

1. award:
1.00 point

TB 01-01 Which of the following best describes the main rea...

Which of the following best describes the main reason that independent auditors report on a company's financial statements?

- ☐ Management fraud may exist within the company and it is likely that the independent auditors will detect it.
- ☒ Users of financial statements need confidence in the numbers they base their decisions on.
- ☐ Misstated account balances may be corrected as the result of the independent audit work.
- ☐ The accounting system from which the financial statements are derived may have a poorly designed system of internal control.

Multiple Choice

TB 01-01 Which of the following best describes the main rea...

2. award:
1.00 point

TB 01-02 Reducing information risk means the same as _____...

Reducing information risk means the same as _____.

- ☐ serving the public interest
- ☐ monitoring economic activities
- ☒ improving the credibility of information
- ☐ ensuring generally accepted accounting principles are used to measure profit

Multiple Choice

TB 01-02 Reducing information risk means the same as _____...

3. award:
1.00 point

TB 01-03 The underlying conditions that create demand by us...

The underlying conditions that create demand by users for reliable financial information include the fact that _____.

- ☐ more reliable information will allow investors to calculate the rate of return on their investment
- ☒ users are separated from accounting records by distance and time
- ☐ governments rely on such information to create tax policies
- ☐ there is a need for the expression of an opinion as to the fairness of financial statements

Multiple Choice

TB 01-03 The underlying conditions that create demand by us...

4.

award:
1.00 point*TB 01-04 The auditee is the person or company _____.*

The auditee is the person or company _____.

- ☐ who will use the audited information
- ☐ who performs an audit
- ☐ who pays the audit fee
- ☒ whose information is being audited

Multiple Choice*TB 01-04 The auditee is the person or company _____.*

5.

award:
1.00 point*TB 01-05 Professional judgment is a widely used concept in ...*

Professional judgment is a widely used concept in accounting and auditing. How is it defined in the audit standards?

- ☐ There is no definition of professional judgment in the auditing standards.
- ☐ Professional judgment includes consideration of key principles and concepts of disciplines underlying the professional standards, such as economics, psychology, law, finance, statistics and philosophy.
- ☒ Professional judgment means reaching a complex decision by incorporating auditing standards, accounting standards, and rules of professional ethics in a coherent manner.
- ☐ Professional judgment involves specialized concepts and language integrating several disciplines in order to provide appropriate justification for audit decisions.

Multiple Choice*TB 01-05 Professional judgment is a widely used concept in ...*

6.

award:
1.00 point*TB 01-06 What is the primary role and responsibility of ind...*

What is the primary role and responsibility of independent external auditors?

- ☐ to prepare a company's annual financial statements and notes.
- ☒ to perform an audit and provide an opinion on the financial statements of a company.
- ☐ to provide business consulting advice to audit clients.
- ☐ to obtain an understanding of a client's internal control system and prepare a report for management about control weaknesses.

Multiple Choice*TB 01-06 What is the primary role and responsibility of ind...*

7.

award:
1.00 point

TB 01-07 The risk that financial statements may be material...

The risk that financial statements may be materially false and misleading is called _____.

- ☐ business risk
- ☒ information risk
- ☐ client risk
- ☐ risk assessment

Multiple Choice

TB 01-07 The risk that financial statements may be material...

8.

award:
1.00 point

TB 01-08 Three-party accountability is a special case of wh...

Three-party accountability is a special case of which economic theory problem?

- ☐ independence
- ☒ agency
- ☐ business risk
- ☐ forensics

Multiple Choice

TB 01-08 Three-party accountability is a special case of wh...

9.

award:
1.00 point

TB 01-09 The agency problem can be mitigated by _____.

The agency problem can be mitigated by _____.

- ☐ greater transparency
- ☐ a higher degree of independence
- ☒ design of contracts
- ☐ internal auditing

Multiple Choice

TB 01-09 The agency problem can be mitigated by _____.

10.

award:
1.00 point*TB 01-10 In operational auditing, the auditor studies busin...*

In operational auditing, the auditor studies business operations and makes recommendations about all of the following EXCEPT _____.

- ☐ economic and efficient use of resources
- ☐ effective achievement of business objectives
- ☒ the fairness of the financial statements
- ☐ compliance with company policies

Multiple Choice*TB 01-10 In operational auditing, the auditor studies busin...*

11.

award:
1.00 point*TB 01-11 Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.*

Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.

- ☒ organizationally independent
- ☐ the accounting and auditing agency of the Canadian Senate
- ☐ funded by the federal government
- ☐ guided by standards similar to GAAS

Multiple Choice*TB 01-11 Auditors on staff in the Office of the Auditor General (OAG) are considered to be external auditors with respect to the government agencies they audit because the OAG is _____.*

12.

award:
1.00 point*TB 01-12 In addition to the audit of financial statements, ...*

In addition to the audit of financial statements, governmental auditing may also include audits of efficiency, effectiveness, and _____.

- ☐ fraud
- ☐ accuracy
- ☒ economy
- ☐ adequacy

Multiple Choice*TB 01-12 In addition to the audit of financial statements, ...*

13.

award:
1.00 point*TB 01-13 An example of a forensic accounting assignment mig...*

An example of a forensic accounting assignment might be _____.

- ☐ to ensure compliance with specific legislation
- ☐ to provide an opinion about the effectiveness of a government program
- ☐ to provide assurance about the fairness of prospective financial information included in an initial public offering document
- ☒ to estimate the value of inventory lost in a warehouse fire

Multiple Choice*TB 01-13 An example of a forensic
accounting assignment mig...*

14.

award:
1.00 point*TB 01-14 International harmonization is also known as _____...*

International harmonization is also known as _____.

- ☒ convergence
- ☐ harmony
- ☐ independence
- ☐ critical thinking

Multiple Choice*TB 01-14 International harmonization
is also known as _____...*

15.

award:
1.00 point*TB 01-15 Since financial decision makers usually obtain acc...*

Since financial decision makers usually obtain accounting information from companies wanting loans or selling stock, this creates a potential _____.

- ☐ agency problem
- ☒ conflict of interest
- ☐ harmonization problem
- ☐ expectations gap

Multiple Choice*TB 01-15 Since financial decision
makers usually obtain acc...*

16.

award:
1.00 point*TB 01-16 The difference between what the public expects of ...*

The difference between what the public expects of auditors and what auditors can actually deliver is known as _____.

- ☐ forensics
- ☒ an expectations gap
- ☐ a business risk
- ☐ an information risk

Multiple Choice*TB 01-16 The difference between
what the public expects of ...*

17.

award:
1.00 point*TB 01-17 The role of the auditor is to satisfy users' deman...*

The role of the auditor is to satisfy users' demand for reliable information.

- ☒ True
- ☐ False

True / False*TB 01-17 The role of the auditor is to
satisfy users' deman...*

18.

award:
1.00 point*TB 01-18 The concept of three-party accountability means th...*

The concept of three-party accountability means that the auditor is expected to act in the interests of the party paying the audit fee.

- ☐ True
- ☒ False

True / False*TB 01-18 The concept of three-party
accountability means th...*

19.

award:
1.00 point*TB 01-19 The three underlying conditions affecting users' d...*

The three underlying conditions affecting users' demand for accounting information are complexity, reliability, and completeness.

- ☐ True
- ☒ False

True / False*TB 01-19 The three underlying
conditions affecting users' d...*

20.

award:
1.00 point*TB 01-20 The assurance function involves the lending of cre...*

The assurance function involves the lending of credibility to financial information.

- ☒ True
☐ False

True / False

*TB 01-20 The assurance function
involves the lending of cre...*

21.

award:
1.00 point*TB 01-21 Business risk is the risk that the financial state...*

Business risk is the risk that the financial statements do not reflect the economic substance of business activities.

- ☐ True
→ ☒ False

True / False

*TB 01-21 Business risk is the risk
that the financial state...*

22.

award:
1.00 point*TB 01-22 A material misstatement is one that would affect a...*

A material misstatement is one that would affect a user's decision making.

- ☒ True
☐ False

True / False

*TB 01-22 A material misstatement is
one that would affect a...*

23.

award:
1.00 point*TB 01-23 Forensic accounting does not include fraud auditin...*

Forensic accounting does not include fraud auditing.

- ☐ True
→ ☒ False

True / False

*TB 01-23 Forensic accounting does
not include fraud auditin...*

24.

award:
1.00 point*TB 01-24 An attest engagement involves a public accountant ...*

An attest engagement involves a public accountant affirming the validity of an assertion.

- ☒ True
☐ False

True / False

*TB 01-24 An attest engagement
involves a public accountant ...*

25.

award:
1.00 point*TB 01-25 Internal auditing is an independent activity desig...*

Internal auditing is an independent activity designed to add value and improve an organization's operations.

- ☒ True
☐ False

True / False

*TB 01-25 Internal auditing is an
independent activity desig...*

26.

award:
1.00 point*TB 01-26 Value-for-money audits include testing of complian...*

Value-for-money audits include testing of compliance with laws and regulations.

- ☐ True
→ ☒ False

True / False

*TB 01-26 Value-for-money audits
include testing of complian...*

27.

award:
1.00 point*TB 01-27 Accounting risk is the part of information risk th...*

Accounting risk is the part of information risk that is due to incorrectly predicting future events.

- ☒ True
☐ False

True / False

*TB 01-27 Accounting risk is the part
of information risk th...*

28. award: 1.00 point

TB 01-28 There are no restrictions on the type of business ...

There are no restrictions on the type of business advisory services a PA firm can provide to a nonaudit client.

- ☒ True
☐ False

True / False

TB 01-28 There are no restrictions on the type of business ...

29. award: 1.00 point

TB 01-29 Why is three-party accountability an important dis...

Why is three-party accountability an important distinguishing feature of auditing?

In three-party accountability, accountability is represented as a three-point relationship among the auditor of the financial information, the management preparing the financial information, and the users of the financial information. This triangle reflects an accountability relationship because management is accountable to the users. However, the users cannot rely on the financial statements because they do not completely trust management. They demand that the financial statements be verified by a competent, independent auditor. Thus, the auditor is also accountable to the user.

Essay

TB 01-29 Why is three-party accountability an important dis...

30. award: 1.00 point

TB 01-30 Discuss the underlying conditions affecting users'...

Discuss the underlying conditions affecting users' demand for accounting information.

There are three key conditions: complexity of information, distance between users from management, and the consequences of bad decisions. First, a company's transactions are increasingly numerous and complicated. Users of financial information are not trained to collect and compile it themselves. They need the services of professional accountants. Second, users of financial information are increasingly separated from a company's accounting records by distance and time as a result of global financial markets. Users need full-time professional accountants to do the work they cannot do for themselves. Finally, financial decisions are important to the state of investors' and other users' wealth, including investors in companies that provide loans or trade credit to other companies. Decisions can involve large dollar amounts, the loss of which may cause a cascade of bankruptcies. Good information, obtained through the financial reports prepared by accountants, is an absolute necessity to reduce the risk of loss.

Essay

TB 01-30 Discuss the underlying conditions affecting users'...

31. award:
1.00 point

TB 01-31 What is the difference between the American Account...

What is the difference between the American Accounting Association's (AAA) definition of auditing and the Canadian Institute of Chartered Accountants' (CICA) objectives of financial statement auditing?

The AAA definition is broad and general—it encompasses external, internal, and governmental auditing. The CICA has not defined auditing per se but has outlined a set of objectives specific to the external audit of financial statements. The CICA objectives do not focus on broad assertions about economic events but state that the main objective of an audit is the expression of an opinion on the financial statements. The objectives further assert that the audit of financial statements must be performed in accordance with GAAS (generally accepted auditing standards). The AAA definition does not refer to auditor qualifications and does not specifically address either how an audit is performed or how the results are communicated. The first of the eight auditing standards defined by the CICA, the general standard, outlines the qualifications the auditor must have; the next three, the examination standards, outline how the auditor must perform the audit; and the last four, the reporting standards, outline how the auditor should communicate the results.

Essay

*TB 01-31 What is the difference
between the American Account...*

32. award:
1.00 point

TB 01-32 What is information risk?

What is information risk?

The risk that a set of financial statements will be materially false or misleading.

Essay

TB 01-32 What is information risk?

33. award:
1.00 point

TB 01-33 What is an attest engagement?

What is an attest engagement?

When a public accountant is hired to perform procedures and issue a report resulting from those procedures that affirms the validity of an assertion, this is known as an attest engagement.

Essay

*TB 01-33 What is an attest
engagement?*

34. award:
1.00 point

TB 01-34 When does an agency problem occur?

When does an agency problem occur?

An agency problem occurs when three conditions are present in an agency relationship: (a) the agent has objectives that are different from those of the principal, (b) the agent has more information than the principal does, and (c) the contract between the two is incomplete in that not every possible contingency can be anticipated.

Essay

TB 01-34 When does an agency problem occur?

35. award:
1.00 point

TB 01-35 What is a direct reporting engagement?

What is a direct reporting engagement?

A type of assurance engagement in which the assertions are implied and not written down in some form.

Essay

TB 01-35 What is a direct reporting engagement?

36. award:
1.00 point

TB 01-36 What is operational auditing and who performs it?

What is operational auditing and who performs it?

Operational auditing is the study of an entity, or a specific unit within an entity, in order to evaluate its performance. The operational auditor reports on whether the entity uses its resources economically and efficiently and whether it achieves its business objectives effectively. Internal auditors normally perform operational audits. However, independent accounting firms as part of their management advisory services also may conduct operational audits.

Essay

TB 01-36 What is operational auditing and who performs it?