

c1

Student: _____

1. Auditing is the process of reviewing the financial information prepared by the management of the company.

True False

2. The relationship of the audit firm to the client can be described as the framework of an employer-employee relationship.

True False

3. Some of the services that fall under attestation standards are reports on: (1) descriptions of systems of internal controls, and (2) tax return preparation.

True False

4. For public companies, management typically prefers lower net income.

True False

5. Today's auditors play a crucial role in business and society.

True False

6. The Auditing Standards Board was formed in 1978 as an equal organization to the American Institute of Certified Public Accountants (AICPA).

True False

7. An important requirement of the auditing standards is that the auditor gather sufficient appropriate evidence to determine whether the financial statements have been prepared by competent individuals.

True False

8. An accounting cycle involves both balance sheet and income statement accounts and follows transactions through a process where it begins to its conclusion.

True False

9. The auditor structures the evidence process by considering the assertions made by a consultant in preparing the financial statements of the company.

True False

10. At the conclusion of the audit, the auditor issues an audit opinion to the SEC.

True False

11. The Securities Act of 1933 and the Securities Exchange Act of 1934 were designed to restore investor confidence in the capital markets.

True False

12. Which of the following is a characteristic of the person doing the assessment of the financial statements?

- A. The person completing the assessment is an employee of the company.
- B. The person completing the assessment works for an accounting firm that is associated with the company only in a role of being hired to perform an audit.
- C. The person performing the assessment may be a banker, current or potential stockholder, or a regulatory body.
- D. The person performing the assessment makes adjustments to the decisions recorded by the firm so that outsiders have accurate information to make decisions.

13. Which of the following is a characteristic of the person doing the assessment of the financial statements?

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14. One of the characteristics of a principal-agent relationship is:

- A. The owners of the company are involved in the daily management of the company.
- B. The owners of the company hire an agent to run the company for them and to make daily decisions for the company.
- C. The owners have more knowledge than management about the daily operations of the company.
- D. Outsiders benefit when a manager is hired by owners to protect their interests in the company because the information available to outsiders is more likely to correspond to financial accounting standards.

15. One of the characteristics of a principal-agent relationship is:

- A. The owners of the company are involved in the daily management of the company.
- B. The owners of the company hire an auditor to run the company for them and to make daily decisions for the company.
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17. One of the differences between a corporate form of organization and partnership form is:

- A. Someone in the corporate form has personal liability.
- B. Corporations can have offices in only one state.
- C. Someone in the partnership form has personal liability.
- D. Partnerships can have offices in only one state.

18. Which of the following best describes "attest" services?

- A. The auditor attests to the quality of some type information.
- B. The auditor attests to the source of some type of information.
- C. The auditor attests to the accuracy of some type of information.
- D. The auditor attests to the quantity of some type of information.

19. The areas where management is more likely to misstate transactions are riskier for the auditor because
- A. the auditor will be the subject of legal action.
 - B. the auditor probably will not have enough time to identify these areas.
 - C. failing to correct the misstatements may lead to issuing a clean opinion on materially misstated financial statements.
 - D. failing to correct the misstatements may lead to issuing a qualified opinion on materially misstated financial statements.
20. Which of the following will allow a company to report higher net income?
- A. recording fictitious expenses at the beginning of the year
 - B. recording fictitious revenue at the end of the year
 - C. depreciating long lived assets
 - D. increasing a line of credit at a bank
21. The principle reason(s) for public companies to misstate financial statements is to
- A. minimize the amount of taxes owed by the company.
 - B. maximize the amount of dividends paid to shareholders.
 - C. satisfy the requirement of a going concern.
 - D. keep the company's stock price from falling.

22. Growth in revenue is an important factor for many companies. The desired outcome in many businesses is for revenue and possibly net income to increase at a rate at least equal to the prior year's increase. Which of the following best explains this desire?

- A. If the company does not meet this level of growth, it is an indication that the company may not be able to meet the dividend expectations of investors
- B. Outsiders, particularly stockholders expect this level of growth, and if companies fail to meet these targets, their stock price may drop as investors sell their stock and find other companies who can meet the growth level desired
- C. Management is concerned that failure to achieve expected levels of growth may result in management not receiving anticipated bonuses
- D. Management is concerned that if the company does not achieve the expected increase in growth, that the auditors will demand a higher fee and expend greater effort in attempting to find misstatements in the financial statements

23. Which of the following is not an important part of the audit process?

- A. understanding incentives of the company to misstate the financial statements
- B. identifying the financial statement accounts with the greatest potential for misstatements
- C. documenting management's efforts to achieve the necessary requirements to gain a bank loan
- D. designing audit procedures to determine that the accounts are fairly presented according to the applicable financial reporting framework

24. Which of the following is an accurate statement about the accounting profession?
- A. Recent audit failures have increased the public reputation of the accounting profession.
 - B. Public scrutiny of the profession prompts auditors to become more careful and efficient in their fundamental tasks.
 - C. The value of clear and accurate financial disclosure is less important in the current business environment.
 - D. The auditor's responsibility to management to provide financial information consistent with accounting regulations has never been more important.
25. Which of the following is not an example of auditors' strong bargaining position with management?
- A. The high financial and social costs reflect both public interest and business necessity
 - B. The public value of the audit cannot be too highly emphasized
 - C. Audit firms can be use the audit process as a "loss leader."
 - D. The negative impact of failed audits is apparent to observers of the profession, loss of public confidence, and an investors' trust
26. Which of the following is an incorrect statement about auditors' professional duties?
- A. In their professional duties, they will be watched by federal and state regulators and interested outsiders
 - B. Attention will be focused on the auditors' responsibility to determine whether the financial statements present fairly the financial position of the firm and the results of operations
 - C. Auditors must understand the importance of presenting unbiased information to outsiders
 - D. The auditor is expected to approach an audit with an independent mind and to recognize that he or she is hired to protect the interests of management

27. The three standard setting organizations that are involved in establishing auditing standards are

- A. The American Association of Accountants, the Auditing Standards Board, and the Public Company Accounting Oversight Board
- B. The International Auditing and Assurance Standards Board, the Auditing Standards Board, and the Public Company Accounting Oversight Board
- C. The American Association of Accountants, the Auditing Standards Board, and the International Auditing and Assurance Standards Board
- D. The Auditing Standards Board, the International Auditing and Assurance Standards Board, and the Public Company Accounting Oversight Board

28. The Auditing Standards Board gets its authority to write auditing regulations from

- A. the misapplication of auditing procedures
- B. rule 3001 of the PCAOB Code of Professional Conduct
- C. rule 202 of the AICPA Code of Professional Conduct
- D. the Securities and Exchange Commission

29. The Preface to the Auditing Standards describes the fundamental principles that govern an audit. According to these principles, the purpose of an audit is

- A. to provide reasonable assurance that there are no misstatements in the financial statements
- B. to plan the audit to provide reasonable assurance of detecting fraud
- C. to ensure that the financial statements are fairly presented
- D. to increase the level of confidence that outsiders place in the financial statements

30. The audit opinion states whether the financial statements have been prepared in accordance with an applicable financial reporting framework. In other words, the opinion states whether
- A. the company has followed the accounting standards in supporting the audit
 - B. the audit was conducted in accordance with Generally Accepted Accounting Principles
 - C. the auditing standards required management to prepare the financial statements and to maintain a system of internal controls relevant to the financial statements
 - D. the audit committee provided the auditor with all the information relevant to the preparation of the financial statements and unrestricted access to those in the company from whom the auditor may need additional evidence

31. Throughout the planning and performance of the audit, auditors are responsible for
- A. having appropriate competence and capabilities to review the audit
 - B. complying with relevant ethical requirements
 - C. complying with relevant independence and fraud detection requirements
 - D. maintaining professional appearance and exercising professional questioning

32. Throughout the planning and performance of the audit, auditors are responsible for
- A. having appropriate competence and capabilities to perform the audit
 - B. complying with client ethical requirements
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33. Throughout the planning and performance of the audit, auditors are responsible for

- A. having appropriate competence and capabilities to review the audit
- B. complying with client ethical requirements
- C. complying with relevant independence and due care requirements
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34. Throughout the planning and performance of the audit, auditors are responsible for

- A. having appropriate competence and capabilities to review the audit
- B. complying with client ethical requirements
- C. complying with relevant independence and fraud detection requirements
- D. maintaining professional skepticism and exercising professional judgment

35. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. performs the work and properly supervises the client
- B. assumes appropriate materiality level or levels
- C. identifies and assesses risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

36. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. plans the work and properly supervises any assistants
- B. assumes appropriate materiality level or levels
- C. identifies and assesses risks of fraud based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

37. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. performs the work and properly supervises the client
- B. determines appropriate materiality level or levels
- C. identifies and assesses risks of due to fraud based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

38. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. performs the work and properly supervises the client
- B. assumes appropriate materiality level or levels
- C. identifies and assesses risks of fraud based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate audit evidence about whether material misstatements exist

39. The auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement because of inherent limitations, which arise from
- A. the nature of financial reporting
 - B. the selection of audit procedures
 - C. the client's requirement for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - D. the fact that there is no such thing as absolute assurance
40. The auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement because of inherent limitations, which arise from
- A. the structure of financial reporting
 - B. the nature of audit procedures
 - C. the client's requirement for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - D. the fact that there is no such thing as absolute assurance
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 - B. the selection of audit procedures
 - C. the need for the audit to be conducted within a reasonable period of time and at a reasonable cost
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42. The Auditing Standards Board

- A. each year issues a new "Codification of Statements of Auditing Standards"
- B. issues new financial accounting standards
- C. evaluates complaints about violations of the standards
- D. issues new auditing standards as "Statements on Auditing Standards"

43. A practicing auditor uses the material contained in the auditing standards to determine all but which of the following?

- A. the procedures performed
- B. the risk assessed
- C. the evidence gathered
- D. the audit report issued

44. The Public Companies Accounting Oversight Board (PCAOB) is

- A. a for profit public company
- B. a government entity
- C. private sector non profit organization
- D. a non profit public company

45. The Securities Exchange Commission (SEC) has oversight authority over the PCAOB. Which of the following is not within the SEC's oversight authority?
- A. The SEC approves the PCAOB's rules
 - B. The members of the PCAOB are appointed by the SEC
 - C. The SEC approves the PCAOB's budget
 - D. The SEC determines which audit firms will be inspected by the PCAOB
46. Before the creation of the PCAOB, the auditing standards of the Auditing Standards Board were used to audit all companies. Which statement best describes the PCAOB and auditing standards?
- A. In 2003, the PCAOB adopted certain auditing standards of the ASB as interim standards
 - B. In 2003, the PCAOB developed over 100 new auditing standards
 - C. In 2003, the PCAOB developed audit standards to audit all companies, private and public
 - D. In 2003, the PCAOB adopted all the standards of the AICPA to save time in the development of new standards
47. Which of the following is correct about the PCAOB?
- A. The PCAOB receives its authority from the SEC
 - B. Auditing standards issued by the PCAOB must be approved by the U.S. Congress
 - C. The PCAOB requires companies with stock listed on a U. S. stock exchange to have an integrated audit by an auditor registered with the PCAOB
 - D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing procedures established by the PCAOB

48. Which of the following is correct about the PCAOB?

- A. The PCAOB receives its authority from U.S. Federal Law
- B. Auditing standards issued by the PCAOB must be approved by the U. S. Congress
- C. Anyone who wants to purchase stock on a U. S. stock exchange must follow the rules of the SEC
- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing procedures established by the PCAOB

49. Which of the following is correct about the PCAOB?

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- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing standards established by the PCAOB

51. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 1000 public clients on an annual basis
- C. inspect firms with fewer than 1000 clients at least every three years
- D. post the inspection reports on the website for the PCAOB and are available to the public

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53. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 100 public clients on an annual basis
- C. inspect firms with fewer than 100 clients at least every four years
- D. post the inspection reports on the SEC website and are available to the public

54. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 100 public clients on a semi-annual basis
- C. inspect firms with fewer than 100 clients at least every three years
- D. post the inspection reports on the SEC website and are available to the public

55. The International Auditing and Assurance Standards Board

- A. is the standard-setting board for the International Federation of Accountants
- B. is a committee of the AICPA
- C. reports directly to the SEC
- D. adjusts international standards to U.S. GAAP

56. An important requirement of the auditing standards is that the auditor

- A. have no contact with the audit committee of the board of directors
- B. use the work of the internal audit staff
- C. assist management in the preparation of the financial statements
- D. gather sufficient appropriate evidence

57. Which of the following would not be considered audit evidence?

- A. the information in the accounting notes
- B. the records of initial entries
- C. supporting documents
- D. general and subsidiary ledgers of the company

58. Which of the following would not be considered audit evidence?

- A. the information in the accounting records
- B. the estimates of initial entries
- C. supporting documents
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- A. the information in the accounting records
- B. the records of initial entries
- C. supporting documents
- D. general and subsidiary worksheets of the company

61. Management is responsible for

- A. gathering sufficient evidence
- B. the preparation of the financial statements
- C. determining that the financial statements have been prepared in accordance with the applicable financial reporting framework
- D. approving the audit plan

62. The auditor is responsible for

- A. the preparation of the financial statements
- B. preparing adjustments to the accounting records
- C. gathering sufficient appropriate evidence
- D. advising management on accounting matters

63. Which of the following is not a type of evidence gathered by the auditor?

- A. substantive evidence
- B. internal control evidence
- C. factual evidence
- D. analytical procedure evidence

64. Substantive tests of transactions are done to gather evidence on

- A. income statement accounts
- B. balance sheet accounts
- C. accounts receivable
- D. inventory

65. Substantive tests of balances are performed to gather evidence on

- A. income statement accounts
- B. balance sheet accounts
- C. depreciation expense
- D. salaries expense

66. Substantive tests answer the question

- A. Do the financial statement accounts present fairly the financial condition of the firm?
- B. Is the amount stated in the account accurate?
- C. Are all transactions included in the account?
- D. Are all transactions in the account in the proper period?

67. If the financial statements do not present fairly the financial condition of the firm in accordance with applicable financial reporting framework, the auditor should

- A. calculate the correct number and make an adjustment to the financial statements
- B. advise management of the discrepancy and stop auditing until the discrepancy is corrected
- C. gather sufficient evidence to arrive at the correct financial statement number
- D. review the risk assessment and make any necessary revisions

68. Tests done by the auditor that are referred to as internal control tests determine whether

- A. the financial statements are materially misstated
- B. the balance sheet is materially misstated
- C. the internal controls are the responsibility of management
- D. the internal controls of the company prevent or detect misstatements in the financial statements

69. If the controls are not working, the auditor is most likely to

- A. request the client to make the necessary adjustment
- B. perform a substitute test
- C. perform more substantive tests
- D. perform more tests of controls

70. Which of the following statements describe an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the auditor
- B. Analytical procedures are calculations of financial amounts
- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
- D. Analytical procedures are a form of internal control audit procedure

71. Which of the following statements describe an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the client
- B. Analytical procedures are calculations of financial ratios
- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
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- A. Analytical procedures are a form of evidence gathered by the client
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- C. Analytical procedures are a comparison of last year's audited financial statements with the current year's unaudited statements
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- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
- D. Analytical procedures are a form of substantive audit procedure

74. Substantive tests of transactions are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances for the entire year

75. Substantive tests of balances are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

76. Tests of controls are typically done on transactions

- A. for the entire year for an audit of the financial reporting process
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

77. Tests of controls for non public companies are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

78. In the gathering of evidence, several concepts are important. At the beginning of the audit, the auditor presents his credentials to the client as

- A. an individual with training and knowledge in accounting and auditing
- B. an individual who will be sensitive to good client relations
- C. someone with the knowledge to make good business decisions
- D. someone who will exercise good judgment

79. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires the auditor

- A. to perform audit duties with skill comparable to that of any other auditor
- B. to gather statements and interpret statements in a manner that any other professional would have done
- C. to know accounting and auditing requirements
- D. to be knowledgeable about the economy

80. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires

- A. the auditor to perform audit duties with skill comparable to that of any other client
- B. to gather evidence and interpret evidence in a manner that any other auditor would have done
- C. the auditor to know accounting and auditing requirements
- D. the auditor to be knowledgeable about the economy

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- A. the auditor to perform audit duties with skill comparable to that of any other client
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- A. the auditor to perform audit duties with skill comparable to that of any other client
- B. to gather statements and interpret statements in a manner that any other professional would have done
- C. the auditor to know accounting and auditing requirements
- D. the auditor to be knowledgeable about the client

83. Professional skepticism is closely linked to due professional care. For an auditor to gather evidence with due professional care, he or she must perform the audit with an attitude of professional skepticism. Which of the following best describes professional skepticism?
- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
 - B. professional skepticism is used in the planning stage to determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
 - D. professional skepticism neither assumes that the client is dishonest nor that the client is honest
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- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
 - B. professional skepticism is used in the planning stage to determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain reasonable assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest

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- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
 - B. professional skepticism is used throughout the audit to determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest
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 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest

87. The revenue business process would include procedures for

- A. initiating a sale
- B. storing the goods
- C. invoicing the vendor
- D. making payment for the sale

88. The revenue business process would include procedures for

- A. initiating a proposal
- B. shipping the goods or providing a service
- C. invoicing the vendor
- D. making payment for the sale

89. The revenue business process would include procedures for

- A. initiating a proposal
- B. storing the goods
- C. invoicing the customer
- D. making payment for the sale

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- B. storing the goods
- C. invoicing the vendor
- D. collecting payment for the sale

91. The business process of selling a product considers evidence related to the transactions involving revenue and accounts receivable, including doubtful accounts and bad debt expense. We use the concept of business processes to structure the way we gather evidence. Which of the following would not be considered a business process?

- A. advertising a product and collecting cash
- B. borrowing money to operate in a business
- C. producing inventory to sell
- D. buying fixed assets to use in the business

92. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. existence or occurrence
- B. evaluation
- C. accuracy
- D. classification

93. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. residence
- B. valuation and allocation
- C. accuracy
- D. classification

94. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?
- A. existence or occurrence
 - B. valuation and allocation
 - C. accuracy
 - D. categorization
95. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?
- A. existence or occurrence
 - B. valuation and allocation
 - C. mathematically correct
 - D. classification
96. The audit report is addressed to
- A. the management of the company
 - B. the partner in charge of the audit
 - C. the stockholders and the board of directors
 - D. the SEC, AICPA, and the PCAOB

97. Which of the following is considered a regulatory body of the accounting profession?

- A. the New Jersey Society of CPAs
- B. the New Jersey State Division of Consumer Affairs
- C. the Financial Accounting Standards Board
- D. the Government Accountability Office

c1 Key

1. Auditing is the process of reviewing the financial information prepared by the management of the company.

TRUE

AACSB: Communications
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #1

2. The relationship of the audit firm to the client can be described as the framework of an employer-employee relationship.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #2

3. Some of the services that fall under attestation standards are reports on: (1) descriptions of systems of internal controls, and (2) tax return preparation.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #3

4. For public companies, management typically prefers lower net income.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #4

5. Today's auditors play a crucial role in business and society.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #5

6. The Auditing Standards Board was formed in 1978 as an equal organization to the American Institute of Certified Public Accountants (AICPA).

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #6

7. An important requirement of the auditing standards is that the auditor gather sufficient appropriate evidence to determine whether the financial statements have been prepared by competent individuals.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #7

8. An accounting cycle involves both balance sheet and income statement accounts and follows transactions through a process where it begins to its conclusion.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #8

9. The auditor structures the evidence process by considering the assertions made by a consultant in preparing the financial statements of the company.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #9

10. At the conclusion of the audit, the auditor issues an audit opinion to the SEC.

FALSE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #10

11. The Securities Act of 1933 and the Securities Exchange Act of 1934 were designed to restore investor confidence in the capital markets.

TRUE

AACSB: Communications
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Understand
Difficulty: Easy
Stuart - Chapter 01 #11

12. Which of the following is a characteristic of the person doing the assessment of the financial statements?

- A. The person completing the assessment is an employee of the company.
- B.** The person completing the assessment works for an accounting firm that is associated with the company only in a role of being hired to perform an audit.
- C. The person performing the assessment may be a banker, current or potential stockholder, or a regulatory body.
- D. The person performing the assessment makes adjustments to the decisions recorded by the firm so that outsiders have accurate information to make decisions.

AACSB: Communications
AICPA BB: Critical Thinking
AICPA FN: Risk Analysis

13. Which of the following is a characteristic of the person doing the assessment of the financial statements?
- A. The person completing the assessment is not an employee of the company.
 - B. The person completing the assessment works for an accounting firm that is associated with the company in a role of being hired to perform an internal audit.
 - C. The person performing the assessment may be a banker, current or potential stockholder, or a regulatory body.
 - D. The person performing the assessment makes adjustments to the decisions recorded by the firm so that outsiders have accurate information to make decisions.

AACSB: Communications

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Understand

Difficulty: Easy

Stuart - Chapter 01 #13

14. One of the characteristics of a principal-agent relationship is:
- A. The owners of the company are involved in the daily management of the company.
 - B. The owners of the company hire an agent to run the company for them and to make daily decisions for the company.
 - C. The owners have more knowledge than management about the daily operations of the company.
 - D. Outsiders benefit when a manager is hired by owners to protect their interests in the company because the information available to outsiders is more likely to correspond to financial accounting standards.

AACSB: Communications

15. One of the characteristics of a principal-agent relationship is:
- A. The owners of the company are involved in the daily management of the company.
 - B. The owners of the company hire an auditor to run the company for them and to make daily decisions for the company.
 - C. The owners have more knowledge than management about the daily operations of the company.
 - D. Outsiders benefit when an auditor is hired by owners to protect their interests in the company because the information available to outsiders is more likely to correspond to financial accounting standards.

16. One of the characteristics of a principal-agent relationship is:

- A. The owners of the company are not involved in the daily management of the company.
- B. The owners of the company hire an auditor to run the company for them and to make daily decisions for the company.
- C. The owners have more knowledge than management about the daily operations of the company.
- D. Outsiders benefit when a manager is hired by owners to protect their interests in the company because the information available to outsiders is more likely to correspond to financial accounting standards.

AACSB: Communications

AICPA BB: Legal

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Stuart - Chapter 01 #16

17. One of the differences between a corporate form of organization and partnership form is:

- A. Someone in the corporate form has personal liability.
- B. Corporations can have offices in only one state.
- C. Someone in the partnership form has personal liability.
- D. Partnerships can have offices in only one state.

AACSB: Ethics

AICPA BB: Analytic

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Easy

Stuart - Chapter 01 #17

18. Which of the following best describes "attest" services?

- A. The auditor attests to the quality of some type information.
- B. The auditor attests to the source of some type of information.
- C. The auditor attests to the accuracy of some type of information.
- D. The auditor attests to the quantity of some type of information.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Easy

Stuart - Chapter 01 #18

19. The areas where management is more likely to misstate transactions are riskier for the auditor because

- A. the auditor will be the subject of legal action.
- B. the auditor probably will not have enough time to identify these areas.
- C. failing to correct the misstatements may lead to issuing a clean opinion on materially misstated financial statements.
- D. failing to correct the misstatements may lead to issuing a qualified opinion on materially misstated financial statements.

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Bloom's: Understand

Difficulty: Medium

Stuart - Chapter 01 #19

20. Which of the following will allow a company to report higher net income?

- A. recording fictitious expenses at the beginning of the year
- B. recording fictitious revenue at the end of the year
- C. depreciating long lived assets
- D. increasing a line of credit at a bank

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Understand

Difficulty: Medium

Stuart - Chapter 01 #20

21. The principle reason(s) for public companies to misstate financial statements is to

- A. minimize the amount of taxes owed by the company.
- B. maximize the amount of dividends paid to shareholders.
- C. satisfy the requirement of a going concern.
- D. keep the company's stock price from falling.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Understand

Difficulty: Easy

Stuart - Chapter 01 #21

22. Growth in revenue is an important factor for many companies. The desired outcome in many businesses is for revenue and possibly net income to increase at a rate at least equal to the prior year's increase. Which of the following best explains this desire?
- A. If the company does not meet this level of growth, it is an indication that the company may not be able to meet the dividend expectations of investors
 - B. Outsiders, particularly stockholders expect this level of growth, and if companies fail to meet these targets, their stock price may drop as investors sell their stock and find other companies who can meet the growth level desired
 - C. Management is concerned that failure to achieve expected levels of growth may result in management not receiving anticipated bonuses
 - D. Management is concerned that if the company does not achieve the expected increase in growth, that the auditors will demand a higher fee and expend greater effort in attempting to find misstatements in the financial statements

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Bloom's: Understand

Difficulty: Medium

Stuart - Chapter 01 #22

23. Which of the following is not an important part of the audit process?
- A. understanding incentives of the company to misstate the financial statements
 - B. identifying the financial statement accounts with the greatest potential for misstatements
 - C. documenting management's efforts to achieve the necessary requirements to gain a bank loan
 - D. designing audit procedures to determine that the accounts are fairly presented according to the applicable financial reporting framework

AACSB: Analytic

AICPA BB: Critical Thinking

24. Which of the following is an accurate statement about the accounting profession?
- A. Recent audit failures have increased the public reputation of the accounting profession.
 - B. Public scrutiny of the profession prompts auditors to become more careful and efficient in their fundamental tasks.
 - C. The value of clear and accurate financial disclosure is less important in the current business environment.
 - D. The auditor's responsibility to management to provide financial information consistent with accounting regulations has never been more important.

25. Which of the following is not an example of auditors' strong bargaining position with management?
- A. The high financial and social costs reflect both public interest and business necessity
 - B. The public value of the audit cannot be too highly emphasized
 - C. Audit firms can be use the audit process as a "loss leader."
 - D. The negative impact of failed audits is apparent to observers of the profession, loss of public confidence, and an investors' trust

26. Which of the following is an incorrect statement about auditors' professional duties?
- A. In their professional duties, they will be watched by federal and state regulators and interested outsiders
 - B. Attention will be focused on the auditors' responsibility to determine whether the financial statements present fairly the financial position of the firm and the results of operations
 - C. Auditors must understand the importance of presenting unbiased information to outsiders
 - D. The auditor is expected to approach an audit with an independent mind and to recognize that he or she is hired to protect the interests of management

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Bloom's: Evaluate

Difficulty: Hard

Stuart - Chapter 01 #26

27. The three standard setting organizations that are involved in establishing auditing standards are

- A. The American Association of Accountants, the Auditing Standards Board, and the Public Company Accounting Oversight Board
- B. The International Auditing and Assurance Standards Board, the Auditing Standards Board, and the Public Company Accounting Oversight Board
- C. The American Association of Accountants, the Auditing Standards Board, and the International Auditing and Assurance Standards Board
- D. The Auditing Standards Board, the International Auditing and Assurance Standards Board, and the Public Company Accounting Oversight Board

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

28. The Auditing Standards Board gets its authority to write auditing regulations from

- A. the misapplication of auditing procedures
- B. rule 3001 of the PCAOB Code of Professional Conduct
- C. rule 202 of the AICPA Code of Professional Conduct
- D. the Securities and Exchange Commission

29. The Preface to the Auditing Standards describes the fundamental principles that govern an audit. According to these principles, the purpose of an audit is

- A. to provide reasonable assurance that there are no misstatements in the financial statements
- B. to plan the audit to provide reasonable assurance of detecting fraud
- C. to ensure that the financial statements are fairly presented
- D. to increase the level of confidence that outsiders place in the financial statements

30. The audit opinion states whether the financial statements have been prepared in accordance with an applicable financial reporting framework. In other words, the opinion states whether
- A. the company has followed the accounting standards in supporting the audit
 - B. the audit was conducted in accordance with Generally Accepted Accounting Principles
 - C. the auditing standards required management to prepare the financial statements and to maintain a system of internal controls relevant to the financial statements
 - D. the audit committee provided the auditor with all the information relevant to the preparation of the financial statements and unrestricted access to those in the company from whom the auditor may need additional evidence

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #30

31. Throughout the planning and performance of the audit, auditors are responsible for
- A. having appropriate competence and capabilities to review the audit
 - B. complying with relevant ethical requirements
 - C. complying with relevant independence and fraud detection requirements
 - D. maintaining professional appearance and exercising professional questioning

AACSB: Ethics

AICPA BB: Legal

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #31

32. Throughout the planning and performance of the audit, auditors are responsible for

- A. having appropriate competence and capabilities to perform the audit
- B. complying with client ethical requirements
- C. complying with relevant independence and fraud detection requirements
- D. maintaining professional appearance and exercising professional questioning

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #32

33. Throughout the planning and performance of the audit, auditors are responsible for

- A. having appropriate competence and capabilities to review the audit
- B. complying with client ethical requirements
- C. complying with relevant independence and due care requirements
- D. maintaining professional appearance and exercising professional questioning

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #33

34. Throughout the planning and performance of the audit, auditors are responsible for

- A. having appropriate competence and capabilities to review the audit
- B. complying with client ethical requirements
- C. complying with relevant independence and fraud detection requirements
- D. maintaining professional skepticism and exercising professional judgment

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #34

35. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. performs the work and properly supervises the client
- B. assumes appropriate materiality level or levels
- C. identifies and assesses risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #35

36. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. plans the work and properly supervises any assistants
- B. assumes appropriate materiality level or levels
- C. identifies and assesses risks of fraud based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #36

37. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:

- A. performs the work and properly supervises the client
- B. determines appropriate materiality level or levels
- C. identifies and assesses risks of due to fraud based on an understanding of the entity and its environment, including the entity's internal control
- D. obtains sufficient appropriate management representations about whether material misstatements exist

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #37

38. To obtain reasonable assurance, which is a high, but not absolute level of assurance, the auditor:
- A. performs the work and properly supervises the client
 - B. assumes appropriate materiality level or levels
 - C. identifies and assesses risks of fraud based on an understanding of the entity and its environment, including the entity's internal control
 - D. obtains sufficient appropriate audit evidence about whether material misstatements exist

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #38

39. The auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement because of inherent limitations, which arise from
- A. the nature of financial reporting
 - B. the selection of audit procedures
 - C. the client's requirement for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - D. the fact that there is no such thing as absolute assurance

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #39

40. The auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement because of inherent limitations, which arise from
- A. the structure of financial reporting
 - B. the nature of audit procedures
 - C. the client's requirement for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - D. the fact that there is no such thing as absolute assurance

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #40

41. The auditor is unable to obtain absolute assurance that the financial statements are free from material misstatement because of inherent limitations, which arise from
- A. the structure of financial reporting
 - B. the selection of audit procedures
 - C. the need for the audit to be conducted within a reasonable period of time and at a reasonable cost
 - D. the fact that there is no such thing as absolute assurance

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #41

42. The Auditing Standards Board

- A. each year issues a new "Codification of Statements of Auditing Standards"
- B. issues new financial accounting standards
- C. evaluates complaints about violations of the standards
- D. issues new auditing standards as "Statements on Auditing Standards"

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #42

43. A practicing auditor uses the material contained in the auditing standards to determine all but which of the following?

- A. the procedures performed
- B. the risk assessed
- C. the evidence gathered
- D. the audit report issued

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Risk Analysis

Bloom's: Apply

Difficulty: Medium

Stuart - Chapter 01 #43

44. The Public Companies Accounting Oversight Board (PCAOB) is

- A. a for profit public company
- B. a government entity
- C. private sector non profit organization
- D. a non profit public company

AACSB: Analytic

AICPA BB: Industry

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #44

45. The Securities Exchange Commission (SEC) has oversight authority over the PCAOB. Which of the following is not within the SEC's oversight authority?

- A. The SEC approves the PCAOB's rules
- B. The members of the PCAOB are appointed by the SEC
- C. The SEC approves the PCAOB's budget
- D. The SEC determines which audit firms will be inspected by the PCAOB

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #45

46. Before the creation of the PCAOB, the auditing standards of the Auditing Standards Board were used to audit all companies. Which statement best describes the PCAOB and auditing standards?

- A. In 2003, the PCAOB adopted certain auditing standards of the ASB as interim standards
- B. In 2003, the PCAOB developed over 100 new auditing standards
- C. In 2003, the PCAOB developed audit standards to audit all companies, private and public
- D. In 2003, the PCAOB adopted all the standards of the AICPA to save time in the development of new standards

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #46

47. Which of the following is correct about the PCAOB?

- A. The PCAOB receives its authority from the SEC
- B. Auditing standards issued by the PCAOB must be approved by the U.S. Congress
- C. The PCAOB requires companies with stock listed on a U. S. stock exchange to have an integrated audit by an auditor registered with the PCAOB
- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing procedures established by the PCAOB

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #47

48. Which of the following is correct about the PCAOB?

- A. The PCAOB receives its authority from U.S. Federal Law
- B. Auditing standards issued by the PCAOB must be approved by the U. S. Congress
- C. Anyone who wants to purchase stock on a U. S. stock exchange must follow the rules of the SEC
- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing procedures established by the PCAOB

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #48

49. Which of the following is correct about the PCAOB?

- A. The PCAOB receives its authority from the SEC
- B. Auditing standards issued by the PCAOB must be approved by the SEC
- C. Anyone who wants to purchase stock on a U.S. stock exchange must follow the rules of the SEC
- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing procedures established by the PCAOB

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #49

50. Which of the following is correct about the PCAOB?

- A. The PCAOB receives its authority from the SEC
- B. Auditing standards issued by the PCAOB must be approved by the U. S. Congress
- C. Anyone who wants to purchase stock on a U.S. stock exchange must follow the rules of the SEC
- D. All audit firms performing audits of public companies are registered with and agree to comply with the auditing standards established by the PCAOB

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #50

51. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 1000 public clients on an annual basis
- C. inspect firms with fewer than 1000 clients at least every three years
- D. post the inspection reports on the website for the PCAOB and are available to the public

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #51

52. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the PCAOB
- B. inspect firms with more than 1000 public clients on an annual basis
- C. inspect firms with fewer than 1000 clients at least every three years
- D. post the inspection reports on the SEC website and are available to the public

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #52

53. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 100 public clients on an annual basis
- C. inspect firms with fewer than 100 clients at least every four years
- D. post the inspection reports on the SEC website and are available to the public

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #53

54. The PCAOB is required to

- A. conduct continuing inspections of public accounting firms registered with the SEC
- B. inspect firms with more than 100 public clients on a semi-annual basis
- C. inspect firms with fewer than 100 clients at least every three years
- D. post the inspection reports on the SEC website and are available to the public

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #54

55. The International Auditing and Assurance Standards Board

- A. is the standard-setting board for the International Federation of Accountants
- B. is a committee of the AICPA
- C. reports directly to the SEC
- D. adjusts international standards to U.S. GAAP

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #55

56. An important requirement of the auditing standards is that the auditor

- A. have no contact with the audit committee of the board of directors
- B. use the work of the internal audit staff
- C. assist management in the preparation of the financial statements
- D. gather sufficient appropriate evidence

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #56

57. Which of the following would not be considered audit evidence?

- A. the information in the accounting notes
- B. the records of initial entries
- C. supporting documents
- D. general and subsidiary ledgers of the company

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Analyze

Difficulty: Medium

Stuart - Chapter 01 #57

58. Which of the following would not be considered audit evidence?

- A. the information in the accounting records
- B. the estimates of initial entries
- C. supporting documents
- D. general and subsidiary ledgers of the company

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Analyze

Difficulty: Medium

Stuart - Chapter 01 #58

59. Which of the following would not be considered audit evidence?

- A. the information in the accounting records
- B. the records of initial entries
- C. supporting explanations
- D. general and subsidiary ledgers of the company

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Analyze

Difficulty: Medium

Stuart - Chapter 01 #59

60. Which of the following would not be considered audit evidence?

- A. the information in the accounting records
- B. the records of initial entries
- C. supporting documents
- D. general and subsidiary worksheets of the company

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Analyze

Difficulty: Medium

Stuart - Chapter 01 #60

61. Management is responsible for

- A. gathering sufficient evidence
- B. the preparation of the financial statements
- C. determining that the financial statements have been prepared in accordance with the applicable financial reporting framework
- D. approving the audit plan

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #61

62. The auditor is responsible for

- A. the preparation of the financial statements
- B. preparing adjustments to the accounting records
- C. gathering sufficient appropriate evidence
- D. advising management on accounting matters

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #62

63. Which of the following is not a type of evidence gathered by the auditor?

- A. substantive evidence
- B. internal control evidence
- C. factual evidence
- D. analytical procedure evidence

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #63

64. Substantive tests of transactions are done to gather evidence on

- A. income statement accounts
- B. balance sheet accounts
- C. accounts receivable
- D. inventory

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #64

65. Substantive tests of balances are performed to gather evidence on

- A. income statement accounts
- B. balance sheet accounts
- C. depreciation expense
- D. salaries expense

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #65

66. Substantive tests answer the question

- A. Do the financial statement accounts present fairly the financial condition of the firm?
- B. Is the amount stated in the account accurate?
- C. Are all transactions included in the account?
- D. Are all transactions in the account in the proper period?

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Risk Analysis

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #66

67. If the financial statements do not present fairly the financial condition of the firm in accordance with applicable financial reporting framework, the auditor should

- A. calculate the correct number and make an adjustment to the financial statements
- B. advise management of the discrepancy and stop auditing until the discrepancy is corrected
- C. gather sufficient evidence to arrive at the correct financial statement number
- D. review the risk assessment and make any necessary revisions

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #67

68. Tests done by the auditor that are referred to as internal control tests determine whether
- A. the financial statements are materially misstated
 - B. the balance sheet is materially misstated
 - C. the internal controls are the responsibility of management
 - D. the internal controls of the company prevent or detect misstatements in the financial statements

AACSB: Analytic

AICPA BB: Analytic

AICPA FN: Decision Making

Bloom's: Understand

Difficulty: Medium

Stuart - Chapter 01 #68

69. If the controls are not working, the auditor is most likely to
- A. request the client to make the necessary adjustment
 - B. perform a substitute test
 - C. perform more substantive tests
 - D. perform more tests of controls

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #69

70. Which of the following statements describe an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the auditor
- B. Analytical procedures are calculations of financial amounts
- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
- D. Analytical procedures are a form of internal control audit procedure

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #70

71. Which of the following statements describe an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the client
- B. Analytical procedures are calculations of financial ratios
- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
- D. Analytical procedures are a form of internal control audit procedure

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #71

72. Which of the following statements describe an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the client
- B. Analytical procedures are calculations of financial amounts
- C. Analytical procedures are a comparison of last year's audited financial statements with the current year's unaudited statements
- D. Analytical procedures are a form of internal control audit procedure

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #72

73. Which of the following statements is an analytical procedure?

- A. Analytical procedures are a form of evidence gathered by the client
- B. Analytical procedures are calculations of financial amounts
- C. Analytical procedures are a comparison of last year's unaudited financial statements with the current year's audited statements
- D. Analytical procedures are a form of substantive audit procedure

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #73

74. Substantive tests of transactions are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances for the entire year

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #74

75. Substantive tests of balances are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #75

76. Tests of controls are typically done on transactions

- A. for the entire year for an audit of the financial reporting process
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #76

77. Tests of controls for non public companies are typically done on transactions

- A. for the entire year for a financial statement audit
- B. at the end of the year for a Sarbanes-Oxley financial statement audit
- C. at the end of the year for a Sarbanes-Oxley financial reporting process
- D. of balances on the year-end balance only

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #77

78. In the gathering of evidence, several concepts are important. At the beginning of the audit, the auditor presents his credentials to the client as

- A. an individual with training and knowledge in accounting and auditing
- B. an individual who will be sensitive to good client relations
- C. someone with the knowledge to make good business decisions
- D. someone who will exercise good judgment

AACSB: Communications

AICPA BB: Legal

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #78

79. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires the auditor

- A. to perform audit duties with skill comparable to that of any other auditor
- B. to gather statements and interpret statements in a manner that any other professional would have done
- C. to know accounting and auditing requirements
- D. to be knowledgeable about the economy

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #79

80. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires

- A. the auditor to perform audit duties with skill comparable to that of any other client
- B. to gather evidence and interpret evidence in a manner that any other auditor would have done
- C. the auditor to know accounting and auditing requirements
- D. the auditor to be knowledgeable about the economy

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #80

81. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires

- A. the auditor to perform audit duties with skill comparable to that of any other client
- B. to gather statements and interpret statements in a manner that any other professional would have done
- C. the auditor to know accounting and auditing standards
- D. the auditor to be knowledgeable about the economy

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #81

82. The auditor must gather evidence guided by the standard of due professional care. Due professional care requires

- A. the auditor to perform audit duties with skill comparable to that of any other client
- B. to gather statements and interpret statements in a manner that any other professional would have done
- C. the auditor to know accounting and auditing requirements
- D. the auditor to be knowledgeable about the client

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #82

83. Professional skepticism is closely linked to due professional care. For an auditor to gather evidence with due professional care, he or she must perform the audit with an attitude of professional skepticism. Which of the following best describes professional skepticism?

- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
- B. professional skepticism is used in the planning stage to determine the evidence to be gathered and the interpretation of the evidence
- C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
- D. professional skepticism neither assumes that the client is dishonest nor that the client is honest

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

84. Professional skepticism is closely linked to due professional care. For an auditor to gather evidence with due professional care, he or she must perform the audit with an attitude of professional skepticism. Which of the following best describes professional skepticism?
- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
 - B. professional skepticism is used in the planning stage to determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain reasonable assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #84

85. Professional skepticism is closely linked to due professional care. For an auditor to gather evidence with due professional care, he or she must perform the audit with an attitude of professional skepticism. Which of the following best describes professional skepticism?
- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the interviews gathered
 - B. professional skepticism is used throughout the audit to determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #85

86. Professional skepticism is closely linked to due professional care. For an auditor to gather evidence with due professional care, he or she must perform the audit with an attitude of professional skepticism. Which of the following best describes professional skepticism?
- A. an attitude of professional skepticism is present when the auditor maintains a questioning mind and makes a critical assessment of the evidence gathered
 - B. professional skepticism is used in the planning stage determine the evidence to be gathered and the interpretation of the evidence
 - C. if the auditor applies the concept of professional skepticism, he should be able to obtain assurance that the financial statements are free from material misstatements
 - D. professional skepticism assumes that the client is dishonest

AACSB: Analytic

AICPA BB: Critical Thinking

87. The revenue business process would include procedures for

- A. initiating a sale
- B. storing the goods
- C. invoicing the vendor
- D. making payment for the sale

88. The revenue business process would include procedures for

- A. initiating a proposal
- B. shipping the goods or providing a service
- C. invoicing the vendor
- D. making payment for the sale

89. The revenue business process would include procedures for

- A. initiating a proposal
- B. storing the goods
- C. invoicing the customer
- D. making payment for the sale

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #89

90. The revenue business process would include procedures for

- A. initiating a proposal
- B. storing the goods
- C. invoicing the vendor
- D. collecting payment for the sale

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #90

91. The business process of selling a product considers evidence related to the transactions involving revenue and accounts receivable, including doubtful accounts and bad debt expense. We use the concept of business processes to structure the way we gather evidence. Which of the following would not be considered a business process?

- A. advertising a product and collecting cash
- B. borrowing money to operate in a business
- C. producing inventory to sell
- D. buying fixed assets to use in the business

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Hard

Stuart - Chapter 01 #91

92. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. existence or occurrence
- B. evaluation
- C. accuracy
- D. classification

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Decision Making

Bloom's: Remember

Difficulty: Medium

Stuart - Chapter 01 #92

93. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. residence
- B. valuation and allocation
- C. accuracy
- D. classification

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Hard
Stuart - Chapter 01 #93

94. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. existence or occurrence
- B. valuation and allocation
- C. accuracy
- D. categorization

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Hard
Stuart - Chapter 01 #94

95. When management presents the financial statements to the auditor, management makes several assertions about the financial statements. Which of the following is not one of these assertions?

- A. existence or occurrence
- B. valuation and allocation
- C. mathematically correct
- D. classification

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Bloom's: Remember
Difficulty: Medium
Stuart - Chapter 01 #95

96. The audit report is addressed to

- A. the management of the company
- B. the partner in charge of the audit
- C. the stockholders and the board of directors
- D. the SEC, AICPA, and the PCAOB

AACSB: Analytic
AICPA BB: Legal
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy
Stuart - Chapter 01 #96

97. Which of the following is considered a regulatory body of the accounting profession?

- A. the New Jersey Society of CPAs
- B. the New Jersey State Division of Consumer Affairs
- C. the Financial Accounting Standards Board
- D. the Government Accountability Office

AACSB: Analytic

AICPA BB: Legal

AICPA FN: Measurement

Bloom's: Remember

Difficulty: Easy

Stuart - Chapter 01 #97

c1 Summary

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