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BIRZEIT UNIVERSITY
FACULTY OF COMMERCE & ECONOMICS
ACCOUNTING DEPARTMENT

LECTURER: SHADI AL-HAJ

SEC. SEM. 2013/2014
FIRST EXAM

ACCT. "339" AUDITING

42

50

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Multiple Choice

1	a
2	a c
3	c
4	d
5	b
6	d
7	c
8	c
9	b
10	a a
11	c
12	b
13	d
14	c

16
7
11
8

PART ONE: Multiple Choice (21 points)

1. Which of the following is(are) true concerning the Ethical Principles of the Code of Professional Conduct? ✓
I. They identify ideal conduct. ✓
II. They are general ideals and are enforceable.
a. I only
b. II only
c. I and II
d. Neither I nor II
2. Ethical Rulings are:
I. explanations relating to broad hypothetical circumstances. ✓
II. not enforceable, but one must justify departure. ✓
III. explanations relating to specific factual circumstances. ✓
a. I and II
x b. I and III
c. II and III ✓
x d. I, II, and III.
3. Which of the following statements is true with respect to audit committees?
x a. Audit committee members should consist of members of the company's management.
x b. All members of the audit committee must be financial experts.
c. The audit committee of a public company is responsible for hiring the auditor. ✓
x d. Audit committees must have a minimum of ten members.
4. Which one of the following types of services offered by a CPA is not an attest service?
a. Examination
b. Review
c. performing agreed-upon procedures
d. accounting ✓
5. Under which of the following circumstances would a disclaimer of opinion not be appropriate:
a. The auditor is unable to determine the amounts associated with an employee fraud scheme. ✓
b. Management does not provide reasonable justification for adjusting the value of a piece of land to fair value. ✓
x c. The client refuses to permit the auditor to confirm certain accounts receivable or apply alternative procedures to verify their balances
y d. B and C
6. The scope paragraph in the standard audit report uses which of the following terms:
a. Materiality.
b. Significant estimates.
c. Examining evidence.
d. All of the above ✓

7. Which of the following would be found in the introductory paragraph of the standard audit report?

- a. A reference to generally accepted auditing standards. ✓
- b. A statement that the auditor's responsibility is to express an opinion. ✗
- c. A reference to the notes to the financial statements.
- d. A reference to generally accepted accounting standards.

8. General Standards include all of the following except:

- a. Adequate Training
- b. Independence
- c. Proper Planning and Supervision
- d. Due Professional Care

9. These standards pertain specifically to the conduct of the audit at the entity's place of business.

- a. General Standards
- b. Standards of Field Work
- c. Standards of Reporting
- d. Statement on Auditing Standards

10. As of August 13, a CPA firm had obtained sufficient appropriate evidence with respect to fieldwork on an engagement to audit financial statements for the year ended June 30. On August 27, an event came to the CPA's attention that should be disclosed in notes to the financial statements. The event was properly disclosed by the client. The auditors dated the audit report August 27. Under these circumstances the CPA was taking responsibility for:

- a. All subsequent events that occurred through August 27
- b. Only the specific subsequent event disclosed by the client
- c. All subsequent events that occurred through August 13 and the specific subsequent event disclosed by the client
- d. Only the subsequent event that occurred through August 13

11. An attitude that includes a questioning mind and a critical assessment of audit evidence is referred to as:

- a. Objective judgment
- b. Independent integrity
- c. Professional skepticism
- d. Impartial conservation

12. Under Rule 101 in the AICPA's Code of Professional Conduct, independence would not be required in which of the following types of engagements?

- a. Compilations, examinations, or reviews
- b. Accounting services, management advisory services, or tax services
- c. Accounting services, examinations, or tax services
- d. Compilations, examinations, or management advisory services

13. The AICPA has authority to establish standards and rules in which of the following areas?

- a. Compilation and review standards
- b. Professional conduct
- c. Auditing standards applicable to financial statements of private and public companies
- d. A and B above

14. Every independent audit engagement involves both auditing standards and auditing procedures. The relationship between the two may be illustrated by how they apply from engagement to engagement. The best representation of this application is that, from one audit engagement to the next,

	<u>Auditing Standards</u>	<u>Auditing Procedures</u>
a.	Apply uniformly	Apply uniformly.
b.	May vary	Apply uniformly.
<input checked="" type="radio"/> c.	Apply uniformly	May vary.
d.	May vary	May vary.

PART TWO: Essay Questions

Question 1: (5 points)

The three types of audits are listed below. Indicate the category to which each statement belongs by placing the following letters in the spaces provided:

- FSA: Financial Statement Audit,
- CA: Compliance Audit, or
- OA: Operational Audit.

- FSA 1. The results of such an audit are distributed to a wide spectrum of users such as creditors, stockholders, regulatory agencies, and the general public.
- OA 2. This type of audit is often called a *performance audit*.
- CA 3. This audit may be based on criteria established by creditors.
- CA 4. The scope of such an audit may encompass all the activities of a department. ^{OA}
- FSA 5. This audit relates to fair presentation of statements in accordance with GAAP.

Question 2: (12 points)

In auditing the long-term investments account, Sami, CPA, is unable to obtain audited financial statements for an investee located in a foreign country. Sami concludes sufficient appropriate audit evidence regarding this investment cannot be obtained.

For each of the following situations below, identify the appropriate opinion type and report modification by selecting the appropriate choice from the table below.

Situation	Opinion Type	Introductory	Opinion	Explanatory or additional parag.
1. Assume the potential effect on the financial statements is material but does not overshadow the whole financial statements.	<u>Q</u>	<u>N</u>	<u>M</u>	+
2. Assume the potential effect on the financial statements is extremely material that put the fairness of financial statements in question.	Q	<u>A</u>	<u>M</u>	<u>+</u>
3. Assume the potential effect on the financial statements is immaterial.	<u>U</u>	<u>N</u>	<u>N</u>	+ <u>O</u>

Opinion Type	Standard Paragraph Choice	Explanatory Paragraph
U Unqualified	O Omit	0 None required
Q Qualified	N No change	+ Insert before opinion
A Adverse	M Modify	- Insert after opinion
D Disclaimer		

Question 3: (12 points) Assume you are the partner in charge of the 2013 audit of Harrison Corporation, a private company. The audit report has not yet been prepared. In each independent situation following (1-10), indicate the appropriate action (a-g) to be taken. The possible actions are as follows:

- a. Issue a standard unqualified report.
- b. Qualify both the scope and opinion paragraphs.
- c. Qualify the opinion paragraph.
- d. Issue an unqualified opinion with an explanatory paragraph.
- e. Issue an unqualified opinion with modified wording (no explanatory paragraph).
- f. Issue an adverse opinion.
- g. Disclaim an opinion.

The situations are as follows:

~~f~~ 1. Harrison Corporation carries its property, plant, and equipment accounts at current market values. Current market values exceed historical cost by a highly material amount, and the effects are pervasive throughout the financial statements.

~~g~~ 2. Management of Harrison Corporation refuses to allow you to observe, or make, any counts of inventory. The recorded book value of inventory is highly material.

A ~~V~~ 3. You were unable to confirm accounts receivable with Harrison's customers. However, because of detailed sales and cash receipts records, you were able to perform reliable alternative audit procedures.

~~g~~ 4. One week before the end of fieldwork, you discover that the audit manager on the Harrison engagement owns a material amount of Harrison's common stock.

~~g~~ 5. You relied upon another CPA firm to perform part of the audit. The other firm audited an immaterial portion of the financial statements. You decided not to make any reference refer to the other firm in your report.

~~d~~ 6. You are auditing Harrison Corporation for the first time. Harrison has been in business for several years. A major customer of Harrison declared bankruptcy during this year. Based on your audit, you have a substantial doubt that Harrison will be in business by the end of its next fiscal year.

g ~~X~~ 7. Ten days after the balance sheet date, one of Harrison's buildings was destroyed by a fire. Harrison refuses to disclose this information in a footnote to the financial statements, but you believe disclosure is required to conform with GAAP. The amount of the uninsured loss was material, but not highly material.

g ~~X~~ 8. During your audit of Harrison Corporation you conclude that there is a possibility that inventory is materially overstated that put the fairness of financial statements in question. Harrison's management refuses to allow you to expand your audit activities sufficiently to verify whether the balance is actually misstated.

d ~~X~~ 9. Harrison Corporation has changed from straight line to sum of the years digits depreciation. The effect on this year income is material, and the effect in future years is likely to be highly material. The facts are adequately disclosed in notes.

~~e~~ 10. You are the principal auditor of Harrison Corporation and you decided to refer to the work of another auditor, who audited a wholly owned subsidiary of the entity and issued an unqualified opinion