

**TEST BANK FOR
AUDITING: A PRACTICAL
APPROACH WITH DATA
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Chapter 1

Introduction and Overview of Audit and Assurance

Question Type: True or False

1. GAAP and IFRS are examples of applicable financial reporting framework.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: The *applicable financial reporting framework* refers to the set of standards used in preparing the historical financial statements, such as GAAP, IFRS or a Federal Income Tax Basis of Accounting.

2. Review of financial forecasts falls under attestation services.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Attestation services (under the umbrella of assurance services) include review of historical financial statements, review of financial forecasts, and examination of internal control.

3. Within a U.S. context, the applicable financial reporting framework is typically Generally Accepted Accounting Principles (GAAP).

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: Within a U.S. context, the applicable financial reporting framework is typically generally accepted accounting principles

(GAAP).

4. Private companies, or non-issuers, are not required by the U.S. government to have an annual financial statement audit

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.2, Solution: Private companies, or non-issuers, are not required by the U.S. government to have an annual financial statement audit, but often other interested users, such as a bank or lender, may request that a private company provide audited financial statements.

5. One of the reasons there is a demand for financial statement audits is that users of financial statements often lack accounting and legal knowledge to fully understand complex accounting and disclosure choices.

A. True

B. False

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA PC: Communication, AACSB: Analytic, Learning Objective: LO1.3, Solution: Complexity: Financial statements are complex, the amounts are often affected by significant estimates, and the disclosures often require significant knowledge and experience to evaluate. Most financial statement users do not have the accounting and legal knowledge to assess the reasonableness of complex accounting and disclosure choices being made by the company.

6. In financial accounting, the balance sheet is a statement of financial position

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA PC: Communication, AACSB: Analytic, Learning Objective: LO1.3, Solution: In financial accounting, the financial statements include the balance sheet (statement of financial position), income statement (statement of comprehensive income), statement of cash flows, statement of changes in equity and accompanying notes.

7. Business valuation falls within the purview of non-assurance services.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Analytic, Learning Objective: LO1.4, Solution: Many of these accounting firms provide non-assurance (or non-audit) services as well as assurance services. These nonassurance services include management consulting, business valuation, mergers and acquisitions, insolvency, tax and accounting services.

8. Securities Exchange Act of 1934 regulates the ongoing trading of securities after the initial public offering and requires the annual audit of a public company's financial statements.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA BB: Governance Perspective, AACSB: Ethics, Learning Objective: LO1.5, Solution: The Securities Exchange Act of 1934 regulates the ongoing trading of securities after the initial public offering and requires the annual audit of a public company's financial statements.

9. The Securities Act of 1933 enhances annual financial disclosures for public companies and placed more emphasis on corporate responsibility.

A. True

B. False

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA BB: Governance Perspective, AACSB: Ethics, Learning Objective: LO1.5, Solution: The Securities Act of 1933 regulates the disclosure of financial information in a company's initial public offering of stock and requires that the financial information be audited.

10. Neither client characteristics nor actions of the auditor affect the audit risk.

A. True

B. False

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Ethics, Learning Objective: LO1.6, Solution: Audit risk is affected by client characteristics as well as actions of the auditor.

11. Materiality is a relative concept, and it differs from company to company and from year to year for a given company.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Ethics, Learning Objective: LO1.6, Solution: Materiality is a relative concept, and it differs from company to company and from year to year for a given company. Auditors design an audit to provide reasonable assurance that the financial statements are free of material misstatement. However, auditors do *not* design an audit to look for *immaterial* misstatements because they would not influence a financial statement user.

12. When auditors determine that the financial statements of a public company are presented fairly in accordance with the applicable financial reporting framework, they issue a type of report that PCAOB standards call "the standard clean report."

A. True

B. False

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Ethics, Learning Objective: LO1.6, Solution: If auditors have determined the financial statements are presented fairly in accordance with the applicable financial reporting framework, they issue the standard *unqualified* report. The PCAOB standards use the term “unqualified” report.

13. In an unqualified audit report on the financial statements of a public company, the concluding statement of the scope paragraph mentions reasonable basis for the audit firm’s opinion.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Ethics, Learning Objective: LO1.6, Solution: The scope paragraph explains, in brief terms, the process of conducting an audit. It mentions the concept of reasonable assurance about whether the financial statements are free of material misstatement. It includes an explicit statement that PCAOB audit standards were followed because the audit pertains to a public company. The scope paragraph also includes a brief discussion of the professional judgments made during the audit. Finally, it concludes with a statement that the audit firm believes that its audit provides a reasonable basis for its opinion.

14. In an audit report on the effectiveness of ICFR for a public company, the scope paragraph states the different responsibilities of management and auditors.

A. True

B. False

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA BB: Governance Perspective, AACSB: Communication, Learning Objective: LO1.7, Solution: In an audit report on the effectiveness of ICFR for a public company, the basis for opinion paragraph states the different responsibilities of management and auditors. Like the audit report on the financial statements, this paragraph references registration with the PCAOB and independence requirements of the SEC and other federal securities laws.

15. In an audit report on the effectiveness of ICFR for a public company, the scope paragraph mentions that auditors are only required to obtain reasonable assurance about whether the company maintained, in all material respects, effective ICFR.

A. True

B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA BB: Governance Perspective, AACSB: Communication, Learning Objective: LO1.7, Solution: In an audit report on the effectiveness of ICFR for a public company, the scope paragraph explains that auditors conducted their audit in accordance with the standards of the PCAOB. In brief terms, it explains the process of conducting an audit of the effectiveness of ICFR. It mentions that auditors are only required to obtain reasonable assurance about whether the company maintained, in all material respects, effective ICFR. It concludes with a statement that the audit firm believes its audit provides a reasonable basis for its opinion.

16. A financial statement user’s expectations are only impacted by legislation.

- A. True
- B. False

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Communication, Learning Objective: LO1.8, Solution: A financial statement user's expectations are often impacted by audit standards, ethical standards, regulations, legislation, and firm policy and procedures.

17. The audit expectation gap is caused by user expectations such as: The auditor will catch all instances of fraud.

- A. True
- B. False

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.8, Solution: The audit expectation gap is caused by unrealistic user expectations such as: the auditor is providing complete assurance; the auditor is guaranteeing the future viability of the entity; an unmodified audit opinion is an indicator of complete accuracy of the financial statements; the auditor will definitely find any and all fraud; and that the auditor has checked all transactions.

Question Type: Multiple choice

18. Identify a service that falls under audit services. A. examination of historical financial statements

- B. compilation of historical financial statements
- C. inspection of website security
- D. review of financial forecast

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Examination of historical financial statements comes under audit services.

19. Examination of internal controls is a service that comes under _____ services, which fall under _____ services.

- A. attestation; assurance
- B. assurance; attestation
- C. acceptable; assurance
- D. attestation; audit

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Attestation services (under the umbrella of assurance

services) include review of historical financial statements, review of financial forecast, and examination of internal control.

20. Compared to an audit of historical financial statements, a review engagement is _____.

- A. less extensive and also less expensive
- B. more extensive and also more expensive
- C. less extensive but more expensive
- D. more extensive but less expensive

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: In a review engagement, the practitioner expresses *limited assurance* that no material modifications need to be made to the financial statements. So a review of historical financial statements is a less extensive, and therefore, less expensive service that can be very useful for smaller private companies.

21. Who are the only *licensed* accounting professionals in the United States?

- A. Certified Public Accountants (CPA)
- B. Chartered Accounts (CA)
- C. Financial Accountants (FA)
- D. Chief financial and operating officer (CFOO)

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Certified Public Accountants (CPA) are the only *licensed* accounting professionals in the United States.

22. As attestation services encompass more than just the inspection of historical financial statements, the term _____ is used rather than _____.

- A. *practitioner; auditor*
- B. *auditor; practitioner*
- C. *intended user; auditor*
- D. *intended user; practitioner*

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: In attestation services, the term *practitioner* is used rather than *auditor* because attestation services encompass more than just the audit of historical financial statements.

23. What services are defined as independent professional services that improve the quality of information, or its context, for decision makers?

- A. assurance services
- B. attestation services
- C. absolute assurance
- D. audit services

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: Assurance services are defined as independent professional services that improve the quality of information, or its context, for decision makers.

24. The most common assurance service is the _____. A. audit of a company's historical financial statements

- B. compilation of financial statements
- C. review of a company's financial controls
- D. review of a company's historical financial statements

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: The audit of a company's historical financial statements is the most common assurance service.

25. A review of historical financial statements is an example of _____.

- A. attestation service
- B. absolute assurance
- C. financial forecast
- D. applicable financial reporting framework

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: An example of an attestation service is a review of historical financial statements.

26. Assurance, attestation, and auditing are similar because all three represent a common process of _____.

- A. taking information prepared by someone else and comparing that information to an established set of criteria.
- B. compiling and reviewing historical financial statements and providing non-financial information.
- C. compiling historical financial statements and providing non-financial information and web security.

D. reviewing financial forecast, examining internal controls, and providing website security.

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: The terms assurance, attestation, and auditing are sometimes used interchangeably, but they actually represent different types of services. They are similar because they all represent a common process of an independent accounting firm taking information prepared by someone else and comparing that information to an established set of criteria.

27. Which of the following is true of assurance services?

- A. Both attestation and auditing services fall under the term of assurance services.
- B. The term *information* refers to subject matter that is an entire system, not standalone data.
- C. The services are performed by someone who was involved with the creation of the information.
- D. The *intended user* is an independent Certified Public Accountant qualified to perform the auditing service.

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: Both attestation and auditing services fall under the term of assurance services. The term *independent* implies that the service is performed by someone who was not involved with the creation of the information and who is objective in the evaluation of the information. The term *information* refers to subject matter that can be standalone data or entire systems. The *auditor* refers to an independent Certified Public Accountant, or CPA, who is qualified to perform the auditing service.

28. When CPAs are hired to report on the integrity of financial forecasts and reports on financial reporting processes, it is called an _____.

- A. attestation service
- B. absolute assurance
- C. applicable financial reporting framework
- D. audit service

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: Companies produce financial information that goes beyond historical financial statements. Examples include financial forecasts and reports on financial reporting processes. When CPAs are hired to report on the integrity of this type of financial information, it is called an attestation service.

29. In assurance services, the term "*information*" refers to subject matter that is _____.

- A. historical or prospective
- B. created by independent or in-house services

- C. financial and outside the purview of the non-financial
- D. internal to a company only

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Communication, Learning Objective: LO1.1, Solution: In the assurance services, the term *information* refers to subject matter that can be financial or non-financial, historical or prospective, or standalone data or entire systems, internal or external to a company.

30. Which terms does the textbook claim are used interchangeably, but actually represent different types of services?

- A. assurance, attestation, and auditing
- B. accounting, auditing, and assurance
- C. accounting, attestation, and auditing
- D. assurance, attestation, and accounting

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Assurance, attestation and auditing are used interchangeably but represent different services.

31. Which of the following is included as a focus of assurance services?

- A. Compilation of historical financial statements
- B. Examination of internal controls
- C. Review of historical financial statements
- D. Review of financial forecast

Answer: C, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: A review is a type of assurance service.

32. A key similarity between assurance, attestation, and auditing services is _____.

- A. the comparison of information prepared by someone else against an established set of criteria
- B. the comparison of actual output to projected output
- C. the comparison of financial accounting data to managerial accounting data
- D. the comparison of financial audit data to tax audit data

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Assurance, attestation, and auditing services involve the comparison of information prepared by someone else against an established set of criteria.

33. The purpose of audit services is to provide _____.

- A. financial statement users with an opinion as to the fair presentation of the financial reporting
- B. management with an opinion as to the fairness of the company's managerial accounting procedures
- C. investment advice to the company
- D. limited assurance that no material modifications need to be made to the financial statements

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: The purpose of an audit is to provide financial statement users with an opinion as to the fair presentation of the financial reporting.

34. Which are the most specific services provided by the auditor?

- A. Compilation services
- B. Audit services
- C. Attestation services
- D. Assurance services

Answer: B, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Audit services are the most specific.

35. Which is the most inclusive or broadest service provided by the auditor?

- A. Audit services
- B. Attestation services
- C. Assurance services
- D. A review of historical financial statements

Answer: C, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Assurance services are the broadest service.

36. The only professional who can audit a set of historical financial statements for a public or private company in the United States is _____.

- A. a Certified Public Accountant (CPA)
- B. a Certified Fraud Examiner (CFE)
- C. the IRS
- D. a loan officer

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: A CPA is the only professional in the United States who can audit a set of historical financial statements for a public or private company.

37. The set of standards used in preparing the historical financial statements, such as GAAP or IFRS, is referred to as _____.

- A. the applicable financial reporting framework
- B. Generally Accepted Auditing Standards (GAAS)
- C. material modifications
- D. a review of historical financial statements

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: The set of standards used in preparing the historical financial statements is referred to as the applicable financial reporting framework.

38. Any group that will be using the financial statements to make decisions, such as investors and creditors, is known as _____.

- A. intended users
- B. groups of standing
- C. decision-makers
- D. practitioners

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Intended users are any group that will be using the financial statements to make decisions.

39. Which of the following is not one of the three E's needed to become a licensed CPA?

- A. Education

- B. Examination
- C. Experience
- D. Efficiency

Answer: D, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: The three E's are education, examination, and experience.

40. The only licensed accounting professionals in the United States are:

- A. Certified Public Accountants
- B. Chartered Accountants
- C. Certified Internal Auditors
- D. Certified Fraud Examiners

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: CPAs are the only licensed accounting professionals in the United States.

41. Assurance services are defined as _____.

- A. independent professional services that improve the quality of information, or its context, for decision makers
- B. individual provisional services to improve internal controls for financial statement users
- C. individual prospective financial statement quality
- D. independent information improvement

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Assurance services are independent professional services that improve the quality of information, or its context, for decision makers.

42. Which type of entity generally finds a review of historical financial statements to be the most useful?

- A. Large public corporations
- B. Small public corporations
- C. Large private corporations

D. Small private corporations

Answer: D, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Small private corporations typically find reviews to be the most useful.

43. Which of the following is a characteristic of an audit of historical financial statements?

- A. It provides limited assurance that no material modifications need to be made to the financial statements.
- B. It expresses an opinion on the fair presentation of the financial statements.
- C. It is the same as an examination of internal controls.
- D. It is broader than a review engagement.

Answer: B, Taxonomy: Comprehension Application, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: An audit expresses an opinion on the fair presentation of the financial statements.

44. Which of the following is not one of the four sections tested on the CPA exam?

- A. Auditing and Attestation
- B. Business Environment and Concepts
- C. Regulation
- D. Internal Controls

Answer: D, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Internal controls are not one of the four parts of the CPA exam.

45. What is the final step in becoming a licensed CPA?

- A. Taking the CPA exam
- B. Meeting the educational requirements
- C. Work experience
- D. Evidence of personal integrity

Answer: C, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: The final step is getting the required work experience.

46. Independent professional attestation services improve the quality of information. Quality is best described as an improvement in informational _____. A. relevance and reliability.
- B. financial and nonfinancial qualities
 - C. historical and prospective qualities
 - D. internal and external qualities

Answer: A, Taxonomy: Comprehension : Application, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Relevance and reliability improve the quality of information.

47. The term practitioner would be least likely to be used when referring to the performance of _____.
- A. audit services
 - B. attestation services
 - C. assurance services
 - D. bookkeeping services

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: The term practitioner would least likely be used when referring to an audit because it is so specific that professionals who perform audits are called auditors.

48. A review of historical financial statements as compared to an audit of historical financial statements _____.
- A. is more extensive in terms of the work product required
 - B. is typically less expensive
 - C. provides greater assurance
 - D. provides an opinion

Answer: B, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: A review is typically less expensive than an audit because much less time and effort are involved.

49. The term independent with respect to assurance services implies that the service is _____.
- A. performed by someone who was not involved with the creation of the information.
 - B. performed by someone who was involved with the creation of the information and, therefore, fully understands it.

- C. performed by a company employee.
- D. is subjective.

Answer: A Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: LO1.1, Solution: Independence implies that the service is performed by someone who was not involved with the creation of the information.

50. Examination of non-financial information falls under _____ services and outside of _____ services.

- A. assurance; audit
- B. attestation; assurance
- C. audit; assurance
- D. attestation; audit

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Assurance services include compilation of historical statements, website security, IT operations, and non-financial information. Attestation services (under the umbrella of assurance services) include review of historical financial statements, review of financial forecast, and examination of internal control. Historical financial statements come under audit services.

51. Among the various processes relating to auditing and assurance standards, the largest umbrella represents _____ services.

- A. assurance
- B. attestation
- C. audit
- D. review

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.1, Solution: Among the various processes relating to auditing and assurance standards, the largest umbrella represents assurance services: independent professional services that improve the quality of information, or its context, for decision makers.

52. Within a U.S. context, the applicable financial reporting framework is typically _____.

- A. Generally Accepted Accounting Principles (GAAP)
- B. International Standard on Quality Control (ISQC)
- C. Auditing and Assurance Standards Board (AASB)
- D. International Financial Reporting Standards (IFRS)

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: Within a U.S. context, the applicable financial reporting framework is typically generally accepted accounting principles (GAAP).

53. Which two audits does an integrated audit combine?

- A. A financial statement audit and an audit of the effectiveness of ICFR
- B. A financial statement audit and a compliance audit
- C. A compliance audit and an audit of the effectiveness of ICFR
- D. A performance audit and an environmental audit

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: An integrated audit is an audit that combines the financial statement audit with an audit of the effectiveness of ICFR.

54. The audit related to which of the following is specifically meant to express an opinion on the effectiveness of the company's system of internal controls over financial reporting?

- A. ICFR
- B. GAAP
- C. FASB
- D. AICPA

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: Public companies in the U.S. are also required to have an audit of internal controls over financial reporting (ICFR). The objective in an audit of ICFR is to express an opinion on the effectiveness of the company's system of internal controls over financial reporting (AS 2201.03) following section 404(b) of the Sarbanes Oxley Act of 2002.

55. Which audit involves gathering evidence to determine whether the person or entity under review has followed the rules, policies, procedures, laws and regulations with which they must conform?

- A. A compliance audit
- B. A performance audit
- C. An integrated audit
- D. An internal audit

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: A compliance audit involves gathering evidence to determine whether the person or entity under review has followed the rules, policies, procedures, laws and regulations with which they must conform.

56. What is a compliance audit?

- A. an audit to determine whether the entity has conformed with regulations, rules or processes
- B. an assessment of the economy, efficiency and effectiveness of an organization's operations
- C. an evaluation and improvement of risk management, internal control procedures and elements of the governance process
- D. an assessment of the company's financial statements

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: A compliance audit is an audit to determine whether the entity has conformed to regulations, rules, or processes.

57. What is the applicable financial reporting framework in the U.S. known as?

- A. GAAP
- B. GAAS
- C. IFRS
- D. The Internal Revenue Code

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: GAAP is the applicable financial reporting framework in the U.S.

58. Public companies, or issuers, in the U.S. are _____.

- A. required by the federal government to have quarterly financial statement audits
- B. required by the federal government to have annual financial statement audits
- C. required by the federal government to have semi-annual financial statement audits
- D. not required by the federal government to have financial statement audits

Answer: B : Knowledge: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: Public companies in the U.S. are required to have annual financial statement audits.

59. Private companies, or non-issuers, in the U.S. are _____.

- A. required by the federal government to have quarterly financial statement audits
- B. required by the federal government to have annual financial statement audits
- C. required by the federal government to have semi-annual financial statement audits

D. not required by the federal government to have financial statement audits

Answer: D, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: Private companies in the U.S. are not required by the federal government to have financial statement audits.

60. Which of the following statements is true?

- A. Often interested users, like banks, ask private companies or non-users to provide audited financial statements.
- B. Public users are required to have three audits a year.
- C. Public users are required to have an audit of internal financial forecast reports (IFFRs).
- D. For efficiency purposes, the three required audits for public companies are performed at the same time.

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: Often interested users, like banks, ask private companies or non-users to provide audited financial statements.

61. ICFR stands for:

- A. internal controls over financial reporting.
- B. internal controls for reporting.
- C. international controls over financial reporting.
- D. internal controls over forecast reports.

Answer: A Taxonomy, TAXONOMY: K, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: ICFR stands for internal control over financial reporting.

62. The limitations of an audit are NOT caused by _____.

- A. the nature of financial reporting.
- B. the nature of audit procedures.
- C. the need for the audit to be conducted within a reasonable period of time at a reasonable cost.
- D. a guarantee that the financial statements are free from error

Answer: D, Taxonomy: C, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: Limitations of an audit are caused by the nature of financial reporting, the nature of audit procedures, and the need for an audit to be conducted within a reasonable period of time.

63. The nature of audit procedures refers to the _____.

- A. reliance on evidence provided by the client and its management
- B. use of judgment when preparing financial statements due to the subjectivity required when arriving at accounting estimates
- C. materiality of misstatement
- D. pressures auditors face to complete their audit within a certain time frame at a reasonable cost

Answer: A, Taxonomy: C, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: The nature of audit procedures refers to the reliance on evidence provided by the client and its management.

64. A financial statement audit is conducted to _____.

- A. enhance the reliability and credibility of the information included in the financial statements
- B. guarantee that the financial statements are free from error or fraud
- C. determine whether financial documents were altered by those committing a fraud
- D. focus on finding all misstatements in the financial records

Answer A Taxonomy, Taxonomy: C, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: A financial statement audit is conducted to enhance the reliability and credibility of the information included in the financial statements.

65. An integrated audit refers to two audits performed at the same time, or _____.

- A. an audit on the effectiveness of internal controls and an audit of the financial statements for external purposes.
- B. an internal audit and an external audit with the same identical objectives.
- C. an audit for intentional material misstatements and an audit for errors.
- D. an audit based on time constraints and an audit based on cost constraints.

Answer A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: An integrated audit refers to an audit on the effectiveness of internal controls and an audit of the financial statements for external purposes.

66. The nature of audit procedures can refer to the concept of _____.

- A. consistency
- B. timeliness
- C. effectiveness
- D. materiality

Answer: D, Taxonomy: C, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: The nature of audit procedures can refer to the concept of materiality.

67. Pressures of time and money may affect the audit due to all of the following EXCEPT _____.

- A. clients want to issue their financial statements by a certain date
- B. clients refusing to pay additional fees for additional audit effort and time
- C. pressures within the CPA firm to complete all audits on a timely basis to avoid incurring costs that may not be recovered
- D. pressures by shareholders to find all misstatements in the financial reports

Answer: D, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: Pressures by shareholders to find all misstatements in the financial reports do not affect the pressures of time and money in and audit.

68. If the auditors do not have access to all the information relevant to the audit, this is known as a(an) _____.

- A. material misstatement
- B. limitation in scope
- C. estimate
- D. sampling technique

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.6 Solution: A limitation in scope occurs when the auditors do not have access to all the information relevant to the audit.

69. What type of audit involves gathering evidence to determine whether the person or entity under review has followed the rules?

- A. A compliance audit
- B. An operational audit
- C. A financial statement audit
- D. An integrated audit

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: A compliance audit involves gathering evidence to determine whether a person or entity under review has followed the rules.

70. What type of audit is concerned with the economy, efficiency and effectiveness of an organization's activities?

- A. A compliance audit

- B. An operational audit
- C. A financial statement audit
- D. An integrated audit

Answer: B, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: An operational audit is concerned with the economy, efficiency and effectiveness of an organization's activities.

71. What type of audit provides an opinion by the auditor about whether the financial statements are presented fairly in accordance with an applicable financial reporting framework?

- A. A compliance audit
- B. An operational audit
- C. A financial statement audit
- D. An audit on the effectiveness of ICFR

Answer: C, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: A financial statement audit provides an opinion about whether the financial statements are presented fairly in accordance with an applicable financial reporting framework.

72. What type of audit is conducted to provide assurance about various aspects of an organization's activities rather than the reliability of financial statements? a(an)

- A. compliance audit
- B. operational audit
- C. financial statement audit
- D. internal audit

Answer: D, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Reporting, AACSB: Analytic, Learning Objective: 1.2 Solution: An internal audit is conducted to provide assurance about various aspects of an organization's activities.

1. Those charged with governance are the _____.

- A. CEO, CFO, and COO
- B. board of directors and management of an entity
- C. stockholders
- D. auditors

Answer: B, Taxonomy: Knowledge, Difficulty: Easy, AICPA BB: Governance Perspective, AACSB: Analytic, Learning Objective: 1.2 Solution: The board of directors and management of an entity are those charged with governance.

73. In the United States, what entities are required by the federal government to have an annual financial statement audit?

- A. public companies or issuers
- B. private companies or issuers
- C. public companies or non-issuers
- D. private companies or non-issuers

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.2, Solution: Public companies, or issuers, in the U.S. are required by the federal government to have an annual financial statement audit. Private companies, or non-issuers, are not required by the U.S. government to have an annual financial statement audit, but often other interested users request that a private company provide audited financial statements.

74. Who among the following users of the financial statement of a company may be particularly interested in evaluating whether the company is paying a fair amount of taxes given its reported earnings, and to gain a better understanding of the company's activities?

- A. government
- B. general public
- C. employees
- D. investors

Answer: A, Taxonomy: Knowledge, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Analytic, Learning Objective: LO1.3, Solution: Governments may read financial statements to determine whether the company is complying with regulations, to evaluate if the company is paying a fair amount of taxes given its reported earnings, and to gain a better understanding of the company's activities. A company in receipt of government grants often must provide a copy of its audited financial statements when applying for a grant and when reporting on how grant funds have been spent.

75. Since users of financial statements make financial decisions that have real consequences, it is very important that users can depend on the information contained in the financial statements. What term captures this problem?

- A. reliability
- B. competing incentives
- C. complexity
- D. remoteness

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Analytic, Learning Objective: LO1.3, Solution: Financial statement users are concerned with the reliability of the information contained in the financial statements. Since they use that information to make decisions that have real consequences, it is very important that users can rely on the information contained in the financial statements.

76. Most financial accounting and disclosure choices being made by the company are complicated and often require significant technical knowledge and experience in order to understand. What term captures this problem?

- A. Complexity
- B. Remoteness
- C. Competing incentives
- D. Reliability

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Ethics, Learning Objective: LO1.3, Solution: Financial statements are complex, the amounts are often affected by significant estimates, and the disclosures often require significant knowledge and experience to evaluate. Most financial statement users do not have the accounting and legal knowledge to assess the reasonableness of complex accounting and disclosure choices being made by the company.

77. Among the reasons why users demand an audit of financial statements, what is the problem of competing incentives?

- A. The company has a reason to disclose information in a way that presents it in favorable light.
- B. Financial statement users lack accounting and legal knowledge to understand accounting and disclosure choices.
- C. Financial statement users do not have access to the company under review and thus face difficulty in determining whether the statements are fair.
- D. Financial statement users need reliable information in order to make decisions that have real consequences.

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA PC: Communication, AACSB: Analytic, Learning Objective: LO1.3, Solution: Competing incentives: Company managers have an incentive to disclose the information contained in the financial statements in a way that presents their performance in the best possible light. Users may find it difficult or impossible to identify when management is presenting biased information.

78. Which of the following falls within the purview of financial accounting?

- A. Changes in equity
- B. Management consulting
- C. Business valuation
- D. Mergers and acquisitions

Answer: A, Taxonomy: Comprehension, Difficulty: Easy, AICPA FC: Measurement Analysis and Interpretation, AACSB: Analytic, Learning Objective: LO1.4, Solution: Financial accounting looks into statements that include the balance sheet (statement of financial position), income statement (statement