services.
5. Report on how the installation of a new computer system would help a client reduce data processing costs and improve financial reporting.

<u>Type of Audit</u>	<u>Typical Auditor</u>
1. Financial Statement Audit	Independent (CPA)
2. Operational Audit	Internal (or external)
3. Compliance Audit	Government (IRS)
4. Compliance Audit	Government (Department of Defense)
5. Operational Audit	Independent (CPA)

Feedback: Reference: Question also found in study guide

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Research

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 01-06 Describe the audits and auditors in governmental; internal; and operational auditing.

Source: Original
Topic: Other Audits