

AUDITING –CHAPTER 3

1. When an auditor encounters a situation involving more than one of the conditions requiring a departure from a standard unqualified report, the auditor should modify his or her opinion for each condition unless one has the effect of neutralizing the others. In which of the following situations would the auditor not include more than one modification in the report?
 - a. There is a material scope limitation, and the auditor is not independent.
 - b. There is a material GAAP violation, and the auditor is not independent.
 - c. There is a material scope limitation, and there is substantial doubt about the company's ability to continue as a going concern.
 - d. There is a substantial doubt about the company's ability to continue as a going concern, and information about the causes of the uncertainties is not adequately disclosed in a footnote.
2. Which of the following requires recognition in the auditor's opinion as to consistency?
 - a. The correction of an error in the prior year's financial statements resulting from a mathematical mistake in capitalizing interest.
 - b. A change in the estimate of provisions for warranty costs.
 - c. The change from the cost method to the equity method of accounting for investments in common stock.
 - d. A change in depreciation method which has no effect on current year's financial statements but is certain to affect future years.
3. Grant Company's financial statements adequately disclose uncertainties that concern future events, the outcome of which are not reasonably estimable. The auditor's report should include a(an)
 - a. unqualified opinion.
 - b. "subject to" qualified opinion.
 - c. "except for" qualified opinion.
 - d. adverse opinion.
4. Which of the following statements is not true?
 - a. A one-paragraph report is generally used when the auditor is not independent.
 - b. A three-paragraph report ordinarily indicates there are no exceptions in the audit.
 - c. More than three paragraphs in the report indicates there must be some type of qualification in the audit.
 - d. An unqualified opinion with an explanation or modified wording would require more than three paragraphs.
5. Which of the following is not one of the principal CPA firm's alternatives when issuing a report if a different CPA firm performed part of the audit?
 - a. Issue a joint report signed by both CPA firms.
 - b. Make no reference to the other CPA firm in the audit report, and issue the standard unqualified opinion.
 - c. Make reference to the other auditor in the report by using modified wording. (A shared opinion or report.)
 - d. A qualified opinion or disclaimer, depending on materiality, is required if the principal auditor is not willing to assume any responsibility for the work of the other auditor.
6. Which of the following is not a cause of an explanatory paragraph or modified wording to be added to the standard unqualified report?
 - a. Emphasis of a matter.
 - b. Reports involving other auditors.
 - c. Auditor disagrees with client's departure from GAAP.
 - d. Lack of consistent application of GAAP.
7. The "unqualified report with explanatory paragraph" and the "unqualified report with modified wording"

- a. arise as a result of an incomplete audit.
 - b. arise when the financial statements are not quite "presented fairly."
 - c. meet the criteria of a complete audit with satisfactory results.
 - d. meet the criteria of a complete audit but with unsatisfactory results.
8. When the client fails to make adequate disclosure in the body of the statements or in the related footnotes, it is the responsibility of the auditor to
- a. inform the reader that disclosure is not adequate, and to issue a qualified or an adverse opinion.
 - b. inform the reader that disclosure is not adequate, and to issue an unqualified or qualified opinion.
 - c. present the information in the audit report and issue an unqualified or qualified opinion.
 - d. present the information in the audit report and to issue a qualified or an adverse opinion.
9. When the misstatements are so material or pervasive that an adverse opinion is required, the scope paragraph would
- a. be qualified.
 - b. still be unqualified.
 - c. be deleted.
 - d. be expanded to identify the additional procedures which the auditor performed.
10. When the auditor cannot perform procedures and the amounts are so material that a disclaimer of opinion rather than a qualified opinion is required,
- a. the opinion paragraph will state "does not present fairly."
 - b. the opinion paragraph will state "presents fairly."
 - c. the scope paragraph will be unchanged from the standard unqualified opinion.
 - d. the scope paragraph will be deleted.
11. Whenever the client imposes restrictions on the scope of the audit, the auditor should be concerned about the possibility that management is trying to prevent discovery of misstated information. In such cases, the AICPA has encouraged
- a. a disclaimer of opinion, in all cases.
 - b. a qualification of both scope and opinion, in all cases.
 - c. a disclaimer of opinion, whenever materiality is in question.
 - d. a qualification of both scope and opinion, whenever materiality is in question.
12. CPAs issue several types of "special audit reports." Which of the following circumstances would not require the issuance of a special audit report?
- a. The client's financial statements are prepared using the cash basis.
 - b. The client's financial statements are prepared using the accrual basis.
 - c. The CPA has been retained to audit only the current assets.
 - d. The CPA has been retained to review the internal control system, not the financial statements.
13. Which of the following is not a primary category of attestation report?
- a. Compilation report.
 - b. Review report.
 - c. Audit report.
 - d. Special audit report based on a basis of accounting other than generally accepted accounting principles.
14. Most auditors believe that financial statements are "presented fairly" when the statements are in accordance with generally accepted accounting principles, but that it is also necessary to
- a. determine that they are not in violation of FASB statements.
 - b. examine the substance of transactions and balances for possible misinformation.
 - c. review the statements using the accounting principles promulgated by the Securities and Exchange Commission.
 - d. assure investors that the net income reported this year will be equaled or exceeded in the

future.

15. In which of the following situations would the auditor most likely issue an unqualified report?
- The client valued ending inventory by using the replacement cost method.
 - The client valued ending inventory by using the Next-In-First-Out (NIFO) method.
 - The client valued ending inventory at selling price rather than historical cost.
 - The client valued ending inventory by using the First-In-First-Out (FIFO) method but showed the replacement cost of inventory in the Notes to the Financial Statements.
16. Which of the following statements is true?
- The auditor is required to issue a disclaimer of opinion in the event of a material uncertainty.
 - The auditor is required to issue a disclaimer of opinion in the event of a going concern problem.
 - The auditor is required to issue a disclaimer of opinion for a material uncertainty and for a going concern problem.
 - The auditor has the option, but is not required, to issue a disclaimer of opinion for a material uncertainty or for a going concern problem.
17. A qualified report cannot take the form of a qualification of
- the opinion alone.
 - the scope alone.
 - both the scope and opinion.
 - all of the above.
18. Dennen, CPA, is the principal auditor for a multi-national corporation. Another CPA has examined and reported on the financial statements of a significant subsidiary of the corporation. Dennen is satisfied with the independence and professional reputation of the other auditor, as well as the quality of the other auditor's examination. With respect to Dennen's report on the consolidated financial statements, taken as a whole, Dennen
- must not refer to the examination of the other auditor.
 - must refer to the examination of the other auditor.
 - may refer to the examination of the other auditor.
 - may refer to the examination of the other auditor, in which case Dennen must include in the auditor's report on the consolidated financial statements a qualified opinion with respect to the examination of the other auditor.
19. The primary concern in measuring materiality when a client has failed to follow GAAP is usually
- the total dollar error in the accounts involved, compared with some base.
 - measurability of the dollar error.
 - the nature of the item in error.
 - whether it can materially affect some future period.
20. The most common case in which conditions beyond the client's and auditor's control cause a scope restriction is an engagement
- agreed upon after the client's balance sheet date.
 - where the client won't allow the auditor to confirm receivables for fear of offending its customers.
 - where the auditor doesn't have enough staff to satisfactorily audit all of the client's foreign subsidiaries.
 - where the client is going through Chapter 11 bankruptcy.
21. When financial statements of a prior period are presented on a comparative basis with financial statements of the current period, the continuing auditor is responsible for
- expressing dual dated opinions.
 - updating the report on the previous financial statements only if there has not been a change in the opinion.
 - updating the report on the previous financial statements only if the previous report was

- qualified and the reasons for the qualification no longer exist.
 - d. updating the report on the previous financial statements regardless of the opinion previously issued.
- 22. The use of a qualification of the opinion alone is restricted to those situations in which the
 - a. scope of the auditor's examination has been restricted.
 - b. financial statements have not been prepared in accordance with generally accepted accounting principles (GAAP).
 - c. auditor is not independent.
 - d. auditor was hired to do a "review" or "compilation."
- 23. A company has changed its method of inventory valuation from an unacceptable one to one in conformity with generally accepted accounting principles. The auditor's report on the financial statements of the year of the change should include
 - a. no reference to consistency.
 - b. a reference to a prior period adjustment in the opinion paragraph.
 - c. an explanatory paragraph that justifies the change and explains the impact of the change on reported net income.
 - d. an explanatory paragraph explaining the change.
- 24. Which of the following representations does an auditor make explicitly and which implicitly when issuing an unqualified opinion?

Conformity with GAAP	Adequacy of disclosure
a. Explicitly	Explicitly
b. Implicitly	Implicitly
c. Implicitly	Explicitly
d. Explicitly	Implicitly
- 25. When there is a significant change in accounting principle, an auditor's report should refer to the lack of consistency in
 - a. the scope paragraph.
 - b. an explanatory paragraph between the second paragraph and the opinion paragraph.
 - c. the opinion paragraph.
 - d. an explanatory paragraph following the opinion paragraph.
- 26. An auditor may not issue a qualified opinion when
 - a. a scope limitation prevents the auditor from completing an important audit procedure.
 - b. the auditor's report refers to the work of a specialist.
 - c. the auditor lacks independence with respect to the audited entity.
 - d. an accounting principle at variance with generally accepted accounting principles is used.
- 27. For the report containing a disclaimer for lack of independence, the disclaimer is in the
 - a. third or opinion paragraph.
 - b. second or scope paragraph.
 - c. first and only paragraph.
 - d. fourth or explanatory paragraph.
- 28. When a qualified or adverse opinion is issued, the qualifying paragraph is inserted
 - a. between the introductory and scope paragraphs.
 - b. between the scope and opinion paragraphs.
 - c. after the opinion paragraph, as a fourth paragraph.
 - d. immediately after the address, as the first paragraph.
- 29. When the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern, the appropriate audit report would be
 - a. an unqualified opinion with an explanatory paragraph.
 - b. a qualified opinion with an explanatory paragraph.

- c. an adverse opinion with an explanatory paragraph.
 - d. an unqualified opinion with no explanatory paragraphs.
30. When there is uncertainty about a company's ability to continue as a going concern, the auditor's concern is the possibility that the client may not be able to continue its operations or meet its obligations for a "reasonable period of time." For this purpose, a reasonable period of time is considered not to exceed
- a. six months from the date of the financial statements.
 - b. six months from the date of the audit report.
 - c. one year from the date of the financial statements.
 - d. one year from the date of the audit report.
31. Whenever there is a scope restriction, the appropriate response is to issue
- a. a disclaimer of opinion.
 - b. an adverse opinion.
 - c. a qualified opinion.
 - d. an unqualified report, a qualification of scope and opinion, or a disclaimer, depending on materiality.
32. The least severe type of report for disclosing departures from an unqualified report is the
- a. qualified opinion.
 - b. disclaimer of opinion.
 - c. adverse opinion.
 - d. report on unaudited financial statements.
33. Statements on Auditing Standards require that a report be issued whenever a CPA firm
- a. performs an audit.
 - b. is engaged to perform any services of any nature.
 - c. does SEC-regulated work.
 - d. is associated with financial statements.
34. A CPA firm is "associated with the financial statements" of its client
- a. only when it does a financial audit.
 - b. only when it does attestation services, such as a review or an audit.
 - c. even if a CPA firm only assists a client in preparing financial statements but does not do an audit.
 - d. if it performs any services at all for the client.
35. A scope and opinion qualification can be issued only when the auditor
- a. is not independent.
 - b. has not been able to accumulate all the evidence required by generally accepted auditing standards.
 - c. has accumulated all the evidence required by generally accepted auditing standards.
 - d. has been restricted by the client from gathering the information needed to form an opinion.
36. The AICPA Council designated the following bodies as those which, in the past, had the power to promulgate "generally accepted accounting principles":
1. Bulletins issued by the Accounting Research Board.
 2. Opinions issued by the Accounting Principles Board.
 3. Statements issued by the Financial Accounting Standards Board.
- Which of the bodies are still recognized by Council as authoritative GAAP setters?
- a. Number 3 only.
 - b. Numbers 2 and 3.
 - c. Numbers 1 and 3.
 - d. Numbers 1, 2, and 3.
37. The client has presented all required financial statements with the exception of the statement of cash flows. The auditor has completed the audit and is satisfied that everything, with the

- exception of the missing statement, is presented fairly. According to SAS No. 58, the auditor
- may issue either an unqualified or a qualified opinion.
 - must issue an adverse opinion.
 - may issue an unqualified opinion.
 - must issue a qualified opinion.
38. Whenever an auditor issues a qualified opinion, the implication is that the auditor
- does not know if the statements are presented fairly.
 - does not believe the statements are presented fairly.
 - is satisfied that the statements are presented fairly.
 - is satisfied that the statements are presented fairly "except for" a specific aspect of them.
39. Which of the following reports would not use "auditing standards" as its source of authoritative support?
- Audit report for the audit of Ford Motor Company's financial statements.
 - Special audit report for the audit of The Olive Garden's ending balance in inventory. (The Olive Garden is a publicly-traded company.)
 - Review report for the review of The Olive Garden's quarterly financial statements.
 - Attestation report for the attestation of Ford Motor Company's forecasted financial statements.
40. The introductory paragraph of the standard audit report states that the financial statements and the opinion expressed about those statements are
- the responsibility of the auditor.
 - the responsibility of management.
 - the joint responsibility of management and the auditor.
 - none of the above.
41. If inventory is the largest balance on the financial statements, a large misstatement would be so material that the auditor should issue
- an unqualified opinion.
 - a qualified opinion.
 - an adverse opinion.
 - a disclaimer of opinion.
42. When a disclaimer is issued because the auditor lacks independence,
- no report title is included on the report.
 - a one-paragraph audit report is issued.
 - the only reason cited for issuing the disclaimer is the lack of independence.
 - all of the above are correct.
43. In the scope paragraph of the audit report, the use of the term "reasonable assurance" is intended to indicate that
- no misstatements exist in the financial statements.
 - no material misstatements exist in the statements.
 - there is a possibility that material misstatements still exist in the financial statements.
 - there is a possibility that immaterial misstatements still exist in the financial statements.
44. When the client's financial statements are misstated by a highly material amount, the auditor should issue
- an adverse opinion.
 - a disclaimer of opinion.
 - either a qualified opinion or an adverse opinion, depending on which conditions exist.
 - either a qualified opinion or an unqualified opinion with modified wording, depending on which conditions exist.
45. In a qualified, adverse, or disclaimer report, the auditor
- has not performed a satisfactory audit.

- b. is not satisfied that the financial statements are presented fairly.
 - c. either a or b.
 - d. none of these.
- 46. When the client has not been consistent in applying GAAP from year one to year two and the auditor does not concur with the appropriateness of the change, the auditor will issue a(n)
 - a. disclaimer.
 - b. adverse opinion.
 - c. unqualified opinion.
 - d. qualified opinion.
- 47. If the auditor is determined to lack independence, a disclaimer of opinion must be issued
 - a. if the client requests it.
 - b. only if it is highly material.
 - c. only if it is material but not highly material.
 - d. in all cases.
- 48. The audit report indicates that (1) management is responsible for the content of the financial statements and (2) the auditor is responsible for evaluating the appropriateness of the accounting principles chosen by management. Which paragraph contains those statements?
 - a. Both are in the introductory paragraph.
 - b. Both are in the scope paragraph.
 - c. Both are in the opinion paragraph.
 - d. None of the above is true.
- 49. Which of the following is not a true statement? "In the opinion paragraph of the standard unqualified report, the auditor is required to state
 - a. that the financial statements are presented fairly."
 - b. a conclusion about whether the company followed generally accepted accounting principles during the period under audit."
 - c. whether management has or has not made adequate disclosure."
 - d. an opinion about the financial statements taken as a whole."
- 50. Misstatements must be compared with some measurement base before a decision can be made about the materiality of the failure to follow GAAP. A commonly accepted measurement base would be
 - a. net income.
 - b. total assets.
 - c. working capital.
 - d. all of the above.
- 51. Which of the following is not a change which affects consistency and, therefore, does not require an explanatory paragraph?
 - a. Change in accounting principle, such as a change from LIFO to FIFO.
 - b. Change in reporting entity, such as the inclusion of an additional company in combined financial statements.
 - c. Change in an estimate, such as a decrease in the life of an asset for depreciation purposes.
 - d. Correction of errors by changing from non-GAAP to GAAP.
- 52. Items that materially affect the comparability of financial statements generally require disclosure in the footnotes. If the client refuses to properly disclose the item, the auditor may be required to issue
 - a. the disclaimer.
 - b. an unqualified opinion.
 - c. a qualified opinion.
 - d. an adverse opinion.
- 53. When comparing misstatements with a measurement base, the auditor must consider the

- pervasiveness of the misstatement. An example of a pervasive misstatement would be
- an understatement of inventory, caused by miscounting.
 - an understatement of retained earnings, caused by a miscalculation of dividends payable.
 - a misclassification of notes payable as a long-term liability when it should be current.
 - a misclassification of salary expense as a selling expense when it should be allocated equally to both selling and administrative expense.
54. If the balance sheet of a non-SEC company is dated December 31, 2000, the audit report is dated March 6, 19X2, and both are released to the public on March 15, 2001, this indicates that the auditor has searched for material unrecorded transactions and events that occurred up to
- December 31, 2000.
 - March 6, 2001.
 - March 15, 2001.
 - none of these.
55. The necessity to issue a disclaimer of opinion may arise because of
- a severe limitation on the scope of the audit examination.
 - a nonindependent relationship between auditor and client.
 - either a or b above.
 - none of the above.
56. The dollar amount of some misstatements cannot be accurately measured. For example, if the client were unwilling to disclose an existing lawsuit, the auditor must estimate
- its effect on net income.
 - its effect on users of the financial statements.
 - its effect on the auditor's exposure to lawsuits.
 - its effect on management's future decisions.
57. Auditors sometimes encounter situations in which the outcome of a matter cannot be reasonably estimated at the time the financial statements are issued. These matters are referred to as
- unestimable matters.
 - non sequiturs.
 - uncertainties.
 - in suspense matters.
58. Three of the paragraphs of the report modified for uncertainties are the same as the standard unqualified report. The explanatory paragraph which describes the uncertainty is added as the
- first paragraph.
 - fourth and last paragraph.
 - third paragraph with the opinion paragraph last.
 - second paragraph with the opinion paragraph last.
59. Of the two major categories of scope restrictions, (1) those caused by client and (2) those caused by conditions beyond the control of either client or auditor, the effect on the auditor's report
- is the same for either.
 - is more serious for 1 than for 2.
 - is more serious for 2 than for 1.
 - is negligible.
60. Both disclaimers and adverse opinions are used
- only when the condition is highly material.
 - whether the condition is material or not.
 - regardless of the auditor's independence.
 - regardless of client's choice of a non-GAAP accounting method.
61. Auditing standards require that the audit report must be titled and that the title must
- include the word "independent."
 - indicate whether the auditor is a CPA.

- c. indicate whether the auditor is a proprietorship, partnership, or incorporated.
 - d. not include any discriminatory language.
62. If a misstatement is immaterial relative to the financial statements of the entity for the current period and is not expected to have a material effect in future periods, it is appropriate to issue
- a. an unqualified opinion.
 - b. a qualified opinion.
 - c. an adverse opinion.
 - d. a disclaimer of opinion.
63. To emphasize the fact that the auditor is independent, the addressee of the audit report is usually
- a. the client company.
 - b. the stockholders of the client company.
 - c. the President and/or CEO of client company.
 - d. the board of directors of client company.
64. When a misstatement in the financial statements would affect a user's decision but the overall statements are still fairly stated, it would be appropriate to issue
- a. a qualified opinion.
 - b. an unqualified opinion.
 - c. an adverse opinion.
 - d. a disclaimer of opinion.
65. The purpose of the introductory paragraph in the standard unqualified report is
- a. to distinguish the audit report from a compilation or review report.
 - b. to identify the financial statements which were audited and the dates and time periods covered by the report.
 - c. to communicate the responsibilities of management in preparing the financial statements and to clarify the respective roles of management and the auditor.
 - d. all of the above.
66. When determining whether an exception is highly material, the extent to which the exception affects different parts of the financial statements must be considered. This is referred to as
- a. materiality.
 - b. pervasiveness.
 - c. financial analysis.
 - d. ratio analysis.
67. The scope paragraph of the standard unqualified audit report states that the audit is designed to
- a. discover all errors and/or irregularities.
 - b. discover material errors and/or irregularities.
 - c. conform to generally accepted accounting principles.
 - d. obtain reasonable assurance whether the statements are free of material misstatement.
68. When the auditor knows that the financial statements may be misleading because they were not prepared in conformity with generally accepted accounting principles, he or she must issue
- a. a qualified opinion.
 - b. an adverse opinion.
 - c. a disclaimer of opinion.
 - d. a qualified or an adverse opinion, depending on the materiality of the item in question.
69. The appropriate date for the audit report is the one on which the
- a. client's fiscal year ended.
 - b. auditor and client entered into a contract.
 - c. auditor has concluded procedures in the field.
 - d. auditor types and delivers the report to client.
70. Should a situation arise where all audit procedures considered necessary in the circumstances

were performed and the auditor would otherwise issue an unqualified report, and then it was discovered that the auditor has not fulfilled the independence requirements specified by the *Code of Professional Conduct*, the audit report issued

- a. may still be the unqualified opinion.
- b. must be a disclaimer of opinion.
- c. may be either an unqualified or disclaimer of opinion.
- d. must be an adverse opinion.

71. The audit report date indicates
- a. the last day of the auditor's responsibility for the review of significant events that occurred after the date of the financial statements.
 - b. the date on which the financial statements were filed with the Securities and Exchange Commission.
 - c. the last date on which users may institute a lawsuit against either client or auditor.
 - d. the last day of the fiscal period.
72. The only unqualified opinion reports which use modified wording are those involving
- a. the use of other auditors.
 - b. material uncertainties.
 - c. substantial doubt about going concern.
 - d. lack of consistent application of GAAP.
73. As a result of management's refusal to permit the auditor to physically examine inventory, the auditor has not accumulated sufficient evidence to conclude whether financial statements are stated in accordance with GAAP. The auditor must depart from the unqualified audit report because
- a. the financial statements have not been prepared in accordance with GAAP.
 - b. the scope of the audit has been restricted by circumstances beyond either the client's or auditor's control.
 - c. the auditor has lost independence.
 - d. the scope of the audit has been restricted.
74. The second standard of reporting requires the auditor to call attention to circumstances in which accounting principles have not been consistently observed in the current period in relation to the preceding period. Generally accepted accounting principles require that changes in accounting principles be to
- a. a more conservative principle.
 - b. an equal or better principle.
 - c. a preferable principle.
 - d. a principle permitted by the tax code.
75. An adverse opinion is issued when the auditor believes
- a. some parts of the financial statements are materially misstated or misleading.
 - b. the financial statements will be found to be misleading or misstated, if an adequate investigation is performed.
 - c. the overall financial statements are so materially misstated or misleading as a whole that they do not present fairly the financial position or results of operations and cash flows in conformity with GAAP.
 - d. the audit firm is not independent.
76. Under certain circumstances, the CPA may wish to emphasize specific matters regarding the financial statements even though he or she intends to express an unqualified opinion. Normally, such explanatory information should be
- a. included in the scope paragraph.
 - b. included in a separate paragraph in the report.
 - c. included in the opinion paragraph.
 - d. included in the introductory paragraph.

77. A disclaimer is issued whenever the auditor
- believes that some material part(s) of the financial statements are not presented fairly.
 - believes that the overall financial statements are not presented fairly.
 - has been unable to satisfy him/herself that the financial statements are presented fairly.
 - has determined that the financial statements are presented fairly.
78. An auditor who issues a qualified opinion because of an insufficiency of evidential matter should describe the limitations in an explanatory paragraph. The auditor should also refer to the limitation in the:
- | Scope paragraph | Opinion paragraph | Notes to the financial statements |
|-----------------|-------------------|-----------------------------------|
| a. Yes | No | Yes |
| b. Yes | Yes | No |
| c. No | Yes | No |
| d. Yes | Yes | Yes |
79. Whenever an auditor issues an unqualified opinion, the implication is that the auditor
- does not know if the statements are presented fairly.
 - does not believe the statements are presented fairly.
 - is satisfied that the statements are presented fairly except for a specific aspect of them.
 - is satisfied that the statements are presented fairly.
80. When the audited financial statements of the prior year are presented together with those of the current year, the continuing auditor's report should cover
- both years.
 - only the current year.
 - only the current year, but the prior year's report should be presented.
 - only the current year, but the prior year's report should be referred to.
81. Describe the standard unqualified report. Begin by specifying the seven parts of the report, and then discuss the contents of each part.
82. Discuss the differences regarding how changes that affect consistency and changes that affect comparability are referred to in the audit report. Give two examples of each type of change.
83. There are five conditions that must be met before an auditor can issue a standard unqualified report. Please discuss each of these five conditions.

ANSWERS

- 1–10. a, c, a, c, a, c, c, d, b, d
 11–20. c, b, a, b, d, d, b, c, a, a
 21–30. d, b, d, d, d, c, c, b, a, c
 31–40. d, a, d, c, b, d, d, d, d, d
 41–50. c, d, c, c, c, d, d, d, d, d
 51–60. c, c, a, b, c, b, c, b, a, a
 61–70. a, a, b, a, d, b, d, d, c, b
 71–80. a, a, d, c, c, b, c, b, d, a

81. The parts of the standard unqualified report are as follows:
- ú *Report title*. The title must include the word "independent." Examples of appropriate titles are "independent auditor's report," or "report of independent accountant."
 - ú *Report address*. The report is usually addressed to the company's stockholders or board of directors. It should not be addressed to company management.
 - ú *Introductory paragraph*. There are three important components of the introductory paragraph. First, it states that an audit was performed. Second, it lists the financial statements that were

audited and their dates. Third, it states that management is responsible for the financial statements, and that the auditor is responsible for expressing an opinion on those statements based on an audit.

ú *Scope paragraph*. The scope paragraph is a factual statement about what was done during the audit. It first states that generally accepted auditing standards were followed by the auditor. It then states that an audit is designed to obtain reasonable assurance about whether the statements are free of material misstatement. It concludes by stating that the auditor evaluated the appropriateness of the accounting principles used, and estimates made, by management, and of the financial statement disclosures and presentations given.

ú *Opinion paragraph*. This paragraph states the auditor's opinion concerning whether the financial statements present fairly the client's financial position and results of its operations and cash flows in conformity with generally accepted accounting principles.

ú *Name of CPA firm*. Typically, the name of the CPA firm, and not the name of an individual auditor, is used.

ú *Audit report date*. The audit report is normally dated as of the last day of fieldwork.

82. Material lack of consistent application of GAAP should be disclosed by the auditor by adding an explanatory paragraph after the unqualified opinion paragraph. The explanatory paragraph should discuss the nature of the change and should refer to the footnote in the financial statements that discusses the change. Changes that affect comparability, but not consistency, require no such explanatory paragraph in the audit report, assuming the change is disclosed in the footnotes.

Examples of changes affecting consistency include changes in accounting principles, changes in reporting entities, and correction of errors involving accounting principles. Examples of changes affecting comparability, but not consistency, include changes in an estimate, error corrections not involving accounting principles, variations in the format and presentation of financial information, and changes because of substantially different transactions or events.

83. The five conditions that justify issuing a standard unqualified report are:
- ú All statements—balance sheet, income statement, statement of retained earnings, and statement of cash flows—are included in the financial statements.
 - ú The three general standards of GAAS have been followed in all respects on the engagement.
 - ú The three standards of fieldwork have been met.
 - ú The financial statements are presented in accordance with generally accepted accounting principles.
 - ú There are no circumstances requiring the addition of an explanatory paragraph or modification of the wording of the report.

UNCONCURRED ERRORS IN ANSWERS

17. The official answer is *c*, but a student refers to page 61 that the answer should be *b*.
44. The official answer is *a*, but the same student refers to page 53 that the answer should be *c*.