1. The review of a company's financial statements by a CPA firm:
   A) Is substantially less in scope of procedures than an audit.
   B) Requires detailed analysis of the major accounts.
   C) Is of similar scope as an audit and adds similar credibility to the statements.
   D) Culminates in issuance of a report expressing the CPA's opinion as to the fairness of the statements.

2. Passage of the Sarbanes-Oxley Act led to the establishment of the:
   A) Auditing Standards Board.
   B) Accounting Enforcement Releases Board.
   C) Public Company Accounting Oversight Board.
   D) Securities and Exchange Commission.

3. A summary of findings rather than assurance is most likely to be included in a(n):
   A) Agreed-upon procedures report.
   B) Compilation report.
   C) Examination report.
   D) Review report.

4. The Statements on Auditing Standards have been issued by the:
   A) Auditing Standards Board.
   B) Financial Accounting Standards Board.
   C) Securities and Exchange Commission.
   D) Federal Bureau of Investigation.

5. The organization charged with protecting investors and the public by requiring full disclosure of financial information by companies offering securities to the public is the:
   A) Auditing Standards Board.
   B) Financial Accounting Standards Board.
   C) Government Accounting Standards Boards.
   D) Securities and Exchange Commission.
6. An engagement in which a CPA firm arranges for a critical review of its practices by another CPA firm is referred to as a(n):
   A) Peer Review Engagement.
   B) Quality Control Engagement.
   C) Quality Assurance Engagement.
   D) Attestation Engagement.

7. The serially-numbered pronouncements issued by the Auditing Standards Board over a period of years are known as:
   A) Auditing Statements of Position (ASPs).
   B) Accounting Series Releases (ASRs).
   C) Statements on Auditing Standards (SASs).
   D) Statements on Auditing Principles (SAPs).

8. The risk that information is misstated is referred to as:
   A) Information risk.
   B) Inherent risk.
   C) Relative risk.
   D) Business risk.

9. Audits of financial statements are designed to obtain reasonable assurance of detecting misstatement due to:
   A) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: Yes
   B) Errors: Yes; Fraudulent financial reporting: Yes; Misappropriation of assets: No
   C) Errors: Yes; Fraudulent financial reporting: No; Misappropriation of assets: No
   D) Errors: Yes; Fraudulent financial reporting: No; Misappropriation of assets: Yes

10. Which of the following is not a type of auditors' opinion?
    A) Adverse.
    B) Ordinary.
    C) Qualified.
    D) Unqualified.

11. Requirements for training, independence and due professional care are included in which group of the generally accepted auditing standards?
    A) Fieldwork.
    B) General.
    C) Reporting.
    D) Quality control.
12. In which paragraph of an audit report are auditing standards generally accepted in the United States explicitly mentioned?
   A) Introductory: Yes; Scope: No; Opinion: No
   B) Introductory: No; Scope: Yes; Opinion: No
   C) Introductory: No; Scope: Yes; Opinion: Yes
   D) Introductory: Yes; Scope: Yes; Opinion: Yes

13. An audit should be designed to achieve reasonable assurance of detecting material misstatements due to:
   A) Errors.
   B) Errors and fraud.
   C) Errors, fraud, and those illegal acts with a direct effect on financial statement amounts.
   D) Errors, fraud and illegal acts.

14. An immaterial loan from the CPA to an officer of a client impairs the independence of the CPA.

15. The communications between CPAs and their clients are privileged under federal law.

16. ABC Company is audited by the Phoenix office of Willingham CPAs. Which of the following individuals would be least likely to be considered a “covered member” by the independence standard?
   A) Staff assistant on the audit.
   B) An audit partner in the Eloi office.
   C) A tax partner in Phoenix who performs no attest services for ABC Company or for any other clients.
   D) The partner in charge of Willingham CPAs (she does no work on the ABC Company Audit).

17. Which of the following statements is true with respect to the SEC's concept of independence when an auditor both prepares financial statements and audits those financial statements for a client?
   A) The auditor is not independent.
   B) The auditor is independent if he or she is able to maintain a level of professional detachment.
   C) The auditor can audit the financial statements only if the audit process does not culminate in the expression of an opinion on the financial statements.
   D) The auditor cannot audit the financial statements since a lack of integrity exists.
18. Contingency fee based pricing of accounting services is:
A) Always strictly prohibited in public accounting practice.
B) Never restricted in public accounting practice.
C) Prohibited for clients for whom attestation services are provided.
D) Considered an act discreditable to the profession.

19. The provisions of the Sarbanes-Oxley Act of 2002 are most likely to allow which of the following non-audit services for audit clients?
A) Appraisal or valuation services (e.g., pension, post-employment benefit liabilities).
B) Financial information systems design and implementation.
C) Internal audit outsourcing.
D) Tax consulting.

20. Which of the following acts by a CPA would be most likely to be a violation of the AICPA Code of Professional Conduct?
A) Assisting a client in preparing a financial forecast.
B) Forming a professional corporation to practice as a CPA.
C) Accepting a fee in a tax matter that is contingent upon the result of an administrative proceeding.
D) A “covered member” owns an immaterial amount of stock in an audit client.

21. When an accountant is not independent, the accountant is precluded from issuing a:
A) Compilation report.
B) Review report.
C) Management advisory report.
D) Tax planning report.

22. To be competent, evidence must be reliable and sufficient.

23. A vendor's invoice is an example of documentary evidence created by a third party and held by the client.

24. When performing a financial statement audit, auditors are required to explicitly assess the risk of material misstatement due to:
A) Fraud.
B) Errors.
C) Illegal Acts.
D) Business risk.
25. Which of the following is not considered to be an analytical procedure?
A) Comparisons of financial statement amounts with source documents.
B) Comparisons of financial statement amounts with nonfinancial data.
C) Comparisons of financial statement amounts with budgeted amounts.
D) Comparisons of financial statement amounts with comparable prior year amounts.

26. Analytical procedures are required at the planning stage of all audits and as:
A) Tests of internal control.
B) Substantive tests.
C) A part of the final overall review.
D) Computer generated procedures.

27. Which of the following is a basic approach often used by auditors to evaluate the reasonableness of accounting estimates?
A) Confirmation.
B) Observation.
C) Reviewing subsequent events or transactions.
D) Analyzing corporate organizational structure.

28. An auditor is performing an analytical procedure that involves comparing a client's ratios with other companies in the same industry. This technique is referred to as:
A) Vertical analysis.
B) Horizontal analysis.
C) Cross-sectional analysis.
D) Comparison analysis.

29. The date of the management representation letter should coincide with the:
A) Date of the auditor's report.
B) Balance sheet date.
C) Date of the latest subsequent event referred to in the notes to the financial statements.
D) Date of the engagement agreement.
30. An auditor performs analytical procedures that involve comparing the gross margins of various divisional operations with those of other divisions and with the individual division's performance in previous years. The auditor notes a significant increase in the gross margin at one division. The auditor does some preliminary investigation and also notes that there were no changes in products, production methods, or divisional management during the year. Based on the above information, the most likely cause of the increase in gross margin would be:
A) An increase in the number of competitors selling similar products.
B) A decrease in the number of suppliers of the material used in manufacturing the product.
C) An overstatement of year-end inventory.
D) An understatement of year-end accounts receivable.

31. Which of the following best describes a portion of the auditors' responsibility regarding illegal acts by clients?
A) The auditors have a responsibility to discover all material illegal acts.
B) If audit procedures reveal illegal acts, the auditors should take appropriate actions.
C) If the auditors suspect illegal acts have been performed, they should conduct a legal audit of the company.
D) The auditors' responsibility for the detection of all illegal acts is the same as their responsibility regarding material misstatements due to errors and fraud.

32. The auditors who find that the client has committed an illegal act would be most likely to withdraw from the engagement when the:
A) Management fails to take appropriate corrective action.
B) Illegal act has material financial statement implications.
C) Illegal act has received widespread publicity.
D) Auditors cannot reasonably estimate the effect of the illegal act on the financial statements.

33. Primary responsibility for the financial statements lies with:
A) Auditors: Yes; Management: Yes
B) Auditors: Yes; Management: No
C) Auditors: No; Management: Yes
D) Auditors: No; Management: No

34. A requirement that working papers be reviewed by the supervisor, and any deficiencies be discussed with the preparer is an example of a quality control procedure in the area of:
A) Acceptance and continuance of clients and engagements.
B) Engagement performance.
C) Personnel management.
D) Independence, integrity and objectivity.
35. What is the general character of the three generally accepted auditing standards
classified as general standards?
A) Criteria for competence, independence, and professional care of individuals performing
the audit.
B) Criteria for the content of the financial statements and related footnote disclosures.
C) Criteria for the content of the auditors' report on financial statements and related
footnote disclosures.
D) The requirements for the planning of the audit and supervision of assistants, if any.

SWITCH OVER TO YOUR BLUE-BOOKS FOR THE REMAINING QUESTIONS

36. There are four types of opinions which can be rendered in an audit. List these as well as
a brief description of each (assume NOT a Company subject to SEC oversight).

37. There are three types of risk an auditor must consider in performing their audit. Please
list and describe them as briefly as possible.

38. An unqualified auditor's opinion of a company which is not subject to the requirements
of the SEC has three paragraphs. List what we refer to each of those paragraphs as (i.e we
call the first paragraph the ____ paragraph). Present your answer in the order in
which those paragraphs appear in an unqualified opinion and briefly list the critical
elements addressed in each of those paragraphs.

PART II
If the Company being audited is subject to the requirements of the SEC, list
modifications which are made to an unqualified auditors opinion.

39. There are three principle types of "attest" engagements performed by CPA's. List the
three and briefly describe the type of assurance/ report granted by the CPA for each.
Answer Key

1. A
2. C
3. A
4. A
5. D
6. A
7. C
8. A
9. A
10. B
11. B
12. B
13. C
14. True
15. False
16. B
17. A
18. C
19. D
20. D
21. B
22. False
23. True
24. A
25. A
26. C
27. C
28. C
29. A
30. C
31. B
32. A
33. C
34. B
35. A
36. (1) Unqualified: Three paragraphs, auditor expresses an opinion that the financial statements are fairly presented in accordance with GAAP (materially accurate GAAP) and that they performed a GAAS audit.
(2) Qualified: Four paragraphs. The opinion states that "except for" a certain item, the financial statements are materially accurate GAAP in the opinion of the auditor. There is a departure from GAAP, which is summarized in the fourth paragraph, but that departure does not cause the financial statements to be misleading as a whole.
(3) Adverse: Four paragraphs. The opinion states that the financial statements do NOT present fairly....
(4) Disclaimer: Four paragraphs. The scope paragraph states that the auditor was NOT able to perform GAAS procedures and there is not an opinion expressed. The fourth paragraph describes the scope limitation.

37. (1) Inherent risk: The risks which inherently exists depending on the complexity of the transactions, volume of transactions, complexity of accounting principles required, judgment required, etc.
(2) Control risk: The risk that client internal controls will not prevent or detect the occurrence of an inherent risk
(3) Detection risk: The risk that the auditor's procedures will not detect the occurrence of a risk which was not prevented/detected and rectified by the client internal controls.

38. INTRODUCTION: States what was audited, and that the financial statements are the responsibility of Company's management, and the opinion is the responsibility of the auditor.

SCOPE: States that the audit was performed in accordance with GAAS, that the audit was planned, to obtain reasonable assurance, and that procedures included examination on a test basis

OPINION: States the auditors Opinion on whether the financial statements present fairly in all material respects (material accuracy) in accordance with GAAP

PART II
(a) If it is a publicly traded Company, then the scope paragraph replaces the reference to GAAS with PCAOB guidance.
(b) There is a new 4th paragraph which reflects the auditor's opinion on the internal controls of the Company.

39. (1) Examination/ Audit: CPA renders an OPINION on the material accuracy of the financial statements in accordance with GAAP (or other suitable criteria)
(2) Review (or compilation and review): CPA issues a review report, which gives "negative assurance" meaning that the CPA "is not aware" of any material misstatements
(3) Agreed Upon Procedures (AUP): CPA issues a report of their findings.