

CPA

Exam AA

Audit & Insurance

Version: 6.0

[Total Questions: 80]

Question No : 1

Public Company Accounting Oversight Board member Jeanette Franzel told a group of accounting educators that lack of professional scepticism is one of the main reasons for the prevalence of audit deficiencies found in the PCAOB's inspections of the work of auditing firms.

Which of the following statements is correct in accordance with Public Company Accounting Oversight Board?

- A.** Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- B.** Professional judgment is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- C.** Professional behaviour is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- D.** Professionalism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Answer: A

Question No : 2

When you audit a company, your main goal is to provide assurance to the users of the company's financial statements that those documents are free of material misstatement. You use the audit risk model, which consists of inherent, control, and detection risk on your client's financial statements.

'Audit risk' here does refer to_____.

- A.** process of auditing
- B.** loss from litigation
- C.** adverse publicity
- D.** events arising in connection with the audit of financial statements

Answer: A

Question No : 3

John has been given the following draft figures for Kulran Ltd for the year ended 30 June 2011 to analyse. Materiality has been set at \$35,000 and the finance director has told John in a planning meeting that there have been few changes in the year. Budgets were set at 2010 levels and there have been no major movements in non-current assets.

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Revenue3,497,2843,487,286

Cost of sales1,867,2942,008,967

Salaries467,900420,975

Which of the following is normally designed to detect possible material monetary errors in the above figures of financial statements?

- A. Test of control
- B. Walk-through test
- C. Analytical procedure
- D. Observation of a procedure

Answer: C

Question No : 4

The management of Tory Bank Ltd suspects that a bank loan officer frequently made loans to fictitious companies, disbursed loan proceeds to his wife's accounts, and then the loan has been written-off as irrecoverable. Some significant facts about the loan officer include

- A high standard of living, explained as the result of sound investments and not taking vacations
- An expensive personal car obtained through business contacts
- Gasoline and repair bills submitted for an assigned company car that is higher than company average (mileage logs were submitted on a quarterly basis)
- Marked annoyance with questions from auditors

The above fraud would least likely be discovered by

- A. Analyses of the number of loans made by each loan officer.
- B. Analysis of total dollar volume of loans by loan officer.
- C. External or internal audits of loan files.
- D. Reconciliation of total loans outstanding to the general ledger balance.

Answer: D

Question No : 5

A personnel department is responsible for processing placement agency fees for new hires. A recruiter established some bogus placement agencies and, when interviewing walk-in applicants, the recruiter would list one of the bogus agencies as referring the candidate.

A possible means of detection or deterrence is to

- A. Process all personnel agency invoices via a purchase order through the purchasing department.
- B. Verify new vendors to firms listed in a professional association catalog and/or verify the vendor name and address through the telephone book.
- C. Monitor the closeness of the relationships of recruiters with specific vendors.
- D. Require all employees to sign an annual conflict of interest statement.

Answer: B

Question No : 6

Management is legally required to prepare a shipping document for all movement of hazardous materials. The document must be filed with bills of lading. Management expects 100% compliance with the procedure.

Which of the following sampling approaches would be most appropriate?

- A. Attributes sampling
- B. Judgment sampling
- C. Targeted sampling

D. Discovery sampling**Answer: D****Question No : 7**

An auditor performs an analytical review by 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 the preliminary investigation and 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.

Answer: C**Question No : 8**

The universal audit approach requires all companies to prepare accounts for their shareholders, to have them audited and to file them at a public registry where they can be accessed by parties who might do business with the company.

Which of the following services provides the lowest level of assurance about a company's financial statements?

- A. Review of financial statements
- B. Audit of financial statements
- C. These services provide no assurance about a company's financial statements
- D. These services provide the same level of assurance about a company's financial statements

Answer: A

Question No : 9

When questions arise on the appropriateness of the going concern assumption, some of the normal audit procedures carried out by the auditors may take on an additional significance. Auditors may also have to carry out additional procedures or to update information obtained earlier. The ISA lists various procedures which the auditors shall carry out in this context.

Which of the following is not included in the list of additional audit procedures that are to be carried out by the auditor?

- A. Assess the financial ability of such parties to provide additional funds
- B. Inquire of the entity's lawyer regarding litigation and claims
- C. Evaluate management's plans for future actions based on its going concern assessment
- D. Confirm the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties

Answer: C

Question No : 10

The internal auditing department has been assigned to perform an audit of a division. Based on background review, the auditor knows the following about management policies:

- Company policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than three years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing, but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past three years and uses a standard cost system.

During the preliminary review, the auditor notes the following changes in financial data compared to the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.

- Inventory has increased by 15%.
- Divisional net income has increased by 8%.

Which of the following items might alert the auditor to the possibility of fraud in the division?

- A. The division is not scheduled for an external audit this year
- B. Sales have increased by 10%
- C. A significant portion of management's compensation is directly tied to reported net income of the division
- D. Inventory has increased by 15%

Answer: C

Question No : 11

Internal auditors must exercise due care if they are to meet their responsibilities for fraud detection. Thus, the existence of certain conditions should raise auditor's professional scepticism concerning possible fraud. Which of the following is most likely to be considered as an indication of possible fraud?

- A. A new management team installed as the result of a takeover.
- B. Rapid turnover of financial executives.
- C. Rapid expansion into new markets.
- D. Tax authorities' audit of tax returns.

Answer: B

Question No : 12

Robert Sen is performing the audit of financial statement of Loko Plc., the objective is to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

Which of the following statements is correct about the preliminary judgment about materiality of financial statements of Loko Plc?

- A. This is the minimum amount by which Robert Sen believes the statements of Loko Plc could be misstated and still not affect the decisions of reasonable users.

- B.** This is the maximum amount by which Robert Sen believes the statements of Loko Plc could be misstated and still not affect the decisions of reasonable users.
- C.** This is the mean average amount by which Robert Sen believes the statements of Loko Plc could be misstated and still not affect the decisions of reasonable users.
- D.** This is the median average amount by which Robert Sen believes the statements of Loko Plc could be misstated and still not affect the decisions of reasonable users.

Answer: B

Question No : 13

An employee of an insurance company processed a fraudulent policy loan application for an amount less than the established level requiring supervisory review. The employee then obtained the cheque and cashed it by forging the endorsement. To prevent the loan's appearance on a subsequent policyholder statement, the loan amount was transferred to a "suspense" account. Which of the following should expose this situation at the earliest date?

- A.** A computer report identifying unusual entries to the suspense account.
- B.** The use of pre-numbered checks which are periodically accounted for.
- C.** An annual internal audit.
- D.** Regular reconciliation of the "suspense" account performed by an independent employee.

Answer: A

Question No : 14

Julia is a member of a professional accountancy body who works in industry at KiwiCorp plc, a listed company. The company is experiencing difficulty meeting the expectations of the market, and Julia has been told by the board of directors that the company must meet its optimistic profit targets at the year end. To achieve this target and for good corporate governance practice KiwiCorp is to set an active audit committee.

Which of the following statements about audit committee is NOT correct?

- A.** At least 50% of the members of an audit committee must be non-executive directors
- B.** Listed companies are required to have an audit committee
- C.** Audit committees are considered to be good practice for all large companies