1. Which of the following types of transactions lends to increased prevalence of internal controls?
   A) Those requiring judgment  B) Complex  C) Non routine  D) Routine

2. To present fairly in conformity with generally accepted accounting principles the financial statements must:
   A) Reflect transactions and events within a range of reasonable limits.
   B) Be considered preferable to the users of those financial statements.
   C) Inform users of all matters that could materially affect a decision.
   D) Be consistently applied.

3. Which of the following does not provide assurance?
   A) Review  B) Compilation  C) Agreed upon procedures  D) Audit

4. Which of the following is one of the elements of quality control?
   A) Assurance of proper levels of association.
   B) Due professional care.
   C) Supervision.
   D) Acceptance and continuance of clients and engagements.

5. An audit of a non-public company:
   A) Requires that the company's management certify the financial statements.
   B) Requires compliance with the Sarbanes Oxley Act.
   C) Requires that the company and its auditor be registered with the PCAOB.
   D) Requires an opinion only on the financial statements of the Company.

6. Requirements for training, independence and due professional care are included in which group of the generally accepted auditing standards?

7. An integrated audit includes which of the following types of audits?
   A) Financial statement audit  C) Operational audit
   B) Compliance audit  D) A and B above

8. Once registered with the Public Company Accounting Oversight Board, a public accounting firm:
   A) May not perform audits of non-public companies
   B) Is subject to the oversight of the PCAOB.
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9. Which of the following is a basic approach often used by auditors to evaluate the reasonableness of accounting estimates?
A) Reviewing subsequent events or transactions.
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10. Which of the following is least likely to impair a CPA firm's independence with respect to an audit client in the Oklahoma City of a national CPA firm?
A) A partner in the Jersey City office owns 7% of the client's stock.
B) A partner in the Chicago office is also the vice president of finance for the audit client.
C) A partner in the Oklahoma City office owns an immaterial amount of stock in the client.
D) A partner in the Oklahoma City office, who does not work on the audit, previously served as controller for the audit client.

11. Which of the following ultimately determines the specific audit procedures necessary to provide independent auditors with a reasonable basis for the expression of an opinion?
A) The auditors' working papers.
B) The audit program.
C) The auditors' judgment.
D) Generally accepted auditing standards.

12. Which of the following offers negative assurance?
A) Agreed upon procedures
B) Compilation
C) Review
D) Audit

13. Your brother:
A) may hold any financial interest he likes
B) Must be totally independent of all your audit clients.
C) Has no bearing upon your independence
D) May not be the CFO of your audit client

14. During an audit engagement pertinent data are prepared and included in the audit working papers. The working papers primarily are considered to be:
A) A record to be used as a basis for the following year's engagement.
B) Support for the auditors' representations as to compliance with generally accepted auditing standards.
C) A client-owned record of conclusions reached by the auditors who performed the engagement.
D) Evidence supporting financial statements.

15. When using a specialist, an auditor must
A) Test the data provided to the specialist
B) Satisfy herself that the specialist is qualified for the subject area
C) Review and understand the report of the specialist
D) All of the above

16. The most and least reliable form of audit evidence are:
A) Management representations and physical, respectively
B) Documentary and management representations, respectively
C) Third party confirmations and management representations, respectively
D) Management representations and third party confirmations, respectively
17. Auditing an estimate should include  
   A) Review of subsequent information  
   B) Understanding management process for developing their estimate  
   C) The auditor developing their own estimate  
   D) All of the above  

18. You are about to audit XYZ and their internal controls stink. Can you ignore those controls?  
   A) No, you must at least document your understanding of the controls in the workpapers.  
   B) Yes, assuming you will not rely upon them.  
   C) No, internal controls must always be relied upon.  
   D) Yes, if reliance is minimal.  

19. Looking at an audit opinion, you notice a fourth paragraph with the words "internal control" in it. From this limited information, what can you infer about the company?  
   A) The auditors consider their internal controls to be weak  
   B) They have a qualified opinion  
   C) They are a public company  
   D) They have internal controls  

20. Which of the following risks is a result only of the client and how they operate their business and the assessment of that risk is not impacted by how much audit work is performed?  
   A) Risk of Material Misstatement  
   B) Inherent risk  
   C) Control risk  
   D) All of the above  

21. When an auditor is auditing accounts receivable existence and valuation, what else is she auditing?  
   A) Allowance for doubtful accounts  
   B) Sales  
   C) Bad debt expense  
   D) All of these  

22. The typical audit approach is:  
   A) Both B and C.  
   B) Ending balance based  
   C) Inherently relies upon the propriety of the opening balances.  
   D) Transaction based  

23. Contingency fee based pricing of accounting services is:  
   A) Never restricted in public accounting practice.  
   B) Prohibited for clients for whom attestation services are provided.  
   C) Considered an act discreditable to the profession.  
   D) Always strictly prohibited in public accounting practice.  

24. The primary responsibility for the adequacy of disclosure in the financial statements of a publicly held company rests with the:  
   A) Management of the company.  
   B) Auditor in charge of the fieldwork.  
   C) Securities and Exchange Commission.  
   D) Partner assigned to the audit engagement.  

25. Which of the following must restrict its distribution?  
   A) Agreed upon procedures  
   B) Audit  
   C) Review  
   D) All of these
26. An investor reading the financial statements of The Sundby Corporation observes that the statements are accompanied by an unqualified auditors' report. From this the investor may conclude that:
   A) The auditors are satisfied that Sundby is operationally efficient.
   B) The auditors have ascertained that Sundby's financial statements have been prepared accurately.
   C) Informative disclosures in the financial statements but not necessarily in the footnotes are to be regarded as reasonably adequate.
   D) Any disputes over significant accounting issues have been settled to the auditors' satisfaction.

27. Which of the following must be audited?
   A) Public companies   C) All companies with users requiring audits
   B) All companies with debt   D) A and C

28. An audit of a public company includes two opinions, and is referred to as:
   A) Only an opinion on the conformity of the financial statements with GAAP and is referred to as an integrated audit.
   B) Opinions on the conformity of the financial statements with GAAP and the internal controls, and is referred to as an integrated audit.
   C) Only an opinion on the conformity of the financial statements with GAAP and is referred to as a PCAOB audit.
   D) Opinion on the forward looking information included in MD&A as well as the conformity of the financial statements to GAAP and is referred to as an examination.

29. Planning of an audit
   A) Is required by GAAS   C) Identifies inherent risks
   B) Lends to efficiency   D) All of the above.

30. Which of the following provides a list of every recorded transaction for a specified period?
   A) General ledger   B) Schedules   C) Trial balance   D) Subledger

31. A very valuable tool which the auditor has with respect to auditing subjective estimates is:
   A) Hindsight   B) Formal education   C) Planning   D) Pompous attitude

32. In order to perform audits of public companies, the auditing firm must:
   A) Register with the PCAOB
   B) Register with the AICPA
   C) Comply with standards established by the PCAOB
   D) A and C

33. The following helps users of financial statements ensure that audited financial statements meet a certain threshold of assurance from independent accountants:
   A) FASB   B) GAAP   C) PCAOB   D) GAAS

34. The most stringent independence standards apply to:
   A) Covered members   B) Non-attest services   C) Close relatives   D) Employees
35. Which of the following types of audit opinions is rarely issued because a client would not ever pay money for an opinion that says they suck?
   A) Qualified  B) Unsubstantiated  C) Unqualified  D) Adverse

36. For each of the following, make and briefly support, the three risk assessments which are specific to the client and its operations:

I. Company A operates in a highly complex, rapidly involving, highly competitive industry. They have been in a lot of trouble in the past and can't seem to implement controls fast enough and there are consequently many errors made.

II. Company B operates in the same environment as Company A. However, Company B has been doing this a very long time and has implemented systems to prevent and detect risks which has proven historically strong.

III. Company C operates in a stable environment with many of the same customers/ vendors/ competitors each year. They have been in business in this industry for many years and have strong systems in place.

37. This is an audit and we discover a journal entry for $25,000 which represents less than 1% of net income, revenue, total assets, and total equity. Could this be material? Support your answer with GAAS, including an example of what could cause this to be material.
38. Management makes assertions in the financial statements and it is the auditor's responsibility to audit these assertions. Please list the "management assertions" (hint: 5 of them).

Which of these assertions generally has the highest risk and why?

With respect to liabilities, which assertion is generally the most important, and most difficult to test by an auditor?

39. Perform an analytic relative to the following information please to test as much of the data which will be included in the financial statements as possible. In class we discussed the 4 steps, please be sure to clearly state them beside each step you perform.

XYZ has terminated many employees this year to combat negative forces from the general economic downturn. Their workers compensation is based upon 1% of payroll. During the year they terminated 30% of the workforce, but did not do so until the very end of the third quarter. The payroll expense last year was $2,000,000 and the workers compensation insurance expense was $20,000. In the current year they have presented to you for audit: payroll expense $1,900,000 and the workers compensation insurance expense was $100,000.
40. There are auditing standards which fall into three broad categories. The third category is "reporting". List the two other categories as well as the standards under each of the categories.

41. "Integrated audit" (a) briefly describe what it is (b) what entity requires it, (c) what two types of procedures it requires and (c) what companies it applies to.
   (A) 
   (B) 
   (C) 
   (D) 
   .
Answer Key

1. D
2. A
3. B
4. D
5. D
6. A
7. D
8. B
9. A
10. D
11. C
12. C
13. D
14. B
15. D
16. C
17. D
18. A
19. C
20. D
21. D
22. A
23. B
24. A
25. A
26. D
27. D
28. B
29. D
30. A
31. A
32. D
33. D
34. A
35. D
36. I. Inherent Risk (IR) is HIGH due to complexity, competition and changing industry, their Control Risk (CR) is also HIGH due to the fact that their controls are not preventing errors. Therefore the Risk of Material Misstatement (RMM) must be HIGH

II. IR HIGH for same reasons as I above, CR IS LOW as controls are expected to be reliable and RMM is therefore Moderate to Low based upon the combination

III. IR- LOW, stability, not complex CR LOW Due to expected strength of the systems in place and RMM LOW based upon low/low combination.

37. It does not appear material from a quantitative standpoint as it is less than 1% of all measurement indices. However if it would impact the decision-making of reasonable user of the financial statements it is material from a qualitative standpoint. Examples which could cause it to be material discussed in class are (1) earnings targets and (2) debt covenant compliance.
38. Cutoff
   Existence
  Completeness
   Rights & Obligations
   Valuation
   Presentation and disclosure  

   Valuation generally receives the most attention as it involves the most subjectivity, and consequently carries a high degree of inherent risk.

   Liabilities: Completeness is most crucial and most difficult to test.

39. PAYROLL:
   Expectation: 2,000,000*.75+2,000,000*.7*.25= 1,850,000
   Precision: Moderately precise (we could have terminated high or low paid employees and our computation does not factor this)
   Compare: Our moderately precise expectation of $1,850,000 is materially consistent with the $1,900,000we saw. We may want to validate that the terminated employees were slightly higher than average comp. levels.
   Conclude: Based upon this test, the amount reported appears reasonably supported by the analytic (points given here if well supported by what they did above... NOT for coming to my same conclusion... the conclusion is somewhat subjective)

   WORKERS COMP INSURANCE EXPENSE:
   Expectation: $1,900,000*1%= $190,000
   Precision: Highly precise
   Compare: $100,000 recorded by client is not consistent with out $190,000 expectation (which was based upon a highly precise test)
   Conclude: More work is required, there could be an error as the actual result is not consistent with highly precise expectation.

40. General Standards
   n T  Adequate technical training and proficiency as an auditor.
   n I  Independence in mental attitude is to be maintained by the auditor.
   n P  Due professional care is to be exercised.

   Standards of Fieldwork
   n P  Work is to be adequately planned and properly supervised
   n I  Sufficient understanding of internal control is to be obtained
   E  Sufficient competent evidential matter is to be obtained to afford a reasonable basis for the opinion

41. (a) audit of BOTH financial statements and internal controls.
   (b) SEC/ PCAOB
   (c) Tests of Design (TOD's)
   and Tests of Operating Effectiveness (TOE's)
   (d) Applies to all public companies.
1. An investor reading the financial statements of The Sundby Corporation observes that the statements are accompanied by an unqualified auditors' report. From this the investor may conclude that:
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   C) Management representations and third party confirmations, respectively
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(A)

(B)

(C)

(D)

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Valuation generally receives the most attention as it involves the most subjectivity, and consequently carries a high degree of inherent risk.

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