Accountant

AICPA-AUD

AICPA Auditing and Attestation (AUD)

For More Information – Visit link below:

https://www.examsboost.com/

Product Version

- ✓ Up to Date products, reliable and verified.
- ✓ Questions and Answers in PDF Format.

Latest Version: 6.0

Question: 1

Analytical procedures used as substantive procedures are used to obtain
______________________________________.

A. tests of controls
B. audit evidence about particular assertions related to account balances or classes of transactions
C. assist the auditor with assessing conclusions reached
D. professional standards

Answer: B

Explanation:
Analytical procedures used as substantive procedures are primarily utilized to gather audit evidence concerning specific assertions related to account balances or classes of transactions. These procedures are an essential aspect of the substantive testing phase during an audit.
The purpose of using analytical procedures as substantive tests is to verify the accuracy, completeness, and validity of the financial information provided by the entity. By analyzing relationships and trends within the financial data, auditors can identify areas that may require further investigation. This involves comparing current year figures with those of previous periods, expected results based on forecasts or budgets, or industry benchmarks. This comparison helps in identifying significant fluctuations or variances which could indicate potential misstatements.
For instance, if an auditor observes an unexpected increase in revenue without a corresponding increase in market share or advertisement expenditure, it could prompt a deeper examination into the revenue recognition policies applied by the entity. Similarly, if depreciation expense decreases while fixed assets increase, this inconsistency must be explored further. Auditors use these observations to target their testing more effectively, focusing on areas with higher risks of material misstatement.
Furthermore, analytical procedures can extend beyond financial data to include the examination of relevant non-financial information. This might involve considering economic conditions, market trends, or changes in industry regulations that could impact the financial statements. For example, a significant economic downturn could explain a decrease in sales figures, thereby providing a reasonable explanation for the trends observed in the financial data.
When auditors detect anomalies or unexpected changes in account relationships, they seek explanations and further evidence to understand the underlying causes. This may involve discussions with management, review of supporting documentation, or additional analytical tests. If the explanations or additional evidence provided are not satisfactory, this could lead to further detailed tests or adjustments in the financial statements.
In conclusion, analytical procedures employed as substantive procedures are crucial for obtaining detailed and reliable audit evidence regarding specific financial statement assertions. These procedures enable auditors to focus their efforts on potential risk areas, thereby enhancing the effectiveness and efficiency of the audit process.

Question: 2

Several issues relating to PCAOB implementation of Sarbanes-Oxley independence requirements through rules passed include: prior to accepting an initial engagement (ie. audit), the CPA firm must do all of the following except:

A. describe in writing to the audit committee all relationships between the CPA firm and the potential audit client that may reasonably be thought to bear on independence
B. use verbal communication only on all relationships between the CPA firm and potential audit client that may reasonably be thought to bear on independence
C. discuss any possible effects on independence of above relationships
D. document the substance of the discussion

Answer: B

Explanation:
The question revolves around the requirements set out by the Public Company Accounting Oversight Board (PCAOB) for ensuring that CPA firms maintain their independence when considering an initial audit engagement under the Sarbanes-Oxley Act of 2002 (SOX). The requirements are designed to prevent conflicts of interest and ensure the integrity of the financial reporting process. The question specifically asks which of the listed actions is *not* required by the PCAOB in this context.
First, let's clarify what the PCAOB generally mandates: 1. **Written Description of Relationships**: Before accepting an audit engagement, the CPA firm must provide a written description to the audit committee of the potential audit client. This description should detail all relationships between the firm and the client that could influence the firm's independence. 2. **Discussion on Independence Effects**: The CPA firm must discuss with the audit committee any potential effects on independence that might stem from the relationships described. 3. **Documentation of Discussions**: The firm must document the substance of these discussions to provide a clear record that can be reviewed for compliance with independence requirements.
The PCAOB's emphasis on written communication and thorough documentation is aimed at creating a transparent audit process where any potential independence issues are openly discussed and recorded. This process helps in maintaining the integrity of financial reporting and audit quality, ensuring that audits are conducted without any undue influence from prior relationships.
Now, examining the options provided in the question, they repeat the incorrect option multiple times: "use verbal communication only on all relationships between the CPA firm and potential audit client that may reasonably be thought to bear on independence." This option is not aligned with PCAOB's requirements. Instead of solely relying on verbal communication, the PCAOB insists on written descriptions and documented discussions to prevent any misunderstandings or miscommunication about the nature of the relationships and their impact on independence.
Therefore, the correct answer to the question is that the PCAOB does *not* require that the CPA firm "use verbal communication only on all relationships between the CPA firm and potential audit client that may reasonably be thought to bear on independence." Instead, the PCAOB mandates a more rigorous, formal, and documented approach to ensure auditor independence and uphold the standards of financial reporting as prescribed by the Sarbanes-Oxley Act.

Question: 3

Audit risk (AU-C 200) is when an audit should be designed to limit audit risk to an appropriately low level. Audit risk, which may be assessed in quantitative or non-quantitative terms, consists of which of the following?

A. the risk that an account and its related assertions contains material misstatements and they auditor will not detect them
B. materiality for the financial statements as a whole
C. classes of transactions or disclosures
D. performance materiality

Answer: B

Explanation:
Audit risk, as defined in AU-C 200, is a critical component in the planning and execution of financial audits. It refers to the risk that the auditor might express an inappropriate opinion on financial statements that contain material misstatements. Proper management of audit risk is essential for maintaining the credibility and reliability of the financial reporting process.
To understand audit risk fully, it is important to break it down into its components: inherent risk, control risk, and detection risk.
Inherent Risk refers to the susceptibility of an account balance or class of transactions to material misstatements, irrespective of related internal controls. This type of risk is influenced by the nature of the business or industry, the complexity of transactions, and the degree of estimation involved in preparing financial statements. For instance, companies involved in complex financial transactions or those in highly regulated industries typically have higher inherent risks.
Control Risk is the risk that a material misstatement that could occur in an account balance or class of transactions will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. This risk is largely dependent on the effectiveness of an organization's internal controls system, including the processes, policies, and procedures put in place to safeguard assets, ensure accurate financial reporting, and comply with applicable laws and regulations.
Detection Risk is the risk that the auditors' procedures will not detect a material misstatement that exists in an account balance or class of transactions. Detection risk is influenced by the nature, timing, and extent of the auditing procedures performed, as well as by the auditors' skill and effectiveness in carrying out those procedures.
Audit risk, therefore, is a function of these three risks. Auditors aim to reduce audit risk to an acceptably low level through adequate planning and design of their audit approach. This involves assessing the levels of inherent and control risks, determining the acceptable level of detection risk, and then designing audit procedures that appropriately address these assessed risks.
In practice, auditors use both quantitative and non-quantitative methods to assess these components of audit risk. Quantitative assessment might involve statistical models and probability theory to estimate the likelihood and impact of risks, while non-quantitative assessment may rely on professional judgment and experience.
Ultimately, the goal is to achieve an audit risk level that is low enough to provide reasonable assurance that the financial statements as a whole are free from material misstatement, thereby allowing the auditor to give an opinion on the financial statements. This balanced approach helps protect the

interests of all stakeholders relying on the financial statements, including investors, creditors, and other users.

Question: 4

Auditors have a certain amount of flexibility in planning the timing of substantive tests. These aspects should be considered. Which of the following is NOT considered one of those factors?

A. Factors to be considered before applying tests at an interim date before year-end
B. Auditing procedures to be followed for the remaining period (the period after the interim date through year-end)
C. Coordination of the timing of audit procedures
D. Determining the characteristics of the engagement

Answer: D

Explanation:
Auditors, in their professional capacity, often exercise discretion in deciding when to conduct substantive tests during an audit. Substantive tests are essential as they provide direct evidence that supports the accuracy of assertions made in financial statements. The timing of these tests can vary based on several factors, which are crucial to the efficiency and effectiveness of the audit process.
One of the key considerations is whether to conduct these tests at an interim date before the fiscal year-end or to wait until the year-end. Conducting tests at an interim date can be beneficial as it spreads the workload, allows early identification of issues, and facilitates timely resolution. However, this approach requires careful planning to ensure that any remaining risks are adequately addressed in the period leading up to the year-end.
Another important aspect is the coordination of the timing of audit procedures. This involves aligning various audit tasks to ensure that they build upon each other logically and efficiently. For instance, understanding how the outcomes of controls testing might impact the nature, timing, and extent of subsequent substantive testing is critical.
Despite these considerations, determining the characteristics of the engagement itself, such as the industry in which the client operates, the complexity of the transactions, the size of the organization, and the specific risk factors associated with the client, is not directly related to deciding the timing of substantive tests. While these characteristics are crucial for overall audit planning and risk assessment, they do not specifically influence the decision on when to perform substantive testing within the audit cycle. Therefore, "Determining the characteristics of the engagement" is correctly identified as not being among the factors influencing the timing of substantive tests.

Question: 5

The element of the audit planning process most likely to be agreed upon with the client before implementation of the audit strategy is the determination of the ____________________________________.

A. evidence to be gathered to provide sufficient basis for the auditor's opinion
B. procedures to be undertaken to discover litigation, claims, and assessments

C. pending legal matters to be included in the inquiry of the client's attorney
D. timing of inventory observation procedures to be performed

Answer: D

Explanation:
In the audit planning process, one critical element that typically requires agreement between the auditor and the client before the implementation of the audit strategy is the "timing of inventory observation procedures to be performed." This aspect of audit planning is crucial because it involves coordinating when the auditor will be present to observe the physical counting of inventory, a task that is inherently linked to the client's schedule and operational timing.
Inventory observation is an essential part of the auditing process since it provides the auditor with physical evidence regarding the existence and condition of the inventory, which are significant components in the preparation of the financial statements. Since inventory counts are often performed at the end of the fiscal year or at other specific times dictated by the client's accounting procedures, the auditor needs to plan to be present at these times. This coordination ensures that the auditor can observe and verify the inventory counting processes and procedures, which in turn helps in assessing the accuracy of the inventory records kept by the client.
Unlike other aspects of the audit such as determining the nature and extent of evidence to be gathered, which remain under the auditor's control and expertise, scheduling inventory observations requires active client involvement. The client controls the timing of when the physical inventory is counted, and the auditor must be there to observe it. It is not practical or feasible for the auditor to independently decide when to observe inventory without client input, as this could lead to logistical issues or conflicts with the client’s operational activities.
Furthermore, the timing of inventory observations is not just a logistical detail; it has implications for the audit's effectiveness and efficiency. Proper timing ensures that the auditor has an opportunity to witness the end-of-period inventory procedures, which can significantly impact the financial reporting and the audit conclusions regarding inventory valuation and existence.
Therefore, unlike areas such as the discovery of litigation, claims, and assessments, or inquiries into pending legal matters, which the auditor can handle with more autonomy and based on professional judgment, the timing of inventory observations needs to be explicitly planned and agreed upon with the client to ensure the smooth execution of this audit procedure. This agreement helps in setting expectations and schedules that align with both the auditor's and the client's needs, ultimately contributing to a more effective and efficiently conducted audit.

Question: 6

There are special audit considerations for long-term debt. Despite the fact that this account's turnover rate is low, considerable analysis is performed on its ______________________________.

A. beginning balance
B. ending balance
C. agreed amounts of payments
D. receipts journal

Answer: B

Explanation:
The correct answer is "ending balance". This choice emphasizes the importance of analyzing the ending balance of long-term debt during an audit. Long-term debt typically has a low turnover rate, meaning it doesn't change frequently within the accounting period. However, the ending balance of long-term debt is critical as it reflects the remaining obligation of the company at the close of the accounting period.
Auditing the ending balance of long-term debt involves several detailed and critical procedures to ensure the amount reported is accurate and in compliance with relevant accounting standards and regulations. The auditor must verify that the recorded long-term debt on the balance sheet matches the actual money owed by the company at year-end.
One common method used in auditing the ending balance of long-term debt is the use of confirmations. This involves sending confirmation requests to third parties, such as banks and other financial institutions, to verify the amounts of debt reported by the company. For example, if a debt is owed to a bank, the auditor will obtain a confirmation directly from the bank to verify the ending balance stated in the company’s financial records.
Additionally, auditors review minutes of meetings of the company's directors and/or shareholders. This is done to ensure that any new borrowing or changes to existing debt during the accounting period have been properly authorized and recorded. The review helps in verifying that the ending balance includes all new borrowings and that these are correctly reflected in the company’s financial statements.
The focus on the ending balance is crucial because it affects several aspects of a company's financial reporting and operations, including interest expense calculations, compliance with debt covenants, and the assessment of the company's financial health and stability. Thus, considerable analysis of the ending balance of long-term debt is essential to provide an accurate audit opinion.

Question: 7

An auditor most likely would make inquiries of production and sales personnel concerning possible obsolete or slow-moving inventory to support management's financial statement assertion of

__________________________.

A. Rights
B. Valuation
C. Existence
D. Presentation

Answer: B

Explanation:
When an auditor makes inquiries of production and sales personnel concerning possible obsolete or slow-moving inventory, the primary aim is to support management's financial statement assertion of **Valuation**.
Valuation, in the context of financial statements, pertains to the accuracy of the assigned values to various assets and liabilities listed on a company's balance sheet. This assertion assesses whether the assets, such as inventory, are recorded at amounts that represent the expected realizable value. Given that obsolete or slow-moving inventory may not be worth their originally stated value, such items might need to be written down or adjusted to reflect their current market value accurately. This ensures that the financial statements provide a true and fair view of the company's financial condition.

The relevance of the valuation assertion in this scenario is critical because it directly impacts how inventory is reported and valued in the financial statements. If inventory is overvalued, it can lead to an overstatement of financial health and mislead stakeholders about the company's performance and liquidity. By inquiring about inventory that is not selling or is becoming obsolete, auditors are performing due diligence to verify that the inventory valuation is both reasonable and supported by current market conditions.
While other assertions like Rights and Obligations, Existence, and Presentation are important, they are less directly related to the specific issue of inventory valuation. The Rights and Obligations assertion concerns whether the entity legally owns or has control over the listed assets and liabilities. The Existence assertion deals with the presence of assets and liabilities at a given moment. Lastly, the Presentation assertion focuses on the accurate classification and disclosure of financial elements within the statements.
In conclusion, by focusing on the Valuation assertion through inquiries about obsolete or slow-moving inventory, auditors help ensure that the financial statements reflect a realistic view of the entity's assets' worth, which is crucial for stakeholders who rely on these documents for making informed decisions. This auditing practice is integral to maintaining the integrity and accuracy of financial reporting.

Question: 8

A typical substantive audit procedures for PP&E includes performing analytical procedures to test the reasonableness (existence, completeness, and valuation) of PP&E. Typical analytical procedures involve all of the following except:

A. comparison of total cost of PP&E divided by cost of goods sold
B. comparison of total cost of PP&E minus cost of goods sold
C. comparison of repairs and maintenance on a monthly and annual basis
D. comparison of acquisitions and retirements for the current year with prior years

Answer: B

Explanation:
In the context of auditing Property, Plant, and Equipment (PP&E), analytical procedures are employed by auditors to assess various aspects of an entity's financial health and the reasonableness of recorded asset values. These procedures help in understanding the existence, completeness, and valuation of PP&E on the balance sheet. Analytical procedures typically include comparisons and ratios that highlight relationships and trends which can be indicative of potential misstatements or areas requiring further investigation.
Among the typical analytical procedures for auditing PP&E, one fundamental comparison is between the total cost of PP&E and the cost of goods sold (COGS). This ratio, often expressed as a percentage or a multiple, helps auditors assess how the capital asset base supports the production or service capacity of the business. For instance, significant fluctuations in this ratio without corresponding changes in operations might indicate errors or omissions in the accounting for PP&E.
Another common procedure is the comparison of repairs and maintenance expenses on both a monthly and annual basis. This analysis helps auditors verify that the expenses are consistent with the expected pattern of asset usage and are not instead capital expenditures misclassified as expenses, or vice versa.

Unusual trends or significant deviations from expected patterns can indicate issues like inadequate maintenance or inappropriate capitalization of costs that should be expensed.
Auditors also compare acquisitions and retirements of PP&E for the current year with those of prior years. This comparison helps in understanding the company's investment patterns and asset lifecycle management. Significant changes might suggest enhancements in capacity, efficiency improvements, or possibly disposals and write-offs that could impact the asset's valuation.
On the other hand, the comparison of total cost of PP&E minus cost of goods sold is not typically useful in auditing PP&E. This calculation does not provide relevant information about the efficiency or performance of PP&E. The subtraction of COGS from the total cost of PP&E does not lead to a meaningful ratio or comparison for evaluating the appropriateness of the PP&E's recorded value or its operational usage. The result of such a comparison does not align with the objectives of analytical procedures in auditing, which are designed to reveal useful correlations, trends, and discrepancies that could indicate misstatements or areas needing further audit attention.
Therefore, the correct answer to the question is that a typical analytical procedure does not include the comparison of the total cost of PP&E minus cost of goods sold. This option does not fit with the standard practices aimed at assessing the financial treatment and operational utilization of PP&E in a manner that would be useful for an audit.

Question: 9

Which of the following is least likely to be a restricted use report?

A. A report on internal control significant deficiencies noted in the an audit
B. A required communication with the audit committee
C. A report on financial statements prepared following a financial reporting framework other than generally accepted accounting principles
D. A report on compliance with aspects of contractual agreements

Answer: C

Explanation:
Within the context of accounting and auditing, certain reports are designated as "restricted use reports." These reports are intended for a limited audience, often due to the sensitive or specialized nature of the information they contain. The question at hand requires identifying which type of report is least likely to be considered a restricted use report.
The options presented include a report on internal control significant deficiencies noted in an audit, a report on financial statements prepared following a financial reporting framework other than generally accepted accounting principles (GAAP), a required communication with the audit committee, and a report on compliance with aspects of contractual agreements.
Firstly, a report on internal control significant deficiencies, typically generated during an audit, identifies major weaknesses that could adversely affect the organization's ability to record, process, summarize, and report financial data. This type of report is usually restricted because its contents are highly sensitive and could impact the organization's operations and reputation adversely if widely disseminated.
Similarly, communications with an audit committee, which often involve detailed and sensitive discussions about the organization's financial and compliance statuses, are restricted to ensure confidentiality and integrity in the oversight process. These reports contain information crucial for

governance and oversight but not suitable for public consumption due to potential implications for the organization's control environment and market performance.
A report on compliance with aspects of contractual agreements usually involves detailed evaluations of whether the organization adheres to the terms of specific contracts or regulatory requirements. This information is typically restricted to prevent misuse of the detailed compliance status, which could impact contractual relationships or regulatory standings.
In contrast, a report on financial statements prepared following a financial reporting framework other than GAAP, such as the International Financial Reporting Standards (IFRS) or another specialized framework, generally is not restricted. While these frameworks differ from GAAP, the reports still aim to provide a transparent and comprehensive view of the financial state of the organization to shareholders, creditors, and the public. The use of a different framework does not inherently require restriction unless specified by particular rules or the nature of the information disclosed necessitates confidentiality.
Therefore, among the options provided, a report on financial statements prepared following a financial reporting framework other than GAAP is least likely to be a restricted use report. This type of report is designed to communicate financial information broadly to inform investment and economic decisions rather than cater to a limited or specialized audience. Hence, it typically lacks the confidentiality criteria that characterize restricted use reports.

Question: 10

In which of the following circumstances would an auditor NOT express an unmodified opinion?

A. There has been a material change between periods in accounting principles
B. Quarterly financial data required by the SEC has been omitted
C. The auditor wishes to emphasize an unusually important subsequent event
D. The auditor is unable to obtain audited financial statements of a consolidated investee

Answer: D

Explanation:
The correct answer is: The auditor is unable to obtain audited financial statements of a consolidated investee. An inability to obtain the audited financial statements of a consolidated investee represents a scope limitation, and a significant scope limitation results in either a qualified opinion or a disclaimer of opinion. A material change between periods in accounting principles will result in an emphasis-of-matter paragraph being added to a report with an unmodified opinion. The omission of the SEC required quarterly financial data, which is considered "unaudited," results in a report with an unmodified opinion with an emphasis-of-matter paragraph. An auditor's emphasis of an unusually important subsequent event results in a report with an unmodified opinion with an emphasis-of-matter paragraph.