

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURER: SUHA ZALLOUM

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FIRST HOUR EXAM

ACCT. "339"

Student Name: Tinas A. sfour

Student #: 1110258

Part I – Answer Sheet

	1	c	✓
b	2	a	x
	3	e	✓
	4	c	✓
	5	a	✓
c	6	d	x
a	7	b	x
	8	c	✓
	9	d	✓
a	10	b	x
B	11	c	x
B	12	e	x
	13	b	✓
	14	a	✓
	15	e	✓
	16	a	✓
	17	b	✓
	18	e	✓
c	19	b	x
	20	b	✓

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Part I: Multiple Choice Questions

Select the best answer for each of the following:

- ✓ 1. The AICPA's Code of Professional Conduct prohibits contingent fees from:
- a. Any client.
 - b. Audit clients.
 - c. attest clients.
 - d. accounting clients.
 - e. None of the above.
2. Which one of the following statements is not true of the AICPA?
- a. It is public accounting's national professional organization.
 - b. Membership is mandatory for all CPA firms who practice in more than one state. ✓
 - c. It operates through a number of divisions.
 - d. Its publications include the Journal of Accountancy.
 - e. It provides a broad range of services to members. ✓
3. 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. Audit
 - e. Accounting
- ✓ 4. If an extremely material scope limitation exists, the auditor should express:
- a. An adverse opinion.
 - b. A qualified opinion.
 - c. A disclaimer of opinion.
 - d. Either a disclaimer of opinion or a qualified opinion.
 - e. Either a qualified opinion or an adverse opinion.
5. Statements on auditing standards (SAS's) are interpretations of?
- a. Generally accepted auditing standards
 - b. Generally accepted accounting principles
 - c. Generally accepted accounting policies
 - d. Generally accepted auditing services
 - e. AICPA code of professional conduct
- ✓ 6. It is fundamental that a CPA in public practice hold in strict confidence:
- a. all material financial information. ✗
 - b. balance sheet information. ✗
 - c. all information about a client's affairs. ✗
 - d. all financial information.
 - e. current year information.
7. Within the generally accepted auditing standards, the general standards relate primarily to:
- a. Qualifications of the auditor and the quality of the auditor's work. ✓
 - b. Qualifications of the auditor.
 - c. The relationship between GAAS and generally accepted accounting principles. ✗
 - d. The fairness of the financial statements. ✗
 - e. The general distribution of audit reports. ✗

8. Which of the following representations does an auditor make explicitly and which implicitly when issuing a standard unqualified opinion?

	Conformity with GAAP	Adequacy of disclosure	Consistency of accounting
a.	Explicitly ✓	Explicitly	Implicitly ✓
b.	Implicitly ✗	Implicitly ✓	Explicitly
c.	Explicitly ✓	Implicitly ✓	Implicitly ✓
d.	Implicitly ✗	Explicitly ✗	Explicitly
e.	Explicitly ✓	Implicitly ✓	Explicitly

9. In the opinion paragraph of the standard audit report, the phrase "in our opinion," really means:

- "we certify..."
- "we guarantee..." ✗
- "we are certain..." ✗
- ① "we are reasonably satisfied..."
- "we promise..." ✗

- ✗ 10. A disclaimer of opinion really states that:

- ① No opinion can be formed. ✗
- No audit was attempted. ✗
- Except for some minor errors the statements are fair. ✗
- The financial statements are wrong. ✗
- ✗ The audit was terminated.

- ✓ 11. Currently, there is a significant overlap between the rules of the PCAOB and the

- Financial accounting standards board FASB
- ✗ Statements on auditing standards SAS
- Internal revenue service IRS
- Financial information regulation organization
- ✗ Statements on financial information systems

- ✓ 12. Unpaid fees for professional services will impair independence if:

- the previous year's fee has not been paid by the start of the current year's engagement ✗
- ① the previous year's fee has not been paid by the time the current year's report is issued. ✗
- the previous year's fee has not been paid by the financial statement date ✗
- the current year's fee has not been paid by the time the report is issued. ✗
- ② the previous year's fee has not been paid by the time the current year's field work has been completed.

13. Which one of the following is not true of the Principles in the AICPA's Code of Professional Conduct?

- They provide a framework for the Rules.
- ① They are set forth as enforceable standards.
- They express the basic tenets of ethical conduct.
- They are expressions of ideals of professional conduct.
- None of the above.

14. When providing audit services, the CPA is expected to be:
- a. Independent of the client.
 - b. An advocate for the client.
 - c. An advocate for the general public.
 - d. Indifferent to the effect of the financial statements and the audit report.
 - e. Able to make managerial decisions for the client.
15. In general, except when explicitly stated otherwise, the Rules of Conduct in the AICPA's Code of Professional Conduct are applicable to:
- a. all members.
 - b. all professional services.
 - c. all members in public practice.
 - d. all members in private practice.
 - e. all members and all professional services.
16. 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. accounting services, management advisory services, or tax services
 - b. compilations, examinations, or reviews
 - c. accounting services, examinations, or tax services
 - d. compilations, examinations, or management advisory services
 - e. compilations, examinations, or audits
17. The primary purpose of the audit is to provide reasonable assurance that the financial statements are fairly presented in accordance with
- a. GAAS
 - b. GAAP
 - c. AICPA
 - d. FASB
 - e. SEC
18. A direct or material indirect financial interest in the client would impair independence if the interest were held during which of the following time periods?
- a. at the time of issuing the opinion
 - b. from the statement date to the time of issuing the opinion
 - c. from the beginning of the period covered by the statements to the time of issuing the opinion
 - d. during the engagement up to the date that auditing field work is completed
 - e. during the engagement or at the time of issuing the opinion
19. When the client is a financial institution, and the loan is made under normal lending conditions, which of the following loan types would be considered a violation of the independence rule?
- a. home mortgages that are a material percent of the appraised value of the property
 - b. direct loans that are not material in relation to the borrower's net worth
 - c. unsecured loans obtained by the member and guaranteed by her firm
 - d. loans of any type, as there are no exceptions to this rule
 - e. indirect loans that are not material in relation to the borrower's net worth

20. When the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, and this fact is adequately disclosed in the notes to the financial statements, the auditor's report should express:
- A qualified opinion due to the uncertainty.
 - An unqualified opinion, with explanatory paragraph.
 - The standard unqualified opinion.
 - A disclaimer of opinion.
 - An adverse opinion.

Part II: Essay Questions

A. Discuss Rule 301—Confidential Client Information, including the four exceptions to the rule.

Confidential the Client information means that the auditor must ~~not~~ ^{not} tell or give the information about the client to any person until the client approves (written approval) except for that are 3 condition without the client approval.

1) Obligations related to technical standards

2) Subpoena or compliance with the regulation and rules.

3) peer reviews for quality control purposes and to make sure that standard has been followed

4) when SEC or any other organization have the authority to examine the ethics that must be followed by the AICPA code of professional conduct.

B. List and describe the three factors that influence the organizational structure of all CPA firms.

1) ~~Independence~~ Independence is very important for the ~~CPA~~ CPA firms because if it lost the users will not ~~have~~ have confidence of the auditors or the financial statement

2) competence encourage the auditors to be affective and efficient in doing their work.

3) ~~Compliance with laws and regulations and protect the public interest~~ the increased litigation against auditor & the firm must provide a protect ^{some} from litigation against their auditors.

C. Assume you are the partner in charge of the 2013 audit of Becker Corporation, a private company. The audit report has not yet been prepared. In each independent situation following, indicate the appropriate type of audit report.

	Situation	TYPE OF REPORT
1.	Becker Corporation carries its property, plant, and equipment accounts at current market values. Current market values exceed historical cost by a <u>highly material</u> amount, and the effects are <u>pervasive</u> throughout the financial statements. <i>GAAP</i>	adverse ✓
2.	Management of Becker Corporation <u>refuses</u> to allow you to observe, or make, any <u>counts</u> of inventory. The recorded book value of inventory is <u>highly material</u> . <i>scope</i>	disclaimer ✓
3.	You were unable to confirm accounts receivable with Becker's customers. However, because of detailed sales and cash receipts records, you were able to perform reliable alternative audit procedures.	unqualified disclaimer Report ✓
4.	One week before the end of fieldwork, you discover that the audit manager on the Becker engagement owns a <u>material</u> amount of Becker's common stock.	disclaimer ✓
5.	You relied upon another CPA firm to perform <u>part</u> of the audit. Although you were the <u>principal</u> auditor, the other firm audited a <u>material</u> portion of the financial statements. You wish to refer to the other firm in your report.	unqualified with disclaimer <u>modified</u> wording ✓
6.	You have substantial doubt about Becker's ability to continue as a going concern.	unqualified with disclaimer <u>explanatory</u> paragraph ✓
7.	Becker Corporation changed its <u>method</u> of computing depreciation in 2012. You <u>concur</u> with the change and the change is properly disclosed in the financial statement footnotes.	unqualified with disclaimer <u>explanatory</u> paragraph ✓
8.	Ten days after the balance sheet date, one of Becker's buildings was destroyed by a fire. Becker refuses to disclose this information in a footnote to the financial statements, but you believe disclosure is required to conform <u>with GAAP</u> . The amount of the uninsured loss was <u>material</u> , but not highly material.	Qualified (opinion only) ✓

Qualified
(GAAP)
qualified
(GAAP)

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D. For the following situations, indicate whether there is a violation of the AICPA's Code of Professional Conduct. For each situation, decide whether the Code of Professional Conduct has been violated or not.

	Situation	Violation? Yes/ No
1.	<u>Harry Brown</u> is a partner in the Topeka office of Hedley & Co., CPAs. Harry's brother is employed in an <u>audit-sensitive position</u> by Jensen Appliances, a <u>publicly held company</u> in Kansas. Jensen Appliances is one of Hedley & Co.'s audit clients. Neither Harry nor personnel from the Topeka office is involved in the audit of Jensen.	No ✓
2.	<u>Bob Shelton CPA</u> , is the <u>auditor</u> of <u>Cafe Ecko</u> . A couple of weeks ago, Cafe Ecko's management commenced <u>litigation</u> against <u>Bob</u> , alleging he was negligent in last year's audit.	Yes ✓
3.	The accounting firm of <u>Bayer & Peng, CPAs</u> , is <u>negotiating a fee</u> with a new audit client. They agree the client will pay \$50,000 if Bayer & Peng issues a clean, unqualified opinion, \$40,000 if a qualified opinion is issued, and only \$20,000 if an adverse opinion is issued.	Yes ✓
4.	<u>John Woods</u> is an <u>audit manager</u> with <u>Calden & Co., CPAs</u> , a one-office CPA firm. John owns 100 shares of common stock in one of the firm's audit clients, but he does not provide any audit or non-audit services to the company.	No ✓
5.	Hamilton Appliance has not paid <u>Karen Linwood, CPA</u> , her audit fee for the past two years. Karen is starting work on the current year's audit of Hamilton.	Yes ✓
6.	The <u>accounting firm of Fine & Herman, CPAs</u> , provides bookkeeping and tax services for Henderson Corporation, a <u>privately held company</u> . Fine & Herman also performs the annual audit of Henderson Corporation.	No ✓
7.	<u>Don Smith, CPA</u> , is a member of the <u>engagement team that performs the audit of Shaw Corporation</u> . Don's <u>five-year-old</u> daughter, Precious, received <u>ten shares of Shaw Corporation's common stock</u> for her fifth birthday. The stock was a gift from Precious's grandmother. <u>direct interest</u>	Yes ✓

Good Luck ☺

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