

**BIRZEIT UNIVERSITY**  
**FACULTY OF BUSINESS AND ECONOMICS**  
**ACCOUNTING DEPARTMENT**

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**FIRST HOUR EXAM**

**ACCT. "339"**

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**Part I – Answer Sheet**

|   |    |   |   |
|---|----|---|---|
| A | 1  | D | X |
|   | 2  | C | ✓ |
|   | 3  | A | ✓ |
|   | 4  | B | ✓ |
|   | 5  | A | ✓ |
|   | 6  | C | ✓ |
|   | 7  | A | ✓ |
| C | 8  | D | X |
|   | 9  | D | ✓ |
|   | 10 | B | ✓ |
|   | 11 | D | ✓ |
| B | 12 | D | X |
|   | 13 | D | ✓ |
|   | 14 | D | ✓ |
|   | 15 | A | ✓ |
|   | 16 | D | ✓ |
|   | 17 | B | ✓ |
|   | 18 | D | ✓ |
|   | 19 | B | ✓ |
|   | 20 | A | ✓ |
|   | 21 | C | ✓ |

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## Part I: Multiple Choice Questions

Select the best answer for each of the following:

1) Julie and Lisa are sisters. Julie is a CPA auditing the company where Lisa works. Julie's independence is impaired if:

- الادب المبرج
- A) Lisa is the controller. ←
- B) Lisa owns 25% of the company. ←
- C) Lisa is the marketing manager. ←
- D) all of the above.

2) The three requirements for becoming a CPA include all but which of the following?

- A) Uniform CPA examination requirement
- B) Educational requirements
- C) Character requirements
- D) Experience requirement

3) Which of the following services provides the lowest level of assurance on a financial statement?

- A) A review
- B) An audit
- C) Neither service provides assurance on financial statements.
- D) Each service provides the same level of assurance on financial statements.

4) 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:

- A) verifying that all audit work is performed by a CPA with a minimum of three years experience.
- B) obtaining sufficient, appropriate audit evidence.
- C) exercising professional judgment.
- D) providing an opinion on the financial statements.

5) An auditor need not abide by a particular auditing standard if the auditor believes that:

- A) the issue in question is immaterial in amount.
- B) more expertise is needed to fulfill the requirement.
- C) the requirement of the standard has not been addressed by the PCAOB.
- D) any of the above three are correct.

6) In order to properly plan and perform an audit, an important fact for both the auditor and the client to understand is that:

- A) the internal control policies and procedures are developed by the auditors. ←
- B) the purpose of an audit is to prevent fraud. ←
- C) management is responsible for the preparation of the financial statements. ✓
- D) management can restrict the auditor's access to important information relevant to the financial statements. ←

7) The AICPA's Code of Professional Conduct requires independence for all:

- A) Attestation engagements. ✓
- B) services performed by accountants in public practice.
- C) accounting and auditing services performed.
- D) professional work performed by CPAs.

8) The methods used by a CPA firm to ensure that the firm meets its professional responsibilities to clients and others is:

- A) continuing professional education.
- B) compliance with generally accepted reporting standards.
- C) quality control.
- D) peer review.

9) 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.

10) The most common way for users to obtain reliable information is to:

- A) have an internal audit. ✗
- B) have an independent audit.
- C) verify all information individually. ✗
- D) verify the information with management. ✗

11) The audit report date on a standard unqualified report indicates:

- A) the last day of the fiscal period. ✗
- B) the date on which the financial statements were filed with the Securities and Exchange Commission. ✗
- C) the last date on which users may institute a lawsuit against either client or auditor. ✗
- D) the last day of the auditor's responsibility for the review of significant events that occurred after the date of the financial statements.

12) All of the following are causes for the addition of an explanatory paragraph under both AICPA and PCAOB standards except for:

- A) emphasis of a matter.
- B) reports involving other auditors.
- C) lack of consistent application of generally accepted accounting principles.
- D) auditor agrees with a departure from promulgated accounting principles..

13) In which situation would the auditor be choosing between "except for" qualified opinion and an adverse opinion?

- A) The auditor lacks independence. ✗
- B) A client-imposed scope limitation ✗
- C) A circumstance imposed scope limitation ✗
- D) Lack of full disclosure within the footnotes

14) Which of the following statements best describes the enforceability of the Interpretations of the Rules of Conduct?

- A) The Interpretations are not enforceable. ✗
- B) The Interpretations are enforceable. ✗
- C) The Interpretations may be enforceable if they have been reviewed and approved by the AICPA's Division of Professional Ethics.
- D) The Interpretations are not enforceable, but a practitioner must justify departure from them.

~~GAAP~~  
15) Statements on Standards for Accounting and Review Services are issued by the:

- A
- A) Accounting and Review Services Committee.
  - B) Professional Ethics Executive Committee.
  - C) Securities and Exchange Commission.
  - D) Financial Accounting Standards Board.

16) Which of the following services are allowed by the SEC whenever a CPA also audits the company?

- D
- A) Internal audit outsourcing
  - B) Legal services unrelated to the audit
  - C) Appraisal or valuation services
  - D) Services related to assessing the effectiveness of internal control over financial reporting

17) CPAs may provide bookkeeping services to their private company audit clients, but there are a number of conditions that must be met if the auditor is to maintain independence. Which of the following conditions is not necessary?

- B
- A) The CPA must not assume a management role or function. ✓
  - B) The client must hire an external CPA to approve all of the journal entries prepared by the auditor.
  - C) The auditor must comply with GAAS when auditing work prepared by his/her firm. ✓
  - D) The client must accept responsibility for the financial statements.

Answer: B

18) Rule 301 of the AICPA's Code of Professional Conduct requires CPAs to maintain the confidentiality of client information. This rule would be violated if a CPA disclosed information without a client's consent as a result of a:

- D
- A) subpoena or summons. ✗
  - B) peer review. ✗
  - C) complaint filed with the trial board of the Institute.
  - D) request by a client's largest stockholder.

19) The statement that "We are not aware of any material modifications that should be made to the accompanying financial statements" expresses which of the following?

- B
- A) Disclaimer of an opinion
  - B) Negative assurance
  - C) Negative confirmation
  - D) Shared opinion

20) The Public Company Accounting Oversight Board:

- A
- A) performs inspections of the quality controls of audit firms that audit public companies.
  - B) establishes auditing standards that must be followed by CPAs on all audits.
  - C) oversees auditors of private companies.
  - D) performs any of the above functions.

21) You are preparing to issue a report on the compilation of financial statements for a nonpublic company. Prior to issuing the report you should:

- C
- A) perform tests of balances on selected accounts to determine if they are free from material misstatements.
  - B) perform analytical procedures to determine if they are free from material misstatements. ✗
  - C) read the financial statements to determine if they are free from obvious material errors.
  - D) perform limited control tests to determine if there are any material misstatements. ✓

**Part II: Essay Questions**

A. List and describe the three factors that influence the organizational structure of all CPA firms. (2 Points)

- 1) The important of organizational structure to encourage competence, because competence enable CPAs to perform better services
- 2) Increased litigation risk faced by auditors, & some organization structure provide protection and have less cost for auditor firms.
- 3) The need for ~~contemporaneity~~ <sup>independence</sup> by auditor which increase the auditor ability to obtain evidence.

(2)

B. 1) Match the engagement described to the (A) type of audit and (B) auditor that would perform the engagement. Each engagement will have an answer from List-A and List-B. An answer can be used once, more than once, or not at all. (5 Points)


| List A - Type of Audit: | List B - Type of Auditor: |
|-------------------------|---------------------------|
| a. Financial Statement  | d. Internal               |
| b. Compliance           | e. External               |
| c. Operational          | f. Government             |
|                         | g. IRS                    |

|    | Engagement  | Type of Audit  | Type of Auditor |
|----|---|----------------|-----------------|
| 1. | Evaluate a company's payroll processing for economy.  | C ✓            | D ✓             |
| 2. | Evaluate/determine if bank agreements are being met.  | B ✓            | D ✓             |
| 3. | Evaluate financial statements that are to be submitted to a bank.   | A ✓            | E ✓             |
| 4. | Determine if Medicare reimbursements are in accordance with the Healthcare Financing Administration (HCFA).<br><i>هذا النوع B</i> | <del>A</del> ✓ | F ✓             |
| 5. | Determine if the tax return of a multinational corporation is in accordance with the tax code.<br><i>هذا النوع B</i>              | <del>A</del> ✓ | G ✓             |

(4)

C. Assume you are the partner in charge of the 2013 audit of Harrison Corporation, a private company (7 points). The audit report has not yet been prepared. In each independent situation following, indicate the appropriate type of audit report. The possible types are as follows:

- a. Issue a standard unqualified report.
- b. Issued qualified opinion.
- d. Issue an unqualified opinion with an explanatory paragraph.
- e. Issue an unqualified opinion with modified wording.
- f. Issue an adverse opinion.
- g. Disclaimer opinion.

|  | Situation  | TYPE OF REPORT |
|--|--|----------------|
| ✓ 1.   | Harrison Corporation carries its property, plant, and equipment accounts at current market values. <u>Current market values exceed historical cost by a highly material amount</u> , and the effects are pervasive throughout the financial statements.  | F ✓            |
| 2.   | 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.   | A ✓            |
| 3.   | One week before the end of fieldwork, you discover that the audit manager on the Harrison engagement owns a <u>material amount</u> of Harrison 's common stock.  | G ✓            |
| 4.  | Harrison Corporation has changed from straight line to sum of the years digits depreciation. The effect on this year income is <u>material</u> , and the effect in future years is likely to be highly material. The facts are adequately disclosed in notes.  | D ✓            |
| 5.   | Ten days after the balance sheet date, one of Harrison's buildings was destroyed by a fire. <u>Harrison refuses to disclose this information</u> in a footnote to the financial statements, but you believe disclosure is required to conform with GAAP. The amount of the <u>uninsured loss was material</u> , <u>but not highly material</u> .         | B ✓            |
| 6.   | You are the principal auditor of Harrison Corporation and you decided to refer to the work of another auditor, who audited a <u>wholly owned subsidiary</u> of the entity and issued an unqualified opinion <del>disqualified</del>  | E ✓            |
| 7.   | During your audit of Harrison Corporation you conclude that there is a possibility that inventory is <u>materially overstated</u> that put the <u>fairness of financial statements in question</u> . Harrison's management <u>refuses to allow</u> you to expand your audit activities sufficiently to verify whether the balance is actually misstated. | G ✓            |

(7)

(6 Points)

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D. Below are five statements that may or may not be relevant to a compilation or review or audit engagement. For each of the five statements, indicate whether the procedure is to be performed.

|    | Description of Procedure  | Required for             |        |       |
|----|---|--------------------------|--------|-------|
|    |   | Compilation              | Review | Audit |
| 1. | Understand the client's industry and the nature of the client's business. | ✓                        | ✓      | ✓     |
| 2. | Read the financial statements.  | ✓                        | ✓      | ✓     |
| 3. | Design and perform analytical procedures                                  | X                        | ✓      | ✓     |
| 4. | Perform test of controls.   | X                        | X      | ✓     |
| 5. | Make inquiries of client management                                       | <sup>required</sup><br>X | ✓      | ✓     |
| 6. | Assess fraud risk   | X                        | X      | ✓     |

E. 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. (5 Points)

|    | Situation  | Violation? Yes/ No |
|----|--|--------------------|
| 1. | Howard Cunningham & Co., CPAs, designates its firm as "Members of the American Institute of Certified Public Accountants." All of the partners of the firm are CPAs. However, one of the partners has recently chosen to allow her membership to lapse because of personal reasons.  | Yes                |
| 2. | Brad Long, CPA, was traveling from Orlando to Miami, Florida when he was pulled over by a police officer on suspicion of driving under the influence. He was convicted in court of driving while under the influence of alcohol. Because of past convictions, Brad was sentenced to 5 years in prison.   | Yes                |
| 3. | Kelley Brent, CPA, is a partner in a <u>one-office CPA firm</u> that audits Dane, Inc., a closely held corporation. Kelley's sister was recently appointed as the chief financial officer for Dane, Inc.   | Yes                |
| 4. | <u>Sarah Martin, CPA, is a senior auditor in the San Francisco office of Cooper &amp; Howell, CPAs.</u> Sarah's father is employed as the controller of Line Electronics, a public company in Detroit, Michigan. Line Electronics is one of the firm's audit clients. <u>Neither Sarah nor the San Francisco office is involved in the audit of Line Electronics.</u>  | No                 |
| 5. | On <u>August 20, 20x6</u> , Hank Anderson, CPA and partner, was offered and accepted the engagement to audit the annual financial statements of <u>Jernigan Corporation</u> for the year ended December 31, 20x6. Preliminary work began on the audit on <u>September 15, 20x6</u> and the engagement ended on <u>March 7, 20x7</u> . Jernigan is regulated by the SEC. Hank served as controller of Jernigan Corporation from December 1, 20x2, until April 10, 20x6, at which time he terminated his employment with Jernigan. | Yes                |

Good Luck ☺

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