

Volume: 80 Questions

Question No : 1

A subsidiary president terminated a controller and hired a replacement without the required corporate approvals. Sales, cash flow, and profit statistics were then manipulated by the new controller and president via accelerated depreciation and sale of capital assets to obtain larger performance bonuses for the controller and the subsidiary president.

Which of the following approaches might detect this fraudulent activity?

- A. Analysis of overall management control for segregation of duties.
- B. Exit interview for all terminated employees.
- C. Periodic changes of outside public accountants.
- D. Regular analytical review of operating divisions.

Answer: D

Question No : 2

Accounting principle assumes that, a company will continue to exist long enough to carry out its objectives and commitments and will not liquidate in the foreseeable future.

Which of the following audit procedures is most likely to assist an auditor in identifying conditions and events that may indicate substantial doubt about an entity's ability to continue as a going concern?

- A. Confirmation of accounts receivable from principal customers.
- B. Reconciliation of interest expense with debt outstanding.
- C. Confirmation of bank balances.
- D. Review of compliance with terms of debt agreements.

Answer: D

Question No : 3

Hiltson Hotels is a global group of hotels. The parent company, Hiltson Holdings plc employs an internal audit function which carries out audits and investigations on the individual hotels in the group.

Which of the following could the internal audit function carry out and still operate effectively?

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- A. Secondment to the accounts department of the Singapore Hilton to cover the maternity leave of the financial controller
- B. Special investigation into the profits of the New York Hilton where the group directors suspect a fraud may have been carried out
- C. Secondment to the finance department of the Edinburgh Hilton
- D. Identification of risks at the proposed Nairobi Hilton, which is due to open in nine months' time

Answer: B

Question No : 4

Jones & Co is the external auditor of Blue plc, a listed company. The directors of Blue plc have requested that Jones & Co carry out a review engagement assessing the effectiveness of its corporate governance policies against the UK Corporate Governance Code.

For the above review engagement, select which part of the engagement description constitutes the subject matter?

- A. Blue plc's corporate governance policies
- B. The UK Corporate Governance Code
- C. Jones & Co
- D. The directors of Blue plc

Answer: A

Question No : 5

Public Company Accounting Oversight Board member Jeanette Franzel told a group of accounting educators that lack of professional scepticism is one of the main reasons for the prevalence of audit deficiencies found in the PCAOB's inspections of the work of auditing firms.

Which of the following statements is correct in accordance with Public Company Accounting Oversight Board?

- A. Professional scepticism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
- B. Professional judgment is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

C. Professional behaviour is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

D. Professionalism is an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

Answer: A

Question No : 6

The production department of Cates Ltd is headed by Brad Hogg, whose deputy is Michael. Brad reports to the managing director, John Silver. There are several other departments namely sales and marketing, treasury, accounting, production, processing, purchasing, HR and internal audit.

Which of the following is the BEST method to make 'purchase orders' from production department?

A. Brad Hogg and Michael should make purchase orders as production needs dictate.

B. Brad Hogg should make purchase orders, although Michael could make requisitions as production needs dictate.

C. Brad Hogg and Michael should send requisition for materials as production needs dictate, but orders should be placed by the purchasing department.

D. Brad Hogg and Michael should send requisition for materials as production needs dictate but orders should be placed by the purchasing department, having been authorised by John Silver.

Answer: C

Question No : 7

ISA 570 states that when preparing accounts, management should make an explicit assessment of the entity's ability to continue as a going concern. Most accounting frameworks require management to do so. When management are making the assessment, the following factors should be considered except

A. The degree of uncertainty about the events or conditions being assessed increases significantly the further into the future the assessment is made.

B. Judgements are made on the basis of the information available at the time.

C. Lack of staff to ensure segregation of duties.

D. The auditor shall inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on

the entity's ability to continue as a going concern.

Answer: D

Question No : 8

Panama and Co has been asked to take on the role of internal auditor at one of its clients and would be responsible for implementing its own recommendations.

Which of the following will NOT be considered by external auditors in their assessment of whether to use the work of internal audit?

- A. To whom the internal audit department of Panama and Co reports
- B. The technical training of the staff of the audit department of Panama and Co
- C. The fact that the fee will fall if much use can be made of internal audit work
- D. Whether internal audit work is properly documented

Answer: C

Question No : 9

Auditing standards require that the auditor and the client agree on the terms of the engagement. The agreed terms must be in writing and the usual form would be a letter of engagement. Any other form of appropriate contract, however, may be used.

Which of the following is NOT a benefit of an engagement letter in respect of assurance services?

- A. Clearly defines the extent of the assurance provider's responsibilities
- B. Provides written confirmation of the acceptance of the engagement
- C. Confirms the scope of the engagement
- D. Certifies the assurance provider's opinion

Answer: D

Question No : 10

During the audit planning for your client Shang Ltd for the year ending 30 April 2013, you read the following comment on the 'points forward for next year' schedule included in last year's audit working papers file:

'During the course of our audit we discovered that the company had incorrectly reclaimed input value added tax totalling \$42,000. We have notified the client in writing of the need to repay this amount to tax authority as soon as possible. The financial statements have been adjusted to include this sum within current liabilities as 'amounts payable to Tax Authority'.

Included within income in the company's management accounts for the ten months ended 28 February 2013 is a credit entry for \$42,000 described as 'VAT difference written off'.

Which one of the following actions is LEAST likely to be taken in respect of this matter?

- A. Report to nominated officer/money laundering officer within the firm
- B. Report to board of directors
- C. Avoid tipping off the client
- D. Consider resignation

Answer: B

Question No : 11

Acer Ltd is a client of your firm and is seeking funding in order to expand the business. The directors have prepared profit and cash flow forecasts for the next three years ending 30 June 2016 in support of the request for funding. The company's bankers require this information to be reviewed by independent accountants and the board of directors has requested that your firm undertakes this review.

The following is an extract from an independent accountant's unmodified report on the profit and cash flow forecasts:

'Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast.'

Which of the following BEST describes the type of assurance provided by this statement?

- A. Positive assurance expressed negatively
- B. Negative assurance expressed positively
- C. High level of assurance expressed negatively
- D. Limited level of assurance expressed negatively

Answer: D

Question No : 12

Frederich Gastona has been invited by ECA Co to perform the audit of financial statements of 2012-13.