BIRZEIT UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

LECTURER: SUHA ZALLOUM

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ACCT. "339"

Student Name: [redacted]

Student #: [redacted]

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Part I – Answer Sheet

	1	B ✓
	2	A ✓
	3	C ✓
x	4	E ✓
x	5	D ✓
	6	A ✓
	7	B ✓
	8	A ✓
	9	A ✓
x	10	D ✓
	11	C ✓
	12	B ✓
	13	E ✓
x	14	A ✓
	15	B ✓
	16	C ✓

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Part I - Multiple Choice Questions

Choose the best answer:

1. Which one of the following assertions is not made by management in placing an item in the financial statements?
   a. existence or occurrence
   b. direct controls
   c. rights and obligations
   d. presentation and disclosure
   e. Completeness

2. If reported sales for 2010 erroneously ( ) include sales that occurred in 2011, the assertion violated on the 2010 statements would be:
   a. existence or occurrence
   b. Completeness
   c. valuation or allocation.
   d. presentation and disclosure
   e. rights and obligations

3. The completeness assertion would be violated if:
   a. Fictitious ( ) sales transactions were included in accounts receivable.
   b. the allowance for doubtful accounts was understated.
   c. unbilled shipments had occurred during the period.
   d. disclosure in the statements of pledged receivables was inadequate.
   e. the balance of accounts payable was overstated.

4. The rights and obligations assertion applies to:
   a. current liability items only.
   b. revenue and expense items only.
   c. both income statement and balance sheet items.
   d. assets that are not owned by the company.
   e. balance sheet items only.

5. The concept of materiality is defined by the Financial Accounting Standards Board in terms of the judgment of the:
   a. auditor.
   b. preparer.
   c. FASB members.
   d. users.
   e. AICPA members.

6. Inherent risk is defined in terms of:
   a. a total absence of controls.
   b. an ideal set of controls.
   c. the existing controls.
   d. the standard controls for the client's industry.
   e. a full set of controls.

7. For a particular assertion, control risk is the risk that:
   a. a material misstatement will occur in the accounting process.
   b. controls will not detect a material misstatement that occurs.
   c. audit procedures will fail to detect a weak control system.
   d. the prescribed control procedures will not be applied uniformly.
   e. an immaterial misstatement will occur in the accounting process.

8. Which of the following auditing procedures is least likely to disclose an **understatement**?

a. Vouching
b. Tracing
c. Inquiring
d. Counting
e. Confirming

9. Which of the following procedures consists of seeking information from knowledgeable persons, both financial and nonfinancial, throughout the entity or outside the entity?

a. Inquiry.
b. Confirmation
c. Recalculation
d. Reperformance
e. Analytical procedures.

10. In accepting an engagement, an auditor takes on professional responsibilities to:

a. the public.
b. the client.
c. other members of the public accounting profession.
d. the public, the client, and other members of the public accounting profession.
e. the client and the public.

11. The main purpose of the engagement letter is to:

a. avoid litigation.
b. indicate the likely opinion to be issued.
c. confirm the terms of the engagement.
d. clearly delineate management's responsibility for the conduct of the audit.
e. clearly delineate the auditor's responsibility for the conduct of the audit.

12. Concerning such matters as the integrity of management, errors, and illegal acts, the auditor should plan the audit with an attitude of:

a. Cautious mistrust.
b. Professional skepticism.
c. Seasoned pessimism.
d. Adversarial pursuit.
e. Sarcastic suspicion.

13. Which of the following best describes the auditor's responsibilities concerning related parties?

a. investigate those transactions encountered during the audit
b. as related parties are discovered during the course of the audit, their existence should be noted in the working papers
c. obtain a list of all board members and place in the working papers
d. investigate the background of all related parties
e. determine, in the planning stage, the existence of related parties

14. The auditor will allocate more materiality to accounts with a(n):

a. high chance of misstatements and that are difficult to audit.
b. high chance of misstatements but that are easy to audit.
c. low chance of misstatements but that are difficult to audit.
d. low chance of misstatements and that are easy to audit.
e. average chance of misstatements and that are easy to audit.

A

15. All else being equal, as the level of materiality decreases, the amount of evidence required will:
   a. remain the same.
   b. increase.
   c. decrease.
   d. change in an unpredictable fashion.
   e. fluctuate randomly.

16. An **inaccurate** version of the audit risk model would imply that:
   a. Planned detection risk is inversely related to inherent risk.
   b. Planned detection risk can be determined from acceptable audit risk, inherent risk and control risk.
   c. Planned detection risk is inversely related to acceptable audit risk.
   d. Acceptable audit risk is related to all other risks in the model.
   e. Increases in the acceptable level of control risk will cause decreases in planned detection risk.

Part II-Essay Questions

Q1. Discuss three reasons why auditors are responsible for "reasonable" but not "absolute" assurance.

① Most of audit evidence obtained by testing a sample of the population /So there is a risk of not uncovering a material misstatement exists.

② Fraudulent Financial Reporting (Fraudulent Fin. Statements) are extremely difficult (and might be impossible sometimes) to be detected by the Auditors, especially if there is a collusion among management.

③ The Accounting presentation contains Some of complex estimates (such as: Bad Debt Exp, ---) that depend extremely on Judgments and that might be affected by the future economic events.

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Q2. The professional standards identify five categories of assertions made by management that are contained in the financial statements. If any of these assertions is a misrepresentation, the statements could be materially misstated. 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

Following is a list of errors encountered during the conduct of an audit.

__REQUIRED:__ Using the letters given above, indicate the assertion that is being misrepresented by each listed error.

B 1. A short-term loan obtained from the bank was not recorded. B

E 2. The current portion of long-term debt was excluded from the current liabilities section of the balance sheet. E

D 3. Clerical errors were made in the compilation of the physical inventory count. D

D 4. Some of the inventory is obsolete, with no current market. D

C 5. Accrued liabilities include the utility bills of the owner. C

A 6. The disposal of several pieces of machinery was never recorded. A

D 7. A piece of land, carried as an investment, has been written up to reflect current appraisals of the property. D

D 8. The subsidiary accounts receivable ledger is out of balance with the control account. D

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Q3. Identify which of the following audit risk model components relates most directly to each of the below independent risk factors:

Acceptable Audit Risk (AAR) Control Risk (CR)
Inherent Risk (IR) Planned Detection Risk (PDR)

AAR 1. The client lacks sufficient working capital to continue operations. (Financial problems)

PDR 2. The audit program omits several necessary audit procedures.

I.R 3. The allowance for doubtful accounts is based on significant assumptions made by management. (Judgment)

AAR 4. The company is publicly traded. (More Reliance of External users)

IR 5. The client engages in several material transactions with entities owned by family members of several the client's senior executives. (Related Transactions)

AAR 6. The client is one of the industry's largest based on its size and market share. (More Reliance LD size)

CR 7. The client fails to reconcile bank accounts to recorded cash blances.

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Q4. Below are audit procedures. Classify each procedure according to the following types of audit evidence: physical examination, confirmation, documentation, observation, inquiry of the client, reperformance, and analytical procedure.

Type of Evidence	Audit Procedures	
Observation	1. Watch client employees count inventory to determine whether company procedures are being followed.	✓
physical examination	2. Count inventory items and record the amount in the audit files.	✓
Analytical procedures	3. Calculate the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding year.	✓
inquiry of the client	4. Obtain information about the client's internal controls by asking questions of client personnel.	✓
Reperformance	5. Trace column totals from the cash disbursements journal to the general ledger.	✗
physical examination	6. Examine a piece of equipment to make sure a recent purchase of equipment was actually received and is in operation.	✓
Analytical procedure	7. Review the total of repairs and maintenance for each month to determine whether any month's total was unusually large.	✓
Inspection (documentation)	8. Compare vendor names and amounts on purchase invoices with entries in the purchases journal.	✓
Reperformance	9. Foot entries in the sales journal to determine whether they were correctly totaled by the client.	✗
Confirmation	10. Obtain a written statement from the client's bank stating the client's year-end balance on deposit.	✓

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Good Luck