

BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURER: SUHA ZALLOUM

SECOND SEM. 2013/2014
SECOND EXAM

ACCT. "339"

Student Name: Mr. 145 A, f. v

Student #: 1102508

Part I - Answer Sheet

d	1	c	
a	2	e	x
	3	a	x
	4	c	✓
	5	e	✓
	6	c	✓
	7	c	✓
	8	a	✓
	9	b	✓
e	10	a	✓
	11	e	✓
	12	b	✓
	13	a	✓
	14	b	✓
	15	b	✓

Mc. 12
 ESS. 23.5

 35.5

12

 15

Part I - Multiple Choice Questions

- Choices about audit evidence are influenced by all of the following except:
 - the auditor's understanding of the business and industry. ✓
 - decisions about inherent risk and control risk. ✓
 - comparisons of the auditor's expectations of the financial statements with the client's books and records.
 - decisions about immaterial risk factors.
 - decisions about assertions that are material to the financial statements.
- 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 ✓
b.	1.0	0.0 \
c.	0.0	0.0 ✓
d.	0.0	1.0 \
<input checked="" type="radio"/> e.	0.5	0.5 \

- Quantitative guidelines for setting materiality levels are currently provided by:
 - neither GAAP nor GAAS.
 - GAAP.
 - GAAS.
 - both GAAP and GAAS.
 - the AICPA.
- When planning the audit, the auditor must make the following important decisions except the:
 - assignment of staff to perform audit tests. ✓
 - nature of tests to be performed. ✓
 - characteristics of tests to be performed.
 - extent of tests to be performed. ✓
 - timing of tests to be performed. ✓
- Which of the following would not be considered an analytical procedure?
 - calculate the gross profit ratio and compare it to the industry figure. ✓
 - compare current year's operating expenses to prior year's ✓
 - compare current year's working capital to prior year's
 - compare current year's current ratio to prior year's
 - compare the per unit price on a sales invoice to the master price list
- In the communication with the predecessor auditor, the potential successor should make specific and reasonable inquiries regarding matters that may affect the decision to accept the engagement. Which of the following items is least likely to be included in the inquiries?
 - the integrity of management ✓
 - disagreements with management about accounting matters ✓
 - specific areas of audit difficulty and cost
 - the predecessor's understanding of the reasons for a change in auditors
 - disagreements with management about auditing matters ✓

7. Use of the confirmation in auditing should normally involve all of the following except:
- direct evidence being obtained from outsiders. ✓
 - client initiation of the request.
 - written request and an oral response.
 - auditor control of the mailing.
 - responses received by the auditor.
8. The risk that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by the entity's internal controls is:
- control risk.
 - audit risk.
 - inherent risk.
 - rejection risk. ✓
 - detection risk. ✓
9. Some audit evidence is more reliable than other audit evidence. Which of the following is generally considered to be the most reliable?
- Purchase requisitions.
 - Bank statements.
 - Copy of receipt voucher.
 - Paid checks.
 - None.
10. The subject of the auditing procedure inspecting is least likely to be:
- documents.
 - physical assets.
 - accounting records.
 - lease agreements.
 - personnel.
11. Which one of the following is not a key step in planning the audit?
- Perform analytical procedures. ✓
 - Consider audit risk.
 - Make preliminary judgments about materiality levels. ✓
 - Develop preliminary audit strategies for significant assertions. ✓
 - Obtain an understanding of the client's external controls.
12. All else being equal, as the level of materiality decreases, the amount of evidence required will:
- remain the same.
 - increase.
 - decrease.
 - change in an unpredictable fashion.
 - fluctuate randomly.
13. Which of the following is not normally found in the engagement letter?
- indicate the likely opinion to be issued.
 - the objective or purpose of the audit ✓
 - an indication of the fee, or method of determining the fee ✓
 - a space for the client's approving signature ✓
 - None of the above.

14. "Performance Materiality/ Tolerable Misstatement" is the term used to indicate materiality at the:
- a. balance sheet level.
 - b. account balance level.
 - c. income statement level.
 - d. company-wide level.
 - e. transactions level.
15. The five management assertions outlined in generally accepted auditing standards include all of the following except:
- a. rights and obligations.
 - b. materiality.
 - c. existence and occurrence.
 - d. presentation and disclosure.
 - e. valuation or allocation.

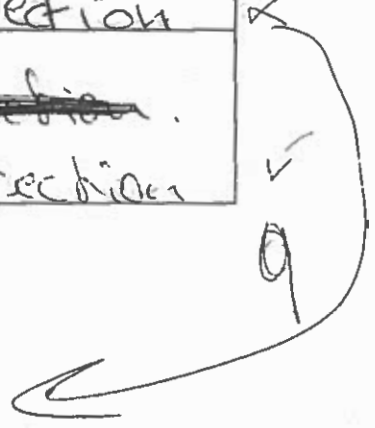
~~analytical procedure~~
~~physical examination~~
~~confirmation~~
~~inspection~~
 inquiries
 Reperformance
 Recalculation
 observation

Part II-Essay Questions

Q1. The following audit procedures were performed in the audit of inventory. For each audit procedure below, identify the type of audit evidence used.

AUDIT PROCEDURE	TYPE OF AUDIT EVIDENCE
1. Trace selected quantities from the inventory list to the physical inventory to make sure that it exists and the quantities are the same.	analytical procedure physical examination ✓
2. Compare the quantities on hand and unit prices on this year's inventory count sheets with those in the preceding year as a test for large differences.	analytical procedure ✓
3. Test extend unit prices times quantity on the inventory list test foot the list and compare the total to the general ledger.	analytical procedure Reperformance ✓
4. Question operating personnel about the possibility of obsolete or slow-moving inventory.	inquiries ✓
5. Send letters directly to third parties who hold the client's inventory, and request they respond directly to the auditor.	confirmation ✓
6. Select a sample of quantities of inventory in the factory warehouse and trace each item to the inventory count sheets to determine if it has been included and if the quantity and description are correct.	analytical procedure inspection ✓
7. Examine sales invoices and contracts with customers to determine whether any goods are out on consignment with customers. Examine vendors' invoices and contracts with vendors to determine if any goods on the inventory listing are owned by vendors.	inspection inspection ✓

4
 physical examination



Q2. The professional standards identify five categories of assertions made by management that are contained in the financial statements. The categories of assertions identified by the profession are:

- A. Existence or occurrence
- B. Completeness
- C. Rights and obligations
- D. Valuation or allocation
- E. Presentation and disclosure

Using the letters given above, indicate the assertion that relates to each listed audit objective.

- A 1. All sales transactions that have been recorded actually occurred during the period.
- E 2. The details of sales transactions support their presentation in the financial statements.
- D 3. All sales are correctly valued at their historical cost and correctly journalized, summarized, and posted.
- C 4. Accounts receivable at the balance sheet date represents legal claims of the entity on customers for payment.
- B 5. All sales transactions that occurred during the period have been recorded.

Q3. Define what is meant by the permanent file, and list several types of information typically included. Why does the auditor not include the contents of the permanent file with the current year's audit file?

Permanent files are files that the auditor use for several years and the don't change but relating account and contain information about bank instruments, by laws, incorporation and contracts, information about long term and important balances like assets, long term obligation, understanding of internal control and some information about analytical procedures, because permanent files don't change from year to year - but current files change every year like audit plan and financial statement.

Q4. Assume materiality for the financial statements as a whole is \$100,000 and performance materiality for accounts receivable is set at 440,000. If the auditor finds on receivable that is overstated by \$55,000, what should the auditor do?

The auditor can discuss with the management to solve the problem, or the auditor can change the sample by increase or decrease to see what will happen to the amount of misstatement.

Good Luck ☺