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Al-Haj

BIRZEIT UNIVERSITY  
FACULTY OF COMMERCE & ECONOMICS  
ACCOUNTING DEPARTMENT

LECTURER: SHADI AL-HAJ

SEC. SEM.2013/2014  
SECOND EXAM

ACCT. "339" AUDITING

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30  
50

Multiple Choice

1	a
2	b
3	<del>a</del>
4	<del>a</del>
5	<del>a</del>
6	<del>a</del>
7	a
8	<del>a</del>
9	b
10	b
11	c
12	b
13	c

b  
bd  
b  
a  
a

12  
2  
6  
10

**PART ONE: Multiple Choice**

1. An auditor tests an entity's control of obtaining credit approval before shipping goods to customers in support of management's financial statement assertion of:
- a. valuation and allocation
  - b. completeness
  - c. existence
  - d. rights and obligations
2. Determine which of the following is most correct regarding the reliability of audit evidence.
- a. reliability of audit evidence is dependent upon the evidence being subjective.
  - b. information that is directly obtained from external sources is the most reliable audit evidence.
  - \*c. reliability of evidence refers to the amount of evidence obtained.
  - d. if internal controls are not effective, evidence obtained is more reliable than when the controls are effective.
3. Auditors try to identify predictable relationships when using analytical procedures. Relationships involving transactions from which of the following accounts most likely would yield the highest level of evidence:
- a. accounts receivable
  - b. interest expense
  - c. accounts payable
  - d. travel expense.
4. You are auditing the company's purchasing process for goods and services. You are primarily concerned with the company not recording all purchase transactions. Which audit procedure below would be the most effective audit procedure in this case?
- a. vouching from the accounts payable account to the vendor invoices
  - b. confirmation of accounts payable recorded amounts
  - \*c. reconciling the accounts payable subsidiary ledger to the accounts payable account
  - d. none of the above.
5. An auditor vouched data for a sample of employees in a payroll register to approved clock card data to provide assurance that:
- a. payments to employees are computed at authorized rates
  - b. employees work the number of hours for which they are paid
  - c. segregation of duties exist between the preparation and distribution of the payroll
  - d. none of the above.

6. Which of the following statements would least likely appear in the auditor's engagement letter?

- a. after performing our preliminary analytical procedures we will discuss with you the other procedures we consider necessary to complete the engagement.
- b. fees of our engagement are based on our regular per diem rates, plus travel and other out of pocket expenses.
- c. our engagement is subject to the risk that material errors or irregularities, including fraud, if they exist will not be detected.
- d. management is responsible for maintaining effective internal controls.

7. Inherent risk is \_\_\_\_\_ related to the amount of audit evidence and \_\_\_\_\_ related to detection risk and

- a. directly, inversely
- b. directly, directly
- c. inversely, inversely
- d. inversely, directly

8. Which of the following would be considered the most conservative settings for inherent risk and control risk?

	Inherent Risk	Control Risk
a.	1.0	1.0
<input checked="" type="radio"/> b.	1.0	0.0
c.	0.0	0.0
d.	0.0	1.0

9. On the basis of audit evidence gathered and evaluated, an auditor decides to increase the assessed level of control risk 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. decrease substantive testing.
- b. decrease detection risk.
- c. increase inherent risk.
- d. increase materiality levels.

10. Appropriateness of evidence is a measure of the:

- a. quantity of evidence.
- b. quality of evidence.
- c. sufficiency of evidence.
- d. meaning of evidence.

11. The two characteristics of the appropriateness of evidence are:

- a. relevance and timeliness.
- b. relevance and accuracy.
- c. relevance and reliability.
- d. reliability and accuracy.

12. Calculating the gross margin for the current year under audit as a percent of sales and comparing it with previous years is what type of evidence?

- a. physical examination
- b. analytical procedures
- c. observation
- d. inquiry

13. When the auditor develops supporting evidence for amounts posted to account balances with documentary evidence, that process is called:

- a. inquiry.
- b. confirmation.
- c. vouching.
- d. physical examination.

**PART TWO: Essay Questions**

**Question 1**

The following (1-18) are the balance-related, transaction-related, and presentation and disclosure-related audit objectives:

Balance-Related audit objectives	Transaction-related audit objectives	Presentation and disclosure audit objectives
1. Existence	9. Occurrence	15. Occurrence and rights
2. Completeness	10. Completeness	16. Completeness
3. Accuracy	11. Accuracy	17. Accuracy and valuation
4. Classification	12. Classification	18. Classification and understandability
5. Cutoff	13. Timing	
6. Detail tie-in	14. Posting and summarization	
7. Realizable value		
8. Rights and obligations		

Identify the specific audit objective (1 through 18) that each of the following specific audit procedures (A through K) satisfies in the audit of sales, accounts receivable, and cash receipts for the fiscal year ended December 31, 2013.

You should USE one of the above numbers ONCE only

Number	Specific audit procedure
9	<del>15</del> A. Examine a sample of duplicate sales invoices to determine whether each one has a shipping document attached.
6	<del>16</del> B. All customer balances in accounts receivable trial balance and agree the amount to the general ledger.
14	<del>18</del> C. For a sample of sales transaction selected from the sales journal, verify that the amount of transactions has been recorded in the correct customer account in the accounts receivable sub-ledger.
15	<del>15</del> D. Inquire of the client whether any accounts receivable balances have been pledged as a collateral on long term debt and determine whether all required information is included in the footnote description for long term debt.
10	<del>10</del> E. For a sample of shipping documents selected from shipping records, trace each shipping document to a transaction recorded in the sales journal.
7	<del>7</del> F. Discuss with credit department personnel the likelihood of collection of all accounts receivable as of December 31, 2013, with a balance greater than \$100,000 and greater than 90 days old as of year-end.
5	<del>5</del> G. Examine sales invoices for the last five sales transactions recorded in the sales journal in 2013, and examine shipping documents to determine whether they are recorded in the correct period.
	<del>16</del> H. Determine whether all risks related to accounts receivable are adequately disclosed.
	<del>1</del> I. Send letters to a sample of accounts receivable customers to verify whether they have an outstanding balance at December 31, 2013.
18	<del>18</del> J. Determine whether long term receivables and related party receivables are reported separately in the financial statement.
3	<del>3</del> K. Determine whether recorded sales are for the amounts of goods shipped and they are correctly billed and recorded.

**Question 3: (12 points)**

Following are a number of items that may have an impact on one of the components of audit risk.

**REQUIRED:** For each of the following, indicate the risk component that is directly affected. Use the following code:

- I: Inherent Risk
- C: Control Risk
- D: Detection Risk

- |   |              |              |   |
|---|--------------|--------------|---|
| I | <del>X</del> | <del>D</del> | 1. Fixed assets consist primarily of capitalized leasehold items.   |
|   | <del>C</del> | <del>D</del> | 2. Policies and procedures in the cash collection area appear ineffective.  |
|   | <del>C</del> | <del>D</del> | 3. The audit program omits several necessary audit procedures   |
| C | <del>D</del> | <del>C</del> | 4. <del>An</del> An internal audit function exists and answers directly to the president.   |
|   | <del>C</del> | <del>D</del> | 5. Physical security over blank documents and accounting records is weak.   |
|   | <del>I</del> | <del>D</del> | 6. The client is in the savings and loan industry.  |
|   | <del>D</del> | <del>I</del> | 7. The assigned staff on the audit engagement lack the necessary skills to identify actual errors in an account balance while examining audit evidence accumulated. |
|   | <del>I</del> | <del>D</del> | 8. In the prior year, numerous errors were detected in the account in question.   |
| I | <del>X</del> | <del>D</del> | 9. Management turnovers have been considerable this year.   |

**Question 3:**

Match the related terms below (A-P) with the definitions provided (1-13):

<del>A.</del> Preliminary judgment about materiality	<del>F.</del> Sampling error	<del>K.</del> Likely misstatements
<del>B.</del> Inherent risk	<del>G.</del> Control risk	<del>L.</del> Lead schedule
C. Planned detection risk	<del>H.</del> Materiality	<del>M.</del> Confirmation
<del>D.</del> Permanent files	<del>I.</del> Audit documentation	<del>N.</del> Performance materiality level
<del>E.</del> Acceptable audit risk	J. Known misstatements	O. CPA firms
		P. Engagement letter

- ~~C~~ ~~X~~ 1. A measure of the risk that audit evidence for a segment will fail to detect misstatements exceeding the performance materiality amount, should such misstatements exist.
- ~~G~~ 2. A measure of the auditor's assessment of the likelihood that misstatements exceeding a performance materiality in a segment will not be prevented or detected by the client's internal controls.
- ~~E~~ 3. A measure of how much risk the auditor is willing to take that the financial statements may be materially misstated after the audit is completed and an unqualified audit opinion has been issued.
- ~~F~~ 4. Results because the auditor has sampled only a portion of the population.
- ~~N~~ 5. The materiality allocated to any given account balance.
- ~~A~~ 6. The maximum amount by which the auditor believes that the statements could be misstated and still not affect the decisions of reasonable users.
- ~~D~~ <sup>P</sup> 7. Auditors' files that contain data of a historical or continuous nature such as copies of the company bylaws. .
- ~~H~~ 8. The magnitude of an omission or misstatement of accounting information that makes it probable that the judgment of a reasonable person would have been changed.
- ~~B~~ ~~X~~ 9. A measure of the auditor's assessment of the likelihood that there are material misstatements before considering the effectiveness of internal control.
- ~~I~~ 10. A record of audit procedures performed, relevant audit evidence, and conclusions the auditors reached.
- ~~K~~ ~~X~~ 11. Misstatements that arise from differences between management's and auditor's judgment about estimates of accounts balances.
- ~~L~~ 12. The audit working paper that reflects the major components of an account reported in the financial statements.
- ~~M~~ 13. The auditor receipt of a direct written or electronic response from a third party verifying the accuracy of information requested.

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**END of EXAMINATION**