



CPA AA

Audit and Insurance

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Question No : 1

- A high standard of living, explained as the result of sound investments and not taking vacations
- An expensive personal car obtained through business contacts
- Gasoline and repair bills submitted for an assigned company car that is higher than company average (mileage logs were submitted on a quarterly basis)
- Marked annoyance with questions from auditors

The above fraud would least likely be discovered by

- A. Analyses of the number of loans made by each loan officer.
- B. Analysis of total dollar volume of loans by loan officer.
- C. External or internal audits of loan files.
- D. Reconciliation of total loans outstanding to the general ledger balance.

Answer: D

Question No : 2

A significant employee fraud took place shortly after an internal audit. The internal auditor may not have properly fulfilled the responsibility for the deterrence of fraud by failing to note and report that

- A. Policies, practices, and procedures to monitor activities and safeguard assets were less extensive in low-risk areas than in high-risk areas.
- B. A system of control that depended on separation of duties could be circumvented by collusion among three employees.
- C. There were no written policies describing prohibited activities and the action required whenever violations are discovered.
- D. Divisional employees had not been properly trained to distinguish between bona fide signatures and cleverly forged ones on authorisation forms.

Answer: C

Question No : 3

A production manager for a medium-sized manufacturing company began ordering excessive raw materials and had them delivered to a wholesale company he runs as a side business. He falsified receiving documents and approved the invoices for payment.

Which of the following audit procedures would most likely detect this fraud?

- A.** Take a sample of cash disbursement; compare purchase orders, receiving reports, invoices, and check copies.
- B.** Take a sample and confirm the amount purchased, purchase price, and date of shipment with the vendors.
- C.** Observe the receiving dock and count material received; compare your counts to receiving reports completed by receiving personnel.
- D.** Prepare analytical tests, comparing production, material purchased, and raw material inventory levels and investigate differences.

Answer: D

Question No : 5

Rostar Ltd develops games for X-box and PCs. The unique gaming experience made the company outstandingly popular among the local customers and its last game release outperform its expectation. This popularity leads to sudden growth in revenues that

quadrupled during the last period. As a result, Rostar Ltd is now obliged to have a statutory audit for the first time.

Which of the following is not a benefit that Rostar Ltd may obtain from the statutory audit?

- A. Assurance of compliance with Companies Act
- B. Recommendations on systems via management letter
- C. Increased accountability of the IT department
- D. Independent confirmation of profits earned/net assets

Answer: C

Question No : 6

ISA 315 Identifying and Assessing the Risks of Material Misstatement requires an understanding of the legal and regulatory framework applicable to the client and the industry sector in which it operates.

With respect to ISA 315, which one of the following procedures would not be used in understanding the entity and its environment?

- A. Inquiries of management and others within the entity
- B. Inquiries of third parties
- C. Analytical procedures
- D. Observation and inspection

Answer: B

Question No : 7

Michael Gove audited the financial statement of Barays Co in the year 2010-11. Recently Barays Co have brought some changes in their reporting system. While auditing, Michael Gove evaluates the effect of a change in accounting principles of Barays Co.

What will be the basis of evaluating the materiality of the change?

- A. Compare the change with the prior years presented.
- B. Check the current year effect of the change.
- C. Whatever basis Michael Gove considers appropriate.
- D. The effect of the change on total assets.

Answer: B

Question No : 8

The internal auditing department has been assigned to perform an audit of a division. Based on background review, the auditor knows the following about management policies:

- Company policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than three years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing, but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past three years and uses a standard cost system.

During the preliminary review, the auditor notes the following changes in financial data compared to the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.
- Inventory has increased by 15%.
- Divisional net income has increased by 8%.

If the auditor decides that there are significant problems with the standard cost system, the next audit step to perform would be to

- A.** Interview divisional management to determine why the standard cost system has not been updated on a timely basis.
- B.** Select a random sample of products and review the standard cost build-up by tracing purchases to the standard cost record.
- C.** Use generalised audit software to prepare a listing of gross margin by product by comparing standard cost with sales price. Select all high-gross-margin items for further investigation.
- D.** Schedule all variances and determine their source and their disposition, that is, whether they are allocated to inventory or cost of goods sold.

Answer: D

Question No : 9

A firm's inventory consisted of 5,000 various types of stocks, 100 of which accounted for 75% of the total monetary value. The most recent regular quarterly manual count revealed that there was an unnecessary two years' supply of the more expensive items.

- A. Use of a control total over the number of unique inventory items.
- B. Limit check on the total monetary value of the inventory.
- C. Use of authorising signatures on requisitions for inventory requested by production.
- D. Maintain perpetual inventory of the larger dollar value items in the inventory.

Answer: D

Question No : 10

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

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

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

Answer: D

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