

Name \_\_\_\_\_

Key

Multiple Choice: Circle the letter that corresponds to the correct answer.

1. According to AICPA Professional Standards, what is the auditor's responsibility regarding related party transactions?
  - a. The auditor must design the audit to gain reasonable assurance that related party transactions have been detected.
  - b. The auditor must identify related parties, related party transactions, and audit related party transactions.
  - c. The auditor must identify related parties, material related party transactions, and audit material related party transactions.
  - d. The auditor must audit all related party transactions.
  
2. The auditor is interested in restrictive covenants that apply to
  - a. stock options.
  - b. loan agreements.
  - c. inventory.
  - d. intangible assets.
  
3. The auditor must gain satisfaction concerning the timing of recognition and the calculation of any gain or loss on disposal of a business segment. Discontinued operations contains which of the following components?
  - a. income or loss from discontinued operations
  - b. gain/loss on disposal of the segment
  - c. income or loss from continuing operations
  - d. a and b
  - e. a, b, and c
  
4. What audit procedure is used to help the auditor evaluate the sufficiency of audit evidence?
  - a. analytical procedures
  - b. recalculations
  - c. reasonableness tests
  - d. document examination
  
5. A subsequent event that affects the estimates inherent in the audited financial statements, and if material, requires that the statements be adjusted to reflect the results of the events is known as a
  - a. Type I Event.
  - b. Type II Event.
  - c. Type A Event.
  - d. Type B Event.
  
6. The auditor is responsible for locating both types of subsequent events occurring
  - a. before the balance sheet date and before the end of field work..
  - b. before the balance sheet date and after the end of field work.
  - c. between the balance sheet date and the close of audit field work.
  - d. between the beginning of the audit and the end of field work.

7. Which of the following is a true statement?

- a. The client representation letter relieves the auditor of responsibility for corroborating the written representations through the application of standard or extended audit procedures.
- b. The client representation letter does not relieve the auditor of responsibility for corroborating the written representations through the application of standard or extended audit procedures.
- c. The client representation letter partially relieves the auditor of responsibility for corroborating the written representations through the application of standard or extended audit procedures.
- d. The client representation letter confirms that the auditor is responsible for the fairness of the financial statements.

8. Reportable conditions represent significant deficiencies in

- a. disclosures.
- b. classifications.
- c. internal controls.
- d. financial statement presentation.

9. Which of the following is/are required by GAAS?

- a. management letter
- b. reportable conditions communication
- c. management letter and reportable conditions communication
- d. engagement letter and management letter

10. Investments in other assets not held for operating purposes is a part of which audit cycle?

- a. revenue
- b. receipt
- c. expenditure
- d. financing and investing

11. Which of the following securities are valued at market with unrealized gains and losses reported on the income statement?

- a. trading securities
- b. available-for-sale securities
- c. held-to-maturity securities
- d. a and b
- e. a, b, and c

12. What method, according to GAAP, must be used to amortize premium and discount on fixed-maturity investments?

- a. straight-line
- b. effective interest
- c. present value
- d. net present value

13. Estimated losses from uncollectible notes should be reflected in the

- a. balance sheet.
- b. income statement.
- c. statement of cash flows.
- d. statement of retained earnings.

14. In the audit report, what paragraph describes what the auditor did and that the audit was conducted in accordance with GAAS?

- a. title
- b. addressee
- c. introductory
- d. scope
- e. opinion

15. In the audit report, what paragraph differentiates management's responsibility for preparing the financial statements from the auditor's responsibility of expressing an opinion on the financial statements?

- a. title
- b. addressee
- c. introductory
- d. scope
- e. opinion

16. Material scope restrictions should be identified in the

- a. title
- b. addressee
- c. introductory
- d. scope
- e. opinion

17. The audit report is dated as of

- a. the balance sheet date.
- b. the date the report is prepared.
- c. the last day of field work.
- d. the first day of field work.

18. When the financial statements contain a material departure from GAAP or a material scope restriction, the auditor must, at the very least, render what kind of opinion?

- a. unqualified
- b. qualified
- c. adverse
- d. disclaimer

19. When the financial statements contain a departure from GAAP that is too material to warrant only a (answer from 32) report, what kind of opinion?

- a. unqualified
- b. qualified
- c. adverse
- d. disclaimer

20. Which opinion means that the auditor is unable to express an opinion on the financial statements due to material scope restrictions?

- a. unqualified
- b. qualified
- c. adverse
- d. disclaimer

21. What circumstance(s) call for the addition of an explanatory paragraph to be added to an unqualified opinion?

- a. departure from promulgated principle
- b. ability of the entity to continue as a going concern
- c. change in accounting principle
- d. emphasis of a matter
- e. all of the above
- f. none of the above

22. Dual-dated audit reports contain two dates:

- a. last day of field work.
- b. date of subsequent event that came to auditor's attention after close of field work.
- c. balance sheet date
- d. date of subsequent event that came to the auditor's attention before the close of field work.
- e. a and b
- f. c and d

23. What kind of opinion should be given on financial statements when confronted with material client-imposed scope restrictions?

- a. unqualified
- b. qualified
- c. adverse
- d. disclaimer

24. An explanatory paragraph that serves the purpose of explaining why the auditor is modifying the audit opinion from an unqualified opinion is inserted where in the report?

- a. before the introductory paragraph
- b. between the introductory paragraph and the scope paragraph
- c. between the scope paragraph and the opinion paragraph
- d. after the opinion paragraph

25. An explanatory paragraph that is added for the purpose of providing an explanatory matter without qualifying the audit opinion is placed where in the report?

- a. before the introductory paragraph
- b. between the introductory paragraph and the scope paragraph
- c. between the scope paragraph and the opinion paragraph
- d. after the opinion paragraph