I. Multiple Choice. (2 points each) Read the following questions carefully and indicate the one best answer to each question by placing a mark in the appropriate space on the answer sheet.

1. Who is sometimes referred to as the “Father of Accounting.”
   a. Piero della Francesca
   b. Milano San Seploco
   c. Joseph Dimaggio
   d. Luca Paciola

2. Which of the following procedures is an accountant least likely to perform during an engagement to review the financial statements of a nonpublic company?
   a. observing the safeguards over access to and use of assets and records
   b. comparing the financial statements with anticipated results in budgets and forecasts
   c. inquiring of management about actions taken at the board of directors’ meetings
   d. studying the relationships of financial statement elements expected to conform to predictable patterns

3. Which of the following would not be included in an accountant’s report based upon a review of the financial statements of a nonpublic entity?
   a. A statement that the review was in accordance with GAAS.
   b. A statement that identifies the type of service that was performed.
   c. A statement describing the principal procedures performed.
   d. A statement describing the accountant’s conclusions based upon the results of the review.

4. The purpose of a review engagement for financial statements of a nonpublic entity is to
   a. provide limited assurance with respect to the entity’s financial statements.
   b. satisfy a request by management to present management’s information in the form of financial statements.
   c. provide no assurance with respect to the entity’s financial statements.
   d. provide the highest level of assurance in an attest report with respect to the entity’s financial statements.

5. The reporting principle includes all but which of the following?
   a. The report shall express an opinion that the financial statements are presented in accordance with the applicable financial reporting framework.
   b. The report shall state that sufficient evidence was obtained in the audit.
   c. Opinion must be based on conformity of the financial statements with the applicable financial reporting framework.
   d. The report shall state that an opinion cannot be expressed when the financial statements are not presented in accordance with the applicable financial reporting framework.

6. Eagle Company’s financial statements contain a departure from generally accepted accounting principles because, due to unusual circumstances, the statements would otherwise be misleading. The auditor should express an opinion that is
a. qualified, and describe the departure in a separate paragraph.
b. unqualified, but not mention the departure in the auditor's report.
c. qualified or adverse, depending on materiality, and describe the departure in a separate paragraph.
d. unqualified, and describe the departure in a separate paragraph.

7. An auditor will issue an adverse opinion if
a. a severe scope limitation has been imposed by the client.
b. a violation of GAAP is sufficiently material that a qualified opinion is not justified.
c. a qualified opinion cannot be rendered because the auditor lacks independence.
d. the company's ability to continue as a going concern is subject to substantial doubt.

8. An auditor's report includes the following statement: "The financial statements do not present fairly the financial position, results of operations, or cash flows in conformity with generally accepted accounting principles." This auditor's report was most likely issued in connection with financial statements that are
a. inconsistent.
b. based on prospective financial information.
c. misleading.
d. affected by a material uncertainty.

9. When financial statements are presented that are not in conformity with generally accepted accounting principles, an auditor may issue a(n)
   Qualified Opinion    Disclaimer of an Opinion
a. Yes               No
b. Yes               Yes
c. No               Yes
d. No               No

10. Which of the following procedures relates to the Responsibilities Principle?
   a. the initial planning of the audit engagement with the audit partner, manager, senior, and client personnel
   b. the assignment of audit personnel to engagements in which they have no direct or material indirect financial interest
   c. the confirmation of accounts receivable
   d. gaining an understanding of the client's internal control structure

11. Independent auditing can best be described as
   a. a branch of internal auditing
   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 incorrect financial information.

12. A CPA certificate is evidence of
   a. recognition of independence.
   b. basic competence at the time the certificate is granted.
   c. culmination of the educational process.
   d. membership in the AICPA.
13. Who establishes generally accepted auditing standards for nonissuers?
   a. American Institute of Certified Public Accountants.
   b. Public Company Accounting Standards Board.
   c. Institute of Internal Auditors and the National Association of Accountants.

14. Joe B. Honest, CPA was offered the engagement to audit Willow Corporation for the year ended June 30, year 1. He had served as a director of Willow Corporation until May 1, year 0, and he currently owns 10 of the 10,000 outstanding shares of Willow Corporation. He should
   a. accept the engagement.
   b. let his partner accept and conduct the engagement.
   c. refuse the engagement because he had served as a director.
   d. refuse the engagement because of his stock ownership.

15. Inclusion of which of the following statements in a CPA's advertisement is not acceptable pursuant to the AICPA Code of Professional Conduct?
   a. Paul Fall, Certified Public Accountant
      Fluency in French and Russian
   b. Paul Fall, Certified Public Accountant
      J.D., Northwestern Law School 1964
   c. Paul Fall, Certified Public Accountant
      Free Consultation
   d. Paul Fall, Certified Public Accountant
      Endorsed by AICPA

16. State accountancy laws are administered by
   a. the AICPA.
   b. the SEC.
   c. state boards.
   d. state societies.

17. Which of the following types of audits do internal auditors primarily perform?
   a. compliance audits
   b. external audits
   c. financial statement audits
   d. operational audits
18. Generally the objective of an operational audit is to determine whether an entity's
   a. internal control structure is adequately operating as designed.
   b. specific operating units are functioning efficiently and effectively.
   c. financial statements present fairly the results of operations.
   d. operational information is in accordance with generally accepted governmental auditing
      standards.

19. A primary purpose of the registration requirements of the Securities Acts is to
   a. ensure investors receive fair value for their investments.
   b. detect and prevent a public offering of securities where management fraud and unethical
      conduct are suspected.
   c. provide investors with information concerning a public offering of securities so that they
      can make informed investment decisions.
   d. prevent the offering of securities considered to be unsound.

20. A CPA, without the consent of the client, should not disclose confidential client information
    contained in working papers to
    a. a voluntary quality control review board.
    b. a federal court that has issued a valid subpoena.
    c. another CPA firm.
    d. a disciplinary body created under state statute.

21. An attestation engagement is one in which a CPA is engaged to
    a. provide tax advice or prepare a tax return based on financial information the CPA has not
       audited or reviewed.
    b. issue a written communication expressing a conclusion about the reliability of an assertion
       that is the responsibility of another party.
    c. testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated
       facts.
    d. assemble prospective financial statements based on the assumptions of the entity's
       management without expressing any assurance.

22. An audit report included an additional paragraph disclosing a difference of opinion between
    the auditor and the client for which the auditor believed an adjustment to the financial
    statements should be made. The opinion paragraph of the audit report should express
    a. an unmodified opinion.
    b. an "except for" qualified opinion citing a departure from generally accepted accounting
       principles.
    c. An "except for" qualified opinion citing a scope limitation and lack of specific evidence.
    d. A disclaimer of opinion.
23. The use of a disclaimer of opinion generally indicates
   a. the auditor is very uncertain with respect to an item and cannot form an opinion on the fairness of presentation of the financial statements as a whole.
   b. the auditor is uncertain with respect to an isolated 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. the auditor has observed a departure from generally accepted accounting principles that has a material effect upon the fairness of presentation of financial statements but the departure is not material enough to justify a qualified opinion.
   d. the auditor has observed a departure from generally accepted accounting principles that is so material that a qualified opinion is not justified.

24. The accountant's report for a review service would not include a statement that
   a. the service was performed in accordance with Generally Accepted Auditing Standards (GAAS).
   b. all information included is the representation of the management of the business.
   c. a review service is substantially less in scope than an audit, and an opinion on financial statements is not expressed.
   d. the accountant is not aware of any material modification that should be made from GAAP.

25. The accountant's standard report for a compilation service would not include a statement that
   a. a compilation service has been performed in accordance with standards established by the AICPA.
   b. financial statement information is the representation of the owners of the business.
   c. compilation service consists primarily of inquiries of company personnel and analytical procedures applied to financial data.
   d. financial statements have not been audited or reviewed and the accountant does not express an opinion or any other form of assurance.

26. Which of the following procedures is ordinarily performed by an accountant in a compilation engagement of a nonpublic entity?
   a. Reading the financial statements to consider whether they are free of obvious mistakes in the application of accounting principles.
   b. Obtaining written representations from management indicating that the compiled financial statements will not be used to obtain credit.
   c. Making inquiries of management concerning actions taken at meetings of the stockholders and the board of directors.
   d. Applying analytical procedures designed to corroborate management's assertions that are embodied in the financial statement components.
27. CPAs within each state have formed state societies of CPAs. Which of the following statements about these societies is false?
   a. Most societies have their own codes of professional ethics that closely parallel the AICPA Code of Professional Conduct.
   b. The state societies are independent of the AICPA.
   c. All CPAs in the state must be members of the state society.
   d. Members of state societies may also be members of the AICPA.

28. Which of the following statements best describes the primary purpose of Statements of Auditing Standards (SAS)?
   a. They are guides intended to identify the auditing procedures that could be used in a variety of situations.
   b. They are procedural outlines intended to narrow the areas of inconsistency and divergence of auditor opinion.
   c. They are authoritative statements, enforced through the AICPA Code of Professional Conduct, and are intended to eliminate auditor judgment.
   d. They are considered interpretations of generally accepted auditing standards.

29. Auditors may issue a special report for all of the following, except an audit of financial presentations
   a. that are prepared on a basis of accounting that the entity uses to file its tax return.
   b. of specified elements or accounts from a set of financial statements.
   c. reporting whether a full set of financial statements is in accordance with generally accepted accounting principles.
   d. to comply with contractual agreements.

30. Statements on Standards for Accounting and Review Services (SSARS) establish standards and procedures for which of the following engagements?
   a. assisting in the preparation of a trial balance for a partnership
   b. compiling the financial statements of a small business owned by an individual
   c. reviewing interim financial data required to be filed with the SEC
   d. advising a client on accounting software packages

31. Fenn & Co., CPAs has time available on a computer which it uses primarily for its own internal record keeping. Aware that the computer facilities of Delta Equipment Co., one of Fenn’s audit clients, are inadequate for their company’s needs, Fenn offers to maintain on its computer certain routine accounting records for Delta. If Delta were to accept the offer and Fenn were to continue to function as independent auditor for Delta, then Fenn would be in violation of
   a. SEC, but not AICPA, provisions pertaining to auditors’ independence.
   b. both SEC and AICPA provisions pertaining to auditors’ independence.
   c. AICPA, but not SEC, provisions pertaining to auditors’ independence.
   d. neither AICPA nor SEC provisions pertaining to auditors’ independence.
32. The CPA firm of Knox & Knox has been subpoenaed to testify and produce its correspondence and working papers in connection with a lawsuit brought by a third party against one of its clients. Knox considers the subpoenaed documents to be privileged communication and therefore seeks to avoid admission of such evidence in the lawsuit. Which of the following is correct?
   a. Federal law recognizes such a privilege if the accountant is a CPA.
   b. The privilege is available regarding the working papers since the CPA is deemed to own them.
   c. The privileged communication rule as it applies to the CPA-client relationship is the same as that of attorney-client.
   d. In the absence of a specific statutory provision, the law does not recognize the existence of privileged communication between a CPA and client.

33. The AICPA Code of Professional Conduct would be violated if a CPA accepted a fee for services and the fee was
   a. fixed by a public authority.
   b. based on a price quotation submitted in competitive bidding.
   c. based on the results of judicial proceedings.
   d. payable after a specified finding was attained in an attest engagement.

34. Which of the following would be considered an indirect financial interest for a given CPA?
   a. The CPA's dependent child owns stock in the client company.
   b. The CPA owns stock options in the client company.
   c. The CPA owns stock in a mutual fund, which owns stock in the client.
   d. The CPA's aunt has a financial interest in the client company.

35. The AICPA's Code of Professional Conduct prohibits contingent fees
   a. from any client.
   b. from consulting clients.
   c. from attest clients.
   d. unless they are disclosed.

36. The main purpose of the "Joint Ethics Enforcement Program" (JEEP) is to
   a. shift the role of enforcement to the AICPA.
   b. shift the role of enforcement to the state societies.
   c. shift the role of enforcement to the SEC.
   d. make enforcement of the Rules more effective and disciplinary action more uniform.

37. The Joint Trial Board of the AICPA may take all of the following disciplinary actions against a member except
   a. license revocation.
   b. admonishment.
   c. suspension of membership.
   d. expelling the member.
38. An audit that involves obtaining and evaluating evidence in order to determine whether certain financial or operating activities of an entity conform to specified rules or regulations created by another party is a(n)
   a. operational audit.
   b. compliance audit.
   c. governmental audit.
   d. internal audit.

39. A direct or material indirect financial interest in the client would impair independence if the interest were held during which of the following time periods?
   a. only at the time of issuing the opinion
   b. from the beginning of the period covered by the statements to the time of issuing the opinion
   c. from the beginning of the engagement to the time of issuing the opinion
   d. from the beginning of the engagement to the balance sheet date of the statements

40. The auditor’s legal liability to third parties under common law extends to
   a. all third parties for all acts of negligence.
   b. all third parties for acts of fraud; select third parties for gross and simple (ordinary) negligence.
   c. all third parties for acts of fraud and gross negligence; select third parties for simple (ordinary) negligence.
   d. select third parties for fraud, gross negligence, and simple (ordinary) negligence.

41. Under the Ultramares ruling, in order for parties to recover for simple (ordinary) negligence they must be
   a. named in the contract.
   b. members of a foreseen group.
   c. foreseeable.
   d. secondary beneficiaries.

42. Under the Rusch Factors ruling (Restatement of Torts approach), in order for parties to recover for simple (ordinary) negligence they must be
   a. in privity.
   b. named in the contract.
   c. members of a foreseen group.
   d. secondary beneficiaries.

43. Under the Rosenblum ruling, in order for parties to recover for simple (ordinary) negligence they must be
   a. secondary beneficiaries.
   b. named in the contract.
   c. members of a foreseen group.
   d. foreseeable.
44. The Securities Act of 1933 makes the auditor liable for
   a. simple (ordinary) negligence to all users of the financial statements.
   b. simple (ordinary) negligence to all initial buyers of the securities.
   c. only gross negligence or fraud to all users of the financial statements.
   d. only gross negligence or fraud to all initial buyers of the securities.

45. The main reason a plaintiff would bring suit against the auditor under RICO instead of under
    the anti-fraud provisions of the 1934 Securities Exchange Act is
    a. federal fraud action may be brought in state court.
    b. prison terms may be provided along with civil damages.
    c. it is easier to prove fraud than gross negligence.
    d. the possibility of triple damages and attorneys' fees.
II. Other Questions

1. (10 points) The ten generally accepted auditing standards are listed below in paraphrased form. Indicate the category to which each statement belongs by placing the following letters in the space provided.

   G - General (Responsibilities Principle)
   F - Field work (Performance Principle)
   R - Reporting (Reporting Principle)

   _____ 1. An understanding of the internal control structure is to be obtained.
   _____ 2. The auditor should be unbiased during the examination.
   _____ 3. The financial statements should be in conformity with GAAP.
   _____ 4. The financial statements contain adequate disclosures.
   _____ 5. The auditor should have adequate technical training and proficiency as an auditor.
   _____ 6. Sufficient competent evidential matter is to be obtained.
   _____ 7. Due professional care is to be exercised by the auditor.
   _____ 8. The work should be adequately planned and assistants should be properly supervised.
   _____ 9. The report shall contain an expression of opinion.
   _____ 10. Circumstances in which GAAP have not been consistently observed should be identified.
2. (5 points) Three types of auditors are listed below. Indicate the category to which each statement belongs by placing the appropriate letter in the space provided:

A - Independent Auditors  
B - Internal Auditors  
C - Governmental Auditors

____ 1. They perform audits as employees of various local, state, and federal agencies.

____ 2. They perform audits as employees of the companies they audit.

____ 3. They render professional auditing services to their clients.

____ 4. They are mainly involved with operational audits.

____ 5. They perform independent financial statement audits.

3. (5 points) Five types of audits are listed below. Indicate the category to which each statement belongs by placing the appropriate letter in the space provided:

A - Financial Statement Audit  
B - Compliance Audit  
C - Operational Audit  
F - Fraud Audit  
G - Quality Audit

____ 1. The results of such an audit are distributed to a wide spectrum of users such as creditors, stockholders, regulatory agencies, and the general public.

____ 2. This type of audit is often called a performance audit or management audit.

____ 3. This audit may be based on criteria established by creditors.

____ 4. The scope of this type of audit may encompass all the activities of a department.

____ 5. This audit relates to fair presentation of statements in accordance with GAAP.

4. No longer applicable.
### Multiple Choice

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II. Other Questions

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