

Question 1

What rights do secondary investors (i.e. those who purchase shares after an initial offering) have to sue an auditor?

- A) since they are third-party claimants, they would be part of a limited class of known users
- B) they could claim contributory negligence, since they had prior information of company results
- C) they can sue under provincial legislation without the need to prove reliance
- D) since there is absence of causal connection, they would not be able to sue the auditors

Answer: <https://biology-forums.com/index.php?topic=696553>

Question 2

Audit evidence can come in different forms with different degrees of persuasiveness. Which of the following is the least persuasive type of evidence?

- A) bank statement obtained from the client
- B) computations made by the auditor
- C) prenumbered client sales invoices
- D) vendor's invoice

Answer: <https://biology-forums.com/index.php?topic=696813>

Question 3

Otto decided to outsource the payroll function to Magna Plus. From the purpose of an assurance engagement, Magna is considered a

- A) service organization.
- B) user entity.
- C) payroll administrator.
- D) human resource company.

Answer: <https://biology-forums.com/index.php?topic=697285>

Question 4

Gary West is a sole practitioner. He has conducted the audit of Reggie's Farm for the past 12 years. In the current year, Reggie's Farm expanded by acquiring two other farms, installed a new accounting system and also started to export to the United States. Gary accepted the audit of Reggie's Farm for the upcoming year even though he has no experience with exports to the US or companies of the size of Reggie's Farm. Which element of quality control is compromised for Gary's firm?

- A) Independence
- B) Client acceptance or continuance
- C) Extent of professional development
- D) General ethical requirements

Answer: <https://biology-forums.com/index.php?topic=696423>

Question 5

The "unqualified report with explanatory paragraph" or 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 but further explanation is required.
- D) meet the criteria of a complete audit but with unsatisfactory results.

Answer: <https://biology-forums.com/index.php?topic=697575>

Question 6

What action will a lawyer likely take if they have information about a law suit that was not mentioned by the client?

- A) in the legal letter, tell the auditor the number of suits, and request the auditor to contact the client
- B) request the client to notify the auditor about the lawsuit
- C) they will not mention the lawsuits, they are confidential
- D) the law firm will refuse to answer the legal letter, since it is incorrect

Answer: <https://biology-forums.com/index.php?topic=697508>

Question 7

You have just been given the approval to conduct statistical sampling for the audit of capital assets acquisitions. Previously, this work was completed using a judgmental sample.

Required:

Explain the key areas where decisions need to be made when conducting audit work using a statistical sample.

Answer: <https://biology-forums.com/index.php?topic=697026>

Question 8

A communication addressed to the debtor requesting him or her to confirm whether the balance as stated on the communication is correct or incorrect is a

- A) legal confirmation.
- B) negative confirmation.
- C) positive confirmation.
- D) bank confirmation.

Answer: <https://biology-forums.com/index.php?topic=697139>

Question 9

Which of the following internal controls over notes payable address risks associated with the accuracy, allocation and completeness audit assertions?

- A) renewals or new notes should be approved by the Board of Directors (as evidenced in the minutes) or by senior management
- B) authorized employees should perform independent recalculations of interest and reconciliation of the notes payable balance to the general ledger
- C) subsidiary records should be maintained for each note, and there should be control over blank and paid notes
- D) paid notes should be cancelled and retained under the custody of an authorized official

Answer: <https://biology-forums.com/index.php?topic=697433>

Question 10

An example of judgmental sampling is

- A) block sampling.
- B) simple random sample selection.
- C) systematic sample selection.
- D) proportionate-to-size sample selection.

Answer: <https://biology-forums.com/index.php?topic=696974>

Question 11

Pierre, a CA, was convicted of stealing money from his clients and for deliberately preparing personal tax returns that were false. In addition, Pierre will likely

- A) need to take additional training courses to upgrade his tax skills.
- B) need to defend himself to prove non-negligent performance.
- C) be charged with misconduct by his professional institute (or ordre).
- D) have lack of privity with the federal and provincial tax authorities.

Answer: <https://biology-forums.com/index.php?topic=696555>

Question 12

Amin is distraught. There is a big box stereo store that opened just down the block from his independent stereo and music business six months ago, and he is unable to continue operating his business. Only eight months ago, you issued an unqualified audit opinion on his financial statements, which showed the financial results of a well run, profitable store. Amin's business is experiencing

- A) customer expectation gap.
- B) audit failure.
- C) fiduciary duty.
- D) business failure.

Answer: <https://biology-forums.com/index.php?topic=696509>

Question 13

Which one of the following forms of evidence would be least reliable?

- A) monthly bank statement
- B) positive confirmation of customer's balance
- C) a letter from client's lawyer stating that there are no known lawsuits pending against client
- D) client's file copy of a purchase requisition

Answer: <https://biology-forums.com/index.php?topic=696814>

Question 14

Which of the following is the best example of an intimidation threat? Management

- A) has decided to sue you because the audit fee was twice as high as they expected.

- B) has changed auditors of all of its subsidiary companies as they can get the audit done for a lower cost.
C) threatens to change auditors if you do not let them overstate accounts receivable by \$100,000 (the bad debt allowance is too low).
D) threatens to resign from the company if the board of directors does not give them a 15% raise.

Answer: <https://biology-forums.com/index.php?topic=696479>

Question 15

Winston Chang, PA conducted the audit of Manra Manufacturing Ltd., a small company that produces a variety of machined parts for the automotive and computer industry. The audit showed that the company produced a small profit after paying the owners of the company a high salary. Manra was purchased by a competitor, Cheblay. Cheblay had hoped to produce efficiencies by combining the two companies and was unable to do so. Cheblay sued Chang because it relied upon the financial statements when purchasing the company's shares, claiming that the machines, which were about fifteen years old, had been overvalued. The machines were recorded at cost, which was below net realizable value. What is the auditor's best defence?

- A) contributory negligence
B) absence of negligence
C) duty of care
D) absence of liability

Answer: <https://biology-forums.com/index.php?topic=696538>

Question 16

Flagpole Company Limited recently upgraded its accounting software due to changes in the payroll income tax rates. Unfortunately, there was an error in the software, and income tax was calculated incorrectly. The general transaction-related audit objective affected by these errors is

- A) occurrence.
B) completeness.
C) accuracy.
D) posting and summarization.

Answer: <https://biology-forums.com/index.php?topic=696619>

Question 17

When there are problems with program change procedures or with access controls the auditor may choose to

- A) rely less upon manual controls since control risk has been increased.
B) not rely on programmed or interdependent application controls.
C) reduce control risk, which reduces the level of substantive testing.
D) use an information technology audit specialist to assess programmed application controls.

Answer: <https://biology-forums.com/index.php?topic=697060>

Question 18

Materiality is used to help decide the scope of testing, help determine the sample size and to help

- A) develop the audit report.
B) decide which analytical review calculations to use.
C) evaluate the results of testing.
D) conduct understanding of business tests.

Answer: <https://biology-forums.com/index.php?topic=696898>

Question 19

To help with corporate governance and a positive "tone at the top," the board of directors and its committees, such as the audit committee, should

- A) rubber stamp the financial statements once per year.
B) consist of all members of executive management.
C) follow the policies and procedures approved by management.
D) take an active role in overseeing the company.

Answer: <https://biology-forums.com/index.php?topic=696854>

Question 20

When the employees are paid automatically by bank deposits to the employees' accounts, in an effort to identify potential fraud, the auditor can look for

- A) duplicated bank account numbers.
B) duplicated name in the master payroll files.
C) unusual employee names.
D) cancelled cheques.

Answer: <https://biology-forums.com/index.php?topic=697277>

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