

Chapter 01

1. The need for independent assurance arises because the interests of the users of information may be different from the interests of those responsible for providing information.
 - a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Need for Independent Assurance
DATE CREATED: 1/17/2018 2:50 AM
DATE MODIFIED: 1/17/2018 7:42 AM

2. A financial statement audit is a systematic process of objectively obtaining and evaluating evidence.
 - a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 2:58 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

3. A bank using Milton Company's financial statements to evaluate Milton's loan application is an example of a user's need for unbiased reporting.
- True
 - False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: User's Need for Reliable Financial Reporting

DATE CREATED: 1/17/2018 3:00 AM

DATE MODIFIED: 1/17/2018 7:42 AM

4. An integrated audit requires the auditor to assess the effectiveness of internal controls.
- True
 - False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Integrated Audit

DATE CREATED: 1/17/2018 3:02 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

5. Auditors obtain and evaluate evidence regarding assertions about economic actions and events to verify the accuracy of those assertions.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 3:03 AM
DATE MODIFIED: 1/17/2018 7:42 AM

6. Auditing is the process of verifying the accuracy of the financial statements.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 3:04 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

7. Management may have incentives to present biased financial information, but the various users of the statements are not likely to have conflicting interests in the financial information.
- True
 - False

ANSWER: False

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Users' Needs for Reliable Financial Information

DATE CREATED: 1/17/2018 3:06 AM

DATE MODIFIED: 1/17/2018 7:42 AM

8. Auditing exists because users need unbiased information on which to assess management performance and make economic decisions.
- True
 - False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Need for Independent Assurance

DATE CREATED: 1/17/2018 3:07 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

9. Users rely on the auditors' independent assessment of financial statement presentation because few users have direct knowledge of the company's operations.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Need for Independent Assurance
DATE CREATED: 1/17/2018 3:08 AM
DATE MODIFIED: 1/17/2018 7:42 AM

10. If the auditor has no reservations about management's financial statements, then the auditor will issue a qualified opinion.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditor's Opinion
DATE CREATED: 1/17/2018 3:09 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

11. Independence is often referred to as the cornerstone of the auditing profession.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Importance of Auditor Independence
DATE CREATED: 1/17/2018 3:09 AM
DATE MODIFIED: 1/17/2018 7:42 AM

12. Auditors generally need quantitative and mathematical skills more than they need communication and leadership skills.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Skills and Knowledge Needed by Professionals
DATE CREATED: 1/17/2018 3:10 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

13. The overall objective of an audit is to obtain assurance whether the financial statements are free of misstatement.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Overview of the External Auditing Profession
DATE CREATED: 1/17/2018 3:12 AM
DATE MODIFIED: 1/17/2018 7:42 AM

14. The foundation for the audit opinion formulation process relies on obtaining evidence to support the auditor's opinion.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Opinion Formulation Process
DATE CREATED: 1/17/2018 3:12 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

15. Complex transactions, information, and processing systems provide an opportunity for management to mislead users of financial statements.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Need for Independent Assurance
DATE CREATED: 1/17/2018 3:13 AM
DATE MODIFIED: 1/17/2018 7:42 AM

16. Users of audited financial statements include a company's bondholders but not its stockholders, who are the owners of the company.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Users of Audited Financial Statements
DATE CREATED: 1/17/2018 3:14 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

17. A key responsibility of the internal audit function is to provide assurance on the reliability of financial information reported to external users of audited financial statements.
- True
 - False

ANSWER: False

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Parties Involved in Preparing and Auditing Financial Statements

DATE CREATED: 1/17/2018 3:16 AM

DATE MODIFIED: 1/17/2018 7:42 AM

18. The audit committee oversees both the internal and external auditors.
- True
 - False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Role of the Audit Committee

DATE CREATED: 1/17/2018 3:17 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

19. A CPA is a certified public accountant who is licensed by a state board of accountancy.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:18 AM
DATE MODIFIED: 1/17/2018 7:42 AM

20. Internal controls are the responsibility of management.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Parties Involved in Financial Reporting
DATE CREATED: 1/17/2018 3:19 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

21. Audit staff performing audit work must be appropriately supervised by partners and managers.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Engagement Team
DATE CREATED: 1/17/2018 3:21 AM
DATE MODIFIED: 1/17/2018 7:42 AM

22. An auditor who has reservations about the effectiveness of a client company's internal controls would issue an adverse opinion on internal controls.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Report on Internal Controls
DATE CREATED: 1/17/2018 3:22 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

23. Audit firm culture is one of the primary drivers of audit quality.

- a. True
- b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Drivers of Audit Quality
DATE CREATED: 1/17/2018 3:23 AM
DATE MODIFIED: 1/17/2018 7:42 AM

24. Effective audit processes, by themselves, are sufficient to achieve audit quality.

- a. True
- b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Achieving Audit Quality
DATE CREATED: 1/17/2018 3:23 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

25. A quality audit is one performed “in accordance with generally accepted auditing standards (GAAS) to provide reasonable assurance that the audited financial statements and related disclosures are presented in accordance with generally accepted accounting principles (GAAP) and (2) are not materially misstated whether due to errors or fraud.”
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Quality Audit Defined
DATE CREATED: 1/17/2018 3:25 AM
DATE MODIFIED: 1/17/2018 7:42 AM

26. Audit quality is driven, in part, by the skills and personal qualities of audit partners and staff.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Drivers of Audit Quality
DATE CREATED: 1/17/2018 3:26 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

27. The Financial Reporting Council's *Audit Quality Framework* is the only framework for audit quality recognized by audit professionals worldwide.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Frameworks of Audit Quality
DATE CREATED: 1/17/2018 3:27 AM
DATE MODIFIED: 1/17/2018 7:42 AM

28. Some factors affecting audit quality are outside the direct control of the auditor, such as the amount of time allotted for completion of the audit.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Frameworks of Audit Quality
DATE CREATED: 1/17/2018 3:28 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

29. Auditors should conduct their work with an attitude of professional skepticism.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Frameworks of Audit Quality
DATE CREATED: 1/17/2018 3:29 AM
DATE MODIFIED: 1/17/2018 7:42 AM

30. In the United States, auditors form conclusions about whether the financial statements are presented fairly in accordance with generally accepted auditing standards (GAAS).
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Frameworks of Audit Quality
DATE CREATED: 1/17/2018 3:30 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

31. The International Auditing and Assurance Standards Board sets international standards on auditing and has developed a framework for audit quality.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:31 AM
DATE MODIFIED: 1/17/2018 7:42 AM

32. To ensure audit quality, audits of public companies must be performed by multinational accounting firms.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Quality
DATE CREATED: 1/17/2018 3:32 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

33. The PCAOB requires disclosure of the names of engagement partners for all public company audits.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:33 AM
DATE MODIFIED: 1/17/2018 7:42 AM

34. The PCAOB is a public board, appointed by Congress, to provide oversight of the firms that audit public companies registered with the SEC.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:34 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

35. The SEC is the governmental body with oversight responsibility for the efficient operation of capital markets in the United States.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:35 AM
DATE MODIFIED: 1/17/2018 7:42 AM

36. The PCAOB provides the criteria against which the auditor measures the fairness of financial statement presentation.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:36 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

37. The AICPA sets auditing standards for nonpublic companies.

- a. True
- b. False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Professional and Regulatory Organizations

DATE CREATED: 1/17/2018 3:37 AM

DATE MODIFIED: 1/17/2018 7:42 AM

38. Though often relying on the FASB, the SEC has authority to establish GAAP for public companies.

- a. True
- b. False

ANSWER: True

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Professional and Regulatory Organizations

DATE CREATED: 1/17/2018 3:38 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

39. The SEC has authority to establish GAAP for all business enterprises.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:39 AM
DATE MODIFIED: 1/17/2018 7:42 AM

40. The Center for Audit Quality is responsible for the oversight of the peer review process for registered audit firms.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:40 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

41. The SEC and PCAOB independence rules for auditors are identical to those of the AICPA.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 3:41 AM
DATE MODIFIED: 1/17/2018 7:42 AM

42. Compliance with the AICPA Code of Professional Conduct depends primarily on the threat of disciplinary actions for violating the Code.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:42 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

43. The AICPA's conceptual framework of "threats and safeguards" included in the Code of Professional Conduct applies only to AICPA members in public practice.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:45 AM
DATE MODIFIED: 1/17/2018 7:42 AM

44. Threats to an auditor's independence may occur when the auditor has a long-standing relationship with an important person associated with the client.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:46 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

45. A safeguard is an action or other measure that may eliminate a threat or reduce the threat to an acceptable level.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:47 AM
DATE MODIFIED: 1/17/2018 7:42 AM

46. Safeguards implemented by the audit client include mandatory audit partner rotation requirements for public companies.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:48 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

47. An AICPA member who is not in public practice is not subject to any of the Principles of Professional Conduct.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:50 AM
DATE MODIFIED: 1/17/2018 7:42 AM

48. Specific rules of conduct contained in the AICPA Code of Professional Conduct and related interpretations of those rules cover many, but not all, relationships and circumstances that an auditor may encounter.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:51 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

49. An individual does not need to agree to uphold the AICPA's Code of Professional Conduct in order to become licensed as a CPA.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:52 AM
DATE MODIFIED: 1/17/2018 7:42 AM

50. A covered member's investment in a mutual fund that owns stock in a firm being audited by the covered member is a direct financial interest resulting in the impairment of independence.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:53 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

51. When an auditor identifies threats to compliance with the rules of conduct, the auditor must demonstrate that safeguards were applied that totally eliminated the threat.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:54 AM
DATE MODIFIED: 1/17/2018 7:42 AM

52. A covered member may not have a direct financial interest in an audit client if the interest is material.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:56 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

53. The AICPA's Code of Professional Conduct defines an indirect financial interest as an investment of one percent or less of a client's organization, and because the amount is so small it is considered immaterial.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:56 AM
DATE MODIFIED: 1/17/2018 7:42 AM

54. Auditors are permitted to perform for a contingent fee an audit of the financial statements if the audit committee approves the agreement in advance of the services being provided.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:58 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

55. An auditor may not disclose any confidential client information unless the auditor determines that disclosure is in the public interest.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 3:59 AM
DATE MODIFIED: 1/17/2018 7:42 AM

56. Contingent fees are prohibited for tax professionals when preparing tax returns for clients.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:00 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

57. Contingent fees are prohibited for any client for which the auditor performs audit services, but are otherwise permitted.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:01 AM
DATE MODIFIED: 1/17/2018 7:42 AM

58. Commissions and referral fees are allowed to audit firms as long as the audit client is informed of the fees.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:02 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

59. A CPA firm may include the name of only one past owner in the firm name.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:03 AM
DATE MODIFIED: 1/17/2018 7:42 AM

60. A covered member under the AICPA's rules includes individuals on the engagement team, any individual in a position to influence the engagement team, and a partner or manager who provides more than 10 hours of nonattest services to the audit client within a fiscal year.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:04 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

61. Rule 102 on integrity and objectivity applies only to covered members as defined by the AICPA.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:05 AM
DATE MODIFIED: 1/17/2018 7:42 AM

62. The AICPA may revoke a member's CPA license for violating its Code of Professional Conduct.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:06 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

63. A new staff member on an audit engagement may own stock in that client until the audit report is issued.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:07 AM
DATE MODIFIED: 1/17/2018 7:42 AM

64. A contingency fee is a situation in which no fee will be charged unless a specified finding or result is attained.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:08 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

65. Rule 102, Integrity and Objectivity, of the AICPA Professional Code of Conduct, does not apply to a CPA who is a corporate CFO.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Professional Code of Conduct
DATE CREATED: 1/17/2018 4:09 AM
DATE MODIFIED: 1/17/2018 7:42 AM

66. Loans between the auditor and the client are permitted in some circumstances.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:11 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

67. The auditor is permitted to violate the confidentiality rule in providing relevant information to an inquiry by a major shareholder of the client.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:12 AM
DATE MODIFIED: 1/17/2018 7:42 AM

68. A covered member's independence would be impaired if an immediate family member was employed by the client company in any position.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:13 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

69. The AICPA Code of Professional Conduct prohibits an auditor from providing any non-audit services to audit clients because of the threat posed to the auditor's independence.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 4:14 AM
DATE MODIFIED: 1/17/2018 7:42 AM

70. The SEC and PCOAB have independence requirements that apply only to auditors of public companies.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: SEC and PCOAB Independence Requirements
DATE CREATED: 1/17/2018 4:15 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

71. According to the framework for professional decision making, the first step in decision-making is to structure the audit problem.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: General Decision-Making Framework
DATE CREATED: 1/17/2018 4:16 AM
DATE MODIFIED: 1/17/2018 7:42 AM

72. According to Rights Theory, the highest-order rights include rights granted by the government, such as civil rights, legal rights, rights to own property, and license privileges.
- True
 - False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Framework for Ethical Decision Making
DATE CREATED: 1/17/2018 4:17 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

73. An ethical dilemma occurs in a situation in which moral duties or obligations conflict.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Framework for Ethical Decision Making
DATE CREATED: 1/17/2018 4:18 AM
DATE MODIFIED: 1/17/2018 7:42 AM

74. An ethical dilemma occurs when an ethically correct action may conflict with an individual's immediate self-interest.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Framework for Ethical Decision Making
DATE CREATED: 1/17/2018 4:19 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

75. Rights theory focuses on evaluating actions in terms of the fundamental rights of the parties involved.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Framework for Ethical Decision Making
DATE CREATED: 1/17/2018 4:21 AM
DATE MODIFIED: 1/17/2018 7:42 AM

76. There is a hierarchy of rights to consider when applying rights theory.
- True
 - False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: An Ethical Decision-Making Framework
DATE CREATED: 1/17/2018 4:22 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

77. Utilitarian theory is an approach for addressing ethical problems by identifying a hierarchy of rights that should be considered in solving ethical dilemmas.

- a. True
- b. False

ANSWER: False

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Ethical Theories

DATE CREATED: 1/17/2018 5:35 AM

DATE MODIFIED: 1/17/2018 7:42 AM

78. Professional judgment is an attitude that includes a questioning mind and a critical evaluation of audit evidence.

- a. True
- b. False

ANSWER: False

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.04

NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Framework for Professional Decision Making

DATE CREATED: 1/17/2018 5:36 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

79. Without professional skepticism, auditors are susceptible to accepting weak or inaccurate audit evidence.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Framework for Professional Decision Making
DATE CREATED: 1/17/2018 5:37 AM
DATE MODIFIED: 1/17/2018 7:42 AM

80. Both client acceptance decisions and client continuance decisions are based on an evaluation of relative risk and audit fees.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Client Acceptance and Continuance
DATE CREATED: 1/17/2018 5:37 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

81. Auditors consider both quantitative and qualitative risk factors when making client acceptance or continuance decisions.
- a. True
 - b. False

ANSWER: True
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Client Acceptance and Continuance
DATE CREATED: 1/17/2018 5:38 AM
DATE MODIFIED: 1/17/2018 7:42 AM

82. An auditor is not permitted to contact the predecessor auditor when considering a prospective new client.
- a. True
 - b. False

ANSWER: False
POINTS: 1
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Client Acceptance and Continuance
DATE CREATED: 1/17/2018 5:39 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

83. Engagement letters issued to new clients do not specify the amount of audit fees to be charged because fees cannot be determined until the audit has been completed.
- True
 - False

ANSWER: False

POINTS: 1

QUESTION TYPE: True / False

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.05

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Client Acceptance and Continuance

DATE CREATED: 1/17/2018 5:40 AM

DATE MODIFIED: 1/17/2018 7:42 AM

84. Which of the following is not a reason for audits of financial statements of public companies?
- Potential bias in providing information.
 - Greater likelihood of fraud in large public companies.
 - Complexity of the processing systems.
 - Remoteness between a user and the organization.

ANSWER: b

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Need for Independent Assurance

DATE CREATED: 1/17/2018 5:41 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

85. What is the term used to describe a systematic process of objectively obtaining evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users?
- Internal audit.
 - Financial statement audit.
 - External audit.
 - Program audit

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 5:42 AM
DATE MODIFIED: 1/17/2018 7:42 AM

86. An Integrated Audit Report provides opinion(s) on which of the following?
- The financial statements.
 - Internal controls.
 - Both financial statements and internal controls.
 - Neither financial statements nor internal controls.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Integrated Audit Defined
DATE CREATED: 1/17/2018 5:43 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

87. Who are the users of the financial statements?

- a. Management.
- b. Auditors.
- c. Taxing Authorities.
- d. Both A and C.

ANSWER: d

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Auditing Defined

DATE CREATED: 1/17/2018 5:45 AM

DATE MODIFIED: 1/17/2018 7:42 AM

88. Which of the following is a factor that creates a need for an independent auditor's assessment of the financial statement presentation?

- a. Complexity of transactions affecting the financial statements.
- b. Lack of criteria on which to base information.
- c. Remoteness of the user from the organization.
- d. Both A and C.

ANSWER: d

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Need for Independent Assurance

DATE CREATED: 1/17/2018 5:46 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

89. What can users of the audit report reasonably expect from the audited financial statements?
- The financial statements are complete and contain many of the important financial disclosures.
 - The financial statements are presented fairly according to the substance of GAAP.
 - The financial statements are free from all errors.
 - All of the above.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 5:47 AM
DATE MODIFIED: 1/17/2018 7:42 AM

90. To conduct an audit, what must an auditor do?
- Comply with relevant ethical standards.
 - Exercise perfect judgment.
 - Obtain sufficient appropriate evidence to provide absolute assurance.
 - All of the above.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:00 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

91. What is the first phase in an audit?
- Client acceptance or client continuance.
 - Understanding the client.
 - Understanding internal controls.
 - Testing of account balances.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:02 AM
DATE MODIFIED: 1/17/2018 7:42 AM

92. How is the audit report referred to when the auditor has no reservations about management's financial statements?
- An unqualified report.
 - A qualified report.
 - An adverse report.
 - An integrated report.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Overview of the External Auditing Profession
DATE CREATED: 1/17/2018 6:03 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

93. Why is auditing important in a free market society?
- The public requires auditors to function as divisions of regulatory bodies.
 - Auditors detect all errors and fraud perpetrated by company employees.
 - Audits provide reliable information upon which to judge economic performance.
 - The auditor is a form of insurance policy for investors.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:05 AM
DATE MODIFIED: 1/17/2018 7:42 AM

94. What must an auditor do in an audit?
- Consider how the economic activity is portrayed in the financial statements.
 - Force management to make operational decisions that will improve the company's financial performance.
 - Disregard independence in order to find the underlying truth of the evidence.
 - Establish new criteria by which financial statements may be compared.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:08 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

95. What document communicates the conclusions of the financial statement audit?
- The financial statements.
 - Written management assertions.
 - The audit report.
 - None of the above.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:09 AM
DATE MODIFIED: 1/17/2018 7:42 AM

96. Who is responsible for internal controls within an organization?
- The internal auditor.
 - The external auditor.
 - Management.
 - The PCAOB.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:12 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

97. What is the primary objective of the independent auditor's report on financial statements?
- To report on all instances of fraud.
 - To assist the board in evaluating management's effectiveness.
 - To attest to the credit-worthiness of the client.
 - To give credibility to management's prepared financial statements.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:16 AM
DATE MODIFIED: 1/17/2018 7:42 AM

98. Which of the following is not part of the systematic process called auditing?
- Communicating results of the audit to users.
 - Procuring and evaluating evidence.
 - Assisting management in designing internal controls.
 - Comparing evidence regarding assertions to certain established criteria.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 6:18 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

99. Which of the following is not a primary driver of audit quality?
- Skills and personal qualities of audit staff.
 - Size of the audit firm.
 - Effective audit processes.
 - Audit firm culture.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Quality
DATE CREATED: 1/17/2018 6:19 AM
DATE MODIFIED: 1/17/2018 7:42 AM

100. According to the Financial Reporting Council (FRC), which of the following attributes contributes to the reliability and usefulness of audit reporting?
- The audit methodology is well structured.
 - Quality technical support is available when auditors require guidance.
 - Auditors appropriately conclude as to the truth and fairness of the financial statements.
 - The audit work is effectively reviewed.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Quality
DATE CREATED: 1/17/2018 6:20 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

101. According to the Financial Reporting Council (FRC), when is the culture of an audit firm likely to provide a positive contribution to audit quality?
- When the leadership of the audit firm ensures partners and other staff have sufficient time and resources to deal with difficult issues as they arise.
 - When the leadership of the audit firm ensures robust systems for client acceptance and continuation based on the likelihood of increased audit fees.
 - When the leadership of the audit firm creates an environment where achieving efficiency is valued, invested in and rewarded.
 - When the leadership of the audit firm ensures financial considerations drive actions.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Quality
DATE CREATED: 1/17/2018 6:21 AM
DATE MODIFIED: 1/17/2018 7:42 AM

102. Which of the following is a driver of audit quality?
- Audit firm culture.
 - Engagement team skills and attributes.
 - Factors outside control of auditors.
 - All of the above.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Drivers of Audit Quality
DATE CREATED: 1/17/2018 6:22 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

103. Which of the following items should an auditor communicate to an audit committee?
- Any meaningful threats to auditor objectivity.
 - The scope of the audit.
 - The qualitative aspects of the entity's accounting and reporting and potential ways of improving financial reporting.
 - All of the above.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Audit Quality
DATE CREATED: 1/17/2018 6:24 AM
DATE MODIFIED: 1/17/2018 7:42 AM

104. The Center for Audit Quality is dedicated to enhancing investor confidence in what?
- The global capital markets.
 - Management.
 - Auditors.
 - All of the above.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.02
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 6:25 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

105. International Standards on Auditing (ISAs) are set by which of the following organizations?

- a. International Center for Audit Quality.
- b. International Auditing and Assurance Standards Board.
- c. American Institute of Certified Public Accountants
- d. All of the above organizations participate in setting ISAs.

ANSWER: b

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.02

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Professional and Regulatory Organizations

DATE CREATED: 1/17/2018 6:26 AM

DATE MODIFIED: 1/17/2018 7:42 AM

106. What must audit firms do to perform financial statement audits for public companies?

- a. Register with the American Institute of Certified Public Accountants.
- b. Register with the Institute of Internal Auditors.
- c. Register with the U.S. General Accounting Office.
- d. Register with the Public Company Accounting Oversight Board.

ANSWER: d

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Professional and Regulatory Organizations

DATE CREATED: 1/17/2018 6:27 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

107. Which term describes the type of threat that occurs when top management threatens to replace the audit firm because of a disagreement over an accounting issue?
- Management participation threat.
 - Undue influence threat.
 - Adverse interest threat.
 - Financial self-interest threat.

ANSWER: b

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: AICPA's Conceptual Framework

DATE CREATED: 1/17/2018 6:28 AM

DATE MODIFIED: 1/17/2018 7:42 AM

108. According to the AICPA, which of the following is not a safeguard to the auditing profession?
- Education.
 - Professional standards.
 - External reviews.
 - Legislation concerning competency requirements.

ANSWER: d

POINTS: 1

QUESTION TYPE: Multiple Choice

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: AICPA's Conceptual Framework

DATE CREATED: 1/17/2018 6:29 AM

DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

109. Which of the following is a correct statement regarding the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA)?
- The IESBA Code applies only to members in public practice.
 - The five fundamental principles of the IESBA Code are identical to the AICPA's principles of professional conduct.
 - The IESBA Code contains specific standards addressing many of the same issues addressed in the AICPA Code of Professional Conduct.
 - All of the above statements are correct.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Organizations Affecting the External Auditing Profession
DATE CREATED: 1/17/2018 6:30 AM
DATE MODIFIED: 1/17/2018 7:42 AM

110. Which of the following is not a primary responsibility of the PCAOB regarding public companies in the U.S.?
- Issuing CPA licenses to auditors who perform audits of public companies.
 - Registering audit firms that audit public companies.
 - Periodically inspecting registered audit firms.
 - Investigating and disciplining registered audit firms for violations of relevant laws and professional standards.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 6:32 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

111. Congress authorized which of the following organizations to establish generally accepted accounting principles?
- SEC.
 - PCAOB.
 - AICPA.
 - FASB.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional and Regulatory Organizations
DATE CREATED: 1/17/2018 6:33 AM
DATE MODIFIED: 1/17/2018 7:42 AM

112. Mark Pulley is an auditor at Pulley and Hurst, LLC. If Pulley's five-year-old daughter owns shares of stock in McBurgers Corporation, then what is Pulley considered to have?
- An immaterial indirect financial interest in cc.
 - A material indirect financial interest in the McBurgers Corporation.
 - A loophole for claiming independence from McBurgers Corporation.
 - A direct financial interest in McBurgers Corporation.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:34 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

113. Which of the following employment positions could an auditor's spouse hold in a client without violating the independence requirements?
- Controller.
 - Treasurer.
 - Order entry staff.
 - Internal audit director.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:35 AM
DATE MODIFIED: 1/17/2018 7:42 AM

114. Julie Webb, CPA, takes out an automobile loan with First National Bank of Wellville (FNBW) while attending the University of Wellville. Julie graduates one year later and is hired as an auditor by Best and Driftwood, LLP. Her first assigned audit engagement is with First National Bank of Wellville, a client of Best and Driftwood. As a new audit assistant, Julie continues to pay her automobile loan payments each month. Which of the following best describes Julie's independence status?
- Impaired because Julie has a direct financial interest in FNBW.
 - Impaired because Julie has a material indirect financial interest in FNBW.
 - Not impaired because Julie has an immaterial indirect financial interest in FNBW.
 - Not impaired because Julie is permitted to take normal loans from FNBW.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:36 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

115. Julie Webb, CPA takes out an automobile loan with First National Bank of Wellville (FNBW) while attending the University of Wellville. Julie graduates one year later and is hired as an auditor by Best and Driftwood, LLP. Her first assigned audit engagement is with First National Bank of Wellville, a client of Best and Driftwood. As a new audit assistant, Julie continues to pay her automobile loan payments each month. According to the AICPA, why is Julie is considered a covered member for FNBW independence purposes?
- She will be working on the engagement.
 - She has a direct financial interest in FNBW.
 - She graduated in the same area as the client is operating.
 - She has an immaterial direct financial interest in FNBW.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:38 AM
DATE MODIFIED: 1/17/2018 7:42 AM

116. Which of the following is a principle of the Code of Ethics of the International Ethics Standards Board for Accountants but not a principle found in the AICPA Code of Professional Conduct?
- Integrity
 - Professional Behavior
 - Confidentiality
 - Objectivity

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:39 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

117. Which of the following represents a situation in which an auditor is independent of its client?
- The audit fee paid by the client represents 10% of the auditor's annual gross revenue.
 - The auditor takes a personal loan from the president of the company.
 - The auditor's dependent son holds 25 shares of the client's common stock.
 - The auditor has not received payment for the previous audit services.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Professional Code of Conduct
DATE CREATED: 1/17/2018 6:41 AM
DATE MODIFIED: 1/17/2018 7:42 AM

118. For which of the following engagements are members of the AICPA required to act with integrity and objectivity?
- Tax preparation.
 - Financial statement review services.
 - Financial statement audits.
 - All engagements.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:46 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

119. Which of the following is not an aspect of Rule 201 of the General Standards of the Code of Professional Conduct?
- A member must not take on an engagement that is beyond the member's professional competence.
 - A member must exercise duties prudently and professionally.
 - A member must adequately plan and supervise the performance of professional services.
 - A member firm must not advertise services to competing clients.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:47 AM
DATE MODIFIED: 1/17/2018 7:42 AM

120. A member of the AICPA must safeguard the confidentiality of client information. Which of the following is not a valid reason to disclose information to non-clients?
- To discuss information relating to inadequate disclosure in an audit report.
 - To comply with a validly issued and enforceable subpoena or summons.
 - To accommodate the review of client audit work papers under AICPA, PCAOB, or State Board of Accountancy authority.
 - To explain to shareholders the likelihood that the company will not meet its earnings projections.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:48 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

121. From whom should a CPA not accept a commission for recommending a product or service?
- A tax client.
 - An audit client.
 - A financial-planning client.
 - Any of the above.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:49 AM
DATE MODIFIED: 1/17/2018 7:42 AM

122. In which of the following situations would a CPA be considered independent?
- A CPA has obtained an auto loan from a banking client.
 - A CPA has obtained a 90-day signature loan from a client.
 - A CPA has obtained a loan for investment purposes from a client.
 - A CPA has obtained an interest-free loan from a banking client.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:50 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

123. In which of the following situations would a CPA be considered independent?
- A CPA's brother is the Vice-President of Sales at the CPA's audit client.
 - A CPA's father was a salesman at the CPA's audit client, and now a major portion of the father's pension fund is invested in the audit client.
 - A CPA's cousin works as a web-site designer at the audit client.
 - A CPA's son works summers at the audit client and has earned 10 shares of stock in the audit client.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:51 AM
DATE MODIFIED: 1/17/2018 7:42 AM

124. The auditor is normally not permitted to divulge confidential information obtained from a client. Which of the following situations would be a violation of this standard?
- To respond to the information request of a major shareholder.
 - To respond to a quality review request of the state board of accountancy.
 - To initiate a complaint with the AICPA's ethics division.
 - To ensure adequate disclosure in accordance with GAAP.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:53 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

125. Under the AICPA definition, who among the following would not be considered a covered member?
- An individual on the audit engagement team.
 - An individual in a position to influence the audit engagement.
 - A partner in the office of the lead engagement partner.
 - All would be considered covered members.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:55 AM
DATE MODIFIED: 1/17/2018 7:42 AM

126. Rule 201 - General Standards of the AICPA Code of Professional Conduct does not include which of the following factors?
- Due professional care.
 - Integrity and objectivity.
 - Planning and supervision.
 - Sufficient relevant data.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:56 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

127. Independence is required for which of the following types of services?
- Audit work.
 - Tax work.
 - Consulting.
 - Independence is always required of the CPA.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:57 AM
DATE MODIFIED: 1/17/2018 7:42 AM

128. Independence in mental attitude is required of auditors on all audit engagements. Which statement best describes the highest goal for independence?
- To comply with the AICPA Code of Professional Conduct.
 - To be independent in fact and appearance.
 - To be an advocate for shareholders and other users of financial information.
 - To comply with SEC regulations.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 6:58 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

129. Under Rule 201, what best describes how an AIPCA member should act?
- With professional competence.
 - With due professional care.
 - With adequate planning and with appropriate supervision.
 - All of the above

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 7:00 AM
DATE MODIFIED: 1/17/2018 7:42 AM

130. Commissions and referral fees are not permitted for which types of services?
- Tax services.
 - Financial planning services.
 - Audits.
 - Both B and C.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 7:01 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

131. Auditors of public companies have additional requirements that extend beyond those of the AICPA. Which of the following is not one of those additional requirements?
- Preapproval of audit services and permissible nonaudit services by the client's audit committee.
 - Disclosure by the client of all fees paid to its auditors for audit, audit-related, tax, and other services.
 - Changing audit firms every seven years with a two-year cooling off period.
 - Rotating lead audit partners every five years with a five-year cooling off period.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.03
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 7:02 AM
DATE MODIFIED: 1/17/2018 7:42 AM

132. What does utilitarian theory hold?
- There is a decision that exists that is optimal for all people.
 - What is ethical is the action that achieves the least bad for the greatest number of people.
 - What is ethical is the action that achieves the greatest good for the greatest number of people.
 - What is ethical is the action that achieves the greatest good for all people.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: An Ethical Framework
DATE CREATED: 1/17/2018 7:04 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

133. An auditor who is professionally skeptical will do which of the following?
- Critically question contradictory audit evidence.
 - Carefully evaluate the reliability of audit evidence, especially in situations in which fraud risk is high.
 - Reasonably question the authenticity of documentation, while accepting that documents are to be considered genuine unless there is reason to believe the contrary.
 - All of the above.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional Skepticism
DATE CREATED: 1/17/2018 7:05 AM
DATE MODIFIED: 1/17/2018 7:42 AM

134. Which term best describes a situation in which an individual is morally or ethically required to do something that conflicts with his or her immediate self-interest?
- An ethical dilemma.
 - An ethical problem.
 - An ethical theory.
 - None of the above.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: An Ethical Decision-Making Framework
DATE CREATED: 1/17/2018 7:06 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

135. Which of following is not part of the ethical framework derived from utilitarianism and rights theories?
- Determination of relevant legal issues.
 - Determination of affected parties and their rights.
 - Determination of the most important rights.
 - Development of alternative courses of action.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: An Ethical Framework
DATE CREATED: 1/17/2018 7:08 AM
DATE MODIFIED: 1/17/2018 7:42 AM

136. What is the purpose of an ethical framework?
- To provide a defined methodology to solve the ethical problem.
 - To provide a defined methodology to aid the user in making complex ethical decisions.
 - To provide a defined program to solve ethical dilemmas.
 - All of the above.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: An Ethical Framework
DATE CREATED: 1/17/2018 7:09 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

137. According to the framework for ethical decision making, which of the following should the decision maker consider?
- All possible alternative courses of action.
 - The consequences associated with possible actions.
 - Whether the rights framework would cause any course of action to be added.
 - All of the above.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: AICPA Code of Professional Conduct
DATE CREATED: 1/17/2018 7:10 AM
DATE MODIFIED: 1/17/2018 7:42 AM

138. Which of the following is not an action required by utilitarian theory?
- Identify the potential problem.
 - Identify the potential impact of actions on each affected party.
 - Identify the rights of the affected parties.
 - Identify the desirability of each action.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
United States - BUSPROG: Ethics
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: A Framework for Ethical Decision Making
DATE CREATED: 1/17/2018 7:12 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

139. As it relates to an audit, which of the following statements about professional skepticism is true?
- Professional skepticism is not taken into consideration.
 - Professional skepticism relates only to the nature of procedures performed.
 - Professional skepticism is an attitude.
 - Professional skepticism is determined based upon the importance to a user of the financial statements.

ANSWER: c
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.04
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Professional Skepticism
DATE CREATED: 1/17/2018 7:13 AM
DATE MODIFIED: 1/17/2018 7:42 AM

140. Which of the following is a reason an audit firm might decide not to accept a company as a client?
- The company is in a weak financial position.
 - The company culture does not match the audit firm culture.
 - The company is part of an industry that tends to have volatile stock prices.
 - All of the above.

ANSWER: a
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Client Acceptance and Continuance Decisions
DATE CREATED: 1/17/2018 7:14 AM
DATE MODIFIED: 1/17/2018 7:42 AM

Chapter 01

141. Which of the following is an important consideration in client acceptance and continuance decisions?
- Integrity of the client company's management.
 - Effectiveness of the client company's internal controls.
 - The audit firm's growth strategy.
 - All of the above.

ANSWER: d
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Client Acceptance and Continuance Decisions
DATE CREATED: 1/17/2018 7:15 AM
DATE MODIFIED: 1/17/2018 7:43 AM

142. The scope of the work to be done by the auditor on the audit is described in which document?
- Contract letter.
 - Engagement letter.
 - Representation letter.
 - Management letter.

ANSWER: b
POINTS: 1
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.05
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Scope of the Audit Engagement
DATE CREATED: 1/17/2018 7:19 AM
DATE MODIFIED: 1/17/2018 7:43 AM

Chapter 01

143. Users of financial statements

Identify at least three types of users of financial statements. Describe their primary use of the financial statements and how the misstatement of those statements might injure the user.

Users of audited financial statements may include:

- Management uses the audit report to determine whether the financial statements are presented in accordance with GAAP, whether the firm is availing itself of appropriate internal controls, and as a means of evaluating employee performance. Misstatement of the financial statements would cause the client to make erroneous decisions about financial position, internal controls and employee rewards and punishments.
- A financial institution that is asked to make a loan uses the financial statements to judge the credit worthiness of the borrower. Misstatements in the financial statements lead to errors in lending that jeopardize the assets of the bank and depositors.
- A vendor who is asked to grant credit uses the statements and faces injury in a manner similar to the financial institution.
- A third-party stockholder uses the financial statements to determine if the investment will provide the returns consistent with the needs of the investor. Misstatements of the financial statements will lead to different results or possible loss of the investment.
- Others: Potential stockholders, taxing authorities, regulatory agencies, labor unions, employees, bondholders, court system, retirement plans, or retired employees

ANSWER:

POINTS: 1
QUESTION TYPE: Essay
HAS VARIABLES: False
LEARNING OBJECTIVES: AUDI.JOHN.18.01.01
NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension
STATE STANDARDS: United States - AK - AICPA BB - Critical thinking
TOPICS: Auditing Defined
DATE CREATED: 1/17/2018 7:21 AM
DATE MODIFIED: 1/17/2018 7:43 AM

Chapter 01

144. Overview of Financial Statement Audit

What is a financial statement audit, and what is the overall objective of the audit? What must the auditor do to accomplish this objective?

ANSWER:

A financial statement audit has been defined as a “systematic process of actively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.”

The overall objective of a financial statement audit is to obtain reasonable assurance about whether the financial statements are free from material misstatement and to report the auditor’s findings. To accomplish this objective the auditor:

- (1) complies with relevant ethical and professional conduct requirements;
- (2) conducts the audit in accordance with professional auditing standards;
- (3) exercises professional judgment, professional skepticism, and critical thinking;
- (4) obtains sufficient appropriate evidence, through a structured process, as a basis for the auditor’s opinion on the financial statements.

POINTS:

1

QUESTION TYPE:

Essay

HAS VARIABLES:

False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Auditing Defined

DATE CREATED: 1/17/2018 7:22 AM

DATE MODIFIED: 1/17/2018 7:43 AM

Chapter 01

145. The Need for Audited Financial Statements

Why do financial statement users need independent assurance about information provided by management?

ANSWER:

The need for independent assurance arises from several factors:

Potential bias—Management has incentives to bias financial information in order to convey a better impression of the financial data than real circumstances might merit. For example, management’s compensation may be tied to profitability or stock price, so managers may be tempted to “bend” GAAP to make the organization’s performance look better.

Remoteness—An organization and the users of its financial information are often remote from each other, both in terms of geographic distance and the extent of information available to the both parties. Most users cannot interview management, tour a company’s plant, or review its financial records firsthand; instead, they must rely on financial statements to communicate the results of management’s performance. This can tempt management to keep information from users or bend GAAP so the organization looks better.

Complexity—Transactions, information, and processing systems are often very complex, so it can be difficult to determine their proper presentation. This provides an opportunity for management to deceive users.

Consequences—During the past decade, many financial statement users —pension funds, private investors, venture capitalists, and banks —lost billions of dollars because financial information had become unreliable. As an example, the factors leading up to, and the consequences of, unreliable information can be seen in the sub-prime mortgage crisis in the United States. Many borrowers did not provide correct information on their loan applications and lenders sometimes did not perform adequate due diligence in making lending decisions. Consequently, various financial statement users and others suffered significant losses. When financial information is not reliable, investors and other users lose a significant source of information that they need to make decisions that have important consequences.

POINTS:

1

QUESTION TYPE:

Essay

HAS VARIABLES:

False

LEARNING OBJECTIVES: AUDLJOHN.18.01.01

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS:

Demand for Assurances

DATE CREATED:

1/17/2018 7:31 AM

DATE MODIFIED:

1/17/2018 7:43 AM

Chapter 01

146. Audit Quality

What is audit quality?

ANSWER: A definition published by the GAO (2003) states that a quality audit is one performed “in accordance with generally accepted auditing standards (GAAS) to (1) provide reasonable assurance that the audited financial statements and related disclosures are presented in accordance with generally accepted accounting principles (GAAP) and (2) are not materially misstated whether due to errors or fraud.”

POINTS: 1

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.02

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Quality Audit Defined

DATE CREATED: 1/17/2018 7:33 AM

DATE MODIFIED: 1/17/2018 7:43 AM

147. Audit Quality Drivers

What are the primary drivers of audit quality according to the Financial Reporting Council’s (FRC) “The Audit Quality Framework?”

ANSWER: There are five primary drivers of audit quality, including (1) audit firm culture, (2) the skills and personal qualities of audit partners and staff, (3) the effectiveness of the audit process, (4) the reliability and usefulness of audit reporting, and (5) factors outside the control of auditors that affect audit quality.

POINTS: 1

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.02

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Auditing Quality Drivers

DATE CREATED: 1/17/2018 7:35 AM

DATE MODIFIED: 1/17/2018 7:43 AM

Chapter 01

148. Professional and regulatory organizations

Identify at least four professional or regulatory organizations that affect the auditing profession. Explain how and why they assist and/or monitor the auditing profession.

ANSWER:

Public Company Accounting Oversight Board (PCOAB) is a private sector, nonprofit organization that oversees auditors of public companies. Its primary responsibilities include: setting auditing standards for audits of public companies, registering audit firms that audit public companies, periodically inspecting firms that audit public companies, and investigating and disciplining registered audit firms that violate relevant laws or standards.

American Institute of Certified Public Accountants (AICPA) With the establishment of the PCAOB, the role of the AICPA has diminished. The AICPA establishes standards for audits of nonpublic companies and for other attestation services, accounting and review services, consulting, and tax services. It oversees a peer review program, organizes continuing education programs, and administers the Uniform CPA Examination.

State Boards of Accountancy license CPAs and are charged with regulating the profession at the state level.

Securities and Exchange Commission (SEC) has been granted authority to establish GAAP for publicly traded companies. Its primary mission is to protect the investing public; it has oversight of the PCAOB.

Financial Accounting Standards Board (FASB) is responsible for establishing generally accepted accounting principles (GAAP).

POINTS:

1

QUESTION TYPE:

Essay

HAS VARIABLES:

False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.03

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS:

Professional and Regulatory Organizations

DATE CREATED:

1/17/2018 7:36 AM

DATE MODIFIED:

1/17/2018 7:43 AM

Chapter 01

149. Professional Decision Making

To achieve audit quality, auditors must make quality decisions throughout the audit process. What are the characteristics of quality audit decisions?

ANSWER: Quality decisions by auditors are unbiased, meet the expectations of reasonable users, comply with professional standards, and incorporate sufficient appropriate evidence to support the auditor's opinion.

POINTS: 1

QUESTION TYPE: Essay

HAS VARIABLES: False

LEARNING OBJECTIVES: AUDI.JOHN.18.01.04

NATIONAL STANDARDS: United States - BUSPROG: Communications
United States - BUSPROG: Comprehension

STATE STANDARDS: United States - AK - AICPA BB - Critical thinking

TOPICS: Quality Decisions by Auditors

DATE CREATED: 1/17/2018 7:38 AM

DATE MODIFIED: 1/17/2018 7:43 AM