**CPA EXAM MULTIPLE CHOICE QUESTIONS - Introduction to Auditing**

1. Auditing standards differ from auditing procedures in that procedures relate to
a) Measure of performance.
b) Audit principles.
c) Acts to be performed.
d) Audit judgments.

2. The independent auditor of 1900 differs from the auditor of today in that the 1900 auditor was more concerned with the
a) Validity of the income statement.
b) Determination of fair presentation of financial statements.
c) Improvement of accounting systems.
d) Detection of irregularities.

3. The first general standard of generally accepted auditing standards which states, in part, that the examination is to be performed by a person or persons having adequate technical training, requires that an auditor have
a) Education and experience in the field of auditing.
b) Ability in the planning and supervision of the audit work.
c) Proficiency in business and financial matters.
d) Knowledge in the areas of financial accounting.

4. The first standard of field work, which states that the work is to be adequately planned, and assistants, if any, are to be properly supervised, recognizes that
a) Early appointment of the auditor is advantageous to the auditor and the client.
b) Acceptance of an audit engagement after the close of the client's fiscal year is generally not permissible.
c) Appointment of the auditor subsequent to the physical count of inventories requires a disclaimer of opinion.
d) Performance of substantial parts of the examination is necessary at interim dates.

5. An independent audit aids in the communication of economic data because the audit
a) Assures the reader of financial statements that any fraudulent activity has been corrected.
b) Confirms the accuracy of management's financial representations.
c) Lends credibility to the financial statements.
d) Guarantees that financial data are fairly presented.

6. A CPA is most likely to refer to one or more of the three general auditing standards in determining
a) Whether the CPA should undertake an audit engagement.

b) The nature of the CPA's report qualification.
c) The scope of the CPA's auditing procedures.
d) Requirements for the review of internal control.

7. The first standard of field work recognizes that early appointment of the independent auditor has many advantages to the auditor and the client. Which of the following advantages is least likely to occur as a result of early appointment of the auditor?
a) The auditor will be able to complete the audit work in less time.
b) The auditor will be able to perform the examination more efficiently.
c) The auditor will be able to better plan for the observation of the physical inventories.
d) The auditor will be able to plan the audit work so that it may be done expeditiously.

8. Which of the following best describes the reason why an independent auditor reports on financial statements?
a) A management fraud may exist and is more likely to be detected by independent auditors.
b) Different interests may exist between the company preparing the statements and the persons using the statements.
c) A misstatement of account balances may exist and is generally corrected as the result of the independent auditor's work.
d) Poorly designed internal control may exist.

9. What is the general character of the three generally accepted auditing standard classified as general standards?
a) Criteria for content of the F/S and the auditor's report.
b) Criteria of audit planning and supervision and evidence gathering.
c) The need to maintain an independence in mental attitude in all matters relating to the assignments.
d) Criteria for competence, independence and professional care of individuals performing the audit.

10. A CPA, while performing an audit, strives to achieve independence in appearance in order to
a) Reduce risk and liability.
b) Comply with the generally accepted standards of field work.
c) Become independent in fact.
d) Maintain public confidence in the profession.

11. The "generally accepted auditing standards" are standards which
a) Are sufficiently established so that independent auditors generally agree on their existence.

b) Are generally accepted based upon a pronouncement of the Financial Accounting Standards Board.
c) Are generally accepted in response to the changing needs of the business community.
d) Are generally accepted as a consequence of approval of the AICPA membership.

12. The primary objective of the ordinary examination of financial statement by a CPA is the expression of an opinion on
a) The competence of management in accounting matters which is implied by whether the opinion is qualified or not.
b) The conformity of the statements with the book of account.
c) The conformity of the financial statements with generally accepted auditing standards applied on a basis consistent with that of the prior year.
d) The fairness with which the financial statements present cash flows and results of operations.

13. The primary responsibility for the adequacy of disclosure in the financial statements of a publicly held company rests with the
a) Partner assigned to the engagement.
b) Auditor in charge of field work.
c) Management of the company.
d) Securities & Exchange Commission.

14. A CPA should comply with applicable GAAS on every engagement
a) Without exception.
b) Except in examinations that result in a qualified report.
c) Except in engagements where the CPA is associated with unaudited F/S.
d) Except in examinations of interim financial statements.

15. Which of the following best describes what is meant by GAAS?
a) Audit objectives generally determined on audit engagements.
b) Acts to be performed by the auditor.
c) Measures of the quality of the auditor's performance.
d) Procedures to be used to gather evidence to support financial statements.

16. The first general standard recognizes that regardless of how capable an individual may be in other fields, the individual can not meet the requirements of the auditing standards without the proper
a) Business and finance course.
b) Quality control and peer review.
c) Education & experience in auditing.
d) Supervision and review skills.

17. The first general standard requires that the examination of F/S is to be performed by a person having adequate technical training and
a) Independence with respect to the F/S and supplementary disclosures.
b) Exercising professional care as judged by peer reviewers.
c) Proficiency as an auditor which likely has been acquired from previous experience.
d) Objectivity as an auditor as verified by proper supervision.

18. Due professional care requires
a) A critical review of the work done at every level of supervision.
b) The examination of all corroborating evidence available.
c) The exercise of error free judgment.
d) A study and review of the I/C's that include tests of controls

19. The third general standard states that due care is to be exercised in the performance of the examination. This standard means that a CPA who undertakes an engagement assumes a duty to perform each audit
a) As a professional possessing the degree of skill commonly possessed by others in the field.
b) In conformity with generally accepted accounting principles.
c) With reasonable diligence and without fault or error.
d) To the satisfaction of governmental agencies and investors who rely upon the audit.

20. According to court decision, GAAS established by the AICPA applies
a) Only to AICPA members.
b) To all CPA's.
c) Only to those who choose to follow them.
d) Only when conducting audits subject to the AICPA jurisdiction.

21. Which of the following best describes the reason why an independent auditor reports on financial statements?
a) A management fraud may exist and is more likely to be detected by independent auditors.
b) Different interests may exist between the company preparing the statements and the persons using the statements.
c) A misstatement of account balances may exist and is generally corrected as the result of the independent auditor's work.
d) Poorly designed internal control may exist.
(Yes, this is the same as #8, ask me why!!!)

22. The independent audit is important to readers of F/S because it
a) Determines the future stewardship of the management of the company whose financial statements are audited.

b) Measures and communicates financial and business data in the F/S.
c) Involves the objective examination of, and reporting on, management-prepared statements.
d) Reports on the accuracy of all information in the F/S.

23. Independent auditing can best be described as
a) A branch of accounting.
b) A discipline that attests to the results of accounting and other functional operations and data.
c) A professional activity that measures and communicates financial and business data.
d) A regulatory function that prevents the issuance of improper financial information.

24. What is the meaning of the GAAS that requires the auditor to be independent?
a) The auditor must be without bias with respect to the client under audit.
b) The auditor must adopt a critical attitude during the audit.
c) The auditor's sole obligation is to third parties.
d) The auditor may have a direct ownership interest in the client's business if it is not material.

25. The primary purpose of a management advisory services engagement is to help the client
a) Become more profitable by relying upon the CPA's existing personal knowledge about the client's business.
b) Improve the use of its capabilities and resources to achieve its objectives.
c) Document and quantify its future plans without impairing the CPA's objectivity or allowing the CPA to assume the role of management.
d) Obtain benefits that are guaranteed implicitly by the CPA.

26. Operational auditing is primarily oriented toward
a) Future improvements to accomplish the goals of management.
b) The accuracy of data reflected in management's financial records.
c) The verification that a company's financial statements are fairly presented.
d) Past protection provided by existing internal control.

27. Because an examination i/a/w GAAS is influenced by the possibility of material errors, the auditor should conduct the examination with an attitude of
a) Professional responsiveness.
b) Conservative advocacy.
c) Objective judgment.
d) Professional skepticism.

28. The exercise of due professional care requires that an auditor

a) Use error-free judgment.
b) Consider the internal control structure, including tests of controls.
c) Critically review the work done at every level of supervision.
d) Examine all corroborating evidence available.

29. CPA firms should establish quality control policies and procedures for personnel management in order to provide reasonable assurance that
a) Employees promoted possess the appropriate characteristics to perform competently.
b) Personnel will have the knowledge required to fulfill responsibilities assigned.
c) The extent of supervision and review in a given instance will be appropriate.
d) All of the above are reasons.

30. The least important evidence of a CPA firm's evaluation of its system of QC would concern the CPA firm's policies and procedures for
a) Employment (hiring).
b) Confidentiality of audit engagements.
c) Assigning personnel to audit engagements.
d) Determination of audit fees.

31. A CPA establishes QC policies and procedures for deciding whether to accept a new client or continue to perform services for a current client. The primary purpose for establishing such policies is to
a) Enable the auditor to attest to the integrity or reliability of a client.
b) Comply with the quality control standards established by regulatory bodies.
c) Minimize the likelihood of association with clients whose management lacks integrity.
d) To lessen the exposure to litigation resulting from failure to detect irregularities in client financial statements.

32. In pursuing its quality control objectives with respect to acceptance of a client, a CPA firm is not likely to
a) Make inquiries of the proposed client's legal counsel.
b) Review financial statements of the proposed client.
c) Make inquiries of previous auditors.
d) Review the personnel practices of the proposed client.

33. Within the context of quality control, the primary purpose of continuing professional education and training activities is to enable a CPA firm to provide personnel within the firm with
a) Technical training that assures proficiency as an auditor.
b) Professional education that is required in order to perform with due professional care.
c) Knowledge required to fulfill assigned responsibilities and to progress within the

firm.
d) Knowledge required in order to perform a peer review.

34. In pursuing a CPA firms' quality control objectives, a CPA firm may maintain records indicating which partners or employees of the CPA firm were previously employed by the CPA firm's clients. Which quality control objective would this be most likely to satisfy?
a) Acceptance of client.
b) Supervision.
c) Independence.
d) Monitoring.

35. In pursuing its quality control objectives with respect to independence, a CPA firm may use policies and procedures such as
a) Emphasizing independence of mental attitude in firm training programs and in supervision and review of work.
b) Prohibiting employees from owning stock of public companies.
c) Suggesting that employees conduct their banking transactions with banks that do not maintain accounts with client firms.
d) Assigning employees who may lack independence to research positions that do not require participation in field audit work.

36. Which of the following is an element of quality control?
a) Supervision
b) Inspection
c) Personnel management
d) Consultation

37. In connection with the element of monitoring, a CPA firm's system of quality control should ordinarily provide for the maintenance of
a) A file of minutes of staff meetings.
b) Updated personnel files.
c) Documentation to demonstrate compliance with its policies and procedures.
d) Documentation to demonstrate compliance with peer review directives.

38. One element of the personnel management quality control standard is professional development. The primary reason why a CPA firm establishes policies and procedures for professional development of staff accountants is to
a) Comply with the continuing educational requirements imposed by various states for all staff accountants in CPA firms.
b) Establish, in fact as well as in appearance, that staff accountants are increasing their knowledge of accounting and auditing matters.
c) Provide a forum for staff accountants to exchange their experiences and views concerning firm policies and procedures.

d) Provide reasonable assurance that staff personnel will have the knowledge required to enable them to fulfill responsibilities.

39. Which of the following is a quality control standard?
a) Peer review.
b) Administrative control.
c) Engagement performance.
d) Time studies.

40. What is the responsibility of a successor auditor (SA) with respect to communicating with the predecessor auditor (PA) in connection with a prospective new client?
a. The SA has no responsibility to contact the PA.
b. The SA should obtain permission from the prospective client to contact the PA.
c. The SA should contact the PA regardless of whether the prospective client authorizes contact.
d. The SA need not contact the PA if the successor is aware of all available relevant facts.

41. A CPA firm's personnel partner periodically studies the CPA firm's personnel advancement experience to ascertain whether individuals meeting stated criteria are assigned increased degrees of responsibility. This is evidence of the CPA firm's adherence to prescribed standards of
a) Quality control.
b) Due professional care.
c) Supervision and review.
d) Field work.

42. Quality control for a CPA firm as referred to in Statements on Quality Control Standards, applies to
a) Auditing services only.
b) Auditing and management advisory services.
c) Auditing and tax services.
d) Auditing and accounting and review services.

43. A prospective client's refusal to grant a CPA permission to communicate with the predecessor auditor will bear directly on the CPA's ability to
a) Determine appropriate pricing of the audit.
b) Determine the integrity of management.
c) Determine the beginning balances of the current year's financial statements.
d) Establish consistency in application of GAAP between years.

44 . Prior to the acceptance of an audit engagement with a client who has terminated the services of the predecessor auditor, the CPA should

a. Contact the predecessor auditor without advising the prospective client and request a complete report of the circumstances leading to the termination with the understanding that all information disclosed will be kept confidential.
b. Accept the engagement without contacting the predecessor auditor since the CPA can include audit procedures to verify the reason given by the client for the termination.
c. Not communicate with the predecessor auditor because this would, in effect, be asking the auditor to violate the confidential relationship between auditor and client.
d. Advise the client of the intention to contact the predecessor auditor and request permission for the contact.

45. Before accepting an audit engagement, a successor auditor should make specific inquiries of the predecessor auditor regarding the predecessor's
a. Awareness of the consistency in the application of GAAP between periods.
b. Evaluation of all matters of continuing accounting significance.
c. Opinion of any subsequent events occurring since the predecessor's audit report was issued.
d. Understanding as to the reasons for the change of auditors.

# Answers - Introduction to Auditing Questions

| | | |
|---|---|---|
| 1. C | 16. C | 31. C |
| 2. D | 17. C | 32. D |
| 3. A | 18. A | 33. C |
| 4. A | 19. A | 34. C |
| 5. C | 20. B | 35. A |
| 6. A | 21. B | 36. C |
| 7. A | 22. C | 37. C |
| 8. B | 23. B | 38. D |
| 9. D | 24. A | 39. C |
| 10. D | 25. B | 40. B |
| 11. D | 26. A | 41. A |
| 12. D | 27. D | 42. D |
| 13. C | 28. C | 43. B |
| 14. A | 29. B | 44. D |
| 15. C | 30. D | 45. D |

## CPA MULTIPLE CHOICE QUESTIONS - Ethics

1. Which of the following statements best describes why the profession of public accounting has deemed it essential to promulgate a CPC and to establish a

mechanism for enforcing observance of the code?
a. A distinguishing mark of a profession is its acceptance of responsibility to the public.
b. A prerequisite to success is the establishment of an ethical code that stresses primarily the professional's responsibility to clients and colleagues.
c. A requirement of most state laws calls for the profession to establish a code of ethics.
d. An essential means of self-protection for the profession is the establishment of flexible ethical standards.

2. The AICPA CPC states, in part, that a CPA should maintain integrity and objectivity. Objectivity in the code refers to a CPA's ability
a. To maintain an impartial attitude on all matters which come under the CPA's review.
b. To independently distinguish between accounting practices that are acceptable and those that are not.
c. To be unyielding in all matters dealing with auditing procedures.
d. To independently choose between alternate accounting principles and auditing standards.

3. Upon discovering irregularities in a client's tax return that the client would not correct, a CPA withdraws from the engagement. How should the CPA respond if asked by the successor CPA why the relationship was terminated?
a. "It was a misunderstanding."
b. "I suggest you get the client's permission for us to discuss all matters freely."
c. "I suggest you ask the client."
d. "I found irregularities in the tax return which the client would not correct."

4. The Code of Professional Conduct derives its authority from the
a. Financial Accounting Standards Board.
b. Auditing Standards Board.
c. Bylaws of the American Institute of CPAs.
d. Securities and Exchange Commission.

5. The AICPA CPC states that a CPA shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client. This rule precludes responding to
a. An investigative body of a state CPA society.
b. The trial board of the AICPA.
c. A CPA-shareholder of the client corporation.
d. An AICPA voluntary quality review body.

6. Pursuant to the AICPA rules of conduct, if a partner in a two-member partnership dies, the surviving partner may continue to practice as an individual

under the existing firm title which includes the deceased partner's name
a. For a period of time not to exceed five years.
b. For a period of time not to exceed two years.
c. Indefinitely.
d. Until the partnership pay-out to the deceased partner's estate is terminated.

7. A CPA accepts an engagement for a professional service without violating the AICPA Code of Professional Conduct if the service involves
a. The preparation of cost projections for submission to a governmental agency as an application for a rate increase.
b. Tax preparation, and the fee will be based on whether the CPA signs the tax return prepared.
c. A litigatory matter, and the fee is not known but is to be determined by a district court.
d. Tax return preparation, and the fee is to be based on the amount of taxes saved if any.

8. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is
a. Considered acceptable by the AICPA Code of Professional Conduct.
b. Ill-advised since it would impair the CPA's independence with respect to the client.
c. Considered discreditable to the profession.
d. A violation of generally accepted auditing standards.

9. A CPA, who is a member of the American Institute of Certified Public Accountants, wrote an article for publication in a professional journal. The AICPA Code of Professional Conduct would be violated if the CPA allowed the article to state that the CPA was
a. A member of the American Institute of Certified Public Accountants.
b. A professor at a school of professional accountancy.
c. A partner in a national CPA firm.
d. none of these.

10. During the course of an audit, the client's controller asks you if you would like to spend the weekend in New York as the company's guest. How should you respond?
a. Go and enjoy yourself.
b. Explain to the client that under the AICPA Code of Professional Conduct you must maintain your independence so it will be necessary to schedule some appropriate business activities.
c. Explain that under the AICPA Code of Professional Conduct you cannot accept anything of significant value from a client.
d. Explain that under the AICPA Statement of Fair Practices that this type of

activity is prohibited.

11. When a CPA is requested to perform a review engagement for a nonpublic entity in which the CPA has an immaterial financial interest, the CPA should inform management that the CPA
a. Will have to disclose the lack of independence in the review report.
b. Lacks independence and, therefore, may issue a review report, but can not issue an uditor's opinion.
c. Lacks independence and, therefore, is precluded from issuing a review report.
d. Is considered independent because the financial interest is immaterial and, therefore, the CPA can issue a review report.

12. In which of the following circumstances would a CPA who audits XM Corporation lack independence?
a. The CPA and XM's president are both on the board of directors of COD Corporation.
b. The CPA and XM's president each owns 25% of FOB Corporation, a closely held company.
c. The CPA has a home mortgage from XM, which is a savings and loan organization.
d. The CPA reduced XM's usual audit fee by 40% because XM's financial condition was unfavorable.

13. A client company has not paid its 1983 audit fees. According to the AICPA Code of Professional Conduct, for the auditor to be considered independent with respect to the 1984 audit, the 1983 audits fees must be paid before the
a. 1983 report is issued.
b. 1984 field work is started.
c. 1984 report is issued.
d. 1985 field work is started.

14. Which of the following is not a pronouncement of an authoritative body designated by the AICPA Council to establish accounting principles, pursuant to the AICPA Code of Professional Conduct?
a. AICPA Statements of Position.
b. AICPA Accounting Principles Board Opinions.
c. FASB Interpretations.
d. FASB Statements of Financial Accounting Standards.

15. Which of the following is required for a CPA partnership to designate itself "Member of the American Institute of Certified Public Accountants" on its letterhead?
a. All partners must be members.
b. The partners whose names appear in the firm name must be members.

c. At least one of the partners must be a member.
d. The firm must be a dues paying member.

16. According to the AICPA Code of Professional Conduct, may a CPA who is in partnership with non-CPAs sign a report with the firm name and below it affix the CPA's own signature with the designation "Certified Public Accountant"?
a. No, because a CPA should not form a partnership with non-CPAs.
b. No, because it would appear that all partners were associated with the report when only one actually is associated.
c. Yes, provided the non-CPA partners adhere to the professional standards concerning quality control.
d. Yes, provided it is clear that the partnership itself is not being held out as composed entirely of CPAs.

17. Which one of the following is an enforceable set of pronouncements of an authoritative body designated to establish accounting principles, according to the AICPA Code of Professional Conduct?
a. AICPA Statements on Standards for Accounting and Review Services.
b. AICPA Statements of Position.
c. FASB Interpretations.
d. FASB Statements of Financial Accounting Concepts.

18. Under which of the following circumstances would the independence of a CPA be considered impaired if the CPA, who is also an attorney, serves as auditor and provides legal services to the same client?
a. When the CPA, as legal agent, consummates a business acquisition for the client.
b. When the CPA's audit fees and legal fees are not billed separately.
c. When the CPA uses legal expertise to research a question of income tax law.
d. When the legal services consist of an analysis of the terms of a lease agreement.

19. A violation of the profession's ethical standards would most likely have occurred when a CPA
a. Purchased a bookkeeping firm's practice of monthly write-ups for a percentage of fees received over a three-year period.
b. Made arrangements with a bank to collect notes issued by a client in payment of fees due.
c. Named Smith formed a partnership with two other CPAs and used "Smith & Co." as the firm name.
d. Issued an unqualified opinion on the 1987 financial statements when fees for the 1986 audit were unpaid.

20. Without the consent of the client, a CPA should not disclose confidential client information contained in working papers to a

a. Voluntary quality control review board.
b. CPA firm that has purchased the CPA's accounting practice.
c. Federal court that has issued a valid subpoena.
d. Disciplinary body created under state statute.

CPA MULTIPLE CHOICE QUESTIONS – ETHICS

| | | |
|---|---|---|
| 1. A | 6. B | 11. C |
| 2. A | 7. C | 12. B |
| 3. B | 8. C | 13. C |
| 4. C | 9. D | 14. A |
| 5. C | 10. C | 15. A |

## CPA MULTIPLE CHOICE QUESTIONS -- INTERNAL CONTROL

1. The independent auditor should acquire an understanding of a client's internal audit function to determine whether the work of internal auditors will be a factor in determining the nature, timing and extent of the independent auditor's procedures. The work performed by internal auditors might be such a factor when the work includes
a) Verification of the mathematical accuracy of invoices.
b) Review of administrative practices to improve efficiency and achieve management objectives.
c) Consideration of the internal control structure.
d) Preparation of internal financial reports for management purposes.

2. Effective I/C in a small company that has insufficient employees to permit proper division of responsibilities can be best enhanced by
a) Employment of temporary personnel to aid in the separation of duties.
b) Direct participation by the owner of the business in the recordkeeping activities of the business.
c) Engaging a CPA to perform monthly "write-up" work.
d) Delegation of full, clear-cut responsibility to each employee for the functions assigned to each.

3. An auditor is considering the internal control system for purchasing and disbursement procedures. The auditor will be least influenced by
a) The availability of a company manual describing purchasing and disbursement procedures.
b) The scope and results of audit work by the company's internal auditor.
c) The existence within the purchasing and disbursement area of internal control strengths that offset weaknesses.
d) The strength or weakness of internal control in other areas, e.g., sales and accounts receivable.

4. In general, material irregularities perpetrated by which of the following are most difficult to detect?
a) Cashier
b) Key-punch operator
c) Internal auditor
d) Controller

5. If, during the course of an annual audit of a publicly held manufacturing company, an independent auditor becomes aware of a reportable condition in the company's internal control, the auditor is required to communicate the reportable condition to
a) The senior management and the board of directors of the company.
b) The senior management of the company.
c) The board of directors of the company.
d) The audit committee of the board of directors.

6. Which of the following best describes the primary reason for the auditor's use of flowcharts during an audit engagement?
a) To comply with the requirements of GAAS.
b) To interpret the operational effectiveness of the client's existing organizational structure.
c) To classify the client's documents and transactions by major operating functions e.g., cash receipts, cash disbursements, etc.
d) To record the auditor's understanding of the client's I/C.

7. The independent auditor should acquire an understanding of the internal audit function as it relates to the independent auditor's consideration of the I/C because
a) The audit program, working papers and reports of internal auditors can often be used as a substitute for the work of the independent auditor's staff.
b) The procedures performed by the internal audit staff may eliminate the independent auditor's need for an extensive consideration of the I/C.
c) The work performed by internal auditors may be a factor in determining the nature, timing and extent of the independent auditor's procedures.
d) The understanding of the internal audit function is an important substantive test to be performed by the independent auditor.

8. The auditor's understanding of the client's I/C is documented in order to substantiate
a) Conformity of the accounting records with generally accepted accounting principles.
b) Compliance with generally accepted auditing standards.
c) Adherence to requirements of management.
d) The fairness of the financial statement presentation.

9. The ICS normally would include procedures that are designed to provide reasonable assurance that
a) Employees act with integrity when performing their assigned tasks.
b) Transactions are executed in accordance with management's general or specific authorization.
c) Decision processes leading to management's authorization of transactions are sound.
d) Collusion activities would be detected by segregation of employee duties.

10. In general, a reportable condition may be defined as a condition in which material errors or irregularities ordinarily would not be detected within a timely period by
a) An auditor during the normal consideration of the internal controls.
b) A controller when reconciling accounts in the general ledger.
c) Employees in the normal course of performing their assigned duties.
d) The chief financial officer when reviewing interim F/S.

11. Proper segregation of functional responsibilities calls for separation of the
a) Authorization, approval and execution functions.
b) Authorization, execution and payment functions.
c) Receiving, shipping and custodial functions.
d) Authorization, recording and custodial functions.

12. The ultimate risk against which the auditor requires reasonable protection is a combination of two separate risks. The first of these is that material errors will occur in the accounting process by which the F/S are developed, and the second is that
a) A company's internal control system is not adequate to detect errors and irregularities.
b) Those errors that occur will not be detected by the auditor's examination.
c) Management may possess an attitude that lacks integrity.
d) Evidential matter is not competent enough for the auditor to form an opinion based on reasonable assurance.

13. When an independent auditor decides that the work performed by internal auditors may have a bearing on the nature, extent and timing of the independent auditor's procedures, the independent auditor should evaluate the competence and objectivity of the internal auditors. Relative to objectivity, the independent auditor should
a) Consider the organizational level to which internal auditors report the results of their work.
b) Review the training program in effect for the internal auditors.
c) Examine the quality of the internal audit reports.
d) Consider the qualifications of the internal audit staff.

14. To provide the greatest degree of independence in performing internal auditing functions, an internal auditor should probably report to the
a) Financial vice-president.
b) Corporate controller.
c) Board of directors.
d) Corporate stockholders.

15. When considering the client's ICS to determine whether the necessary procedures are prescribed and are followed satisfactorily, an auditor must
a) Develop questionnaires and checklists.
b) Review the ICS and perform tests of controls.
c) Perform tests of controls and analytical procedures.
d) Evaluate administrative policies.

16. After the auditor has prepared a flowchart of the I/C surrounding sales and evaluated the design of the ICS, the auditor would perform tests of controls on all internal control procedures
a) Documented in the flowchart.
b) Considered to be weaknesses that might allow errors to enter the accounting system.
c) Considered to be strengths that the auditor plans to rely on.
d) That would aid in preventing irregularities.

17. A consideration of the ICS made in connection with an annual audit is usually not sufficient to express an opinion on an entity's internal control because
a) Weaknesses in the ICS may go unnoticed during the audit period.
b) A consideration of the ICS is not necessarily made during an audit engagement.
c) Only those controls on which an auditor intends to rely are reviewed, tested and evaluated.
d) Internal controls can change each year.

18. Which of the following would be least likely to suggest to an auditor that the client's management may have overridden the ICS?
a) There are numerous delays in preparing timely internal financial reports.
b) Management does not correct I/C weaknesses that it knows about.
c) Differences are always disclosed on a computer exception report.
d) There have been two new controllers this year.

19. Which of the following is intended to detect deviation from prescribed Accounting Department procedures?
a) Substantive test specified by a standardized audit program.
b) Tests of controls designed specifically for the client.

c) Analytical procedures as designed in the industry audit guide.
d) Computerized analytical tests tailored for the configuration of EDP equipment in use.

20. The independent auditor selects several transactions in each functional area and traces them through the entire system, paying special attention to evidence about whether or not the control features are in operation. This is an example of a
a) Control test.
b) Tests of controls
c) Substantive test
d) Functional test.

21. In the consideration of the ICS, the auditor is basically concerned that the system provides reasonable assurance that
a) Management can not override the system.
b) Operational efficiency has been achieved i/a/w management plans.
c) Errors have been prevented or detected.
d) Controls have not been circumvented by collusion.

22. During the audit, the independent auditor identified the existence of a reportable condition in the client's system of internal controls and orally communicated this finding to the client's senior management and audit committee. The auditor should
a) Consider the reportable condition a scope limitation and therefore disclaim an opinion.
b) Document the matter in the working papers and consider the effects of the condition on the audit.
c) Suspend all audit activities pending directions from the client's audit committee.
d) Withdraw from the engagement.

23. Which of the following statements concerning the independent auditor's required communication of reportable conditions is correct?
a) Conditions reported at interim dates must be repeated in the final communication.
b) If the auditor does not become aware of any reportable conditions during the examination, that fact must be communicated.
c) Conditions that had been reported in prior year's communications and have not been corrected need not be repeated in the current year's communication.
d) Although written communication is preferable, the auditor may communicate the findings orally.

24. Which of the following is least likely to be evidence the auditor examines to determine whether operations are in compliance with the internal control system?

a) Records documenting usage of EDP programs.
b) Canceled supporting documents.
c) Confirmations of accounts receivable.
d) Signatures on authorization forms.

25. The auditor's communication of reportable conditions in internal control is
a) Required to enable the auditor to state that the examination has been made in accordance with GAAS.
b) The principal reason for considering the ICS.
c) Incident to the auditor's objective of forming an opinion as to the fair presentation of the financial statements.
d) Required to be documented in a written report to the board of directors or the board's audit committee.

26. An auditor may compensate for a condition in the ICS by increasing the
a) Level of detection risk.
b) Extent of tests of controls.
c) Preliminary judgment about audit risk.
d) Extent of analytical procedures

27. After considering the client's internal controls, an auditor has concluded that I/C is well designed and is functioning as intended. Under these circumstances, the auditor would most likely
a) Perform tests of controls to the extent outlined in the audit program.
b) Determine the control procedures that should prevent or detect errors and irregularities.
c) Not increase the extent of predetermined substantive tests.
d) Determine whether transactions are recorded to permit preparation of F/S in conformity with GAAP.

28. The use of fidelity bonds may indemnify a company from embezzlement losses. The use also
a) Reduces the company's need to obtain expensive business interruption insurance.
b) Protects employees who make unintentional errors from possible monetary damages resulting from such errors.
c) Allows the company to substitute the fidelity bonds for various parts of internal control.
d) Reduces the possibility of employing persons with dubious records in positions of trust.

29. Which of the following procedures most likely would be included as part of an auditor's tests of controls?
a) Inspection.

b) Reconciliation.
c) Confirmation.
d) Analytical procedures.

30. If the independent auditors decide that the work performed by the internal auditor may have bearing on their own procedures, they should consider the internal auditor's
a) Competence and objectivity.
b) Efficiency and experience.
c) Independence and review skills.
d) Training and supervisory skills.

31. Which statement is correct concerning the definition of internal control developed by the Committee of Sponsoring Organizations (COSO)?
a) Its applicability is largely limited to internal auditing applications.
b) It is recognized in the Statement on Auditing Standards.
c) It emphasizes the effectiveness and efficiency of operations rather than the reliability of financial reporting.
d) It suggests that it is important to view internal control as an end product as contrasted to a process or means to obtain an end.

32. Monitoring is considered
a) A component of internal control.
b) An element of the control environment.
c) The primary asset safeguarding technique.
d) A portion of information and communication.

33. Which of the following is not a factor included in the control environment?
a) Integrity and ethical values.
b) Risk assessment.
c) Commitment to competence.
d) Organizational structure.

34. An entity's ongoing monitoring activities often include
a) Periodic audits by the audit committee.
b) Reviewing the purchasing function.
c) The audit of the annual financial statements.
d) Control risk assessment in conjunction with quarterly reviews.

35. The definition of internal control developed by the Committee of Sponsoring Organizations (COSO) and included in the professional standards includes the reliability of financial reporting, the effectiveness and efficiency of operations and
a) Compliance with applicable laws and regulations.

b) Effectiveness of prevention of fraudulent occurrences.
c) Safeguarding of entity assets.
d) Incorporation of ethical business practice standards.

36. Which statement is correct concerning the relevance of various types of controls to a financial audit?
a) An auditor may ordinarily ignore a consideration of controls when a substantive audit approach is taken.
b) Controls over the reliability of financial reporting are ordinarily most directly relevant to an audit but other controls may also be relevant.
c) Controls over safeguarding of assets and liabilities are of primary importance, while controls over the reliability of financial reporting may also be relevant.
d) All controls are ordinarily relevant to an audit.

37. Which of the following is not ordinarily considered a factor indicative of increased financial reporting risk when an auditor is considering a client's risk assessment policies?
a) Commissioned sales personnel.
b) Implementation of a new information system.
c) Rapid growth organization.
d) Corporate restructuring.

38. While obtaining an understanding of a client's risk assessment policies, an auditor does not ordinarily include how management
a) Identifies risk.
b) Eliminates significant risks.
c) Assesses the likelihood of occurrence of events due to significant risks.
d) Relates risk assessment to financial reporting.

39. When an auditor considers a client's internal control, which of the following is ordinarily a type of control activity that is considered?
a) Risk assessment over cash disbursements.
b) Segregation of duties over payroll.
c) Inclusion of the president as a member of the audit committee.
d) Management's monitoring policies over cash receipts.

40. When tests of controls reveal that controls are operating as anticipated, it is most likely that the assessed level of control risk will
a) Be less than the planned assessed level of control risk.
b) Equal the planned assessed level of control risk.
c) Equal the actual control risk.
d) Be less than the actual control risk.

41. Which of the following is not a control that is designed to protect investment

securities?
a) Custody over securities should be limited to individuals who have record keeping responsibility over the securities.
b) Securities should be properly controlled physically in order to prevent unauthorized usage.
c) Access to securities should be vested in more than one individual.
d) Securities should be registered in the name of the owner.

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Answers - Internal Controls Questions

| | | |
|---|---|---|
| 1. C | 2. B | 3. D |
| 4. D | 9. B | 14. C |
| 5. D | 10. C | 15. B |
| 6. D | 11. D | 16. C |
| 7. C | 12. B | 17. C |
| 8. B | 13. A | 18. C |
| 19. B | 27. C | 35. A |
| 20. B | 28. D | 36. B |
| 21. C | 29. A | 37. A |
| 22. B | 30. A | 38. B |
| 23. D | 31. B | 39. B |
| 24. C | 32. A | 40. B |
| 25. C | 33. B | |
| 26. D | 34. C | |
| 41. A | | |

CPA MULTIPLE CHOICE QUESTIONS - SEC

1. When an independent audit report is incorporated by reference in an SEC registration statement, a prospectus that includes a statement about the independent accountant's involvement should refer to the independent accountant as
a. Auditor of the financial reports.
b. Management's designate before the SEC.
c. Certified prepare of the report.
d. Expert in auditing and accounting.

2. Which of the following is subject to the registration requirements of the Securities Act of 1933?
a. Public sale of its bonds by a municipality.
b. Public sale by a corporation of its negotiable five-year notes.
c. Public sale of stock issued by a common carrier regulated by the Interstate Commerce Commission.

d. Issuance of stock by a corporation to its existing stockholders pursuant to a stock split.

3. When there is evidence of a violation of the federal securities laws, the Securities and Exchange Commission lacks power to
a. Subpoena witnesses.
b. Compel the production of books and records anywhere in the U.S.
c. Order an administrative hearing to determine responsibility for the violation and impose certain sanctions.
d. Prosecute criminal cases.

4. Cooke, in his capacity as president of Tool Corp., was convicted of willful violations of the Securities Act of 1933 and the Securities Exchange Act of 1934. The sanctions under both acts
a. Permit the imposition of only a fine.
b. Permit the imposition of both a fine and a term of imprisonment.
c. Are different since criminal sanctions are excluded from the Securities Exchange Act of 1934.
d. Are different since criminal sanctions are excluded from the Securities Act of 1933.

5. Which of the following financing methods will be exempt from the registration requirements of the Securities Act of 1933?
a. Direct public offering of stock to potential investors without the use of an underwriter.
b. Interstate marketing of securities by a subsidiary which is engaged in intrastate commerce.
c. Sale of long-term notes to a consortium of local banks.
d. Public sale of non-convertible bonds to investors.

6. The provisions of the Securities Exchange Act of 1934
a. Do not require distribution of an annual report unless proxies are solicited.
b. Require the distribution of financial statements prior to or concurrent with a proxy solicitation.
c. Apply only to those corporations engaged in interstate commerce where there is a significant dispute between management and dissenting shareholders.
d. Apply only to those corporations that have securities traded on a national securities exchange.

7. Which of the following statements is correct with respect to criminal prosecution under the Securities Acts?
a. Reckless disregard for the truth is a sufficient basis for a criminal conviction.
b. Personal monetary gain from the alleged criminal conduct is required in order to be convicted.
c. The anti-fraud provisions of the Securities Acts are the only basis upon which a person can be indicted and convicted.
d. Corporations are not subject to criminal prosecution.

8. The anti-fraud provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934
a. Are the same insofar as the transactions to which they apply.
b. Are unavailable to plaintiff's who are unable to establish diversity of citizenship & a minimum of $10,000 monetary damages.
c. Contain criminal sanctions against those who engage in fraudulent activities.
d. Contain remedies which are mutually exclusive of each other.

9. Although the Securities and Exchange Commission has broad powers in conducting a formal investigative proceeding, the SEC can not
a. Impose monetary penalties without court proceedings.
b. Compel a witness to appear.
c. Subpoena records.
d. Conduct its investigations secretly.

10. The president of XK Corporation has been charged by the Securities and Exchange Commission with a criminal violation of the Securities Exchange Act of 1934. Under these circumstances
a. The SEC may elect to prosecute the case itself or turn the case over to the Justice Department.
b. It is irrelevant whether the president had knowledge of his wrongdoing in determining whether to impose a fine or prison term.
c. The SEC must elect between civil and criminal action but may not pursue both.
d. A fine or prison term or both may be imposed.

11. The SEC has strengthened auditor independence by requiring that management
a. Engage auditors to report in accordance with the Foreign Corrupt Practices Act.
b. Report the nature of disagreements with former auditors.
c. Select auditors through audit committees.
d. Acknowledge their responsibility for the fairness of the financial statements.

12. The Securities Exchange Act of 1934 requires that certain persons register and that the securities of certain issuers be registered. In respect to such registration under the 1934 Act, which of the following statements is incorrect?
a. All securities offered under the Securities Act of 1933 also must be registered under the 1934 Act.
b. National securities exchanges must register.
c. The equity securities of issuers, which are traded on a national securities exchange, must be registered.
d. The equity securities of issuers having in excess of $1 million in assets and 500 or more stockholders which are traded in interstate commerce must be registered.

13. Which of the following securities or security transactions is automatically exempt under the Securities Act of 1933 from the Act's registration requirements?
a. An offering of $3,000,000 or less of stock to 25 or fewer persons.
b. A $10 million offering of first mortgage bonds to the public.
c. An exchange by a corporation of its own securities with existing shareholders without payment of brokerage commissions.
d. Sale by a director of her shares of stock providing that she owns less than 10% of the corporation's stock and that the sale is on a registered stock exchange.

14. Insofar as the Securities Act of 1933 and the Securities Exchange Act of 1934 are concerned with fraud
a. The Acts are identical with respect to prescribing fraudulent transactions.
b. The anti-fraud provisions are contained exclusively in the 1934 Act.
c. The 1933 Act does not require proof of scienter in all circumstances whereas the 1934 Act does.
d. Only the 1933 Act contains criminal sanctions against those found to be guilty of fraud.

15. Which of the following is required under the SEC Act of 1934 or the SEC's reporting requirements issued pursuant thereto?
a. Current reporting by issuers of registered securities of certain specified corporate and financial events within ten days after the close of the month in which they occur.
b. Quarterly audited financial reports and statements by those corporations listed on a national exchange.
c. Reporting by issuers of securities which are traded over-the counter, but only if the securities are actively traded.

d. Annual filing of audited financial reports by all corporations engaged in interstate commerce.

Answers - SEC Questions

| | | |
|---|---|---|
| 1. D | 6. B | 11. B |
| 2. B | 7. A | 12. A |
| 3. D | 8. C | 13. C |
| 4. B | 9. A | 14. C |
| 5. C | 10. D | 15. C |

**CPA MULTIPLE CHOICE QUESTIONS – Reporting**

1. Thomas, CPA, is the principal auditor for a multinational corporation. Another CPA has examined and reported on the financial statements of a significant subsidiary of the corporation. Thomas is satisfied with the independence and professional reputation of the other auditor, as well as the quality of the other auditor's examination. With respect to Thomas' report on the financial statements, taken as a whole, Thomas
a. Must not refer to the examination of the other auditor.
b. Must refer to the examination of the other auditor.
c. May refer to the examination of the other auditor.
d. May refer to the examination of the other auditor, in which case Thomas must include in the auditor's report on the consolidated financial statements a qualified opinion with respect to the examination of the other auditor.

2. What is the objective of the reporting standard relating to consistency?
a. To give assurance that adequate disclosure will be made so that there will be comparability between companies in the same industry.
b. To give assurance that all comparability of F/S between periods has not been materially affected by changes in accounting principles without disclosure.
c. To give assurance that the comparability of financial statements between periods has not been materially affected by any change.
d. To give assurance only that the same accounting principles have been applied to all similar transactions within each period.

3. Which of the following best describes the reference to the expression "taken as a whole" in the fourth generally accepted audit standard of reporting?
a. It applies equally to a complete set of financial statements and to each individual financial statement.
b. It applies only to a complete set of financial statements.
c. It applies equally to each item in each financial statement.
d. It applies equally to each material item in each financial statement.

4. The opinion paragraph of a CPA's report begins: "In our opinion, based upon our audit and the report of other auditors, the accompanying consolidated

balance sheet and consolidated statements of income and retained earnings and cash flows present fairly.... " This is
a. A partial disclaimer of opinion.
b. An unqualified opinion.
c. An piecemeal opinion.
d. A qualified opinion.

5. The management of a client company believes that the statement of cash flows is not a useful document and refuses to include one in the annual report to stockholders. As a result of this circumstances, the auditor's opinion should be
a. Qualified due to inadequate disclosure.
b. Qualified due to a scope limitation.
c. Adverse.
d. Unqualified.

6. A note to the financial statements of the First Security Bank indicates that all of the records relating to the bank's business operations are stored on magnetic discs and that there are no emergency back-up systems or duplicate discs stored since the First Security Bank and its auditors consider the occurrence of a catastrophe to be remote. Based upon this note, one would expect the auditor's report to express
a. A disclaimer of opinion.
b. An unqualified opinion with an explanatory paragraph.
c. An unqualified opinion.
d. A qualified opinion.

7. If the auditor believes that required disclosures of a significant nature are omitted from the financial statements under examination, the auditor should decide between issuing
a. Qualified opinion or an adverse opinion.
b. A disclaimer of opinion or a qualified opinion.
c. An adverse opinion or a disclaimer of opinion.
d. An unqualified opinion or a qualified opinion.

8. An opinion as to the "fairness" of financial statement presentation in accordance with generally accepted accounting principles is based on several judgments made by the auditor. One such judgment is whether the accounting principles used
a. Have general acceptance.
b. Are promulgated by the AICPA Auditing Standards Board.
c. Are the most conservative of those available for use.
d. Emphasize the legal form of transactions.

9. When the report of a principal auditor makes reference to the audit by

another auditor, the other auditor may be named if express permission to do so is given and if
a. The report of the principal auditor names the other auditor in both the introductory and opinion paragraphs.
b. The principal auditor accepts responsibility for the work of the other auditor.
c. The report of the other auditor is presented together with the report of the principal auditor.
d. The other auditor is not an associate or correspondent firm whose work is done at the request of the principal auditor.

10. An auditor's opinion reads as follows: "In our opinion, except for the above-mentioned scope limitation..." This is an example of a (an)
a. Review opinion.
b. Emphasis of a matter.
c. Qualified opinion.
d. Unacceptable reporting practice.

NOTE: This wording bases the exception on the restriction, when it should be based on the effects on the F/S. Should have read "Except for adjustments needed if we had been able to observe inventory."

11. An auditor's report includes a statement that, "the financial statements do not present fairly the financial position, results of operations or changes in cash flow in conformity with generally accepted accounting principles." This auditor's report was probably issued in connection with financial statements that were
a. Prepared on a comprehensive basis of accounting other than GAAP.
b. Restricted for use by management.
c. Misleading.
d. Condensed.

12. When a client will not make essential corporate minutes available to the auditor, the audit report will probably contain a(an)
a. Unqualified opinion.
b. Adverse opinion.
c. Qualified opinion.
d. Disclaimer of opinion.

13. The auditor who wishes to point out that the entity has significant transactions with related parties should disclose this fact in
a. An explanatory paragraph to the auditor's report.
b. An explanatory footnote to the financial statements.
c. The body of the financial statements.
d. The "Summary of significant accounting policies" section of the financial

statements.

14. When the principal auditor decides to make reference to the other auditor's audit, the principal auditor's report should always indicate clearly, in both the introductory and opinion paragraphs, the
a. Magnitude of the portion of the financial statements audited by the other auditor.
b. Name of the other auditor.
c. Division of responsibility.
d. Disclaimer of responsibility with respect to the portion of the financial statements audited by the other auditor.

15. The CPA's reporting responsibilities are not met by attaching an explanation of the circumstances and a disclaimer of opinion to financial statements if the CPA
a. Has neither confirmed receivables nor observed the taking of the physical inventory.
b. Believes that the financial statements are false or misleading.
c. Is uncertain about the outcome of a material contingency.
d. Has not performed sufficient auditing procedures to express an opinion.

16. The use of an adverse opinion generally indicates
a. Uncertainty with respect to an item that is so material that the auditor cannot form an opinion on the fairness of presentation of the financial statements as a whole.
b. Uncertainty with respect to an item that is material, but not so material that the auditor cannot form an opinion on the fairness of the financial statements taken as a whole.
c. A violation of generally accepted accounting principles that has material effect on the fairness of presentation of the financial statements, but is not so material that a qualified opinion is not unjustified.
d. A violation of generally accepted accounting principles that is so material that a qualified opinion is not justified.

17. Footnotes to financial statements should not be used to
a. Describe the nature and effect of a change in accounting principles.
b. Identify substantial differences between book and tax income.
c. Correct an improper financial statement presentation.
d. Indicate basis for valuing assets.

18.The use of a disclaimer of opinion might indicate that the auditor
a. Is so uncertain with respect to an item that the auditor cannot form an opinion on the fairness of presentation of the financial statements as a whole.
b. Is uncertain with respect to an item that is material, but not so material that

the auditor cannot form an opinion on the fairness of presentation of the financial statements as a whole.
c. Has observed a violation of generally accepted accounting principles that has a material effect on the fairness of presentation of financial statements, but not so material that a qualified report is unjustified.
d. Has observed a violation of generally accepted accounting principles that is so material that a qualified opinion is not justified.

19. Limitation on the scope of the audit may require the auditor to issue a qualified opinion or to disclaim an opinion. Which of the following would usually be a limitation on the scope of the audit?
a. The unavailability of sufficient competent evidential matter.
b. The engagement of the auditor to report on only one basic F/S.
c. The audit of a subsidiary's F/S by an auditor other than the one who audits and reports on the consolidated F/S.
d. The engagement of the auditor after year-end.

20. Clark, CPA, wishes to express an opinion that the financial statements of Smith Co. are presented in conformity with generally accepted accounting principles; however, the financial statements contain a departure from APB No. 5.
a. Under any circumstances, Clark would be in violation of the Code of Professional Ethics if he were to issue such an opinion.
b. Clark should disclaim an opinion.
c. Clark may issue the opinion he desires if he can demonstrate that due to unusual circumstances the financial statements of Smith Co. would otherwise have been misleading.
d. This specific situation is not covered by the rules established by the Code of Professional Ethics.

21. Addison Corporation is required to but does not wish to prepare and issue a statement of cash flows along with its other basic financial statements. Under these circumstances the independent auditor's report on the Addison financial statements should include
a. A qualified opinion with an explanatory paragraph explaining that the company declined to present the required statement.
b. An unqualified opinion with an accurate and complete statement of cash flows prepared by the auditor and included in the auditor's report.
c. An adverse opinion stating that the financial statements, taken as a whole, are not fairly presented because of the omission of the required statement.
d. A disclaimer of opinion with a separate explanatory paragraph stating why the company declined to present the required statement.

22. The opinion paragraph of a CPA's report begins: "In our opinion, based

upon our audit and the report of the other auditors, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and cash flows present fairly...." This is
a. A disclaimer of opinion.
b. An unqualified opinion.
c. A "split" opinion.
d. A qualified opinion.

23. When a principal auditor decides to make reference to the audit of another auditor, the principal auditor's report should clearly indicate the
a. Principal auditor's qualification on the overall fairness of the financial statements, taken as a whole, subject to the work and report of the other auditor.
b. Procedures that were performed by the other auditor in connection with the other auditor's audit.
c. Division of responsibility between that portion of the F/S covered by the audit of the principal auditor and that covered by the audit of the other auditor.
d. Procedures that were performed by the principal auditor to obtain satisfaction as to the reasonableness of the audit of the other auditor.

24. Jackson, CPA, is the principal auditor for the Jones Corporation. He requests another CPA to perform the audit of a subsidiary corporation which is located in a distant state. Jackson has satisfied himself as to the independence, professional reputation, and conduct of the examination of the other auditor. What reference, if any, must Jackson make to the work of the other CPA assuming that he is willing to accept responsibility for his work?
a. He should indicate the extent of the other auditor's work in the scope paragraph of his report and state in the opinion paragraph that he accepts full responsibility for the work.
b. He need not make any reference to the audit or report of the other CPA.
c. He should make certain that the report of the other CPA accompanies his own.
d. He should indicate the extent of the other auditor's work in the scope paragraph of his report, but he need not make any reference to it in the opinion paragraph.

25. Comparative financial statements include the financial statements of a prior period that were examined by a predecessor auditor, whose report is not presented. If the predecessor auditor's report was other than a standard report, the successor auditor must
a. Express an opinion on the current year statements alone and make no reference to the prior year statements.
b. Issue a standard comparative audit report indicating the division of responsibility.

c. Obtain written approval from the predecessor auditor to include the prior year's financial statements.
d. Disclose the reasons for any modification of the predecessor auditor's report.

26. When auditing a public entity's financial statements that include segment information, the auditor should
a. Make certain the segment info is labeled unaudited and determine that the information is consistent with the audited information.
b. Make certain the segment information is labeled unaudited and perform only analytical procedures on the segment information.
c. Audit the segment information and, if the information is adequate and in conformity with GAAP, do not make reference to the segment information in the auditor's report.
d. Audit the segment information and, if the information is adequate and in conformity with GAAP, refer to the segment information in the auditor's report.

27. The auditors did not observe the taking of beginning physical inventory and were unable to satisfy themselves as to the inventory by means of other auditing procedures. Assuming no other scope limitations or reporting problems, the auditor could issue an unqualified opinion on the current year's financial statements with respect to
a. All of the financial statements.
b. The statement of cash flows.
c. The income statement.
d. The balance sheet.

28. After properly communicating with the predecessor auditor, Seal & Co. , CPA's, accepted the engagement to audit Mass Company's annual financial statements. Mass desires that comparative statements from years audited by the predecessor be presented in the annual report. The predecessor auditor's report will not be presented. What effect would inclusion of such comparative F/S have on the audit report of Seal?
a. Seal should make no reference to the report of the predecessor auditor in the introductory or scope paragraph.
b. Seal should make reference to the report of the predecessor auditor in both the scope and opinion paragraphs.
c. Seal should make reference to the report of the predecessor auditor in the opinion paragraph only.
d. Seal should make reference to the report of the predecessor auditor in the introductory paragraph.

29. If an auditor has not gathered sufficient evidential matter to support the management assertions that are embodied in the financial statements, the

auditor may either issue a(an)
a. Disclaimer of opinion or qualified opinion.
b. Adverse opinion or disclaimer of opinion.
c. Adverse opinion or qualified opinion.
d. Disclaimer of opinion or adverse qualified opinion.

30. Restrictions imposed by the client, Rex company, prohibit the confirmation of accounts receivable by direct communication with debtors. These receivables account for 30% of all assets and alternate audit procedures can not be applied, although the independent auditor was able to examine satisfactory evidence for all other items in the financial statements. The independent auditor should issue a(an)
a. Disclaimer of opinion.
b. Adverse opinion.
c. Qualified opinion.
d. Partial disclaimer of opinion.

31. A public entity that is required to present information on the effects of changing prices pursuant to FASB Statement No. 33 does not present the effects of changing prices in its annual report. The auditors have decided to issue the standard scope paragraph and include a separate paragraph in the auditor's report that will call attention to the omission of the effects of changing prices required by the FASB. Assuming no other problems exists, the auditors, should express a(an)
a. Unqualified/with opinion
b. Qualified opinion.
c. Adverse opinion.
d. Partial disclaimer of opinion.

32. Doe, an independent auditor, was engaged to audit the financial statements of Ally Incorporated one month after its fiscal year had ended. Although the inventory count was not observed by Doe, and accounts receivable were not confirmed by direct communication with debtors, Doe was able to gain satisfaction by applying alternate auditing procedures. Doe's report will probably contain
a. A standard unqualified opinion.
b. An unqualified opinion and a separate explanatory paragraph.
c. Either a qualified opinion or a disclaimer of opinion.
d. A partial disclaimer of opinion.

33. The independent auditor has concluded that a substantial doubt remains about a client's ability to continue in existence, but the client's financial statements have properly disclosed all of its solvency problems. The auditor would probably issue a (an)

a. Unqualified opinion with appropriate reference to a separate explanatory paragraph.
b. Qualified opinion because of the scope limitations.
c. Disclaimer of opinion
d. Adverse opinion

34. Which of the following situations is not considered by the consistency reporting standard?
a. A change in the specific subsidiaries that comprise the group of companies for which consolidated statements are presented.
b. A change from an accounting principle that is not generally accepted to one that is generally accepted.
c. A change in the percentage used to calculate the provision for warranty expense.
d. Correction of a mistake in the application of a change in GAAP.

35. When financial statements are presented that are not in conformity with general accepted accounting principles an auditor may issue a (an)

Qualified Disclaimer of
opinion opinion
a. Yes No
b. Yes Yes
c. No Yes
d. No No

Answers - Reporting Questions

| | | |
|---|---|---|
| 1. C | 13. A | 25. D |
| 2. B | 14. C | 26. C |
| 3. A | 15. B | 27. D |
| 4. B | 16. D | 28. D |
| 5. A | 17. C | 29. A |
| 6. C | 18. A | 30. A |
| 7. A | 19. A | 31. A |
| 8. A | 20. C | 32. A |
| 9. C | 21. A | 33. A |
| 10. D | 22. B | 34. C |
| 11. C | 23. C | 35. A |
| 12. D | 24. B | |

## CPA MULTIPLE CHOICE QUESTIONS - Legal Liability

1. The traditional common-law rules regarding accountants' liability to third parties

for negligence
a. Remain substantially unchanged since their inception.
b. Were more stringent than the rules currently applicable.
c. Are of relatively minor importance to the accountant.
d. Have been substantially changed at both the federal and state levels.

2. Gaspard & Devlin, a medium-sized CPA firm, employed Marshall as a staff accountant. Marshall was negligent in auditing several of the firm's clients. Under these circumstances which of the following statements is true?
a. Gaspard & Devlin is not liable for Marshall's negligence.
b. Gaspard & Devlin can recover against its insurer on its malpractice policy even if one of the partners was also negligent in reviewing Marshall's work.
c. Marshall would have no personal liability for negligence.
d. None of these.

3. For what minimum period should audit WP's be retained by the CPA?
a. For the period during which the entity remains a client of the independent CPA.
b. For the period during which an auditor-client relationship exists but not more than six years.
c. For the statutory period within which legal action may be brought against the independent CPA.
d. For as long as the CPA is in public practice.

4. The 1136 Tenants case was chiefly important because of its emphasis upon the legal liability of the CPA when associated with
a. A review of interim statements.
b. Unaudited financial statements.
c. An audit resulting in a disclaimer of opinion.
d. Letters for underwriters.

5. You are a CPA retained by the manager of a cooperative retirement village to do "write-up work." You are expected to prepare unaudited financial statements with each page marked "unaudited" and accompanied by a disclaimer of opinion stating no audit was made. In performing the work you discover that there are no invoices to support $25,000 of the manager's claimed disbursements. The manager informs you that all the disbursements are proper. What should you do?
a. Submit the expected statements but omit the $25,000 of unsupported disbursements.
b. Include the unsupported disbursements in the statements since you are not

expected to make an audit.
c. Obtain from the manager a written statement that you informed him of the missing invoices and his assurance that the disbursements are proper.
d. Notify the owner that some of the claimed disbursements are unsupported & withdraw if the situation is not satisfactorily resolved.

6. Winslow Manufacturing Inc., sought a $200,000 loan from National Lending Corporation. National Lending insisted that audited financial statements be submitted before it would extend credit. Winslow agreed to this and also agreed to pay the audit fee. An audit was performed by an independent CPA who submitted his report to Winslow to be used solely for the purpose of negotiating a loan from National. National, upon reviewing the audited financial statements decided in good faith not to extend the credit desired. Certain ratios which as a matter of policy were used by National in reaching its decision, were deemed too low. Winslow used copies of the audited financial statements to obtain credit elsewhere. It was subsequently learned that the CPA, despite the exercise of reasonable care, had failed to discover a sophisticated embezzlement scheme by Winslow's chief accountant. Under these circumstances, what liability does the CPA have?
a. The CPA is liable to third parties who extended credit to Winslow based upon the audited financial statements.
b. The CPA is liable to Winslow to repay the audit fee because credit was not extended by National.
c. The CPA is liable to Winslow for any losses Winslow suffered as a result of failure to discover the embezzlement.
d. The CPA is not liable to any of the parties.

7. Martinson is a duly licensed CPA. One of his clients is suing him for negligence alleging that he failed to meet generally accepted auditing standards in the current year's audit thereby failing to discover large thefts of inventory. Under the circumstances
a. Martinson is not bound by generally accepted auditing standards unless he is a member of the AICPA.
b. Martinson's failure to meet generally accepted auditing standards would result in liability.
c. Generally accepted auditing standards do not currently cover the procedures which must be used in verifying inventory for balance sheet purposes.
d. If Martinson failed to meet generally accepted auditing standards, he would undoubtedly be found to have committed the tort of fraud.

8. An investor seeking to recover stock market losses from a CPA firm, based upon an unqualified opinion on financial statements which accompanied a registration statement, must establish that

a. There was a false statement or omission of material fact contained in the audited financial statements.

b. He relied upon the financial statements.

c. The CPA firm did not act in good faith.

d. The CPA firm would have discovered the false statement or omission if it had exercised due care in its examination.

9. Josephs & Paul is a growing medium-sized partnership of CPAs. One of the firm's major clients is considering offering its stock to the public. This will be the firm's first client to go public. Which of the following is true with respect to this engagement?

a. If the client is a service corporation, the Securities Act of 1933 will not apply.

b. If the client is not going to be listed on an organized exchange the Securities Exchange Act of 1934 will not apply.

c. The Securities Act of 1933 imposes important additional potential liability on Josephs & Paul.

d. As long as Josephs & Paul engages exclusively in interstate business, the federal securities laws will not apply.

10. The most significant aspect of the Continental Vending case was that it

a. Created a more general awareness of the auditor's exposure to criminal prosecution.

b. Extended the auditor's responsibility for financial statements of subsidiaries.

c. Extended the auditor's responsibility for events after the end of the audit period.

d. Defined the auditor's common-law responsibilities to third parties.

11. A third-party purchaser of securities has brought suit based upon the Securities Act of 1933 against a CPA firm. The CPA firm will prevailing the suit brought by the third party even though the CPA firm issued an unqualified opinion on materially incorrect financial statements if

a. The CPA firm was unaware of the defects.

b. The third-party plaintiff had no direct dealings with the CPA firm.

c. The CPA firm can show that the third-party plaintiff did not rely upon the audited financial statements.

d. The CPA firm can establish that it was not guilty of actual fraud.

12. Doe and Co., CPAs, issued an unqualified opinion on the 1983 financial statements of Marx Corp. These financial statements were included in Marx's annual report and Form 10-K filed with the SEC. Doe did not detect material misstatements in the financial statements as a result of negligence in the performance of the audit. Based upon the financial statements, Fitch purchased stock in Marx. Shortly thereafter, Marx became insolvent, causing the price of the stock to decline drastically. Fitch has commenced legal action against Doe for damages based upon Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934. Doe's best defense to such an action would be that

a. Fitch lacks privity to sue.

b. The engagement letter specifically disclaimed all liability to third parties.

c. There is no proof of scienter.

d. There has been no subsequent sale for which a loss can be computed.

13. If a stockholder sues a CPA for common law fraud based upon false statements contained in the financial statements audited by the CPA, which of the following is the CPA's best defense?

a. The stockholder lacks privity to sue.

b. The CPA disclaimed liability to all third parties in the engagement letter.

c. The contributory negligence of the client.

d. The false statements were immaterial.

Questions 14 and 15 are based on the following information:

Jane Cox, a shareholder of Mix Corp., has properly commenced a derivative action against Mix's Board of Directors. Cox alleges that the Board breached its fiduciary duty and was negligent by failing to independently verify the financial statements prepared by management upon which Smart & Co., CPAs, issued an unqualified opinion. The financial statements contained inaccurate information which the Board relied upon in committing large sums of money to capital expansion. This resulted in Mix having to borrow money at extremely high interest rates to meet current cash needs. Within a short period of time, the price of Mix Corp. stock declined drastically.

14. Which of the following statements is correct?

a. The Board is strictly liable, regardless of fault, since it owes a fiduciary duty to both the corporation and the shareholders.

b. The Board is liable since any negligence of Smart is automatically imputed to the Board.

c. The Board may avoid liability if it acted in good faith and in a reasonable

manner.
d. The Board may avoid liability in all cases where it can show that it lacked scienter.

15. If the court determines that the Board was negligent and the Board seeks indemnification for its legal fees from Mix, which of the following are correct?
a. The Board may not be indemnified since a presumption that the Board failed to act in good faith arises from the judgment.
b. The Board may not be indemnified unless Mix's shareholders approve such indemnification.
c. The Board may be indemnified by Mix only if Mix provides liability insurance for its officers and directors.
d. The Board may be indemnified by Mix only if the court deems it proper.

16. Locke, CPA, was engaged by Hall, Inc., to audit Willow Company. Hall purchased Willow after receiving Willow's audited financial statements, which included Locke's unqualified auditor's opinion. Locke was negligent in the performance of the Willow audit engagement. As a result of Locke's negligence, Hall suffered damages of $75,000. Hall appears to have grounds to sue Locke for
Breach of
Contract Negligence
a. yes yes
b. yes no
c. no yes
d. no no

17. Gleam is contemplating a common law action against Moore & Co., CPAs, based upon fraud. Gleam loaned money to Lilly & Company relying upon Lilly's financial statements which were audited by Moore. Gleam's action will fail if
a. Gleam shows only that Moore failed to meticulously follow GAAS.
b. Moore can establish that they fully complied with the statute of frauds.
c. The alleged fraud was in part committed by oral misrepresentations and Moore pleads the parole evidence rule.
d. Gleam is not a third party beneficiary in light of the absence of privity.

18. George, a CPA, has prepared a tax return for his client, Arbor. The return was prepared in a fraudulent manner. Regarding George's potential liability to various parties, which of the following would be dismissed?
a. A federal criminal action.

b. A federal action for civil penalties.
c. A federal action to revoke George's CPA certificate.
d. A malpractice action by the client.

19. If a CPA firm is being sued for common law fraud by a third party based upon materially false financial statements, which of the following is the best defense which the accountants could assert?
a. Lack of privity.
b. Lack of reliance.
c. A disclaimer contained in the engagement letter.
d. Contributory negligence on the part of the client.

20.Which of the following statements concerning the scope of Section 10(b) of the Securities Exchange Act of 1934 is correct?
a. It applies to purchases as well as sales of securities in interstate commerce.
b. There is an exemption from its application for securities registered under the Securities Act of 1934.
c. It applies exclusively to securities of corporations registered under the Securities Exchange Act of 1934.
d. In order to come within its scope, a transaction must have taken place on a national stock exchange.

21. A requirement of a private action to recover damages for violation of the registration requirements of the Securities Act of '33 is that
a. The plaintiff has acquired the securities in question.
b. The issuer or other defendents commit either negligence or fraud in the sale of the securities.
c. A registration statement has been filed.
d. The securities be purchased from an underwriter.

22. Lewis & Clark, CPAs, rendered an unqualified opinion on the financial statements of a company that sold common stock in a public offering subject to the Securities Act of 1933. Based on a false statement in the financial statements, Lewis & Clark are being sued by an investor who purchased shares of this public offering. Which of the following represents a viable defense?
a. The investor has not met the burden of proving fraud or negligence by Lewis & Clark.
b. The investor did not actually rely upon the false statement.
c. Detection of the false statement by Lewis & Clark occurred after their

examination date.
d. The false statement is immaterial in the overall context of the financial statements.

23. Gibson is suing Simpson & Sloan, CPAs, to recover losses incurred in connection with Gibson's transactions in Zebra Corporation securities. Zebra's Annual Form 10-K Report contained material false and misleading statements in the financial statements audited by Simpson & Sloan. To recover under the Securities and Exchange Act of 1934, Gibson must, among other things, establish that
a. All of his past transactions in Zebra securities, both before and after the auditor's report date, resulted in net loss.
b. The transaction in Zebra securities that resulted in a loss occurred within 90 days of the auditors' report date.
c. He relied upon the financial statements in his decision to purchase or sell Zebra securities.
d. The market price of the stock dropped significantly after corrected financial statements were issued by Zebra.

24. Donalds & Company, CPAs, audited the financial statements included in the annual report submitted by Markum Securities, Inc., to the Securities and Exchange Commission. The audit was improper in several respects. Markum is now insolvent and unable to satisfy the claims of its customers. The customers have instituted legal action against Donalds based upon Section 10b and Rule 10b-5 of the Securities Exchange Act of 1934. Which of the following is likely to be Donalds' best defense?
a. They did not intentionally certify false financial statements.
b. Section 10b does not apply to them.
c. They were not in privity of contact with the creditors.
d. Their engagement letter specifically disclaimed any liability to any party which resulted from Markum's fraudulent conduct.

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Answers - Legal Liability Questions

1. D
2. C
3. C
4. B
5. D
6. D
7. B
8. A
9. C
10. A
11. C
12. C
13. D
14. C
15. D

| | | |
|---|---|---|
| 16. A | 19. B | 22. D |
| 17. A | 20. A | 23. C |
| 18. C | 21. A | 24. A |

**CPA MULTIPLE CHOICE QUESTIONS – Sampling**

1. Which of the following is an example of using statistical sampling?
a. Statistical sampling will be looked upon by the courts as providing superior audit evidence.
b. Statistical sampling requires the auditor to make fewer judgmental decisions.
c. Statistical sampling aids the auditor in evaluating results.
d. Statistical sampling is more convenient to use than nonstatistical sampling.

2. Which of the following is not an example of nonsampling risk?
a. Failing to evaluate results properly.
b. Use of an audit procedure inappropriate to achieve a given audit objective.
c. Obtaining an unrepresentative sample.
d. Failure to recognize an error.

3. Which of the following is an example of nonstatistical sampling?
a. Sequential sampling.
b. Attribute sampling.
c. Haphazard sampling.
d. d. Random sampling.

4. Which of the following is not an advantage of using statistical sampling?
a. Statistical sampling aids in the design of an efficient sample.
b. Statistical sampling allows the auditor to measure the sufficiency of the evidential matter obtained.
c. Statistical sampling allows the auditor to greatly reduce substantive testing.
d. Statistical sampling provides a means for mathematically measuring the degree of risk that results from examining only part of a population.

5. Which of the following best illustrates the concept of sampling risk?
a. An auditor may select audit procedures that are not appropriate to achieve the specific objective.
b. The documents related to the chosen sample may not be available for inspection.
c. A randomly chosen sample may not be representative of the population as a whole.
d. An auditor may fail to recognize deviations in the documents examined.

6. The application of statistical sampling techniques is least related to
a. The first standard of FW.
. b. The second standard of FW.

c. The second general standard
d. d. The third standard of FW.

7. When performing tests of controls which of the following is most useful?
a. Stratified random sampling.
b. Variable sampling.
c. Unrestricted random sampling with replacement.
d. Attribute sampling.

8. An auditor examining inventory may appropriately apply sampling for attributes in order to estimate the
a. Average price of inventory items.
b. Dollar value of inventory.
c. Percentage of slow-moving inventory items.
d. Physical quantity of inventory items.

9. Respectively, attribute sampling and variables sampling are
a. Quantitative and qualitative in nature.
b. Qualitative and quantitative in nature.
c. Both qualitative and quantitative in nature.
d. None of these.

10. The risk that the assessed level of control risk based on the sample is less than the true operating effectiveness of the control structure policy or procedure is termed
a. The risk of incorrect acceptance.
b. The risk of incorrect rejection.
c. The risk of assessing too low.
d. d. The risk of assessing too high.

11. The advantage of using statistical sampling techniques is that such techniques
a. Mathematically measure risk.
b. Eliminate the need for judgmental decisions.
c. Are easier to use than other sampling techniques.
d. Have been established in the courts to be superior to nonstatistical sampling.

12. Which of the following is an element of sampling risk?
a. Choosing an audit procedure that is inconsistent with the audit objective.
b. Choosing a sample size that is too small to achieve the sampling objective.
c. Failing to detect a deviation on a document inspected by the auditor.
d. Failing to perform audit procedures that are required by the sampling plan.

13. Statistical sampling (SS) provides a technique for
a. Exactly defining materiality.

b. Greatly reducing the amount of substantive testing.
c. Eliminating judgment in testing.
d. Measuring the sufficiency of evidential matter.

14. Which of the following best describes the distinguishing feature of SS?
a. It reduces the problems associated with the auditor's judgment concerning materiality.
b. It requires the examination of a smaller number of supporting documents.
c. It is evaluated in terms of two parameters: statistical mean and random selection.
d. It provides a means for measuring mathematically the degree of uncertainty that results from examining only part of a population.

15. If certain forms are not consecutively numbered
a. Selection of a random sample probably is not possible.
b. Systematic sampling may be appropriate.
c. Stratified sampling should be used.
d. Random number tables can not be used.

16. An auditor initially planned to use unrestricted random sampling with replacement in the examination of accounts receivable. Later, the auditor decided to use unrestricted random sampling without replacement. As a result only of this decision, the sample size should
a. Increase.
b. Remain the same.
c. Decrease.
d. d. Be recalculated using a binomial distribution.

17. From prior experience, a CPA is aware of the fact that cash disbursements contain a few unusually large disbursements. In using statistical sampling, the CPA's best course of action is to
a. Eliminate any unusually large disbursements that appear in the sample.
b. Continue to draw new samples until no unusually large disbursements appear in the sample.
c. Stratify the cash disbursements population so large disbursements are reviewed separately.
d. Increase the sample size to lessen the effect of the unusually large disbursements.

18. In examining cash disbursements, an auditor plans to choose a sample using systematic selection with a random start. The primary advantage of such a systematic selection is that population items
a. Which include irregularities will not be overlooked when the auditor exercises compatible reciprocal options.

b. May occur in a systematic pattern, thus making the sample more representative.
c. May occur more than once in a sample.
d. Do not have to be prenumbered in order for the auditor to use the technique.

19. An accounts receivable aging schedule was prepared on 300 pages with each page containing the aging data for 50 accounts. The pages were numbered from 1 to 300 and the accounts listed on each were numbered from 1 to 50. Godla, an auditor, selected accounts receivable for confirmation using a table of numbers as illustrated
Procedures performed by Godla
Select column from Separate 5 digits:
table of numbers First 3 digits Last 2 digits
02011 020-11 x
85393 853-93 *
97265 972-65 *
61680 616-80 *
16656 166-56 *
42751 427-51 *
69994 699-94 *
07942 079-42 y
10231 102-31 z
53988 539-88 *
x Mailed confirmation to account 11 listed on page 20
y Mailed confirmation to account 42 listed on page 79
* Rejected

This is an example of which of the following sampling methods?
a. Acceptance sampling.
b. Systematic sampling.
c. Sequential sampling.
d. Random sampling.

20. The auditor's failure to recognize a misstatement in an amount or a deviation in an internal control, data-processing procedure is described as
a. Statistical error.
b. Sampling error.
c. Standard error.
d. Nonsampling error.

21. Which of the following statistical selection techniques is least desirable for use by an auditor?
a. Systematic selection.
b. Stratified selection.
c. Block selection.

d. Sequential selection.

22. In attribute sampling, a 10% change in which of the following factors normally will have the least effect on the size of a statistical sample?
a. Population size.
b. Tolerable deviation rate.
c. Risk of assessing too low.
d. Likely deviation rate.

23. If the auditor is concerned that a population may contain exceptions, the determination of a sample size sufficient to include at least one such exception is a characteristic of
a. Discovery sampling.
b. Variable sampling.
c. Random sampling.
d. Dollar-unit sampling.

24. An auditor plans to examine a sample of 20 checks for countersignatures as prescribed by the client's internal control procedures. One of the checks in the chosen sample of 20 cannot be found. The auditor should consider the reasons for this limitation and
a. Evaluate the results as if the sample size had been 19.
b. Treat the missing check as a deviation when evaluating the sample.
c. Treat the missing check in the same manner as the majority of the other l9 checks, i.e. countersigned or not.
d. Choose another check to replace the missing check in the sample.

25. The tolerable rate of deviations for a test of controls is generally
a. Lower than the likely rate of deviations in the related accounting records.
b. Higher than the likely rate of deviations in the related accounting records.
c. Identical to the likely rate of deviations in the related accounting records.
d. Unrelated to the likely rate of deviations in the related accounting records.

26. The risk that the assessed level of control risk based on the sample is greater than the true operating effectiveness of the control structure policy or procedure is termed
a. Risk of assessing too high.
b. Risk of assessing too low.
c. Incorrect acceptance.
d. Incorrect rejection.

27. Jones, CPA, believes the industry-wide occurrence rate of client billing errors is 3% and has established a maximum acceptable occurrence rate of 5%. In the review of client invoices Jones should use

a. Discovery sampling.
b. Attribute sampling.
c. Stratified sampling.
d. Variable sampling.

28. In estimation sampling for attributes, which one of the following must be known in order to appraise the results of the auditor's sample?
a. Estimated dollar value of the population.
b. Standard deviation of the values in the population.
c. Actual occurrence rate of the attribute in the population.
d. Sample size.

29. Given random selection, the same sample size, and the same tolerable deviation rate for the testing of two unequal populations, the risk of assessing control risk too low for the smaller population is
a. Higher than the risk of assessing too low for the larger population.
b. Lower than the risk of assessing too low for the larger population.
c. The same as the risk assessing too low for the larger population.
d. Indeterminable relative to the risk assessing too low for the larger population.

30. If all other factors specified in an attribute sampling plan remain constant, changing the specified tolerable deviation rate from 6% to 10%, and changing the specified risk from 97% to 93%, would cause the required sample size to
a. Increase.
b. Remain the same.
c. Decrease.
d. Change by 4%.

31. When using statistical sampling for tests of controls, an auditor's evaluation process would include a statistical conclusion about whether
a. Procedural deviation in the population were within an acceptable range.
b. Population characteristics occur at least once in the population.
c. Monetary misstatement is in excess of a certain predetermined amount.
d. The population total is not misstated by more than a fixed amount.

32. Discovery sampling should not be used if a CPA estimates that the occurrence rate of a certain characteristic in a population being examined exceeds approximately
a. 20%
b. 10%
c. 5%
d. 0%

33. If the size of the sample to be used in a particular test of attributes has not been

determined by utilizing statistical concepts, but the sample has been chosen in accordance with random selection procedures
a. No inferences can be drawn from the sample.
b. The auditor has committed a nonsampling error.
c. May not use statistical evaluation.
d. The auditor will have to evaluate the results by reference to the principles of discovery sampling.

34. In assessing sampling risk, the risk of incorrect rejection and the risk of assessing control risk too high relate to the
a. Efficiency of the audit.
b. Effectiveness of the audit.
c. Selection of the sample.
d. Audit quality control.

35. An underlying feature of random-based selection of items is that each
a. Stratum of the accounting population be given equal representation in the sample.
b. Item in the accounting population be randomly ordered.
c. Item in the accounting population should have an opportunity to be selected.
d. Item must be systematically selected using replacement.

36. In estimation sampling for variables, which of the following must be known in order to estimate the appropriate sample size required to meet the auditor's needs in a given situation?
a. The qualitative aspects of misstatements.
b. The total dollar amount of the population.
c. The acceptable level of risk.
d. The estimated rate of deviation in the population.

37. To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should consider all of the following except
a. Tolerable misstatement.
b. Deviation rate.
c. Allowable risk of incorrect acceptance.
d. Characteristics of the population.

Items 38 and 39 are based on the following information:
Sorry, I couldn't get these to fit on the page.

40. The size of a sample designed for dual purpose testing should be
a. The larger of the samples that would otherwise have been designed for the two separate purposes.
b. The smaller of the samples that would otherwise have been designed for the two

separate purposes.
c. The combined total of the samples that would otherwise have been designed for the two separate purposes.
d. More than the larger of the samples that would otherwise have been designated for the two separate purposes, but less than the combined total of the samples that would otherwise have been designed for the two separate purposes.

41. The risk of incorrect acceptance and the risk of assessing control risk too low relate to the
a. Preliminary estimates of materiality levels.
b. Allowable risk of tolerable misstatement.
c. Efficiency of the audit.
d. Effectiveness of the audit.

42. When assessing the tolerable rate, the auditor should consider that, while deviations from control procedures increase the risk of material errors, such deviations do not necessarily result in errors. This explains why
a. A recorded disbursement that does not show evidence of required approval may nevertheless be a transaction that is properly authorized and recorded.
b. Deviations would result in errors in the accounting records only if the deviations and the errors occurred on different transactions.
c. Deviations from pertinent control procedures at a given rate ordinarily would be expected to result in errors at a higher rate.
d. A recorded disbursement that is properly authorized may nevertheless be a transaction that contains a material error.

43. Which of the following statistical sampling plans does not use a fixed sample size for tests of controls?
a. Dollar-unit sampling.
b. Sequential sampling.
c. PPS sampling.
d. Variables sampling.

44. Which of the following statements is correct concerning statistical sampling in tests of controls?
a. The population size has little or no effect on determining sample size except for very small populations.
b. The likely population deviation rate has little or no effect on determining sample size except for very small populations.
c. As the population size doubles, the sample size also should double.
d. For a given tolerable rate, a larger sample size should be selected as the likely population deviation rate decreases.

45. A number of factors influences the sample size for a substantive test of details

of an account balance. All other factors being equal, which of the following would lead to a larger sample size?
a. Greater reliance on internal controls.
b. Greater reliance on analytical procedures.
c. Smaller expected frequency of misstatements.
d. Smaller measure of tolerable misstatements.

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Answers - Sampling Questions

| | | |
|---|---|---|
| 1. C | 16. C | 31. A |
| 2. C | 17. C | 32. D |
| 3. C | 18. D | 33. C |
| 4. C | 19. D | 34. A |
| 5. C | 20. D | 35. C |
| 6. C | 21. C | 36. C |
| 7. D | 22. A | 37. B |
| 8. C | 23. A | 38. D |
| 9. B | 24. B | 39. B |
| 10. C | 25. B | 40. A |
| 11. A | 26. A | 41. D |
| 12. B | 27. B | 42. A |
| 13. D | 28. D | 43. B |
| 14. D | 29. B | 44. A |
| 15. B | 30. C | 45. D |

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CPA MULTIPLE CHOICE QUESTIONS -- Testing

1. An auditor confirms a representative number of A/R and investigates respondents exceptions and comments. By this procedure the auditor would be most likely to learn which of the following?
a) One of the cashiers has been engaged in lapping.
b) One of the sales clerks has not been preparing charge slips for credit sales to family and friends.
c) The EDP control clerk has been removing all sales invoices applicable to his account from the data file.
d) The credit manager has misappropriated remittances from customers whose accounts have been written-off.

2. Customers having substantial year-end past due balances fail to reply after second request forms have been mailed directly to them. Which of the following is the most appropriate audit procedure?
a) Examine shipping documents.
b) Review collections during the year being examined.

c) Intensify the study of the client's internal control system with respect to receivables.
d) Increase the balance in the accounts receivable allowance (contra) account.

3. To determine that sales transactions have been recorded in the proper accounting period, the auditor performs a cut-off review. Which of the following best describes the overall approach used when performing a cut-off review?
a) Ascertain that management has included in the representation letter a statement that transactions have been accounted for in the proper accounting period.
b) Confirm year-end transactions with regular customers.
c) Examine cash receipts in the subsequent period.
d) Analyze transactions occurring within a few days before and after year-end.

4. The confirmation of the client's trade accounts receivable is a means of obtaining evidential matter and is specifically considered to be generally accepted auditing
a) Principle.
c) Procedure.
b) Standard.
d) Practice.

5. Approximately 95% of returned accounts receivable confirmations indicated that the customer owed a smaller balance than the amount confirmed. This might be explained by the fact that
a) The cash receipts journal was held open after year-end.
b) There is a large number of unrecorded liabilities.
c) The sales journal was closed prior to year end.
d) The sales journal was held open after year-end.

6. Which of the following is not a principal objective of the auditor in the examination of revenues?
a) To verify cash deposited during the year.
b) To evaluate internal control, with particular emphasis on the use of accrual accounting to record revenue.
c) To verify that earned revenue has been recorded, and recorded revenue has been earned.
d) To identify and interpret significant trends and variations in the amounts of various categories of revenue.

7. Which of the following procedures would ordinarily be expected to best

reveal unrecorded sales at the balance sheet date?
a) Compare shipping documents with sales records.
b) Apply gross profit rates to inventory disposed of during the period.
c) Trace payments received subsequent to the balance sheet date.
d) Send accounts receivable confirmation requests.

8. If accounts receivable turned over 7.1 times in 1979 as compared to only 5.6 times in 1980, it is possible that there were
a) Unrecorded credit sales in 1980.
b) Unrecorded cash receipts in 1979.
c) More thorough credit investigations made by the company late in 1979.
d) Fictitious sales in 1980.

9. Lapping would most likely be detected by
a) Examination of canceled checks clearing in the bank cut-off period.
b) Confirming year-end bank balances.
c) Preparing a schedule of interbank transfers.
d) Investigating responses to accounts receivable confirmations.

10. When there are a large number of relatively small account balances, negative confirmation of A/R is feasible if I/C is
a) Strong, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration.
b) Weak, and the individuals receiving the confirmation requests are likely to give them adequate consideration.
c) Weak, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration
d) Strong, and the individuals receiving the confirmation requests are likely to give them adequate consideration.

11. An examination of the A/P account is ordinarily not designed to
a) Detect accounts payable which are substantially past due.
b) Verify that accounts payable were properly authorized.
c) Ascertain the reasonableness of recorded liabilities.
d) Determine that all existing liabilities at B/S date are recorded.

12. When title to merchandise in transit has passed to the audit client, the auditor engaged in the performance of a purchase cutoff will encounter the greatest difficulty in gaining assurance with respect to the
a) Quantity.
b) Quality
c) Price.

d) Terms.

13. Auditor confirmation of A/P balances may not be necessary because
a) This is a duplication of cutoff tests.
b) A/P balances may not be paid before the audit is completed.
c) Correspondence with the audit client's attorney will reveal all legal action by vendors for non-payment.
d) There is likely to be other reliable external evidence available to support the balances.

14. Which of the following would detect an understatement of a purchase discount?
a) Verify footing and crossfooting of purchases and disbursements.
b) Compare purchase invoice terms with disbursement records and checks.
c) Compare approved purchase orders to receiving reports.
d) Verify the receipt of items ordered and invoiced.

15. Which of the following is one of the better auditing techniques that might be used by an auditor to detect kiting?
a) Review composition of authenticated deposit slips.
b) Review subsequent bank statements and canceled checks received directly from the bank.
c) Prepare a schedule of bank transfers from the client's books.
d) Prepare year-end bank reconciliations.

16. Sorry, I couldn't transfer #16.

17. When auditing merchandise inventory at year-end, the auditor performs a purchase cutoff test to obtain evidence that
a) All goods purchased before year-end are received before the physical inventory count.
b) No goods held on consignment for customers are included in the inventory balance.
c) No goods observed during the physical count are pledged or sold.
d) All goods owned at year-end are included in the inventory balance.

18. On receiving the bank cutoff statement, the auditor should trace
a) Deposits in transit on the year-end bank reconciliation to deposits in the cash receipts journal.
b) Checks dated prior to year-end to the outstanding checks listed on the year-end bank reconciliation.
c) Deposits listed on the cutoff statement to deposits in the cash receipts

journal.
d) Checks dated subsequent to year-end to the outstanding checks listed on the year-end bank reconciliation.

19. An auditor ordinarily should send a standard confirmation request to all banks with which the client has done business during the year under audit, regardless of the year-end balance, because this procedure
a) Provides for confirmation regarding compensating balance arrangements.
b) Detects kiting activities that may otherwise not be discovered.
c) Seeks information about indebtedness to the bank.
d) Verifies securities held by the bank in safekeeping.

20. Which of the following is the best audit procedure for determining the existence of unrecorded liabilities at year-end?
a) Examine a sample of invoices dated a few days prior to and subsequent to year-end to ascertain whether they have been properly recorded.
b) Examine a sample of cash disbursements in the period subsequent to year-end.
c) Examine confirmation requests returned by creditors whose accounts appear on a subsidiary trial balance of A/P.
d) Examine unusual relationships between monthly accounts payable balances and recorded purchases.

21. Instead of taking a physical count on the balance sheet date, the client may take physical counts prior to the year-end if internal controls are adequate and
a) Computerized records of perpetual inventory are maintained.
b) Inventory is slow-moving.
c) EDP error reports are generated for missing prenumbered inventory tickets.
d) Obsolete inventory items are segregated and excluded.

22. After accounting for a sequence of inventory tags, an auditor traces a sample of tags to the physical inventory listing to obtain evidence that all items
a) Included in the listing have been counted.
b) Represented by inventory tags are included in the listing.
c) Included in the listing are represented by inventory tags.
d) Represented by inventory tags are bona fide.

23. In verifying debits to perpetual inventory records of a non-manufacturing company, the auditor would investigate the
a) Purchase journal.
b) Purchase requisitions.

c) Purchase orders.
d) Vendors invoices.

24. An auditor would be most likely to learn of slow-moving inventory through
a) Inquiry of sales personnel.
b) Inquiry of stores' personnel.
c) Purchase orders.
d) Review of perpetual inv. records.

25. A client's physical count of inventories was higher than the inventory quantities per the perpetual records. This situation could be the results of the failure to record
a) Sales.
b) Sales Discounts.
c) Purchases.
d) Purchase returns.

26. A common audit procedure in the audit of payroll transactions involves tracing selected items from the payroll journal to employee time cards that have been approved by supervisory personnel. This procedure is designed to provide evidence in support of the audit proposition that
a) Only bona fide employees worked and their pay was properly computed.
b) Jobs on which employees worked were charged with the appropriate labor cost.
c) Internal controls relating to payroll disbursements are operating effectively.
d) All employees worked the number of hours used to compute their pay.

27. A bookkeeper perpetrated a theft by preparing erroneous W-2 forms. The bookkeeper's FICA withheld was overstated by $500.00 and the FICA withheld from all other employees was understated. Which of the following is an audit procedure which would detect such a fraud?
a) Multiplication of the applicable rate by the individual gross taxable earnings.
b) Utilizing form W-4 and withholding charts to determine whether deductions authorized per pay period agree with amounts deducted per pay period.
c) Footing and crossfooting of the payroll register followed by tracing postings to the general ledger.
d) Vouching canceled checks to federal tax forms 941.

28. In testing the payroll of a large company, the auditor wants to establish that the individuals included in a sample actually were employees of the company during the period under review. What will be the best source to

determine this?
a) Telephone contacts with the employees.
b) Tracing from the payroll register to the employees' earnings records.
c) Confirmation with the union or other independent organizations.
d) Examination of personnel department records.

29. A surprise observation by an auditor of a client's regular distribution of payroll checks is primarily designed to satisfy the auditor that
a) All unclaimed payroll checks are properly returned to the cashier.
b) The paymaster is not involved in the payroll distribution.
c) All employees have in their possession proper employee ID.
d) Names on the company payroll are those of bona fide employees presently on the job.

30. An auditor decides that it is important and necessary to observe a client's distribution of payroll checks on a particular audit. The client organization is so large that the auditor cannot conveniently observe the distribution of the entire payroll. In these circumstances, which of the following is most acceptable to the auditor?
a) Observation should be limited to one or more selected departments.
b) Observation should be made for all departments regardless of the inconvenience.
c) Observation should be eliminated and other alternative auditing procedures should be utilized to obtain satisfaction.
d) Observation should be limited to those departments where employees are easily available.

31. In an audit of inventories, an auditor would least likely verify that
a) All inventory owned by the clients is on hand at the time of the count.
b) The client has used proper inventory pricing.
c) The financial statement presentation of inventories is appropriate.
d) Damaged goods and obsolete items have been properly accounted for.

32. When auditing prepaid insurance, an auditor discovers that the original insurance policy on plant equipment is not available for inspection. The policy's absence most likely indicates the possibility of a(an)
a) Insurance premium due but not recorded.
b) Deficiency in the coinsurance provision.
c) Lien on the plant equipment.
d) Understatement of insurance expense.

33. A client maintains perpetual inventory records in both quantities and

dollars. If the assessed level of control risk is high, an auditor would probably
a) Insist that the client perform physical counts of inventory items several times during the year.
b) Apply gross profit tests to ascertain the reasonableness of the physical counts.
c) Increase the extent of tests of controls of the inventory cycle.
d) Request the client to schedule the physical inventory count at the end of the year.

34. An auditor should trace bank transfers for the last part of the audit period and first part of the subsequent period to detect whether
a) The cash receipts journal was held open for a few days after the year end.
b) The last checks recorded before the year end were actually mailed by the year end.
c) Cash balances were overstated because of kiting.
d) Any unusual payments to or receipts from related parties occurred.

35. Periodic or cycle counts of selected inventory times are made at various times during the year rather than single inventory count at year end. Which of the following is necessary if the auditor plans to observe inventories at interim dates?
a) Complete recounts by independent teams are performed.
b) Perpetual inventory records are maintained.
c) Unit cost records are integrated with production accounting records.
d) Inventory balances are rarely at low levels.

36. An auditor most likely would extend substantive tests of payroll when
a) Payroll is extensively audited by the state government.
b) Payroll expense is substantially higher than in the prior year.
c) Overpayments are discovered in performing tests of details.
d) Employees complain to management about too much overtime.

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Answers - Testing Questions

1. A
2. A
3. D
4. C
5. D
6. A
7. A
8. D
9. D
10. D
11. B
12. B
13. D
14. B
15. B
16. B
17. D
18. B
19. C
20. B
21. A
22. B
23. D
24. D
25. C
26. D
27. A

| | | |
|---|---|---|
| 28. D | 31. A | 34. C |
| 29. D | 32. C | 35. B |
| 30. A | 33. D | 36. C |

**CPA Examination Questions - Assertions and Procedures**

1. An auditor tests an entity's policy of obtaining credit approval before shipping goods to customers in support of management's financial statement assertion of
a) Valuation or allocation.
b) Completeness.
c) Existence or occurrence.
d) Rights and obligations.
2. Which of the following audit procedures would an auditor most likely perform to test controls relating to management's assertion concerning the completeness of sales transactions?
a) Verify that extensions and footings on the entity's sales invoices and monthly customer statements have been recomputed.
b) Inspect the entity's reports of prenumbered shipping documents that have not been recorded in the sales journal.
c) Compare the invoiced prices on prenumbered sales invoices to the entity's authorized price list.
d) Inquire about the entity's credit granting policies and the consistent application of credit checks.

3. Which of the following internal control procedures most likely would assure that all billed sales are correctly posted to the accounts receivable ledger?
a) Daily sales summaries are compared to daily posting to the accounts receivable ledger.
b) Each sales invoice is supported by a prenumbered shipping document.
c) The accounts receivable ledger is reconciled daily to the control account in the general ledger.
d) Each shipment on credit is supported by a prenumbered sales invoice.

4. Two assertions for which confirmation of accounts receivable balances provides primary evidence are
a) Completeness and valuation.
b) Valuation, rights and obligations.

c) Rights & Obligations and existence.
d) Existence and completeness.

5. An auditor's purpose in reviewing the renewal of a note payable shortly after the balance sheet date most likely is to obtain evidence concerning management's assertions about
a) Existence or occurrence.
b) Presentation and disclosure.
c) Completeness.
d) Valuation or allocation.

6. In testing the existence assertion for an asset, an auditor ordinarily works from the
a) Financial statements to the potentially unrecorded items.
b) Potentially unrecorded items to the financial statements.
c) Accounting records to the supporting evidence.
d) Supporting evidence to the accounting records.

7. An auditor's purpose in reviewing credit ratings of customers with delinquent accounts receivable most likely is to obtain evidence concerning management's assertions about
a) Presentation and disclosure.
b) Existence or occurrence.
c) Rights and obligations.
d) Valuation or allocation.

8. To satisfy the valuation assertion when auditing an investment accounted for by the equity method, an auditor most likely would
a) Inspect the stock certificates evidencing the investment.
b) Examine the audited financial statements of the investee company.
c) Review the broker's advice or canceled check for the investment's acquisition.
d) Obtain market quotations from financial newspapers or periodicals.

9. Cutoff tests designed to detect credit sales made before the end of the year that have been recorded in the subsequent year provide assurance about management's assertion of
a) Presentation.
b) Completeness.
c) Rights.

d) Existence.

10. Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about management's assertion of
a) Completeness.
b) Existence.
c) Presentation.
d) Valuation.

11. Which of the following control procedures most likely would assist in reducing control risk related to the existence or occurrence of manufacturing transactions?
a) Perpetual inventory records are independently compared with goods on hand.
b) Forms used for direct material requisitions are prenumbered and accounted for.
c) Finished goods are stored in locked limited-access warehouses.
d) Subsidiary ledgers are periodically reconciled with inventory control accounts.

12. Which of the following audit procedures probably would provide the most reliable evidence concerning the entity's assertion of rights and obligations related to inventories?
a) Trace test counts noted during the entity's physical count to the entity's summarization of quantities.
b) Inspect agreements to determine whether any inventory is pledged as collateral or subject to any liens. c) Select the last few shipping advices used before the physical count and determine whether the shipments were recorded as sales.
d) Inspect the open purchase order file for significant commitments that should be considered for disclosure.

13. During an audit of an entity's stockholders' equity accounts, the auditor determines whether there are restrictions on retained earnings resulting from loans, agreements or state law. This audit procedure most likely is intended to verify management's assertion of
a) Existence or occurrence.
b) Completeness.
c) Valuation or allocation.
d) Presentation and disclosure.

14. Which of the following most likely would give the most assurance concerning the valuation assertion of accounts receivable?
a) Tracing amounts in the subsidiary ledger to details on shipping documents.

b) Comparing receivable turnover rates to industry statistics for reasonableness.
c) Inquiring about receivables pledged under loan agreements.
d) Assessing the allowance for uncollectible accounts for reasonableness.

15. An auditor most likely would inspect loan agreements under which an entity's inventories are pledged to support management's financial statement assertion of
a) Existence or occurrence.
b) Completeness.
c) Presentation and disclosure.
d) Valuation or allocation.

16. An auditor most likely would analyze inventory turnover rates to obtain evidence concerning management's assertions about
a) Existence or occurrence.
b) Rights and obligations.
c) Presentation and disclosure.
d) Valuation or allocation.

17. Which of the following procedures would an auditor most likely perform to verify management's assertion of completeness?
a) Compare a sample of shipping documents to related sales invoices.
b) Observe the client's distribution of payroll checks.
c) Confirm a sample of recorded receivables by direct communication with the debtors.
d) Review standard bank confirmations for indications of kiting.

18. Which of the following is a substantive test that an auditor most likely would perform to verify the existence and valuation of recorded accounts payable?
a) Investigating the open purchase order file to ascertain that prenumbered purchase orders are used and accounted for.
b) Receiving the client's mail, unopened, for a reasonable period of time after the year end to search for unrecorded vendor's invoices.
c) Vouching selected entries in the accounts payable subsidiary ledger to purchase orders and receiving reports.
d) Confirming accounts payable balances with known suppliers who have zero balances.

19. An auditor most likely would review an entity's periodic accounting for the numerical sequence of shipping documents and invoices to support management's

financial statement assertion of
a) Existence or occurrence.
b) Rights and obligations.
c) Valuation or allocation.
d) Completeness.

20. In auditing accounts payable, an auditor's procedures most likely would focus primarily on management's assertion of
a) Existence or occurrence.
b) Presentation and disclosure.
c) Completeness.
d) Valuation or allocation.

21. An auditor concluded that no excessive costs for idle plant were charged to inventory. This conclusion most likely related to the auditor's objective to obtain evidence about the financial statement assertions regarding inventory, including presentation and disclosure and
a) Valuation and allocation.
b) Completeness.
c) Existence or occurrence.
d) Rights and obligations.

22. An auditor selected items for test counts while observing a client's physical inventory. The auditor then traced the test counts to the client's inventory listing. This procedure most likely obtained evidence concerning management's assertion of
a) Rights and obligations.
b) Completeness.
c) Existence or occurrence.
d) Valuation.

23. In testing plant and equipment balances, an auditor examines new additions listed on an analysis of plant and equipment. This procedure most likely obtains evidence concerning management's assertion of
a) Completeness.
b) Existence or occurrence.
c) Presentation and disclosure.
d) Valuation or allocation.

24. Which of the following most likely would give the most assurance concerning the valuation assertion of accounts receivable?
a) Tracing amounts in the subsidiary ledger to details on shipping documents.
b) Comparing receivable turnover ratios to industry statistics for reasonableness.
c) Inquiring about receivables pledged under loan agreements.
d) Assessing the reasonableness of the allowance for doubtful accounts.

25. Cutoff tests designed to detect credit sales made before the end of the year that have been recorded in the subsequent year provide assurance about management's assertion of
a) Presentation.
b) Completeness.
c) Rights.
d) Existence.

Answers - Assertion Questions

1. A
2. B
3. A
4. C
5. B
6. C
7. D
8. B
9. B
10. D
11. A
12. B
13. D
14. D
15. C
16. D
17. A
18. C
19. D
20. C
21. A
22. B
23. B
24. D
25. B