

Course No: ACNE 4321
Course Title: Auditing (I)
Date: 2017/11/27
No. of Questions: (3 parts)
Time: 1hour
Using Calculator (NA)

University of Palestine



Second Mid-term Exam
1st Semester 2017/2018
Total Grade: 15

Instructor Name: Mr. Adnan R. Awad

Student No.: _____

Student Name: _____

College Name: Business Administration

Dep. / Specialist: Accounting

Using Dictionary (No)

Part (1) - Chapter 5

- 1) Distinguish between what is meant by business failure and audit failure.
- 2) There are four major sources of an auditor's legal liability. One source is liability to the audit client. List the other three sources.

Part (1) - Chapter 6

- 3) Discuss the differences between errors, frauds, and illegal acts. Give an example of each.
- 4) List the four phases of a Financial Statement Audit
- 5) Describe what analytical procedures and tests of details of balances are and give an example of each.

Part (2) - Chapter 5

Multiple Choice Questions – Chapter 5

- 1) A CPA firm normally uses one or a combination of four defenses when there are legal claims by clients. Which one of the following is generally not a defense?
A) Lack of duty
B) Non-negligent performance
C) Contributory negligence
D) Foreseeable users
- 2) A common way for a CPA firm to demonstrate its lack of duty to perform is by use of a(n):
A) expert witness' testimony.
B) audit contract, or engagement letter.
C) management representation letter.
D) confirmation letter.
- 3) To succeed in an action against the auditor, the client must be able to show that:
A) the auditor was fraudulent.
B) the auditor was grossly negligent.
C) there was a written contract.
D) there is a close causal connection between the auditor's behavior and the damages suffered by the client.
- 4) Which of the auditor's defenses is ordinarily not available when lawsuits are filed by a third party?
A) Absence of causal connections
B) Contributory negligence
C) Non-negligent performance
D) Lack of duty
- 5) A CPA is subject to criminal liability if the CPA:
A) refuses to turn over requested audit documentation to a client.
B) performs an audit in a negligent manner.
C) willfully omits a material fact from a set of financial statements.
D) willfully breaches a contract with a client.

Part (2) - Chapter 6

Multiple Choice Questions – Chapter 6

- 6) The responsibility for the preparation of the financial statements and the accompanying footnotes belongs to:
A) the auditor.
B) management.
C) both management and the auditor equally.
D) management for the statements and the auditor for the notes.
- 7) Fraudulent financial reporting is most likely to be committed by whom?
A) line employees of the company
B) outside members of the company's board of directors
C) company management
D) the company's auditors

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- 8) The auditor's best defense when existing material misstatements in the financial statements are not uncovered in the audit is:
- A) the audit was conducted in accordance with auditing standards.
 - B) the financial statements are the client's responsibility.
 - C) the client is guilty of contributory negligence.
 - D) the client is guilty of fraudulent misrepresentation.
- 9) When planning the audit, if the auditor has no reason to believe that illegal acts exist, the auditor should:
- A) include audit procedures which have a strong probability of detecting illegal acts.
 - B) still include some audit procedures designed specifically to uncover illegalities.
 - C) ignore the issue.
 - D) make inquiries of management regarding their policies for detecting and preventing illegal acts and regarding their knowledge of violations, and then rely on normal audit procedures to detect errors, irregularities, and illegalities.
- 10) Why does the auditor divide the financial statements into smaller segments?
- A) Using the cycle approach makes the audit more manageable.
 - B) Most accounts have few relationships with others and so it is more efficient to break the financial statements into smaller pieces.
 - C) The cycle approach is used because auditing standards require it.
 - D) All of the above are correct.
- 11) Which of the following assertions is described as "this assertion addresses whether all transactions that should be included in the financial statements are in fact included"?
- A) occurrence
 - B) completeness
 - C) rights and obligations
 - D) existence
- 12) The auditor is determining that the recorded sales are for the amount of goods shipped are correctly billed and recorded. She is gathering evidence about which transaction related audit objective?
- A) existence
 - B) completeness
 - C) accuracy
 - D) cut-off
- 13) In testing for cutoff, the objective is to determine:
- A) whether all of the current period's transactions are recorded.
 - B) whether transactions are recorded in the correct accounting period.
 - C) the proper cutoff between capitalizing and expensing expenditures.
 - D) the proper cutoff between disclosing items in footnotes or in account balances.
- 14) The primary difference between an audit of the balance sheet and an audit of the income statement is that the audit of the income statement deals with the verification of:
- A) transactions.
 - B) balances.
 - C) costs.
 - D) cutoffs.
- 15) If the auditor has obtained a reasonable level of assurance about the fair presentation of the financial statements through understanding internal control, assessing control risk, testing controls, and analytical procedures, then the auditor:
- A) can issue an unqualified opinion.
 - B) can significantly reduce other substantive tests.
 - C) can write the engagement letter.
 - D) needs to perform additional tests of controls so that the assurance level can be increased.

End of mandatory part of the exam

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Part (III) – chapter 6

This part is an optional and you may answer as much as you can for these 2 questions:

Part (III) question (1)

- 1) Below are five audit procedures, all of which are tests of transactions associated with the audit of the sales and collection cycle. Also below are the six general transaction-related audit objectives and the five management assertions.

For each audit procedure, indicate (1) its audit objective, and (2) the management assertion being tested.

Audit Objectives	Assertions
A. Occurrence	V. Occurrence
B. Completeness	W. Completeness
C. Accuracy	X. Accuracy
D. Posting and summarization	Y. Classification
E. Classification	Z. Cutoff
F. Timing	

1. Vouch recorded sales from the sales journal to the file of bills of lading.
(1) _____. (2) _____.
2. Compare dates on the bill of lading, sales invoices, and sales journal to test for delays in recording sales transactions.
(1) _____. (2) _____.
3. Account for the sequence of pre-numbered bills of lading and sales invoices.
(1) _____. (2) _____.
4. Trace from a sample of pre-listings of cash receipts to the cash receipts journal, testing for names, amounts, and dates.
(1) _____. (2) _____.
5. Examine customer order forms for credit approval by the credit manager.
(1) _____. (2) _____.

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Part (III) question (2)

- 2) 8) Below are five audit procedures, all of which are tests of balances associated with the audit of accounts receivable. Also below are the eight general balance-related audit objectives and the four management assertions.

For each audit procedure, indicate (1) its audit objective, and (2) the management assertion being tested.

Audit Objectives	Assertions
A. Existence	V. Existence
B. Completeness	W. Completeness
C. Accuracy	X. Valuation and allocation
D. Classification	Y. Rights and obligation
E. Cutoff	
F. Detail tie-in	
G. Realizable value	
H. Rights and obligations	

1. Obtain an aged listing of accounts receivable. For a sample of individual customers on the listing, agree the customer's name, amount, and other information with the corresponding information in the accounts receivable master file.

(1) _____. (2) _____.

2. Examine details of sales for five days before and five days after year-end to determine whether sales have been recorded in the proper period.

(1) _____. (2) _____.

3. Assess the reasonableness of the balance in the allowance for doubtful accounts.

(1) _____. (2) _____.

4. Inquire as to whether any accounts receivable have been factored or sold during the period.

(1) _____. (2) _____.

5. Inquire as to whether there are any receivables from related parties.

(1) _____. (2) _____.

“Good Luck”