

ACC-501
AUDITING THEORY, ACCOUNTING LAWS AND ETHICS
SUBSTANTIVE PROCEDURES

SUBSTANTIVE TEST OF CASH

1. Which of the following is not normally considered an act of concealing cash shortage?
 - a. Lapping
 - b. Banking
 - c. Window dressing
 - d. Kiting
2. This occurs when collection of receivable from one customer is misappropriated and then concealed by applying a subsequent collection from another customer.
 - a. Lapping
 - b. Window dressing
 - c. Kiting
 - d. Floating
3. This occurs when cash shortage is concealed by overstating the balance of cash. This is performed by exploiting the float period (the time it needs for a check to clear at the bank it was drawn).
 - a. Lapping
 - b. Window dressing
 - c. Kiting
 - d. Floating
4. The general cash account is considered significant in almost all audits
 - a. Where the ending balance is material
 - b. Where the beginning balance is material
 - c. Even when the ending balance is immaterial
 - d. Except those of not-for-profit organizations
5. When conducting surprise cash count, the auditor should simultaneously count all cash funds, marketable securities and other negotiable assets to prevent
 - a. Time-out
 - b. Defalcation
 - c. Substitution
 - d. Misappropriation
6. A cash shortage may be concealed by transporting funds from one location to another or by converting negotiable assets to cash. Because of this, which of the following is vital?
 - a. Simultaneous confirmations
 - b. Simultaneous bank reconciliations
 - c. Simultaneous verification
 - d. Simultaneous surprise cash count
7. The primary purpose of sending a standard bank confirmation request to financial institutions with which the client has done business during the year is to:
 - a. Request information concerning contingent liabilities and collaterals
 - b. Detect kiting activities that may otherwise no be discovered.
 - c. Provide the data needed to prepare the bank section of a four-column proof of cash.
 - d. Corroborate/verify information regarding cash and loan balance
8. As one of the year-end audit procedures, the auditor instructed the client's personnel to prepare a standard bank confirmation request for a bank account that had been closed during the year. After the client's treasurer had signed the request, it was mailed by the assistant treasurer. What is the major flaw in this audit procedure?
 - a. The confirmation request was signed by the treasurer.
 - b. Sending the request was meaningless because the account was closed before the year-end.
 - c. The request was mailed by the assistant treasurer.
 - d. The CPA did not sign the confirmation request before it was mailed.
9. In October, three months before the year-end, the bookkeeper erroneously recorded the receipt of a one year bank loan with a debit to cash and a credit to miscellaneous revenue. Select the most effective method for detecting this type of error.
 - a. Foot the cash receipts journal for October.
 - b. Send a bank confirmation as of year-end.
 - c. Prepare bank reconciliation as of year-end.
 - d. Prepare a bank transfer schedule as of year-end.
10. Which of the following is not confirmed on the standard form used for cash balances at financial institutions?
 - a. Cash checking account balances.
 - b. Cash savings account balances.
 - c. Loans payables.
 - d. Securities held for the client by the financial institutions.
11. The primary assertion being addressed by sending bank confirmation is
 - A. Existence
 - b. Completeness
 - c. Rights and obligations
 - d. Classification
12. Which of the following assertions is least likely to be addressed by sending bank confirmation?
 - a. Existence
 - b. Completeness
 - c. Rights and obligations
 - d. Classification
13. This document is a bank statement prepared a few days after month-end. Its purpose is to help auditors verify reconciling items on the year-end bank reconciliation.

- a. Cutoff bank statement
 - b. Bank reconciliations
 - c. Bank transfer schedule
 - d. Proof of cash
14. An auditor who is engaged to examine the financial statements of a business enterprise will request a cutoff bank statement primarily in order to
- a. Verify the cash balance reported on the bank confirmation inquiry form.
 - b. Verify reconciling items on the client's bank reconciliation
 - c. Detect lapping.
 - d. Detect kiting.
15. The auditors use a bank cutoff statement to compare:
- a. Deposits in transit on the year-end cash general ledger account to deposits in the cash receipts journal.
 - b. Checks dated prior to year-end to the outstanding checks listed on the year-end bank reconciliation.
 - c. Deposits listed on the cutoff statement to disbursements in the cash disbursements journal.
 - d. Checks dated subsequent to year-end to the outstanding checks listed on the year-end bank statement.
16. Which procedure is an auditor most likely to use to detect a client's outstanding at year-end that was not recorded as outstanding on the year-end bank reconciliation?
- a. Prepare a bank transfer schedule using the client's cash receipts or cash disbursements journal.
 - b. Receive a cutoff bank statement directly from the client's bank.
 - c. Prepare a four-column bank reconciliation using the year-end bank statement.
 - d. Confirm the year-end balance using the standard form to confirm account balance information with the financial institutions.
17. A reconciliation that includes proof of receipts and disbursements that is useful in discovering discrepancies in handling cash over a certain of period of time.
- a. Bank statement
 - b. Bank reconciliation
 - c. Proof of cash
 - d. Cash requirement report
18. Proof of cash or four-column bank reconciliation is normally prepared by
- a. The auditor
 - b. The client
 - c. Either the client or auditor
 - d. Neither client nor auditor
19. The following specific scenarios are normally uncovered using proof of cash. Select the exception:
- a. Cash receipts and disbursements recorded in the accounting records, but not on the bank statement.
 - b. Cash deposits and disbursements on the bank statement, but not on the accounting records.
 - c. Cash receipts and disbursements not recorded in the accounting records and bank statement.
 - d. Cash receipts and disbursements recorded at different amounts by the bank than in the accounting records.
20. By preparing a four-column bank reconciliation (proof of cash) at year-end, an auditor will generally be able to detect:
- a. An unrecorded deposit made at the bank at the end of the month.
 - b. A second payment of an accounts payable which had already been paid in full two months earlier.
 - c. An embezzlement of cash receipts not recorded in the cash receipts journal before they had been deposited into the bank.
 - d. A receivable collected that had previously been written off as uncollectible.
21. This document show the dates of all transfers of cash among the various bank accounts. Its primary purpose is to help auditors detect kiting.
- a. Cutoff bank statement
 - b. Bank reconciliation
 - c. Bank transfer schedule
 - d. Proof of cash
22. Kiting would least likely be detected by:
- a. Analyzing details of large cash deposits around year-end.
 - b. Comparing customer remittance advices with recorded disbursements in the cash disbursements journal.
 - c. Preparing four-column bank reconciliation for all major cash accounts.
 - d. Preparing a schedule of interbank transfer by using the client's records and bank statements around year-end.
23. A practical and effective audit procedure for the detection of lapping is:
- a. Preparing an interbank transfer schedule.
 - b. Comparing recorded cash receipts in detail against items making up the bank deposits as shown on duplicate slips validated by the bank.
 - c. Tracing recorded cash receipts to postings in customers' ledger cards.
 - d. Preparing a proof of cash.

SUBSTANTIVE TEST OF RECEIVABLES AND SALES

24. Which of the following is a procedure to verify the existence of receivables and/or occurrence of sales?
- a. Vouching receivables to shipping documents.
 - b. Vouching recorded sales transactions to customer orders and shipping documents.
 - c. Tracing the shipping documents to recorded sales transactions and receivable.
 - d. Confirmation of receivable to customers.
25. Of the two forms of confirmation request, which is considered more reliable source of evidence?
- a. Positive confirmation
 - b. Negative confirmation
 - c. Both are equally reliable
 - d. None of the two is considered more reliable
26. Which of the following scenario would negative confirmation be inappropriate?

- a. The assessed level of inherent and control risk for receivable and sales is very low.
 - b. Very few or no exceptions expected.
 - c. The auditor has a reason to believe that recipients of negative confirmation requests will disregard such confirmation requests.
 - d. The receivable comprises a large number of small, homogeneous account balances.
27. Which of the following is the best argument against the use of negative confirmation accounts receivable confirmations?
- a. The cost per response is excessively high.
 - b. There is now way of knowing if the intended recipients received them.
 - c. Recipients are likely to feel that in reality the confirmation is a subtle request for payment.
 - d. The inference drawn from receiving no reply may not be correct.
28. Which of the following would be least likely to diminish the validity of evidence obtained through confirmation of accounts receivable?
- a. The confirmations are sent on the client's letterhead.
 - b. The confirmations are mailed to customers by the internal auditors.
 - c. The client's mailroom personnel closely monitor and inspect confirmations during mailing.
 - d. The return address on the envelope used to send the confirmation request is that of the client.
29. To test the existence assertion for recorded receivables, an auditor would select a sample from the
- a. Sales order file
 - b. Customer purchase orders
 - c. Accounts receivable subsidiary ledger
 - d. Shipping documents (bills of lading) file.
30. What is the primary assertion being addressed by confirmation of receivables?
- a. Completeness
 - b. Existence
 - c. Gross valuation
 - d. Accuracy
31. During the process of confirming receivables as of December 31, 2015, a positive confirmation was returned indicating the "balance owed as of December 31 was paid on January 9, 2016." The auditor would most likely
- a. Determine whether there were any changes in the account between January 1 and January 9, 2016.
 - b. Determine whether a customary trade discount was taken by the customer.
 - c. Reconfirm the zero balance as of January 10, 2016.
 - d. Verify that the amount was received.
32. Which of the following is least likely to be typically considered to be an alternate procedure for handling nonreplies to positive accounts receivable confirmations?
- a. Examine bills of lading.
 - b. Physically examine items sold.
 - c. Examine correspondence.
 - d. Examine subsequent cash receipts.
33. An auditor confirms a representative number of open accounts receivable as of December 31, 2013, and investigate respondents' exceptions and comments. By this procedure the auditor would be most likely to learn of which of the following?
- a. One of the cashiers has been covering a personal embezzlement by lapping.
 - b. One of the sales clerks has not been preparing charge slips for credit sales to family and friends.
 - c. One of the computer control clerks has been removing all sales invoices applicable to his account from the data file.
 - d. The credit manager has misappropriated remittances from customers whose accounts have been written off.
34. Which of the following types of misstatements is least likely a concern the auditor when verifying the occurrence of sales?
- a. Recorded sale with no shipment.
 - b. Sale recorded more than one.
 - c. Shipments in transit to customer at year-end.
 - d. Shipments made to non-existent customers
35. Which of the following is the best audit procedure to detect sale with no shipment?
- a. Trace from sales journal entry to shipping document
 - b. Check cancellation of shipping documents
 - c. Review segregation of duties and ensure the person recording sales should not authorize shipments.
 - d. Trace from shipping documents to recorded sales transactions.
36. Tracing recorded sales transactions in the sales journal to the shipping documents (bills of lading) provides evidence about the:
- a. Completeness of recording of sales transactions
 - b. Occurrence of sales transactions
 - c. Billing of all sales transactions
 - d. Presentation of payables
37. If the objective of as test of details is to detect overstatements of sales, the auditor should trace transactions from the
- a. Cash receipts journal to the sales journal
 - b. Sales journal to the cash receipts journal
 - c. Source documents to the accounting records
 - d. Accounting records to the source documents
38. Which of the following procedures is least likely to help auditors to assess the adequacy of management's accounting estimate of the allowance of doubtful accounts?
- a. Investigate confirmation exceptions for indication of amounts in dispute.
 - b. Review accounts which have been written off as uncollectible prior to year-end.
 - c. Investigate credit rating for large accounts receivable.
 - d. Discuss with the client manager the current status of doubtful accounts.
39. Which of the following procedures is a likely procedure to test the adequacy of the allowance for doubtful accounts?
- a. Examine cash receipts and received after year-end.

- b. Confirm receivables.
 - c. Examine dates of purchase orders.
 - d. Foot the receivables lead schedule.
40. Which of the following is considered the best audit procedure to obtain evidence regarding the collectability of a receivable?
- a. Analysis of the allowance for doubtful accounts
 - b. Sending confirmation for doubtful accounts
 - c. Reviewing subsequent payment of customers subsequent to reporting date
 - d. Cross-footing the aging schedule of receivables.
41. Cutoff tests designed to detect credit sales made before the year-end that have been recorded in the subsequent year provide assurance about management's assertion of
- a. Presentation
 - b. Rights
 - c. Completeness
 - d. Existence
42. Your client left the cash receipts journal open after 12/31/2015 for an extra day and included January 1, 2016 cash receipts in the 12/31/2015 totals. All of those cash receipts were due to cash sales. Assuming the client uses a periodic inventory system with a 12/31/2015 count of the physical inventory, which of the following is most likely to be true relating to the year 2015 financial statements?
- a. Sales are understated.
 - b. Accounts receivable are understated.
 - c. Inventory is overstated.
 - d. Net income is overstated.
43. What type of error is the CPA most likely to discover when he/she examines all shipping reports dated in January of 2016, shipped FOB shipping point, which were recorded in December of 2015 as credit sales?
- a. Accounts receivable are overstated at December 31, 2015
 - b. Accounts receivable are understated at December 31, 2015
 - c. Operating expenses are overstated for the 12 months ended December 31, 2015
 - d. Sales returns and allowance are overstated at December 31, 2015
44. A client might overstate December 31 accounts receivable balances by dating and recording January transactions in December. Such entries recorded in which journal are most likely to achieve this end?
- a. Cash receipts
 - b. Purchases
 - c. Payroll
 - d. Sales
45. Which procedure would be of most assistance to an auditor discovering a large credit sale that has erroneously been recorded twice?
- a. Footing the sales journal
 - b. Sending accounts receivable confirmations
 - c. Tracing the total sales in the sales journal to the general ledger
 - d. Observation of the physical inventory count at year-end
46. To obtain the best evidence regarding the completeness of recorded accounts receivable, the auditors
- a. Trace a sample of the bills of lading to sales invoice
 - b. Confirm a sample of accounts payable
 - c. Review the aging of account receivable
 - d. Trace a sample of recorded sales to shipping documents
47. Which of the following generally provides the least evidence regarding the valuation of accounts receivable?
- a. Reviewing an aging of account receivable
 - b. Examining of cash receipts subsequent to the balance sheet date
 - c. Confirming current (0-30 day) year-end accounts receivable
 - d. Reviewing credit files for selected account
48. An auditor's analytical procedures have revealed that the accounts receivable of a client have doubled since the end of the prior year. However, the allowance for doubtful accounts, as a percentage of accounts receivable remained about the same. Which of the following client explanation most likely would satisfy the auditor?
- a. Credit standards were liberalized in the current year.
 - b. Twice as many customers accounts receivable were written off in the prior year as compared to this year.
 - c. A greater percentage of accounts were currently listed in the "more than 90 days overdue" category than in the prior year.
 - d. The client opened as second retail outlet in the current year and its credit sales approximately equaled the older, established sales.

SUBSTANTIVE TEST OF INVENTORIES AND COST OF SALES

49. Which of the following is not one of the independent auditor's objectives regarding the examination of inventories?
- a. Verifying that inventory counted is owned by the client.
 - b. Verifying that the client has used proper inventory pricing.
 - c. Ascertaining the physical quantities of inventory on hand.
 - d. Verifying that all inventory owned by the client is on hand at the time of the count.
50. Which of the following is not a reason for the special significance attached by the auditors to the verification of inventories?
- a. The determination of inventory valuation directly affects net income.
 - b. The existence of inventories is inherently difficult to substantiate.
 - c. Special valuation problems often exist for inventories.
 - d. Inventories are often the largest current asset of an enterprise.
51. Which of the following is true about the auditor's observation of the client's physical inventory?
- a. The count must be made at year-end.
 - b. The auditor should supervise the client's personnel.
 - c. The auditor's observation addresses the existence assertion.
 - d. The auditor should justify any omission of the observation in the audit report.

52. Which of the following is not true relating to the auditor's observation of the client's physical inventory?
- The auditors should evaluate the client's planning of the physical inventory.
 - The auditors should make certain that consigned items from suppliers are included in physical inventory totals.
 - The auditors should evaluate the adequacy of the client's counting procedures.
 - The auditors should test counts of the client's inventory.
53. Which of the following is the best audit procedure for the discovery of damaged merchandise in a client's ending inventory?
- Compare the physical quantities of slow-moving items with corresponding quantities of the prior year.
 - Observe merchandise and raw materials during the client's physical inventory taking.
 - Review the management's inventory representation letter for accuracy.
 - Test overall fairness of inventory values by comparing the company's turnover ratio with the industry average.
54. Which of the following audit procedures most likely would provide assurance that a manufacturing entity's inventory valuation is proper?
- Testing the entity's computation of standard overhead rates.
 - Obtaining confirmation of inventories pledged under loan agreements.
 - Reviewing a cutoff procedure for inventories.
 - Tracing test counts to the entity's inventory listing.
55. The client's physical count of inventories is lower than the inventory quantities in the perpetual records. This could be the result of a failure to record:
- Purchases
 - Sales
 - Purchases discounts
 - Sales discounts
56. Your client performed the physical count of inventory as of November 30, one month prior to year-end. Subsequently, your client closed the sales journal on 12/29/2015, two days before the year-end, and reported those two days' credit sales in January of the next year. Assuming the client uses a perpetual inventory system, which of the following is most likely overstated relating to the year 2015 financial statements?
- Sales
 - Inventory
 - Cash
 - Accounts receivable
57. Which of the following is not a procedure that is typically used by the auditors in their examination of a client's goods held in the custody of a public warehouse?
- Confirmation
 - Obtaining reports on internal control at the warehouse
 - Observation
 - Corresponding with the government regulator regarding the authenticity of the public warehouse
58. Which of the following best describes the reason that the auditors record their inventory test counts in the working papers?
- To document every test count
 - For subsequent comparison with the completed inventory listing
 - To documents compliance with generally accepted accounting principles
 - For use in subsequent audits
59. The auditor will usually trace the details of the test counts made during the observation of the physical inventory taking to a final inventory schedule. This audit procedure is undertaken to provide evidence that the items physically present and observed by the auditors at the time of the physical inventory count are:
- Owned by the client
 - Not obsolete
 - Physically present at the time of the preparation of the final inventory schedule
 - Included in the final inventory schedule
60. After accounting for a sequence of inventory tags, an auditor traces a sample of tags to the physical inventory listing to obtain evidence that all items:
- Included in the listing have been occurred.
 - Represented by inventory tags are included in the listing.
 - Included in the listing are represented by inventory tags.
 - Represented by inventory tags are bona fide.
61. An auditor has accounted for a sequence of inventory tags and is now going to trace information on a representative number of tags to the inventory summary sheets. Which assertion does this procedure relate to most directly?
- Completeness
 - Legality
 - Existence.
 - Valuation
62. An auditor performs a test to determine whether all merchandise for which the client was billed was received. The population for this test consists of all:
- Merchandise received
 - Canceled checks
 - Vendor's invoices
 - Receiving reports
63. To best ascertain that a company has properly included merchandise that it owns in its ending inventory, the auditor should review and test the:
- Terms of the open purchase orders
 - Purchase cutoff procedures
 - Contractual commitments made by the purchasing department.

- d. Purchase invoices received on or around year-end.
64. Purchase cutoff procedures should be designed to test that merchandise is included in the inventory of the client company, if the company:
- Has paid for the merchandise
 - Has physical possession of the merchandise
 - Holds legal title to the merchandise
 - Holds the shipping documents for the merchandise issued in the company's name
65. Tracing copies of computer-prepared sales invoices to copies of the corresponding computer-prepared shipping documents provides evidence that
- Shipments to customers were properly billed.
 - Entries in the accounts receivable subsidiary ledger were for sales actually shipped.
 - Sales billed to customers were actually shipped.
 - No duplicate shipments to customers were made.
66. In auditing a manufacturing entity, which of the following procedures would an auditor least likely perform to determine whether slow-moving defective, and obsolete items included in inventory are properly identified?
- Test the computation of standard overhead rates.
 - Tour the manufacturing plant or production facility.
 - Compare inventory balances to anticipated sales volume.
 - Review inventory experience and trends.
67. A "bill and hold" scheme is most likely include
- Shipment of items to a customer beyond what the customer has ordered.
 - Recording as sales that the company retains as of year-end.
 - Billing of items that are held by customers for future revenue production purposes.
 - Selling items at substantial discounts near year-end.
68. To measure how effectively a client employs its assets, an auditor calculates inventory turnover by dividing the average inventory into:
- Net sales
 - Operating income
 - Cost of goods sold
 - Gross sales
69. An inventory turnover analysis is useful to the auditor because it may detect:
- Inadequacies in inventory pricing
 - Method of avoiding cyclical holding cost
 - The optimum automatic reorder points
 - The existence of obsolete merchandise
70. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about management's assertion of:
- Completeness
 - Rights and obligations
 - Existence
 - Valuation
71. In verifying debits to perpetual inventory records of a non-manufacturing firm, the auditor would be most interested in examining the purchase
- Journal
 - orders
 - Requisitions
 - Invoices
72. The accuracy of perpetual inventory records may be established, in part, by comparing perpetual inventory records with
- Purchase requisitions
 - Purchase orders
 - Receiving reports
 - Vendor payments
73. The auditor tests the quantity of materials charged to work in process by tracing these quantities to
- Cost ledgers
 - Receiving reports
 - Perpetual inventory records
 - Material requisitions

SUBSTANTIVE TEST OF INVESTMENTS

74. Which of the following is considered a primary audit procedure to establish the existence and ownership of investments?
- Inspection of property, plant and equipment
 - Inquiry with management regarding ownership of investments
 - Inspection and count of securities
 - Recomputation of ending balance of investments
75. To establish the existence and ownership of a long-term investment in the common stock of a publicly traded company, an auditor ordinarily performs a security count or
- Relies on the client's internal controls if the auditor has reasonable assurance that the control procedures are being applied as prescribed.
 - Confirms the number of shares owned that are held by an independent custodian.
 - Determine the market price per share at the reporting date from published quotations.
 - Confirms the number of shares owned with the issuing company.
76. A client has a large and active investment portfolio that is kept in a bank safe deposit box. If the auditor is unable to count the securities at the balance sheet date, the auditor most likely will:
- Request that the bank confirm to the auditor the contents of the safe deposit box at the balance sheet date.

- b. Examine supporting evidence for transactions occurring during the year.
 - c. Count the securities at a subsequent date and confirm with the bank whether securities were added or removed since the balance sheet date.
 - d. Request the client to have the bank seal the safe deposit box until the auditor can count the securities at a subsequent date.
77. In confirming with an outside agent, such as a financial institution, that the agent is holding investment securities in the client's name, an auditor would most likely gather evidence in support of management's financial statement assertions of existence or occurrence and:
- a. Valuation or allocation
 - b. Completeness
 - c. Rights and obligations
 - d. Presentation and disclosure
78. Ensuring that all investments owned by the entity at the reporting date are included on the statement of financial position satisfies the assertion of?
- a. Valuation or allocation
 - b. Completeness
 - c. Rights and obligations
 - d. Presentation and disclosure
79. To satisfy the valuation assertion when auditing an investment accounted for by the equity method, an auditor most likely would
- a. Inspect the stock certificate evidencing the investment
 - b. Examine the audited financial statements of the investee company.
 - c. Review the broker's advice or cancelled checks for the investment's acquisition.
 - d. Obtain market quotation from financial newspapers or periodicals.
80. An auditor testing long-term investments would ordinarily use analytical procedures to ascertain the reasonableness of the:
- a. Completeness of recorded investment income
 - b. Classification between current and noncurrent portfolios
 - c. Valuation of marketable equity securities.
 - d. Existence of unrealized gains and losses in the portfolio.
81. Of the following, which is the most efficient audit procedure for verification of interest earned on bond investments?
- a. Tracing interest declarations to an independent record book.
 - b. Recomputing interest earned.
 - c. Confirming interest rate with the issuer of the bonds.
 - d. Vouching the receipts and deposit of interest checks.
82. Which of the following is the most effective audit procedure for verification of dividends earned on the investments in equity securities?
- a. Tracing deposit of dividend checks to the cash receipts book.
 - b. Reconciling amounts received with published dividend records.
 - c. Comparing the amounts received with preceding year dividends received.
 - d. Recomputing selected extensions and footing of dividend schedules and comparing totals of the ledger.
83. An auditor usually determines whether dividend income from publicly-held investments is reasonable by computing the amounts that should have been received by referring to
- a. Stock ledgers maintained by independent registrars
 - b. Reconciling amounts received with preceding year dividends received.
 - c. Comparing the amounts received with preceding year dividends received.
 - d. Recomputing selected extensions and footing of dividend schedules and comparing totals to the general ledger.
84. Ensuring that investments and related investment income accounts are properly classified, described, and disclosed in the financial statements, including notes, in accordance with the applicable PFRS satisfies the assertion of?
- a. Valuation or allocation
 - b. Completeness
 - c. Rights and obligations
 - d. Presentation and disclosure

SUBSTANTIVE TEST OF PROPERTY, PLANT AND EQUIPMENT

85. In the examination of property, plant and equipment, the auditor tries to determine all of the following except the:
- a. Extent of the control risk
 - b. Extent of property abandoned during the year
 - c. Adequacy of replacement funds
 - d. Reasonableness of the depreciation
86. Which of the following is not a test primarily used to test property, plant and equipment accounts for overstatement?
- a. Investigation of reductions in insurance coverage
 - b. Review of property tax bills
 - c. Examination of retirement work orders prepared during the year
 - d. Vouching retirements of plant and equipment
87. A continuing audit client's PPE and account receivable accounts have approximately the same year-end balance. In this circumstance, when compare to PPE one would normally expect the audit of accounts receivable to require:
- a. More audit time
 - b. Less audit time
 - c. Approximately the same amount of time
 - d. Similar confirmation procedures
88. When comparing an initial audit with a subsequent year audit for a particular client, the scope of audit procedure for which of the following accounts would be expected to decrease the most?
- a. Accounts receivable
 - b. Marketable securities
 - c. Cash
 - d. PPE
89. Which of the following best describes the auditors' approach to the audit of the ending balance of PPE for a continuing client?
- a. Direct audit of the ending balance

- b. Agreement of the beginning balance to prior year's working papers and audit of significant changes in the accounts.
 - c. Audit of changes in the accounts since inception of the company.
 - d. Audit of selected purchases and retirements for the last few years.
90. For which of the following accounts is it most likely the most of the audit work can be performed in advance of the reporting date?
- a. Accounts receivable
 - b. Current marketable securities
 - c. Cash
 - d. PPE
91. Which of the following account is not normally examined in conjunction with the audit of PPE?
- a. Sales return and allowance
 - b. Lease expense
 - c. Depreciation expense
 - d. Repairs and maintenance
92. Which of the following is a customary audit procedure for the verification of legal ownership of real property?
- a. Examination of correspondence with the corporate counsel concerning acquisition matters.
 - b. Examination of ownership documents registered and on file at a public hall of records.
 - c. Examination of corporate minutes and resolutions concerning the approval to acquire PPE>
 - d. Examination of deeds and title guaranty policies on hand.
93. Which of the following is the best evidence of continuous ownership of property?
- a. Examination of the deed.
 - b. Examination of rent receipts from lessees of the property.
 - c. Examination of the title policy.
 - d. Examination of canceled check in payment for the property.
94. Verification of the legal ownership of a property relates to the assertion of
- a. Existence
 - b. Rights and obligations
 - c. Valuation and allocation
 - d. Presentation and disclosure
95. Which of the following best describes the auditors' typical observation of plant and equipment?
- a. The auditors observe a physical inventory of plant and equipment
 - b. The auditors observe all additions to plant and equipment made during the year.
 - c. The auditors observe all major plant and equipment items in the clients' accounts each year.
 - d. The auditors observe major additions to plant and equipment made during the year.
96. Which of the following is a least likely assertion addressed by examining supporting documents to PPE addition?
- a. Existence or occurrence
 - b. Presentation and disclosure
 - c. Gross valuation
 - d. Rights and obligations
97. In testing for unrecorded retirements of equipment, an auditor might,
- a. Select items of equipment from the accounting records and then attempt to locate them during the plant tour.
 - b. Compare depreciation expense with the prior year's depreciation expense.
 - c. Trace equipment items observed during the plant tour to the equipment subsidiary ledger.
 - d. Scan the general journal for unusual equipment retirements.
98. An auditor has identified numerous debits to accumulated depreciation of equipment. Which of the following is most likely?
- a. The estimated remaining useful lives of equipment were increased.
 - b. Plant assets were retired during the year.
 - c. The prior year's depreciation expense was erroneously understated.
 - d. Overhead allocations were revised at year-end.
99. The auditors are least likely to learn of retirements of equipment through which of the following?
- a. Review of the purchase returns and allowances account.
 - b. Review of depreciation
 - c. Analysis of the debits to the accumulated depreciation accounts.
 - d. Review of insurance policy orders.
100. Ensuring that all retirements or disposal is recorded relates primary to the assertion of
- a. Completeness
 - b. Existence
 - c. Rights and obligations
 - d. Presentation and disclosure
101. Which of the following is not one of the auditors' objectives in auditing depreciation?
- a. Establishing the reasonableness of the client's replacement policy.
 - b. Establishing that the methods used are appropriate.
 - c. Establishing that the methods are consistently applied.
 - d. Establishing the reasonableness of depreciation computation.
102. Which of the following best describes the independent auditors' approach to obtaining satisfaction concerning depreciation expense in the income statement?
- a. Verify the mathematical accuracy of the amounts charged to income as a result of depreciation expense.
 - b. Determine the method for computing depreciation expense and ascertain that is in accordance with generally accepted accounting standards
 - c. Reconcile the amount of depreciation expense to those amounts credited to accumulated depreciation accounts.
 - d. Establish the basis for depreciable assets and verify the depreciation expense.
103. The audit procedure of analyzing the repairs and maintenance accounts is primarily designed to provide evidence in support of the audit proposition that all
- a. Expenditures for fixed assets have been recorded in the proper period.

- b. Capital expenditures have been properly authorized.
 - c. Noncapitalizable expenditures have been properly expensed.
 - d. Expenditures for fixed assets have been capitalized.
104. Which of the following is used to obtain evidence that the client's equipment accounts are not understated?
- a. Analyzing repairs and maintenance expense accounts
 - b. Vouching purchases of plant and equipment
 - c. Recomputing depreciation expense
 - d. Analyzing the miscellaneous revenue account.
105. For which of the following ledger account would the auditor be most likely to analyze the details to identify understatements of equipment acquisitions?
- a. Service revenue
 - b. Sales
 - c. Repairs and maintenance
 - d. Sales salaries expense
106. When performing an audit of the PPE accounts, an auditor should expect which of the following to be most likely to indicate a departure from GAAP?
- a. Repairs have been capitalized to repair equipment that had broken down.
 - b. Interest has been capitalized for self-constructed assets.
 - c. Assets have been acquired from affiliated corporations with the related transactions recorded and described in the financial statements
 - d. The cost of freight-in on an acquisition has been capitalized.
107. Property acquisitions that are misclassified as maintenance expense would most likely be detected by an internal control system that provides for:
- a. Investigation of variances within the formal budgeting system.
 - b. Review and approval of the monthly depreciation entry by the plant supervisor
 - c. Segregation of duties of employees in the accounts payable department.
 - d. Examination by the internal auditors of vendor invoices and canceled checks for property acquisitions.
108. In violation of company policy, Fred Company erroneously capitalized the cost of painting its warehouse. The auditors examining Fred's financial statements would most likely detect this when:
- a. Discussing capitalization policies with Fred's controller.
 - b. Examining maintenance expense accounts.
 - c. Observing, during the physical inventory observation, that the warehouse had been painted.
 - d. Examining the construction work orders supporting items capitalized during the year.
109. Which of the following explanations might satisfy an auditor who discovers significant debits to an accumulated depreciation account?
- a. Extraordinary repairs have lengthened the life of an asset.
 - b. Prior year's depreciation charges were erroneously understated.
 - c. A reserve for possible loss on retirement has been recorded.
 - d. An asset has been recorded at its fair value.

SUBSTANTIVE TEST OF INTANGIBLE ASSETS

110. AKV developed a new secret formula which is of great value because it resulted in a virtual monopoly. AKV has capitalized all research and development costs associated with this formula. Frederick, CPA, who is examining this account, will probably
- a. Confer with management regarding transfer of the amount from the statement of financial position to the income statement.
 - b. Confirm that the secret formula is registered and on file with the county clerk's office.
 - c. Confer with management regarding a change in the title of the account to "goodwill."
 - d. Confer with management regarding ownership of the secret formula.
111. In auditing intangible assets, an auditor most likely would obtain evidence of ownership or supporting documentations in support of management's financial statement assertion of
- a. Presentation and disclosure
 - b. Completeness
 - c. Rights and obligations
 - d. Existence or occurrence
112. There is goodwill involved in the acquisition of a business if the purchase price paid is in excess of the proprietorship of the business acquired.
- Goodwill might be viewed as the enjoyment of a profit by a company in excess of the normal or usual return for the industry as a whole but such goodwill is not recorded if it has not been purchased or paid for.
- a. False; True
 - b. False; False
 - c. True; False
 - d. True; True
113. The most likely technique for the current year audit of goodwill which was not acquired three years ago by a continuing audit client.
- a. Confirmation
 - b. Recomputation
 - c. Observation
 - d. Inquiry
114. In verifying the amount of goodwill recorded by a client, the most convincing evidence which an auditor can obtain is by comparing the recorded value of assets acquired with the
- a. Assessed value as evidence by tax bills
 - b. Seller's book value as evidence by financial statements
 - c. Insured value as evidences by insurance policies
 - d. Appraised value as evidence by independent appraisals

115. Determining that proper amount of amortization are expensed provides assurance about management's assertions of valuation and
- Presentation and disclosure
 - Completeness
 - Rights and obligations
 - Existence or occurrence
116. In auditing intangible assets, an auditor most likely would review or recomputed amortization and determine whether the amortization period is reasonable in support of management's financial statement assertion of
- Valuation
 - Existence or occurrence
 - Completeness
 - Rights and obligations
117. In connection with the audit of the prepaid insurance account, which of the following procedures is usually not performed by the auditor?
- Recomputed the portion of the premium that expired during the year
 - Prepare excerpts of the insurance policies for audit documentation
 - Confirm premium rates with an independent insurance broker
 - Examine support for premium payments
118. In connection with the audit of prepayments and deferred charges, which of the following assertion is the least concern by the auditor?
- Existence
 - Completeness
 - Valuation
 - Allocation
119. The auditor is examining whether the prepayments recorded in the statement of financial position arises from past transactions or events. This statement refers to what assertion?
- Existence
 - Rights and obligations
 - Valuation or allocation
 - Presentation and disclosure
120. Which of the following procedure is least likely to be used by the auditor when auditing prepaid expenses and deferred charges?
- Confirmation
 - Recalculation
 - Inspection
 - Observation

-END-

