

Part I: Multiple Choice Questions

Select the best answer for each of the following:

1. An audit that involves obtaining and evaluating evidence about the efficiency and effectiveness of an entity's operating activities in relation to specified objectives is a(n):
- a. internal audit.
 - b. operational audit.
 - c. compliance audit.
 - d. financial statement audit.
9. Which of the following would not be considered an indirect financial interest for a given CPA?
- a. The CPA owns stock in a mutual fund, which owns stock in the client.
 - b. The CPA's nondependent close relative has a financial interest in the client company.
 - c. The CPA's dependent child owns an immaterial amount of stock in the client company.
 - d. None of the above
2. Which one of the following is the service in which the CPA firm issues a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party?
- a. consulting service
 - b. attest service
 - c. accounting service
 - d. compilation service
3. The need for independent audits of financial statements can be attributed to all of the following conditions except:
- a. remoteness of information
 - b. complexity of transactions
 - c. Validity of information
 - d. Potential conflict of interest between users and preparers of the statements
12. The auditor's responsibility section of the standard unqualified audit report states that the audit is designed to:
- a. Discover all errors and/or irregularities.
 - b. Discover material errors and/or irregularities.
 - c. Conform to generally accepted accounting principles.
 - d. Obtain reasonable assurance whether the statements are free of material misstatement.
4. If the client refuses to accept an audit report that is qualified due to the known existence of an illegal act, the auditor should:
- a. withdraw from the engagement and indicate the reasons to the audit committee in writing.
 - b. issue an adverse opinion.
 - c. issue a disclaimer of opinion instead.
 - d. issue an unqualified opinion if management agrees to fully disclose the matter.

5. It is important for the auditor to be independent, neutral, and _____ in performing an audit.

- a. Unemotional
- b. Unbiased
- c. Unaware
- d. Alone

6. The two main sections of the AICPA's Code of Professional Conduct are:

- a. Principles and Rules of Conduct. ^a
- b. Rules of Conduct and Interpretations of the Rules of Conduct. ^b
- c. Principles and Ethics Rulings.
- d. Principles and Interpretations of the Rules of Conduct.

7. Which one of the following Principles relates to being impartial and unbiased in all matters pertaining to an engagement?

- a. Responsibilities ✓
- b. Objectivity and Independence ✓
- c. The Public Interest ✓
- d. Due Care ✓

8. Rule 101 makes independence a requirement for:

- a. all services provided by members.
- b. audits, reviews, and other attestation services.
- c. audits, reviews, and accounting services.
- d. audits, reviews, and consulting services.

10. Which one of the following is not a service that a CPA firm is required to refrain (يعتذر) from performing for its SEC audit clients?

- a. human resource functions ✓
- b. actuarial services ✓
- c. appraisal or services ✓
- d. auditing services to insurance companies

11. Under Rule 505 in the AICPA's Code of Professional Conduct, the name of the firm cannot be:

- a. With the Name of the CPA
- b. an indication of a specialty
- c. Misleading
- d. None of the above

13. The appropriate audit report date for a standard nonqualified audit report for a non-public entity should be the:

- a. Date the financial statements are given to the Board of Directors.
- b. Date of the financial statements.
- c. Date the auditor completed the auditing procedures in the field.
- d. 60 days after the date of the financial statements as required by the SEC.

- 14 All of the following are causes for the addition of an explanatory paragraph under both AICPA and PCAOB standards except for:
- Emphasis of a matter. ✓
 - Reports involving other auditors. ✓
 - Lack of consistent application of generally accepted accounting principles. ✓
 - Auditor agrees with a departure from promulgated accounting principles.. ✓
- 15 To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, the auditor must fulfill several performance responsibilities, including:
- Verifying that all audit work is performed by a CPA with a minimum of three years' experience.
 - Obtaining sufficient, appropriate audit evidence. ✓
 - Exercising professional judgment. ✓
 - Providing an opinion on the financial statements.

Part II: Essay Questions

^{10 GAAS}
 Q1: The ten generally accepted auditing standards are listed below in paraphrased form. Indicate the category to which each statement belongs by placing the following letters in the spaces provided:

G: General, F: Field work, or R: Reporting.

- F ✓ 1. An understanding of the internal control structure is to be obtained. F
- G ✓ 2. The auditor should be unbiased during the examination. G
- R ✓ 3. The financial statements should be in conformity with GAAP. R
- R ✓ 4. The financial statements contain adequate disclosures. R
- G ✓ 5. The auditor should have adequate technical training and proficiency as an auditor. G
- F ✓ 6. Sufficient competent evidential matter is to be obtained. F
- G ✓ 7. Due professional care is to be exercised by the auditor. G
- F ✓ 8. The work should be adequately planned and assistants should be properly supervised. F
- R ✓ 9. The report shall contain an expression of opinion. R
- R ✓ 10. Circumstances in which GAAP have not been consistently observed should be identified. R

gem
 File
 TIE
 PJE
 Rep →
 - account books
 - full disclosure
 - opinion
 - consistency

(S₄)

Q2: The following audit report was issued by the CPA firm of Wong and Lee on a basic set of financial statements:

(0) We have examined the accompanying balance sheet of X Company as of December 31, 2013, and the related statements of (1) income and retained earnings for the year then ended. These financial statements are the responsibility of the Company's (2) board of directors. Our responsibility is to express an opinion on these financial statements based on our (3) examination.

We conducted our audit in accordance with (4) professional auditing standards. Those standards require that we (5) plan and perform the audit to obtain reasonable assurance about whether the financial statements (6) are fairly stated. An audit includes examining, (7) on a ^{conf.} ~~detailed~~ basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes (8) judging the accounting practices used and significant (9) decisions made by management, as well as evaluating the (10) completeness of the financial statement presentation. We believe that our audit provides (11) reliable evidence for our opinion.

(12) We believe the financial statements referred to above (13) present fairly, in all respects, the financial position of X Company as of December 31, 2013, and (14) the results of its operations and its cash flows for the year then ended (15) in conformity with promulgated accounting principles.

REQUIRED: If the wording of each numbered item is correct, enter OK. If the wording is incorrect, give the correct wording.

for the year ending 2013
to 13/14
Yes

- (0) ~~audited~~ we have audited. / Balance sheet of Wong and Lee company, maybe 2013/2012
- (1) Income statement and retained earnings and Cash Flow statements only if the auditor may make and qualified for ~~standards~~ appear the ~~CFW~~ ^{for comparison}
- (2) → management.
- (3) → ~~audite~~ ^{audite}.
- (4) Generally accepted ~~accounting~~ auditing standards GAAS
- (5) OK
- (6) → are free from material ~~mis~~ statement.
- (7) ~~preparing~~ ~~preparation~~ ~~on~~ ~~auditing~~ ~~statements~~ simple/sample basis
- (8) ~~estimate~~ the significance ~~to~~ ~~class~~ of the significant risk on ~~the~~ ~~financial~~ ~~statements~~
- (9) ~~appropriateness~~ of accounting ~~based~~ ~~used~~ ~~by~~ ~~management~~ ~~in~~ ~~the~~ ~~financial~~ ~~statements~~
- (10) ~~of~~ ~~fairly~~ ~~st~~ ^{of} ^{fairly} st
- (11) Sufficient appropriate evidence. ^{financial statements}
- (12) ~~we~~ ~~have~~ ~~expressed~~ ~~our~~ ~~opinion~~ ^{we} ^{have} ^{expressed} ^{our} ^{opinion}
- (13) ~~are~~ ~~present~~ ~~fairly~~ ~~in~~ ~~all~~ ~~material~~ ~~respects~~, financial position of Wong and Lee company as of Dec 31/2013/2012
- (14) ~~and~~ ~~the~~ ~~results~~ ~~of~~ ~~operations~~ ~~and~~ ~~its~~ ~~cash~~ ~~flows~~ ~~for~~ ~~the~~ ~~year~~ ~~ended~~ ~~and~~ ~~retained~~ ~~earnings~~ ~~statements~~
- (15) in accordance with Generally accepted ~~accounting~~ principles (OK)

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8 → Judging the appropriateness of accounting practices/financial statements are free from material misstatements

Q3: For each of the following actions by a member CPA, indicate whether the actions does (yes) or does not (no) violate the Rules of Conduct.

- 1. NO Makes recommendations but not the decisions in an MCS engagement for a nonpublic client.
- 2. ~~Yes~~ Permits a non-CPA to be the chairman of the board of a CPA firm organized as a professional corporation.
- 3. Yes Accepts a commission from a vendor, with the permission of the audit client, for recommending the vendor's product.
- 4. NO Transfers working papers, with the client's permission, to the client's new auditors.
- 5. Yes Subordinates his judgment in favor of the client in tax practice when there is little support for the client's position.
- 6. NO Indicates the number of partners, CPAs and offices in his or her firm in an advertisement.
- 7. Yes/NO States that the fee in a tax case will be based on the amount of tax saving ?? realized.
- 8. Yes A personnel manager in the office doing the audit of a client has a financial interest in the client.
- 9. ~~Yes~~ Fails to adequately plan and supervise an audit engagement.
- 10. Yes Knowingly misrepresents facts in an audit engagement.

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