Principles of Auditing
Year -3
Test Bank

Chose the best answer:-

1. Recording, classifying, and summarizing economic events in a logical manner for the purpose of providing financial information for decision making is commonly called:
   A) finance.
   B) auditing.
   C) accounting.
   D) economics.
2. An accountant:
   A) must possess expertise in the accumulation of audit evidence.
   B) must decide the number and types of items to test.
   C) must have an understanding of the principles and rules that provide the basis for preparing the accounting information.
   D) must be a CPA.
3. The trait that distinguishes auditors from accountants is the:
   A) auditor's ability to interpret accounting principles generally accepted in the United States.
   B) auditor's education beyond the Bachelor's degree.
   C) auditor's ability to interpret FASB Statements.
   D) auditor's accumulation and interpretation of evidence related to a company's financial statements.
4. In "auditing" financial accounting data, the primary concern is with:
   A) determining whether recorded information properly reflects the economic events that occurred during the accounting period.
   B) determining if fraud has occurred.
   C) determining if taxable income has been calculated correctly.
   D) analyzing the financial information to be sure that it complies with government requirements.
5. ________ risk reflects the possibility that the information upon which the business decision was made was inaccurate.
   A) Client acceptanceB) Information
   C) BusinessD) Control
6.Any service that requires a CPA firm to issue a report about the reliability of an assertion that is made by another party is a(n):
   A) accounting and bookkeeping service.B) attestation service.
   C) assurance service D) tax service.
7. Which of the following services provides the lowest level of assurance on a financial statement?
   A) A review
   B) An audit
   C) Neither service provides assurance on financial statements.

D) Each service provides the same level of assurance on financial statements.

8. The objective of an audit of the financial statements is an expression of an opinion on:
   A) the fairness of the financial statements in all material respects.
   B) the accuracy of the financial statements.
   C) the accuracy of the annual report.
   D) the accuracy of the balance sheet and income statement.

9. In order to properly plan and perform an audit, an important fact for both the auditor and the client to understand is that:
   A) the internal control policies and procedures are developed by the auditors.
   B) the purpose of an audit is to prevent fraud.
   C) management is responsible for the preparation of the financial statements.
   D) management can restrict the auditor's access to important information relevant to the financial statements.

10. A correct relationship among the auditor, the client, and the external users is:
   A) management of a public company hires the independent auditor.
   B) the audit committee of a private company hires the independent auditor.
   C) the client provides capital to the external users.
   D) the external users can rely upon the auditor's report to reduce information risk.

11.The most common way for users to obtain reliable information is to:
   A) have an internal audit.
   B) have an independent audit.
   C) verify all information individually.
   D) verify the information with management.

12. An audit of historical financial statements most commonly includes the:
   A) balance sheet, statement of retained earnings, and the statement of cash flows.
   B) income statement, the statement of cash flows, and the statement of net working capital.
   C) statement of cash flows, balance sheet, and the statement of retained earnings.
   D) balance sheet, income statement, statement of cash flows, and the statement of changes in stockholders' equity.

13. The auditor's responsibility section of the standard unqualified audit report states that the audit is designed to:
   A) discover all errors and/or irregularities.
   B) discover material errors and/or irregularities.
   C) conform to generally accepted accounting principles.
   D) obtain reasonable assurance whether the statements are free of material misstatement.

14. Auditors accumulate evidence to:
   A) defend themselves in the event of a lawsuit.
   B) determine if the financial statements are correct.
   C) satisfy the requirements of the Securities Acts of 1933 and 1934.
   D) reach a conclusion about the fairness of the financial statements.

15. The audit report date on a standard unqualified report indicates:
   A) the last day of the fiscal period.
   B) the date on which the financial statements were filed with the Securities and Exchange Commission.

C) the last date on which users may institute a lawsuit against either client or auditor.

D) the last day of the auditor's responsibility for the review of significant events that occurred after the date of the financial statements.

16. If the auditor believes that the financial statements are not fairly stated or is unable to reach a conclusion because of insufficient evidence, the auditor:

A) should withdraw from the engagement.

B) should request an increase in audit fees so that more resources can be used to conduct the audit.

C) has the responsibility of notifying financial statement users through the auditor's report.

D) should notify regulators of the circumstances.

17. The management's responsibility section of the standard audit report states that the financial statements are:

A) the responsibility of the auditor.

B) the responsibility of management.

C) the joint responsibility of management and the auditor.

D) none of the above.

18. The auditor's responsibility section of the standard audit report states that the auditor is:

A) responsible for the financial statements and the opinion on them.

B) responsible for the financial statements.

C) responsible for the opinion on the financial statements.

D) jointly responsible for the financial statements with management.

19. If the balance sheet of a private company is dated December 31, 2018, the audit report is dated February 8, 2019, and both are released on February 15, 2019, this indicates that the auditor has searched for subsequent events that occurred up to:

A) December 31, 2018.B) January 1, 2019.

C) February 8, 2019.D) February 15, 2019.

20.William Gregory, CPA, is the principal auditor for a multi-national corporation. Another CPA has examined and reported on the financial statements of a significant subsidiary of the corporation. Gregory is satisfied with the independence and professional reputation of the other auditor, as well as the quality of the other auditor's examination. With respect to his report on the consolidated financial statements, taken as a whole, Gregory:

A) must not refer to the examination of the other auditor.

B) must refer to the examination of the other auditor.

C) may refer to the examination of the other auditor.

D) must refer to the examination of the other auditors along with the percentage off consolidated assets and revenue that they audited.

21. No reference is made in the auditor's report to other auditors who perform a portion of the audit when:

I. The other auditor audited an immaterial portion of the audit.

II. The other auditor is well known or closely supervised by the principle auditor.

III. The principle auditor has thoroughly reviewed the work of the other auditor.

A) I and IIB) I and III

C) II and IIID) I, II and III

22. All of the following would require an emphasis of matter paragraph **except** for:

A) the existence of material related party transactions.

B) the lack of auditor independence.

C) important events occurring subsequent to the balance sheet date.

D) material uncertainties disclosed in the footnotes.

23. An adverse opinion is issued when the auditor believes:

A) some parts of the financial statements are materially misstated or misleading.

B) the financial statements would be found to be materially misstated if an investigation were performed.

C) the auditor is not independent.

D) the overall financial statements are so materially misstated.

24. The responsibility for adopting sound accounting policies and maintaining adequate internal control rests with the:

A) board of directors.

B) company management.

C) financial statement auditor.

D) company's internal audit department.

25. When the auditor determines that the financial statements are fairly stated, but there is a nonindependent relationship between the auditor and the client, the auditor should issue:

A) an adverse opinion.

B) a disclaimer of opinion.

C) either a qualified opinion or an adverse opinion.

D) either a qualified opinion or an unqualified opinion with modified wording.

26. If the phrase "except for" is present in the opinion paragraph of the audit report, the auditor has issued a(n):

A) adverse opinion.B) disclaimer of opinion.

C) unqualified opinion.D) qualified opinion.

27. The auditor's best defense when material misstatements are not uncovered is to have conducted the audit:

A) in accordance with generally accepted auditing standards.

B) as effectively as reasonably possible.

C) in a timely manner.

D) only after an adequate investigation of the management team.

28. A client has changed their method of valuing inventory from FIFO to LIFO and the change has a material effect on the financial statements. If the auditor does not concur with the appropriateness of the change, the auditor should issue a(n):

A) disclaimer.B) adverse opinion.

C) unqualified opinion.D) qualified opinion.

29. Items that materially affect the comparability of financial statements generally require disclosure in the footnotes. If the client refuses to properly disclose the item, the auditor will most likely issue:

A) a disclaimer.B) an unqualified opinion.

C) a qualified opinion.D) an adverse opinion.

30. Which of the following scenarios does **not** result in a qualified opinion?

A) A scope limitation prevents the auditor from completing an important audit procedure.

B) Circumstances exist that prevent the auditor from conducting a complete audit.

C) The auditor lacks independence with respect to the audited entity.

D) An accounting principle at variance with GAAP is used.

31. Which of the following statements is true?

I. The auditor is required to issue a disclaimer of opinion in the event of a material uncertainty.

II. The auditor is required to issue a disclaimer of opinion in the event of a going concern problem.

A) I onlyB) II only

C) I and IID) Neither I nor II

32. An audit must be performed with an attitude of professional skepticism. Professional skepticism consists of two primary components: a questioning mind and:

A) the assumption that upper-level management is dishonest.

B) a critical assessment of the audit evidence.

C) the assumption that all employees are motivated by greed.

D) verification of all critical information by independent third parties.

33. Which of the following is **not** one of the reasons that auditors provide only *reasonable* assurance on the financial statements?

A) The auditor commonly examines a sample, rather than the entire population of transactions.

B) Accounting presentations contain complex estimates which involve uncertainty.

C) Fraudulently prepared financial statements are often difficult to detect.

D) Auditors believe that reasonable assurance is sufficient in the vast majority of cases.

34.Misstatements must be compared with some measurement base before a decision can be made about materiality. A commonly accepted measurement base includes:

A) net income.B) total assets.

C) working capital.D) all of the above.

35. When a client fails to follow GAAP, the audit report can be unqualified, qualified, or adverse depending on the materiality. What factors affect materiality that an auditor should consider?

A) The dollar amount in comparison to a base

B) If the misstatement can be measured

C) The nature of the item

D) All the above are factors an auditor should consider regarding materiality.

36. Which of the following statements is the most correct regarding errors and fraud?

A) An error is unintentional, whereas fraud is intentional.

B) Frauds occur more often than errors in financial statements.

C) Errors are always fraud and frauds are always errors.

D) Auditors have more responsibility for finding fraud than errors.

37. When there is a scope restriction, what type of audit report can be issued?

A) Unqualified opinionB) Qualification of scope and opinion

C) Disclaimer of opinionD) Any of the above

38. When accounting principles are not consistently applied, and the materiality level is immaterial, the auditor will issue a(n):

A) unqualified opinion.

B) unqualified opinion with an explanatory paragraph.

C) adverse opinion.

D) disclaimer opinion.

39. In most audits, the auditor issues a:

A) qualified audit report.B) unqualified audit report.

C) scope limited audit report.D) adverse audit report.

40. 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

41. Which of the following would most likely be deemed a direct-effect illegal act?

A) Violation of federal employment laws
B) Violation of federal environmental regulations
C) Violation of federal income tax laws
D) Violation of civil rights laws

42. When there is a justified departure from GAAP which is considered material, the auditor should issue a(n):

A) standard unqualified audit report.

B) disclaimer of opinion.

C) unqualified audit report with an explanatory paragraph.

D) adverse opinion.

43. Which of the following attributes is likely to be unique to the audit work of CPAs as compared to the work performed by practitioner of other professions?

A) Competence

B) Independence

C) Due professional care

D) Complex body of knowledge

44. When the auditor identifies or suspects noncompliance with laws and regulations, the auditor:

A) should discuss the matter with those whom they believe committed the illegal act.
B) begin communication with the FASB in accordance with PCAOB regulations.
C) may disclaim an opinion on the basis of scope limitations if he is precluded by management from obtaining sufficient appropriate evidence.
D) should withdraw from the engagement.

45. For which of the following professional services must CPAs be independent?

A) Management advisory services

B) Audits of financial statements

C) Preparation of tax returns

D) All three of the above

46. "Independence" in auditing means:

A) maintaining an indirect financial interest.

B) not being financially dependent on a client.

C) taking an unbiased viewpoint.

D) being an advocate for a client.

47. An audit must be performed with an attitude of professional skepticism. Professional skepticism consists of two primary components: a questioning mind and:
A) the assumption that upper-level management is dishonest.
B) a critical assessment of the audit evidence.
C) the assumption that all employees are motivated by greed.
D) verification of all critical information by independent third parties.
48. Which of the following statements is the most correct regarding errors and fraud?
A) An error is unintentional, whereas fraud is intentional.
B) Frauds occur more often than errors in financial statements.
C) Errors are always fraud and frauds are always errors.
D) Auditors have more responsibility for finding fraud than errors.
49. 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
50. The concept of reasonable assurance indicates that the auditor is:
A) not a guarantor of the correctness of the financial statements.
B) not responsible for the fairness of the financial statements.
C) responsible only for issuing an opinion on the financial statements.
D) responsible for finding all misstatements.
51. An auditor discovers that the company's bookkeeper unintentionally made an mistake in calculating the amount of the quarterly sales. This is an example of:
A) employee fraud.
B) an error.
C) misappropriation of assets.
D) a defalcation.
52.Auditing standards make ________ distinction(s) between the auditor's responsibilities for searching for errors and fraud.
A) littleB) a significant
C) noD) various
53. When an auditor knows that an illegal act has occurred, he or she must:
A) report it to the proper governmental authorities.
B) consider the effects on the financial statements, including the adequacy of disclosure.
C) withdraw from the engagement.
D) issue an adverse opinion.
54. A questioning mindset:
A) means the auditor must prove every statement that management makes to them.
B) means the auditor should approach the audit with a "do not trust anyone" mental outlook.
C) assures that the auditor will only accept honest clients.
D) means the auditor should approach the audit with a "trust but verify" mental outlook.
55. 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.

56.The most important general ledger account included in and affecting several cycles is the:

A) cash account.

B) inventory account.

C) income tax expense and liability accounts.

D) retained earnings account.

57.If a short-term note payable is included in the accounts payable balance on the financial statement, there is a violation of the:

A) completeness assertion.
B) existence assertion.
C) cutoff assertion.
D) classification assertion

58. Which of the following statements regarding the relevance of evidence is correct?
A) To be relevant, evidence must pertain to the audit objective of the evidence.
B) To be relevant, evidence must be persuasive.
C) To be relevant, evidence must relate to multiple audit objectives.
D) To be relevant, evidence must be derived from a system including effective internal controls.

59. Two determinants of the persuasiveness of evidence are:
A) competence and sufficiency.
B) relevance and reliability.
C) appropriateness and sufficiency.
D) independence and effectiveness.

60. The auditor's evaluation of the likelihood of material employee fraud is normally done initially as a part of:
A) tests of controls.
B) tests of transactions.
C) understanding the entity's internal control.
D) the assessment of whether to accept the audit engagement.

61. If a client has violated federal tax laws:
A) the auditor must notify the IRS.
B) and the amount is significant, the auditor should communicate with those charged with governance.
C) the noncompliance generally will not impact the financial statements.
D) the auditor does not need to evaluate the effects of the noncompliance on other aspects of the audit.

62. When using the cycle approach to segmenting the audit, the reason for treating capital acquisition and repayment separately from the acquisition of goods and services is that:
A) the transactions are related to financing a company rather than to its operations.
B) most capital acquisition and repayment cycle accounts involve few transactions, but each is often highly material and therefore should be audited extensively.
C) both A and B are correct.
D) neither A nor B is correct.

63. In describing the cycle approach to segmenting an audit, which of the following

statements is **not** true?

A) All general ledger accounts and journals are included at least once.

B) Some journals and general ledger accounts are included in more than one cycle.

C) The "capital acquisition and repayment" cycle is closely related to the "acquisition of goods and services and payment" cycle.

D) The "inventory and warehousing" cycle may be audited at any time during the engagement since it is unrelated to the other cycles.

64. Which of the following is **not** one of the three categories of assertions?

A) Assertions about classes of transactions and events for the period under audit

B) Assertions about financial statements and correspondence to GAAP

C) Assertions about account balances at period end

D) Assertions about presentation and disclosure

Best wishes,,,,,,,,,,,,,,,,,