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BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

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FIRST SEM. 2013/2014
SECOND EXAM

ACCT. "339"

Student Name: ~~XXXXXXXXXX~~

Student #: ~~XXXXXXXXXX~~

Part I - Answer Sheet

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

MC 15
ESS. 16.5

31.5

d
b
a

16

Part I - Multiple Choice Questions (50 points)

1. An example of a document the auditor receives from the client, but which was prepared by someone outside the client's organization, is a:

- a. confirmation
- b. sales invoice.
- c. vendor invoice.
- d. bank reconciliation.

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2. When the auditor used the audit procedure vouching she is primarily concerned with which of the following audit objectives when testing classes of transactions?

- a. Occurrence
- b. Completeness
- c. Authorization
- d. Classification

3. Which of the following statements is most correct regarding the primary purpose of audit procedures?

- a. to detect all errors or fraudulent activities as well as illegal activities
- b. to comply with auditing standards promulgated by the PCAOB for publicly held clients
- c. to gather corroborative audit evidence about management's assertions regarding the client's financial statements
- d. to determine the amount of errors in the balance sheet accounts in order to adjust the accounts to actual

4. To be considered reliable evidence, confirmations must be controlled by:

- a. a client employee responsible for accounts receivable.
- b. a financial statement auditor.
- c. a client's internal audit department.
- d. a client's controller or CFO.

5. The auditor is concerned that a client is failing to bill customers for shipments. An audit procedure that would gather relevant evidence would be to:

- a. select a sample of duplicate sales invoices and trace each to related shipping documents.
- b. trace a sample of shipping documents to related duplicate sales invoices. *Completeness*
- c. trace a sample of Sales Journal entries to the Accounts Receivable subsidiary ledger.
- d. compare the total of the Schedule of Accounts Receivable with the balance of the Accounts Receivable account in the general ledger.

6. 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.

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7. 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.

8. 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.

9. 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. ✓

10. 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. ✗

11. An auditor generally tests the segregation of duties related to inventory by:

- (a) Personal inquiry and observation.**
- b. Test counts and cutoff procedures.
- c. Analytical procedures and invoice re-computation.
- d. Document inspection and reconciliation.

12. When an auditor increases the planned assessed level of control risk because certain control activities were determined to be ineffective, the auditor would most likely increase the:

- (a) Extent of tests of details.**
- b. Level of inherent risk. ✗
- c. Extent of tests of controls. ✗
- d. Level of detection risk. ✗

13. A successor auditor most likely would make specific inquiries of the predecessor auditor regarding:

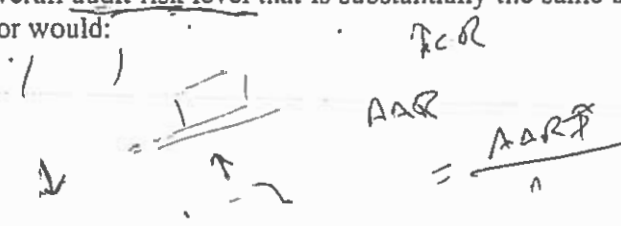
- a. Specialized accounting principles of the client's industry. ✓
- b. The competency of the client's internal audit staff. ✓
- c. The uncertainty inherent in applying sampling procedures. ✓
- d. Disagreements with management as to auditing procedures.

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. Understanding the client's operations and business.
- c. Nature of reports to be rendered. ✓
- d. Preliminary judgments about materiality levels. ✓

15. 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 acceptable audit risk level, the auditor would:

- a. Increase inherent risk. ✓
- b. Increase materiality levels. ✓
- c. Decrease planned detection risk.
- d. Decrease substantive testing. ✓



16. Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of:

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

17. An auditor's engagement letter most likely would include:

- a. The factors to be considered in setting preliminary judgments about materiality. ✓
- b. Management's responsibility for the entity's compliance with laws and regulations.
- c. reminder that management is responsible for illegal acts committed by employees.
- d. A request for permission to contact the client's lawyer for assistance in identifying litigation, claims, and assessments.

18. The preliminary judgment about materiality and the amount of audit evidence accumulated are _____ related.

- a. directly
- b. inversely
- c. not
- d. inversely

19. Which of the following statements is not correct?

- a. Analytical procedures are used to isolate accounts or transactions that should be investigated more extensively.
- b. For certain immaterial accounts, analytical procedures may be the only evidence needed.
- c. In some instances, other types of evidence may be reduced when analytical procedures indicate that an account balance appears reasonable.
- d. Analytical procedures use supporting documentation to determine which account balances need additional detailed procedures.

20. To obtain an understanding of a continuing client's business in planning an audit, an auditor most likely would:

- a. Perform tests of details of transactions and balances.
- b. Review prior-year audit documentation and the permanent file for the client.
- c. Read specialized industry journals.
- d. Reevaluate the client's internal control environment.

Part II-Essay Questions

Q1. : Below are five audit procedures, all of which are tests of transactions associated with the audit of the acquisition and payment cycle. Also below are the six general transaction-related audit objectives and the five management assertions. For each audit procedure, indicate its audit objective, and the management assertion being tested.

<u>Audit Objectives</u>	<u>Assertions</u>
A. Occurrence	V. Occurrence
B. Completeness	W. Completeness
C. Accuracy	X. Accuracy
D. Posting and summarization	Y. Classification
E. Classification	Z. Cutoff
F. Timing	

Accuracy

<u>Audit Procedure</u>	<u>Audit Objective</u>	<u>Assertion</u>
1. Foot the purchases journal and trace the totals to the related general ledger accounts.	posting and summarization	Classification
2. Re-compute the cash discounts taken by the client.	Accuracy	Accuracy
3. Compare dates on cancelled checks with the bank cancellation date.	Timing	Cutoff
4. Trace from a sample of cancelled checks to the cash disbursements journal.	Completeness	Completeness
5. Examine supporting documentation for a sample of transactions for authorized payee and amount and to determine services or goods were received.	Occurrence	Occurrence

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Q2. The following are parts of a typical audit for a company with a fiscal year-end December 31. Put parts 1 through 6 of the audit in the sequential order in which you will expect them to be performed in a typical audit.

	Sequential Order
1. Confirm account payable.	⑤ 5 ✓
2. Do test of controls and substantive tests of transactions for the acquisitions and payment and payroll and personnel cycles.	④ 4 ✓
3. Accept the clients.	① 1 ✓
4. Issue the audit report.	⑥ 6 ✓
5. Understand internal control and assess control risk.	③ 2 } 7
6. Set acceptable audit risk and decide preliminary judgment about materiality and tolerable misstatement.	② 3 } 7

4.5

to understand the client and industry

Q3. There are four important purposes of analytical procedures. Identify three of these four purposes and, for each purpose, give a specific example of an analytical procedure that an auditor might perform.

- ① Analytical procedures use in planning phase in order to expect the nature ~~and~~ extent and audit procedure and evidence and ~~and~~ ex: when the auditor accept the client he compute the ratios to understand ~~the~~ the client ~~liquidity~~ liquidity and profitability ratio
 - ② Analytical procedures used in testing phase ~~as~~ as a substantive testing and one of the type of evidence.
 - ③ Analytical procedure used in review of the audit to be the last test of Material Misstatement
- the auditor use (AP) ~~as~~ as an indicator for ~~the~~ ~~allowance~~ ~~for~~ ~~A/R~~ ~~is~~ the ratio is normal when he compare with the industry, if no he will increase the evidence

Ratio 1) Capital's 3) ~~Good Luck~~