

Auditing and Assurance Services, 15e, Global Edition (Arens)
Chapter 25 Other Assurance Services

Learning Objective 25-1

1) The standards which govern the CPA's association with unaudited financial statements of nonpublic companies are the:

- A) AICPA's *Code of Professional Conduct*.
- B) Statements on Auditing Standards (SASs).
- C) Statements of Standards on Attestation Engagements (SSAEs).
- D) Statements on Standards for Accounting and Review Services (SSARS).

Answer: D

Terms: Standards; Unaudited financial statements; Private companies

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

2) The two types of services provided in connection with the Statements on Standards for Accounting and Review Services are:

- A) audit and examination services.
- B) compilation and review services.
- C) examination and review services.
- D) management advisory services and compilations.

Answer: B

Terms: Statements on Standards for Accounting and Review Services (SSARS)

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

3) Practitioners who perform reviews and compilations are referred to in the SSARS standards as:

- A) bookkeepers.
- B) accountants.
- C) auditors.
- D) CPAs.

Answer: B

Terms: Reviews and compilations; SSARS standards

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

4) Compilation reports may be of all but which of the following types?

- A) Compilation with limited independence
- B) Compilation with full disclosure
- C) Compilation without independence
- D) Compilation that omits substantially all disclosures

Answer: A

Terms: Compilation reports

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

5) A CPA firm can issue a compilation report:

- A) only if the partners are independent.
- B) only if all the partners and the staff in the office performing the engagement are independent.
- C) if the partners have no material or direct immaterial interest in client.
- D) even if it is not independent.

Answer: D

Terms: Compilation report

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

6) Which of the following would **not** be included in a CPA's report based upon a review of the financial statements of a nonpublic entity?

- A) A statement that the review was in accordance with generally accepted auditing standards
- B) A statement that all information included in the financial statements is the representation of management
- C) A statement describing the principal procedures performed
- D) A statement describing the auditor's conclusions based upon the results of the review

Answer: A

Terms: CPA's report; Review of financial statements; Nonpublic entity

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

7) The statement that "We are not aware of any material modifications that should be made to the accompanying financial statements" expresses which of the following?

- A) Disclaimer of an opinion
- B) Negative assurance
- C) Negative confirmation
- D) Shared opinion

Answer: B

Terms: Negative assurance

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

8) For compilations, an accountant does which of the following?

A)

Obtain an understanding of internal control.	Perform tests of controls.	Perform tests of transactions.
Yes	Yes	No

B)

Obtain an understanding of internal control.	Perform tests of controls.	Perform tests of transactions.
Yes	No	Yes

C)

Obtain an understanding of internal control.	Perform tests of controls.	Perform tests of transactions.
No	Yes	Yes

D)

Obtain an understanding of internal control.	Perform tests of controls.	Perform tests of transactions.
No	No	No

Answer: D

Terms: Compilation

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

9) The concept of limited assurance is provided for in which of the following engagements?

A) Audit

B) Review

C) Compilation

D) Agreed-upon procedures

Answer: B

Terms: Limited assurance; Engagements

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

10) Evidence for a review engagement consists primarily of:

A)

Inquiries	Analytical procedures	Tests of details
No	Yes	No

B)

Inquiries	Analytical procedures	Tests of details
Yes	Yes	No

C)

Inquiries	Analytical procedures	Tests of details
No	No	Yes

D)

Inquiries	Analytical procedures	Tests of details
Yes	No	Yes

Answer: B

Terms: Evidence for review engagement

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

11) When the accountant has performed a review and has determined that no material changes to the financial statements are needed, the first paragraph of the review report:

A) expresses positive assurance about the financial statements.

B) notes the accountant's responsibility to conduct the review.

C) identifies the entity and the period of financial statements subject to the review.

D) specifies that management is responsible for the financial statements.

Answer: C

Terms: Review of financial statement; Report

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

12) The highest level of assurance is provided for in which one of the following engagements?

A) Review

B) Compilation

C) Audit

D) None of the above

Answer: C

Terms: Concept of reasonable assurance

Diff: Moderate

Objective: LO 25-1

AACSB: Analytic skills

13) You are preparing to issue a report on the compilation of financial statements for a nonpublic company. Prior to issuing the report you should:

- A) read the financial statements to determine if they are free from obvious material errors.
- B) perform analytical procedures to determine if they are free from material misstatements.
- C) perform tests of balances on selected accounts to determine if they are free from material misstatements.
- D) perform limited control tests to determine if there are any material misstatements.

Answer: A

Terms: Report on the compilation of financial statements for non-public company

Diff: Moderate

Objective: LO 25-1

AACSB: Analytic skills

14) Assurance provided by a review is substantially less than an audit. Which of the following statements is true regarding these services?

- A) A review requires more substantive evidence than an audit.
- B) An audit requires less evidence related to internal control than a review.
- C) A review requires less evidence than an audit.
- D) None of the above statements is true.

Answer: C

Terms: Assurance; Review

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

15) An accountant who reviews the financial statements of a nonpublic entity should issue a report stating that a review:

- A) is substantially equivalent in scope to an audit.
- B) is substantially more in scope than a compilation.
- C) is substantially less in scope than an audit.
- D) provides only limited assurance that the financial statements are fairly presented.

Answer: C

Terms: Review of financial statement; Report

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

- 16) An accountant has accepted an engagement in which the audit procedures of inquiry and analytical procedures will be employed. These procedures will form the basis for issuance of:
- A) a compilation report.
 - B) audit report on supplemental information issued by the client.
 - C) management advisory report requested by the audit committee.
 - D) review report on financial statements for a nonpublic company.

Answer: D

Terms: Engagement with audit procedures of inquiry and analytically procedures

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

- 17) All of the following are steps that should be performed in a review engagement **except** for:
- A) understand the company's ownership structure.
 - B) read the company's financial statements.
 - C) perform analytical procedures.
 - D) assess fraud risk.

Answer: D

Terms: Review of a nonpublic entity's financial statements

Diff: Moderate

Objective: LO 25-1

AACSB: Analytic skills

- 18) In a review service where the client has failed to follow applicable accounting standards, the accountant is:
- A) not required to determine the effect of a departure if management has not done so, but that fact must be disclosed in the report.
 - B) required to determine the effect of a departure if management has not done so, and that fact must be disclosed in the report.
 - C) not required to determine the effect of a departure if management has not done so, and that fact need not be disclosed in the report.
 - D) required to determine the effect of a departure if management has not done so, and that fact need not be disclosed in the report.

Answer: A

Terms: Review service where client failed to follow applicable accounting standards

Diff: Challenging

Objective: LO 25-1

AACSB: Reflective thinking skills

19) Your accounting firm has accepted a compilation engagement from a client in which your firm is not independent. In that case you:

- A) may not accept the engagement.
- B) may accept the engagement and disclose the lack of independence.
- C) may accept the engagement and not disclose the lack of independence.
- D) may accept the engagement and disclose the lack of independence and the reason for the lack of independence.

Answer: B

Terms: Compilation engagement; Firm not independent

Diff: Challenging

Objective: LO 25-1

AACSB: Analytic skills

20) One of the first steps that should be performed for a review of a nonpublic entity's financial statements is to:

- A) read the financial statements.
- B) obtain knowledge of the accounting principles and practices of the client's industry.
- C) inquire whether management has omitted substantially all of the disclosures required by applicable accounting standards.
- D) apply analytical procedures to provide limited assurance that no material modifications should be made to the financial statements.

Answer: B

Terms: Review of a nonpublic entity's financial statements

Diff: Challenging

Objective: LO 25-1

AACSB: Reflective thinking skills

21) Each page of the financial statements reviewed for a nonpublic entity should include the reference:

- A) "These financial statements are unaudited."
- B) "We express no assurance on these financial statements."
- C) "See independent accountant's review report."
- D) "See the audit opinion for the review procedures performed."

Answer: C

Terms: Review of financial statement; Report

Diff: Moderate

Objective: LO 25-1

AACSB: Analytic skills

22) The last paragraph of the accountant's review report:

- A) details the responsibilities of management.
- B) details the responsibilities of the accountant.
- C) expresses limited assurance in the form of negative assurance.
- D) lists the analytical procedures performed.

Answer: C

Terms: Review of financial statement; Report

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

23) A financial statement review conducted in compliance with SSARS requires the accountant to obtain evidence to express negative assurance. One of these procedures is to "perform analytical procedures." List three other procedures the accountant must perform.

Answer:

- Obtain knowledge of the accounting principles and practices of the client's industry.
- Obtain knowledge of the client; that is understand, the nature of the client's business transactions, its accounting records and employees, the ownership structure, the key personnel, the accounting principles and practices used by the client, and the content of the financial statements.
- Make inquiries of management to determine whether the financial statements are fairly presented.
- Read the financial statements to determine whether they conform with the financial reporting framework.
- Obtain a letter of representation from members of management who are knowledgeable about financial matters.
- Prepare documentation that is sufficient in detail to provide a clear understanding of the work performed, the review evidence obtained, and its source, and the conclusions reached.

Terms: SSARS; Financial statement review activities

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

24) Discuss each of the three types of compilation reports and the circumstances in which each should be used.

Answer:

- *Compilation with full disclosure.* This report is used when the financial statements include all disclosures required by accounting standards.
- *Compilation that omits substantially all disclosures.* This type of report is used when the financial statements are compiled without disclosures. This type of report is acceptable if the report indicates the lack of disclosures and the absence of disclosures is not, to the CPA's knowledge, undertaken with the intent to mislead users. Typically, this type of statement is used primarily for management purposes. Appropriate wording is added after the conclusion paragraph of the standard compilation report.
- *Compilation without independence.* A CPA firm can issue a compilation report with full or omitted disclosures even if it is not independent of the client. If the accountant is not independent with respect to the client, the compilation report should include, as a separate last paragraph, a statement to that effect.

Terms: Compilation reports

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

25) Draft a report that would be appropriate when an independent accountant has performed a compilation of financial statements with disclosures in accordance with accounting principles generally accepted in the United States of America.

Answer: We have compiled the accompanying balance sheet of XYZ Company as of December 31, 200X, and the related statements of income, retained earnings, and cash flows for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Terms: Report on compilation of financial statements with disclosures in accordance with GAAP

Diff: Challenging

Objective: LO 25-1

AACSB: Analytic skills

26) Discuss the six SSARS requirements that must be met when an accountant is performing a compilation of financial statements.

Answer: The preparer of the statements must:

- Establish an understanding with the client in a written engagement letter about the objectives of the engagement, type and limitations of the services to be provided, including acknowledgement that the accountant does not obtain any assurance about the financial statements, and a description of the report, if a report is to be issued.
- Possess knowledge about the accounting principles and practices of the client's industry.
- Know the client, including a general understanding of the organization, the nature of the client's business transactions, the accounting principles and practices used by the client, and the content of its financial statements.
- Make inquiries to determine whether the client's information is satisfactory.
- Read the compiled financial statements and be alert for any obvious omissions or errors in arithmetic and in the application of accounting standards.
- Prepare documentation in sufficient detail to provide a clear understanding of the work performed and any findings or issues that are significant.

Terms: SSARS requirements for compilation of financial statements

Diff: Challenging

Objective: LO 25-1

AACSB: Reflective thinking skills

27) Draft a report that would be appropriate when an independent accountant has performed a compilation of financial statements which substantially omits all disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America.
Answer: We have compiled the accompanying balance sheet of XYZ Company as of December 31, 200X, and the related statements of income and retained earnings for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management has elected to omit substantially all of the disclosures and the statement of cash flows required by accounting principles generally accepted in the United States of America. If the omitted disclosures were included in the financial statements, they might influence the users conclusions about the company's financial position, result of operations, and cash flows. Accordingly, the financial statements are not designed for those who are not informed about such matters.

Terms: Report for compilation of financial statements which substantially omit all disclosures and the statement of cash flow

Diff: Challenging

Objective: LO 25-1

AACSB: Analytic skills

28) If an auditor performs a compilation but lacks independence, an additional paragraph must be added which states that: " We are not independent with respect to XYZ Company."

A) True

B) False

Answer: A

Terms: Compilation engagement; Firm not independent

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

29) Review reports are normally dated as of the client's balance sheet date.

A) True

B) False

Answer: B

Terms: Review reports dated

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

30) SSARS are issued by the SEC.

A) True

B) False

Answer: B

Terms: SSARS

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

31) A nonaudit engagement in which the accountant undertakes to present, in the form of financial statements, information that is the representation of management, without undertaking to express any assurance on the statements is called a review engagement.

A) True

B) False

Answer: B

Terms: Nonaudit engagement; review engagement

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

32) CPAs must be independent to issue a compilation report.

A) True

B) False

Answer: B

Terms: Compilation report; Independence

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

33) CPAs must be independent to issue a review report.

A) True

B) False

Answer: A

Terms: Review report; Independence

Diff: Easy

Objective: LO 25-1

AACSB: Reflective thinking skills

34) A financial statement review conducted in compliance with SSARS includes obtaining an understanding of internal control.

A) True

B) False

Answer: B

Terms: Financial statement review; SSARS; Internal control

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

35) Statements on Standards for Accounting and Review Services (SSARS) govern the CPA's association with unaudited financial statements of nonpublic companies.

A) True

B) False

Answer: A

Terms: Statements on Standards for Accounting and Review Services (SSARS)

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

36) When performing a review (SSARS review) of financial statements, the accountant is required to obtain a letter of representation from management.

A) True

B) False

Answer: A

Terms: Review of financial statements; Letter of representation from management

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

37) When performing compilation services, the accountant is not required to obtain an understanding of the client's internal control.

A) True

B) False

Answer: A

Terms: Compilation services; Client internal control

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

38) A CPA firm can issue a compilation report even if it is **not** independent with respect to the client.

A) True

B) False

Answer: A

Terms: Compilation report; Independence

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

Learning Objective 25-2

1) An interim review of the financial information for public companies is performed following standards of the:

A) AICPA.

B) PCAOB.

C) SEC.

D) SSARS.

Answer: B

Terms: Review of interim information of public company

Diff: Moderate

Objective: LO 25-2

AACSB: Reflective thinking skills

2) The Securities and Exchange Commission requires quarterly financial information as a part of the:

A) 10-K report.

B) 10-Q report.

C) 8-K report.

D) auditor's report.

Answer: B

Terms: Securities and Exchange Commission; Quarterly financial information

Diff: Moderate

Objective: LO 25-2

AACSB: Reflective thinking skills

Topic: Public

- 3) The quarterly reports submitted to the SEC by the client:
- A) have to be audited and the CPA firm must be identified.
 - B) do not have to be audited, but the CPA firm which does the annual audit must be identified.
 - C) have to be audited, but the CPA firm does not have to be identified.
 - D) do not have to be audited, but the CPA firm which does the annual audit must review the quarterly statements before they are submitted to the SEC.

Answer: D

Terms: Quarterly reports; SEC

Diff: Moderate

Objective: LO 25-2

AACSB: Reflective thinking skills

Topic: Public

- 4) When performing a review of interim information for a public company, the accountant ordinarily does not perform tests of the accounting records, independent confirmations, or physical examinations.

A) True

B) False

Answer: A

Terms: Review of interim information of public company

Diff: Moderate

Objective: LO 25-2

AACSB: Reflective thinking skills

Topic: Public

- 5) The auditor must obtain evidence that the interim financial information agrees or reconciles with the accounting records for a public company interim review.

A) True

B) False

Answer: A

Terms: Review of interim information of public company

Diff: Moderate

Objective: LO 25-1

AACSB: Reflective thinking skills

Learning Objective 25-3

- 1) Statements on Standards for Attestation Engagements are established by the:

A) Securities and Exchange Commission.

B) Public Company Accounting Oversight Board.

C) Auditing Standards Board of the AICPA.

D) Accounting and Review Services Committee.

Answer: C

Terms: Statements on Standards for Attestation Engagements

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

2) As a CPA, you have been engaged to perform an attestation engagement. You would typically:

- A) express a conclusion about an assertion.
- B) provide management consulting services.
- C) prepare financial forecasts to secure in preparation for receiving debt funding.
- D) compile financial statements for the client.

Answer: A

Terms: CPA; Attestation engagement

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

3) Which of the following results in a conclusion that represents positive assurance?

- A) Review
- B) Compilation
- C) Examination
- D) Agreed upon procedure engagement

Answer: C

Terms: Positive assurance

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

4) An examination results in a conclusion that represents _____ assurance.

- A) limited assurance
- B) negative
- C) positive
- D) unequivocal

Answer: C

Terms: Examination; Assurance

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

5) The distribution of which of the following types of reports is unrestricted?

- A) Examinations and reviews
- B) Reviews and agreed-upon procedures
- C) Examinations and agreed-upon procedures
- D) Examinations, reviews, and agreed-upon procedures

Answer: A

Terms: Restricted distribution of reports

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

6) Specific attestation standards have been developed in all but which of the following areas?

- A) Pro forma financial information
- B) Compliance with laws and regulations
- C) Prospective financial statements
- D) Standards have been developed for all of the above.

Answer: D

Terms: Specific attestation standards

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

7) Reports on agreed-upon procedures are intended to be distributed:

- A) to only the involved parties, who would have the requisite knowledge about those procedures and the level of assurance resulting from them.
- B) to only the involved parties, who would have the requisite knowledge about those procedures but not the level of assurance resulting from them.
- C) to any party to whom the client wishes.
- D) only to the stockholders of the client.

Answer: A

Terms: Reports on agreed-upon procedures

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

8) Distribution of which of the following types of reports is limited?

- A) Audit
- B) Review
- C) Agreed-upon procedures
- D) Examination

Answer: C

Terms: Distribution of reports limited

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

9) Which of the following is a attestation standard under the standards of reporting?

- A) The practitioner must have adequate technical training.
- B) The practitioner must adequately plan the work.
- C) The practitioner must evaluate internal controls.
- D) The practitioner must identify the subject matter or assertion being reported on.

Answer: D

Terms: Attestation engagement; Statements on Standards for Attestation Engagements

Diff: Moderate

Objective: LO 25-3

AACSB: Analytic skills

10) Which of the following is **not** a standard contained in both the Attestation Standards and Generally Accepted Auditing Standards with regards to the standards of field work?

- A) The examination is to be performed by a person having adequate technical training.
- B) An independence in mental attitude is to be maintained.
- C) Sufficient evidence is to be obtained.
- D) The practitioner must obtain a sufficient understanding of the client's internal control.

Answer: D

Terms: Attestation standard; Standards of fieldwork

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

11) Which of the following is **not** one of the types of engagements and related forms of conclusions that are defined by the attestation standards?

- A) Reviews
- B) Compilations
- C) Examinations
- D) Agreed-upon procedures

Answer: B

Terms: Attestations; Conclusions; Attestation standards

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

12) Which of the following types of engagement reports would provide positive assurance?

- A) An examination
- B) A review
- C) An agreed-upon procedures engagement
- D) A compilation

Answer: A

Terms: Engagement reports; Positive assurance

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

- 13) An agreed-upon procedures engagement is one in which:
- A) the CPA and management agree that procedures will be applied to all accounts and circumstances.
 - B) the CPA and management agree that procedures will not be applied to all accounts and circumstances.
 - C) the CPA, the responsible party making the assertions, and the specific persons who are the intended users of the CPA's report agree to all the procedures the CPA will perform.
 - D) the CPA, the responsible party making the assertions, and the specific persons who are the intended users of the CPA's report agree that the CPA will apply his judgment to determine the procedures to be performed.

Answer: C

Terms: Agreed-upon procedures engagement

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

- 14) When a CPA performs an examination engagement under the attestation standards, the amount of evidence gathered is _____ and the level of assurance is _____.

- A) extensive, varying
- B) significant, high
- C) extensive, high
- D) significant, moderate

Answer: C

Terms: Agreed-upon procedures engagement

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

- 15) When performing an attestation engagement a CPA is required to adhere to the Statements on Standards for Attestation Engagements. Describe below the Standards of Field Work for attestation engagements.

Answer: 1. The practitioner must adequately plan the work and must properly supervise any assistants.

2. The practitioner must obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report.

Terms: Attestation engagement; Statements on Standards for Attestation Engagements

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

- 16) SSAEs are issued by the AICPA.

- A) True
- B) False

Answer: A

Terms: SSAEs

Diff: Easy

Objective: LO 25-3

AACSB: Reflective thinking skills

17) Auditors of the financial statements of public companies must follow the guidelines in the SSAEs.

A) True

B) False

Answer: B

Terms: Attestation engagement; Statements on Standards for Attestation Engagements

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

18) The use of positive assurance is appropriate in a review attestation report.

A) True

B) False

Answer: B

Terms: Positive assurance; Review reports

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

19) Of the three types of attestation engagements, examination engagements provide a higher level of assurance than agreed-upon procedures engagements but less than review engagements.

A) True

B) False

Answer: B

Terms: Attestation engagements; Examination engagements; Agree-upon procedure engagements

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

20) Examination attestation engagements result in a conclusion that is in a positive form, whereas review attestation engagements result in a conclusion in the form of a negative assurance.

A) True

B) False

Answer: A

Terms: Examination attestation engagements; Review attestation engagements

Diff: Moderate

Objective: LO 25-3

AACSB: Reflective thinking skills

Learning Objective 25-4

1) Which of the following services is performed under the attestation standards?

A)

<i>WebTrust</i>	<i>SysTrust</i>
Yes	Yes

B)

<i>WebTrust</i>	<i>SysTrust</i>
No	No

C)

<i>WebTrust</i>	<i>SysTrust</i>
Yes	No

D)

<i>WebTrust</i>	<i>SysTrust</i>
No	Yes

Answer: A

Terms: Services performed under attestation standards

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

2) The *WebTrust* service requires that a CPA update its testing of the e-commerce aspects of a entity's web site at least every:

A) ninety days.

B) month.

C) six months.

D) twelve months.

Answer: D

Terms: WebTrust; Update testing of e-commerce aspects

Diff: Easy

Objective: LO 25-4

AACSB: Reflective thinking skills

3) In a *WebTrust* attestation engagement the client engages a CPA to provide what level of assurance that the company's website complies with *Trust Services* principles?

A) absolute

B) reasonable

C) limited

D) moderate

Answer: B

Terms: WebTrust

Diff: Easy

Objective: LO 25-4

AACSB: Reflective thinking skills

4) Who developed the *WebTrust* service? Briefly explain this service.

Answer: *WebTrust* was developed jointly by the AICPA and the Canadian Institute of Chartered Accountants (CICA). In a *WebTrust* engagement, a client engages a CPA to provide reasonable assurance that the client's web site complies with certain *Trust Services* principles and criteria for one or more aspects of e-commerce activities. A site that meets the *Trust Service* principles is eligible to display the *WebTrust* seal on its transaction or order page.

Terms: WebTrust

Diff: Easy

Objective: LO 25-4

AACSB: Reflective thinking skills

5) Briefly describe a *SysTrust* engagement.

Answer: A SysTrust licensed CPA evaluates a company's computer system using *Trust Services* principles and criteria and determines whether controls over the system exist. The CPA then performs tests to determine whether those controls were operating effectively during a specified period. If the system meets the requirements of the *Trust Services* principles and criteria, an examination-level unqualified attestation report is issued under the AICPA attestation standards.

Terms: SysTrust engagement

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

6) Briefly describe each of the five *Trust Services* principles.

Answer: The five *Trust Services* principles are:

1. Privacy — personal information obtained as a result of e-commerce is collected, used, disclosed, and retained as committed or agreed.
2. Security — the system is protected against unauthorized access (both physical and logical).
3. Processing integrity — system processing is complete, accurate, timely, and authorized.
4. Availability — the system is available for operation and use as committed or agreed.
5. Confidentiality — information designated as confidential is protected as committed or agreed.

Terms: Trust Services principles

Diff: Challenging

Objective: LO 25-4

AACSB: Reflective thinking skills

7) *WebTrust* services are performed under the direction of the SSARS.

A) True

B) False

Answer: B

Terms: WebTrust services; SSARS

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

8) *Systrust* services are performed under the direction of the SSAEs.

A) True

B) False

Answer: A

Terms: Systrust services; SSAEs

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

9) There are five *Trust Service* principles, including security and integrity.

A) True

B) False

Answer: B

Terms: WebTrust opinion; Trust Services principles

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

10) CPAs must obtain a specific license to perform *WebTrust* or *SysTrust* services.

A) True

B) False

Answer: A

Terms: WebTrust opinion; Trust Services principles

Diff: Moderate

Objective: LO 25-4

AACSB: Reflective thinking skills

Learning Objective 25-5

1) The service auditor's Type 2 report contains:

A) an opinion on the reasonableness of the financial statements.

B) the two opinions about the description and suitability of the design of controls that are issued in a Type 1 report plus an additional opinion about the operating effectiveness of controls throughout the period.

C) contains an opinion only on the operating effectiveness of the controls.

D) an opinion on the service company's website.

Answer: B

Terms: Report on controls at service organizations

Diff: Moderate

Objective: LO 25-5

AACSB: Reflective thinking skills

2) The guidance for service auditors has been moved to the attestation standards.

A) True

B) False

Answer: A

Terms: Report on controls at service organizations

Diff: Moderate

Objective: LO 25-5

AACSB: Reflective thinking skills

3) In a Type 2 engagement, the service auditor performs tests of the operating effectiveness of the controls, but does not have to perform any of the procedures performed in a Type 1 engagement.

A) True

B) False

Answer: B

Terms: Report on controls at service organizations

Diff: Moderate

Objective: LO 25-5

AACSB: Reflective thinking skills

Learning Objective 25-6

1) As a CPA you have been asked to examine an entity's financial projections. Acceptance of the engagement would be appropriate if distribution is limited to:

A) stockholders of record as of the date of the report.

B) potential investors and creditors by posting on the company's website.

C) general public by posting on the company's website.

D) a financial institution for which the company is negotiating a loan.

Answer: D

Terms: Examine financial projections; Distribution limited to

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

2) Which of the following is a type of prospective financial statement as defined by the AICPA attestation standards?

A)

Forecasts	Projections	Earnings estimates
No	No	Yes

B)

Forecasts	Projections	Earnings estimates
No	Yes	No

C)

Forecasts	Projections	Earnings estimates
Yes	Yes	No

D)

Forecasts	Projections	Earnings estimates
Yes	No	Yes

Answer: C

Terms: General types of prospective financial statements

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

3) Which are prospective financial statements that present an entity's expected financial position, results of operations, and cash flows, to the best of the responsible party's knowledge and belief?

A)

Forecasts	Projections
Yes	Yes

B)

Forecasts	Projections
No	No

C)

Forecasts	Projections
Yes	No

D)

Forecasts	Projections
No	Yes

Answer: C

Terms: Prospective financial statements

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

4) Which are prospective financial statements that present an entity's financial position, results of operations, and cash flows, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions?

A)

Forecasts	Projections
Yes	Yes

B)

Forecasts	Projections
No	No

C)

Forecasts	Projections
Yes	No

D)

Forecasts	Projections
No	Yes

Answer: D

Terms: Prospective financial statements; one or more hypothetical assumptions

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

5) Professional standards prohibit which one of the following types of engagements for prospective financial statements from being undertaken?

A) A compilation

B) A review

C) An examination

D) An agreed-upon procedures engagement

Answer: B

Terms: Professional standards prohibit engagement for prospective financial statements

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

6) General use statements are prepared for use by _____.

- A) known contractual parties
- B) any third party
- C) regulators
- D) internal auditor

Answer: B

Terms: General use statements

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

7) Which of the following statements regarding prospective financial statements is most correct?

- A) CPAs are not attesting to the accuracy of the prospective financial statements.
- B) CPAs are attesting to the accuracy of the prospective financial statements.
- C) CPAs are performing a review on the company's assumptions and hypotheticals that underlie the prospective financial statements.
- D) CPAs are performing a review on the achievability of the prospective financial statements.

Answer: A

Terms: Examination of prospective financial statements

Diff: Challenging

Objective: LO 25-6

AACSB: Reflective thinking skills

8) What is the best reason that standards prohibit accepting an engagement on a projection for general use?

- A) The CPA's procedures would violate SSARS.
- B) Reports on projections are not well understood by the general public.
- C) Underlying hypothetical assumptions are difficult to interpret without obtaining additional information.
- D) The CPA is not qualified to report on the use of GAAP in the projected financial statement.

Answer: C

Terms: Standards for engagement on projection for general use

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

9) Which of the following is **not** an element of examining a forecast?

- A) Evaluating the preparation of the prospective financial statements
- B) Understanding internal controls
- C) Evaluating the support underlying the assumptions
- D) Issuing an examination report

Answer: B

Terms: Element of examining a forecast

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

10) Prospective financial statements are for general use or for limited use. General use refers to

use by any third party, whereas limited use refers to use by third parties with which the responsible party is negotiating directly. Which of the following statements is **not** correct?

- A) Forecasts can be provided for general use.
- B) Forecasts can be provided for limited use.
- C) Projections can be provided for general use.
- D) Projections can be provided for limited use.

Answer: C

Terms: Prospective financial statements; General use and limited use

Diff: Challenging

Objective: LO 25-6

AACSB: Reflective thinking skills

11) A report on an examination of a forecast with an unqualified opinion would **not** address which of the following?

- A) The prospective results may not be achieved.
- B) The CPA assumes no responsibility to update the report for events and circumstances occurring after the date of the report.
- C) The fact that the examination was conducted in accordance with attestation standards established by the AICPA.
- D) The auditor's opinion on the adequacy of the company's internal controls.

Answer: D

Terms: Standard report on a compilation of a projection

Diff: Challenging

Objective: LO 25-6

AACSB: Reflective thinking skills

12) Attestation standards allow a CPA to perform all but which of the following services for a forecast or projection?

- A) Compilation
- B) Review
- C) Examination
- D) Agreed-upon procedures

Answer: B

Terms: Attestation standards; Services for a forecast or projection

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

13) Define forecast and projection.

Answer: Forecasts are prospective financial statements that present an entity's *expected* financial position, results of operations, and cash flows, to the *best* of the responsible party's knowledge and belief.

Projections are prospective financial statements that present an entity's financial position, results of operations, and cash flows, to the best of the responsible party's knowledge and belief, given one or more *hypothetical assumptions*.

Terms: Forecast and projection

Diff: Easy

Objective: LO 25-6

AACSB: Reflective thinking skills

14) The examination of prospective financial statements contains four elements that comprise the examination. List the four elements below.

Answer:

1. Evaluate the preparation of the prospective financial statements.
2. Evaluate the support underlying the assumptions.
3. Evaluate the presentation of the prospective financial statements for conformity with AICPA presentation guidelines.
4. Issue the examination report.

Terms: Examination of prospective financial statements

Diff: Easy

Objective: LO 25-6

AACSB: Reflective thinking skills

15) In an examination engagement for prospective financial statements, the CPA obtains satisfaction as to the completeness and reasonableness of all the assumptions.

A) True

B) False

Answer: A

Terms: Professional standards for performing engagements to review forecasts or projections

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

16) Current professional standards prohibit accountants from performing engagements to review forecasts or projections.

A) True

B) False

Answer: A

Terms: Professional standards for performing engagements to review forecasts or projections

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

17) The accountant's report on the examination of prospective financial statements should include a caveat that the prospective results may not be achieved.

A) True

B) False

Answer: A

Terms: Report on the examination of prospective financial statements

Diff: Moderate

Objective: LO 25-6

AACSB: Reflective thinking skills

Learning Objective 25-7

1) Which of the following is **not** an accurate statement regarding agreed-upon procedures engagements?

A) These engagements are also known as procedures and findings engagements.

B) A report for such an engagement describes the findings resulting from the procedures, but cannot describe the procedures agreed upon.

C) All agreed-upon procedure engagements are now under the scope of attestation standards.

D) Agreed-upon procedures engagements appeal to CPAs because management, or a third-party user, specifies the procedures they want done.

Answer: B

Terms: Agreed-upon procedures to prospective financial statements

Diff: Moderate

Objective: LO 25-7

AACSB: Reflective thinking skills

Learning Objective 25-8

1) An auditor who conducts an examination in accordance with generally accepted auditing standards and concludes that the financial statements are fairly presented in accordance with a comprehensive basis of accounting other than GAAP, should issue a:

A) review report.

B) special kind of report.

C) qualified opinion.

D) disclaimer of opinion.

Answer: B

Terms: Examination; Comprehensive basis of accounting

Diff: Easy

Objective: LO 25-8

AACSB: Reflective thinking skills

2) Clients occasionally enter into loan agreements that require them to provide the _____ with a report from a CPA about the existence or nonexistence of some condition.

- A) underwriters of securities
- B) audit committee
- C) lender
- D) the Securities and Exchange Commission

Answer: C

Terms: Debt compliance letters

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

3) When CPAs do audits for specified elements, accounts, or items:

- A) materiality is defined in terms of the overall financial statements.
- B) materiality is defined in terms of the elements, accounts, or items being audited.
- C) auditors do not need to extend their audit efforts to include other elements, accounts, or items that are interrelated with those being audited.
- D) the authority for auditing specified elements, accounts, or items is in the review and compilation standards.

Answer: B

Terms: Other audits or limited assurance engagements

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

4) A CPA who has been engaged to audit financial statements that were prepared on a cash basis:

- A) must ascertain that there is proper disclosure of the fact that the cash basis has been used, the general nature of material items omitted, and the net effect of such omissions.
- B) may not be associated with such statements which are not in accordance with generally accepted accounting principles.
- C) must render a qualified report explaining the departure from generally accepted accounting principles in the opinion paragraph.
- D) must restate the financial statements on an accrual basis and then render the standard (short-form) report.

Answer: A

Terms: Engaged to audit financial statements prepared on a cash basis

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

5) The engagement and report on debt compliance letters should be limited to compliance matters that the auditor is qualified to evaluate. Which of the following engagements would be inappropriate for the CPA to attempt to evaluate?

- A) Determining whether the client has properly restricted its business activities to the requirements of an agreement.
- B) Determining whether principal and interest payments were made when due.
- C) Determining whether the proper limitations were maintained on dividends, working capital, and debt ratios.
- D) Determining whether the accounting records were adequate for conducting an ordinary audit.

Answer: A

Terms: Engagement and report on debt compliance letters

Diff: Challenging

Objective: LO 25-8

AACSB: Analytic skills

6) State three types of assurance services that fall within the auditing standards but are not audits, reviews, or compilations of financial statements in accordance with GAAP.

Answer:

- Other comprehensive basis of accounting.
- Specified elements, accounts, or items.
- Debt compliance letters and similar reports.

Terms: Types of assurance services which fall within auditing standards but are not audits, reviews, or compilations

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

7) Auditors frequently audit statements prepared on bases other than GAAP. Discuss four commonly used bases other than GAAP.

Answer:

- *Cash or modified cash basis.* With the cash basis, only cash receipts and disbursements are recorded; there are no accruals. Under the modified cash basis, the cash basis is followed except for certain items, such as fixed assets and depreciation.
- *Basis used to comply with the requirements of a regulatory agency.* This includes the uniform system of accounts required of railroads, utilities, and some insurance companies.
- *Income tax basis.* The same measurement rules used for filing tax returns are often used for financial statement preparation, even though this is not in accordance with generally accepted accounting principles (GAAP) or IFRS.
- *A definite set of criteria having substantial support.* For example, the price-level basis of accounting could be applied to all material items in the financial statements.

Terms: Audit statements prepared on bases other than GAAP

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

8) A primary concern in reporting on a comprehensive basis is to make sure that the statements clearly indicate that they are prepared on a basis other than GAAP.

A) True

B) False

Answer: A

Terms: Reporting on a comprehensive basis

Diff: Easy

Objective: LO 25-8

AACSB: Reflective thinking skills

9) When issuing a debt compliance letter, the auditor's opinion should be in the form of a negative assurance.

A) True

B) False

Answer: A

Terms: Debt compliance letter; Negative assurance

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills

10) Auditors should provide debt compliance letters only for clients for whom the auditor has done an audit of the overall financial statements.

A) True

B) False

Answer: A

Terms: Debt compliance letters

Diff: Moderate

Objective: LO 25-8

AACSB: Reflective thinking skills