

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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SECOND SEM. 2012/2013
SECOND HOUR EXAM

ACCT. "339"

Student Name: ~~XXXXXXXXXX~~

Student #: ~~XXXXXXXXXX~~

Part I – Answer Sheet

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

21 B ✓

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Part I - Multiple Choice Questions

1. A successor auditor is required to attempt communication with the predecessor auditor prior to:
 - a. Performing test of controls.
 - b. Testing beginning balances for the current year.
 - c. Making a proposal for the audit engagement.
 - d. Accepting the engagement.

2. Which of the following statements concerning an auditor's disclosure of confidential client data is generally correct?
 - a. Disclosure may be made to any state agency without subpoena.
 - b. Disclosure may be made to any party on consent of the client.
 - c. Disclosure may be made to comply with an SEC audit request.
 - d. Disclosure may be made to comply with Generally Accepted Accounting Principles.

3. To obtain audit evidence about control risk, an auditor selects tests from a variety of techniques including:
 - a. Inquiry
 - b. Analytical procedures.
 - c. Calculation.
 - d. Confirmation.

4. In assessing control risk for purchases, an auditor vouches a sample of entries in the voucher register to the supporting documents. Which assertion would this test of controls most likely support?
 - a. Completeness.
 - b. Occurrence.
 - c. Accuracy.
 - d. Rights and obligations.

5. The permanent file of the audit documentation for an engagement generally would not include:
 - a. Bond indenture agreements. ✓
 - b. Lease agreements. ✓
 - c. Working trial balance.
 - d. Flowchart of internal control.

6. Which of the following procedures would least likely result in the discovery of possible illegal acts?
 - a. Reading the minutes of the board of directors' meetings.
 - b. Making inquiries of the client's management.
 - c. Performing tests of details of transactions.
 - d. Reviewing an internal control questionnaire.

7. Which of the following statements is not correct about materiality?

- a. The concept of materiality recognizes that some matters are important for fair presentation of financial statements in conformity with GAAP, while other matters are not important.
- b. An auditor considers materiality for planning purposes in terms of the largest aggregate level of misstatements that could be material to any one of the financial statements.
- c. Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative judgments.
- d. An auditor's consideration of materiality is influenced by the auditor's perception of the needs of a reasonable person who will rely on the financial statements.

8. On the basis of audit evidence gathered and evaluated, an auditor decides to increase the assessed level of control risk, and therefore the risk of material misstatement, from that originally planned. To achieve an overall audit risk level that is substantially the same as the planned audit risk level, the auditor would:

- a. Increase inherent risk. $\downarrow \uparrow \rightarrow \uparrow$ ev.
- b. Increase materiality levels. $\uparrow \rightarrow \downarrow$
- c. Decrease substantive testing.
- d. Decrease detection risk. $\downarrow \rightarrow$ evidence \uparrow

9. When obtaining an understanding of an entity's internal controls, an auditor should concentrate on the substance of the controls rather than their form because:

- a. The procedures may be operating effectively but may not be documented.
- b. Management may establish appropriate procedures but not enforce compliance with them.
- c. The procedures may be so inappropriate that no reliance is contemplated by the auditor.
- d. Management may implement procedures whose costs exceed their benefits.

10. An auditor who uses a transaction cycle approach to assessing control risk most likely would test control activities related to transactions involving the sale of goods to customers with the:

- a. Collection of receivables.
- b. Purchase of merchandise inventory.
- c. Payment of accounts payable.
- d. Sale of long-term debt.

11. Determining that proper amounts of depreciation are expensed provides assurance about management's assertion of:

- a. Valuation, allocation, and accuracy.
- b. Completeness, accuracy, and occurrence.
- c. Rights and obligations, and valuation.
- d. Existence, completeness, and accuracy.

12. Which of the following types of audit evidence generally is the most reliable?

- a. Inquiries made of management.
- b. Confirmation of account information.
- c. Analytical procedures.
- d. Review of prior-year audit procedures.

13. Which of the following matters generally is included in an auditor's engagement letter?

- a. Management's responsibility for the entity's compliance with laws and regulations.
- b. The factors to be considered in setting preliminary judgments about materiality.
- c. Management's liability for illegal acts committed by its employees.
- d. The auditor's responsibility to search for significant internal control deficiencies.

14. An auditor reviews a client's accounting policies and procedures when considering which of the following planning matters?

- a. Method of sampling to be used.
- b. Preliminary judgments about materiality levels.
- c. Nature of reports to be rendered.
- d. Understanding the client's operations and business.

15. Tests designed to detect purchases made before the end of the year that have been recorded in the subsequent year most likely would provide assurance about management's assertion regarding:

- a. Accuracy.
- b. Obligations.
- c. Cutoff.
- d. Classification.

✓ 16. As the acceptable level of detection risk decreases, the assurance directly provided from:

- a. Substantive tests should increase.
- b. Substantive tests should decrease.
- c. Tests of controls should increase.
- d. Tests of controls should decrease.

✓ 17. Samples to test internal control are intended to provide a basis for an auditor to conclude whether:

- a. The control activities are operating effectively.
- b. The financial statements are materially misstated.
- c. The risk of incorrect acceptance is too high.
- d. Materiality for planning purposes is at a sufficiently low level.

✓ 18. In considering materiality for planning purposes, an auditor believes that misstatements aggregating \$10,000 would have a material effect on an entity's income statement, but that misstatements would have to aggregate \$20,000 to materially affect the balance sheet. Ordinarily, it would be appropriate to design auditing procedures that would be expected to detect misstatements that aggregate:

- a. \$10,000
- b. \$15,000
- c. \$20,000
- d. \$30,000

19. Which of the following statements about internal control is correct?

- a. Properly maintained internal control reasonably ensures that collusion among employees cannot occur.
- b. The establishment and maintenance of internal control is an important responsibility of the internal auditor.
- c. Exceptionally strong internal control is enough for the auditor to eliminate substantive tests on a significant account balance.
- d. The cost-benefit relationship is a primary criterion that should be considered in designing internal control.

✓ 20. After testing a client's internal control activities, an auditor discovers a number of significant deficiencies in the operation of a client's internal controls. Under these circumstances the auditor most likely would:

- a. Issue a disclaimer of opinion about the internal controls as part of the auditor's report. ✗
- b. Increase the assessment of control risk and increase the extent of substantive tests.
- c. Issue a qualified opinion of this finding as part of the auditor's report. ✗
- d. Withdraw from the audit because the internal controls are ineffective.

21. Which of the following is not a type of financial statement assertion?

- a. Rights and obligations. ✓
- b. Fairness and accuracy.
- c. Valuation and allocation. ✓
- d. Understandability and classification. ✓

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Part II-Essay Questions

A. Discuss three reasons why auditors are responsible for "reasonable" but not "absolute" assurance.

Because auditor test a sample not all population to take evidence in order to make reasonable assurance about whether the f.s are free of material misstatement and ~~the~~ absolute assurance will make the cost and the type of evidence to increase and that is not realistic because there is some difficulties ~~sample~~ some accounting procedure that make impossible for auditor to make absolute assurance

the fraudulent between ~~employee~~ and Management, make impossible to detect the financial misstatement ~~because they~~

B. For each of factors in the table below, identify the appropriate internal control component.

Note: Each component (from the five COSO internal control components) may be used once, more than once, or not at all.

Factor	Component
1. Authorization of transactions.	Control activity
2. Participation of those charged with governance.	Control Environment
3. Internal audit function.	Monitoring
4. Pre-numbering of documents.	Control activity
5. The way in which significant events are captured by the accounting system.	Information and communication
6. Assignment of authority, responsibility and accountability.	Control Environment
7. Adoption of new accounting principles.	Risk assessment
8. Proper presentation of transactions and related disclosures.	Information and communication
9. Segregation of duties.	Control activity
10. Corporate restructuring.	control Environment

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C. During the Year 1 Audit of Brothers Company the auditor performed various procedures. For each of the audit procedures listed below write the type of audit evidence used by the auditor.

Note: Each type of audit evidence (the eight types of audit evidence) may be used once, more than once, or not at all.

Audit Procedure	Type of Audit Evidence
1. <u>Watch</u> client employees count inventory to determine whether company procedures are being followed.	Observation ✓
2. Obtain a written statement from the client's bank stating the client's year-end balance on deposit.	Confirmation ✓
3. <u>Examine</u> a piece of equipment to make sure a recent purchase of equipment was actually received and is in operation.	Documentation ✓
4. <u>Calculate</u> the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the <u>preceding year</u> .	analytical Procedure ✓
5. Obtain information about the client's internal controls by asking questions of client personnel.	Inquiring of the client ✓
6. The auditing firm's computer-assisted audit specialist obtained an electronic billing file from the company and <u>checked</u> the accuracy of the summarized billings file.	reperformance ✓
7. The auditor generally tests the segregation of duties related to inventory.	Observation ✓
8. <u>Compare</u> vendor names and amounts on purchase invoices with entries in the purchases journal.	documentation ✓
9. Make a surprise <u>count</u> of petty cash to verify that the amount of the petty cash fund is intact.	Physical examination ✓
10. Trace postings from the sales journal <u>to</u> the general ledger accounts.	RePerformance ✓



Good Luck

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