



National Federation of Junior Philippine Institute of Accountants

2011 NATIONAL CPA MOCK BOARD EXAMINATION

In partnership with the Professional Review & Training Center, Inc. and Isla Lipana & Co.

AUDITING THEORY

INSTRUCTIONS: Select the best answer for each of the following questions. Mark only one answer for each item on the answer sheet provided. AVOID ERASURES. Answers with erasures may render your examination answer sheet INVALID. Use PENCIL NO.2 only. GOODLUCK!

- Which of the following is the least function of the Board of Accountancy?
 - Determination of the minimum requirements leading to the admission of candidates to the CPA examinations.
 - Regulation of the practice of accountancy.
 - Supervision over the accredited professional organization of CPAs.
 - Preparation of the contents of the CPA licensure examinations and rating of the examination papers.
- No person shall serve the Professional Regulatory Board of Accountancy for more than
 - 3 years
 - 6 years
 - 9 years
 - 12 years
- Which of the following is not included in the seal used by a CPA?
 - Professional tax receipt number
 - Name of the CPA
 - Registration number
 - The title "CPA"
- Which of the following is required for a partnership for public accountancy practice?
 - At least one of the partners must be a CPA.
 - All partners must be PICPA members.
 - All partners must be CPAs.
 - Firm name must contain names of partners only.
- Below are names of four CPA firms and pertinent facts relating to them. Unless otherwise indicated, the individuals named are CPAs and partners, and there are no other partners. Which firm name and related facts indicate a violation of RA 9298 and its IRR?
 - Dee, Lim and Sy, CPAs (Dee died about five years ago; Lim and Sy are continuing the firm).
 - Cruz and Reyes, CPAs (The name of V. Valdes, CPA, a third partner, is omitted from the firm name).
 - Gomez and Castro, CPAs (Gomez died about three years ago; Castro is continuing the firm as a sole proprietorship).
 - P. Reyes and Co., CPAs (The firm has ten other partners who are all CPAs).
- Which of the following services would be most likely to be structured as an assurance engagement?
 - Advocating a client's position in tax matter.
 - A consulting engagement to develop a new data base system for the revenue cycle.
 - An engagement to issue a report addressing an entity's compliance with requirements of specified laws.
 - The compilation of a client's forecast information.
- According to PSA 120, which of the following is an appropriate combination of procedures required in completing a review engagement?
 - Inquiry and observation
 - Inquiry and analytical procedures
 - Analytical procedures and inspection
 - Observation and analytical procedures
- The primary reason for an audit by an independent, external audit firm is to
 - Satisfy government regulatory requirements
 - Guarantee that there are no misstatements in the financial statements and ensure that any fraud will be discovered
 - Relieve management of responsibility for the financial statements
 - Provide increased assurance to users as to the fairness of the financial statements
- The independent auditor lends credibility to client's financial statements by
 - Maintaining a clear-cut distinction between management's representations and the auditor's representation.
 - Testifying under oath about client's financial statements.
 - Stating in the auditor's management letter that the examination was made in accordance with generally accepted auditing standards.
 - Attaching an auditor's opinion to the client's financial statements.
- Which of the following are elements of a CPA firm's quality control that should be considered in establishing its quality control policies and procedures?

	Ethical Requirements	Human Resources	Engagement Performance
a.	No	Yes	No
b.	Yes	No	No
c.	Yes	Yes	Yes
d.	No	No	Yes
- This quality control element requires a CPA firm to establish policies and procedures to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances.
 - Ethical requirements
 - Engagement performance
 - Monitoring
 - Human resources
- Who should take responsibility for the overall quality on each audit engagement?
 - Engagement quality control review
 - Engagement partner
 - Engagement team
 - CPA firm
- Communication with a predecessor auditor is initiated by:
 - Management
 - The successor auditor
 - The audit committee of the board of directors
 - The chair of the board of directors
- In making a decision to accept or continue with a client, the auditor should consider:

	(a)	(b)	(c)	(d)
Its own independence	Yes	No	Yes	No
Its ability to service a client properly	Yes	Yes	Yes	No
The integrity of the client's management	Yes	Yes	No	Yes
- A partner, other person in the firm, suitably qualified person, or a team made up of such individuals, with

- sufficient and appropriate experience and authority to objectively evaluate, before the report is issued, the significant judgments the engagement team made, and the conclusions they reached in formulating the report;
- a. Engagement Partner
 - b. Audit Partner
 - c. Engagement Quality Control Reviewer
 - d. Managing Partner
16. An auditor is not required to plan the audit to cover information that is indicative of:
 - a. Adverse relationships between the entity and its employees.
 - b. Fraudulent financial reporting.
 - c. Misappropriation of assets.
 - d. Errors.
 17. The most difficult type of misstatement to detect is fraud based on
 - a. The overrecording of transactions
 - b. The nonrecording of transactions
 - c. Recorded transactions in subsidiaries
 - d. Related party receivables
 18. When the auditor believes a misstatement is or may be the result of fraud but that the effect of the misstatement is not material to the financial statements, which of the following steps is required?
 - a. Consider the implications for other aspects of the audit.
 - b. Resign from the audit.
 - c. Commence a fraud examination.
 - d. Contact regulatory authorities.
 19. When performing a financial statement audit, auditors are required to explicitly assess the risk of material misstatement due to

a. Errors.	c. Illegal acts.
b. Fraud.	d. Business risk.
 20. According to PSA 240 Revised, the auditor may consider withdrawing from the engagement
 - a. When the entity does not take the remedial action regarding fraud, even if it not material to the financial statements.
 - b. If the fraud is perpetrated through the connivance of some employees
 - c. When the fraudulent act affects the financial statements, even if such effect is reflected in the financial statements
 - d. When the auditor is unable to gather evidence that will corroborate his suspicion that possible occurrence of fraud may have materially affected the financial statements
 21. Assuming a recurring audit, in which of the following situations would the auditor be unlikely to send a new engagement letter to the client?
 - a. A recent change in partner and/or staff involved in the audit engagement.
 - b. A change in the terms of engagement.
 - c. A recent change of client management.
 - d. A significant change in the nature or size of the client's business.
 22. Which of the following statements best describes why the profession of CPAs has deemed it essential to promulgate a code of ethics and to establish a mechanism for enforcing observance of the code?
 - a. A distinguishing mark of a profession is its acceptance of responsibility to the public
 - b. A prerequisite to success is the establishment of an ethical code that stresses primarily the professional's responsibility to client's and colleagues
 - c. A requirement of most state laws calls for the profession to establish a code of ethics
 - d. An essential means of self-protection for the profession is the establishment of flexible ethical standards by the profession
 23. A CPA, while performing an audit, strives to achieve independence in appearance in order to
 - a. Reduce risk and liability
 - b. Maintain public confidence in the profession
 - c. Become independent in fact
 - d. Comply with PSAs
 24. In which of the following may confidential information not be disclosed?
 - a. To comply with the quality review of a member body or professional body
 - b. To submit evidence in the course of legal proceedings
 - c. Acquiring information in the course performing professional services and use that information for personal advantages
 - d. When consent to disclose information is given by the client
 25. In planning the audit engagement, the auditor should consider each of the following except
 - a. Matters relating to the entity's business and the industry in which it operates
 - b. The entity's accounting policies and procedures
 - c. Anticipated levels of control risk and materiality
 - d. The kind of opinion that will likely be given
 26. The term "audit risk" refers to the risk:
 - a. Of legal exposure and related costs should the auditor be charged with negligence in conducting an audit
 - b. That the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated
 - c. That errors or irregularities may cause financial statements not to be fairly presented
 - d. That the auditor may fail to anticipate all circumstances which will influence his judgment in evaluating the audit findings upon completion of the audit
 27. Which statement is not correct
 - a. Control risk is the risk the auditor will not detect a material misstatement that exists in an assertion
 - b. Sampling risk arises from the possibility that, when a test of controls or a substantive test is restricted to a sample, the auditor's conclusions may be different from the conclusions he or she would reach if the test were applied in the
 - c. Inherent risk is the susceptibility of an assertion to a material misstatement, assuming that there are no related internal control structure, policies or procedures
 - d. Non-sampling risk includes only those aspects of audit risk that are not due to sampling
 28. Which of the following statements is not correct?
 - a. The principal purpose in conducting a study and evaluation of the existing internal control system is for the independent auditor to maintain a state of independence in mental attitude in all matters related to the audit.
 - b. Working papers can be destroyed after corporate and statutory retention requirements are met.
 - c. The audit program contains the list of specific tasks to be performed and estimated time required.
 - d. An audit program would not contain the documentation of system being reviewed.
 29. A potential business risk created by regulatory requirement may most likely include
 - a. Increased product liability
 - b. Increased legal exposure

- c. The entity does not have the personnel or expertise to deal with the changes in the industry.
d. Loss of financing due to the entity's inability to meet financing requirements.
30. Which of the following conditions and events may most likely indicate the existence of risks of material misstatements?
a. Having personnel with appropriate accounting and financial reporting skills.
b. Accounting measurements that involve simple processes
c. Significant amount of routine or systematic transactions
d. **Constraints on the availability of capital and credit**
31. The auditor should perform the following risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control, except:
a. Inquiries of management and others within the entity.
b. Reperformance
c. Analytical procedures.
d. Observation and inspection.
32. The auditor should determine overall responses to address the risks of material misstatement at the financial statement level. Such responses most likely include
a. Assigning less experienced staff.
b. Emphasizing to the audit team the need to maintain professional skepticism in gathering and evaluating audit evidence.
c. Performing predictable further audit procedures.
d. Performing substantive procedures at an interim date instead of at period end.
33. Materiality should be considered by the auditor when
a. Determining the nature, timing and extent of auditor's procedures
b. Evaluating the effect of misstatements
c. **Both a and b**
d. Neither a nor b
34. Example of other information
a. Books of original entry
b. Reconciliation statement
c. Cost allocation work sheet
d. Minutes of meetings
35. Which of the following statements relating to the appropriateness of evidence is always true?
a. Evidence gathered by an auditor from outside an enterprise is reliable.
b. Accounting data developed under satisfactory conditions of internal control are more relevant than data developed under unsatisfactory internal control conditions.
c. Oral representations made by management are not valid evidence.
d. **Evidence gathered by auditors must be both reliable and relevant to be considered appropriate.**
36. Which is not one of the uses of audit working papers?
a. To serve as the basis for the preparation of the financial statements and the audit report
b. To analyze and organize accounting information so that it can be audited more easily
c. To provide evidence of the audit work performed
d. To prove the independence of the auditor
37. The likelihood of assessing control risk too high is the risk that the sample selected to test controls
a. Does not support the auditor's planned assessed level of control risk when the true operating effectiveness of the control structure justifies such an assessment.
- b. Contains misstatements that could be material to the financial statements when aggregated with misstatements in other account balances or transactions classes.
c. Contains proportionately fewer monetary errors or deviations from prescribed internal control structure policies or procedures than exist in the balance or class as a whole.
d. Does not support the tolerable error for some or all of management's assertions.
38. Which of the following factors does an auditor generally need to consider in planning a particular audit sample for a test of control?
a. Number of items in the population.
b. Total peso amount of the items to be sampled.
c. Acceptable level of risk of assessing control risk too low.
d. Tolerable misstatement.
39. Which of the following sample planning factors would influence the sample size for a substantive test of details for a specific account?

	Expected amount of misstatements	Measure of tolerable misstatement
a.	No	No
b.	Yes	Yes
c.	No	Yes
d.	Yes	No
40. There are many kinds of statistical estimates that an auditor may find useful, but basically every accounting estimate is either of a quantity or of an error rate. The statistical terms that roughly correspond to "quantities" and "error rate", respectively, are
a. Attributes and variables
b. Variables and attributes
c. Constant and attributes
d. Constants and variables
41. Which of the following is the best example of a substantive test?
a. Examining a sample of cash disbursements to test whether expenses have been properly approved.
b. Confirmation of balances of accounts receivable.
c. Comparison of signatures on checks to a list of authorized signers.
d. Flowcharting of the client's cash receipts system.
42. If a lawyer refuses to furnish corroborating information regarding litigation, claims, and assessments, the auditor should
a. Honor the confidentiality of the client-lawyer relationship.
b. Consider the refusal to be tantamount to a scope limitation.
c. Seek to obtain the corroborating information from management.
d. Disclose the fact in the notes to the financial statements.
43. Which of the following is not a subsequent events procedure?
a. Review available interim financial information.
b. Read available minutes of meetings of stockholders and directors.
c. Make inquiries with respect to the financial statements covered by the auditor's previously issued report if new information has become available during the current examination that might affect that report.
d. Discuss with officers the current status of items in the financial statements that were accounted for on the basis of tentative, preliminary, or inconclusive data.
44. Select the procedures which an auditor would most likely perform to obtain evidence about the occurrence of subsequent events:

- a. Investigating changes in stockholders' equity occurring after year end.
 b. Recomputing a sample of large-peso transactions occurring after year end for arithmetic accuracy.
 c. Confirming bank accounts established after year end.
 d. Inquiring of the entity's legal counsel concerning litigation, claims, and assessments arising after year end.
45. Which of the following is a valid purpose of a management representation letter?
 a. to reduce the possibility of a misunderstanding concerning management's responsibility for the financial statements.
 b. to reduce an auditor's responsibility to detect material misstatements only to the extent that the letter is relied on.
 c. to reduce the scope of an auditor's procedures concerning related party transactions and subsequent events.
 d. to reduce audit risk to an aggregate level of misstatement that could be considered material.
46. To which of the following matters would materiality limits not apply in obtaining written management representations?
 a. The availability of minutes of stockholders' and directors' meetings.
 b. Losses from purchase commitments at prices in excess of market value.
 c. The disclosure of compensating balance arrangements involving related parties.
 d. Reductions of obsolete inventory to net realizable value.
47. As part of an audit, a CPA often request a representation letter from the client. Which one of the following is not a valid purpose of such a letter?
 a. To provide as audit evidence.
 b. To emphasize to the client his responsibility for the correctness of the financial statements.
 c. To satisfy himself by means of other auditing procedures when certain customary auditing procedures are not performed.
 d. To provide possible protection to the CPA against a charge of knowledge in cases where fraud is subsequently discovered to have existed in the accounts.
48. Examples of events or conditions, which individually or collectively, may cast significant doubt about the going concern assumption include the following except:
 a. Net liability or net current liability position.
 b. Change from credit to cash-on-delivery transactions with suppliers.
 c. Labor difficulties or shortages of important supplies.
 d. Compliance with capital or other statutory requirements.
49. The standard audit report includes all of the following except a (an)
 a. opinion paragraph c. explanatory paragraph
 b. scope paragraph d. opening paragraph
50. The auditor's report should be titled, and the title should include the word
 a. standard c. audit
 b. opinion d. independent
51. The audit report is normally addressed to the
- | | Board of Directors | Shareholders | President of the entity |
|----|--------------------|--------------|-------------------------|
| a. | Yes | Yes | Yes |
| b. | No | Yes | Yes |
| c. | Yes | Yes | No |
| d. | Yes | No | No |
52. Which paragraph of an auditor's standard report on financial statements should refer to Philippine Financial Reporting Standards (PFRSs) and Philippine Standards on Auditing (PSAs)?
- | | PFRSs | PSAs |
|----|-----------------------------|--------------------------|
| a. | Opinion | Auditor's Responsibility |
| b. | Opening | Auditor's Responsibility |
| c. | Management's Responsibility | Opinion |
| d. | Opening | Opinion |
53. An auditor's report that refers to a departure from PFRSs includes the language, "In our opinion, with the foregoing explanation, the financial statements referred to above present fairly ..." This is a(n)
 a. Adverse opinion.
 b. Qualified opinion.
 c. Unqualified opinion with an explanatory paragraph.
 d. Example of inappropriate reporting.
54. When an auditor expresses an adverse opinion he/she should disclose the substantive reasons for such an opinion in an explanatory paragraph.
 a. Within the notes to the financial statements
 b. Preceding the opinion paragraph
 c. Following the opinion paragraph
 d. Preceding the introductory paragraph
55. Which of the following procedures is not included in a review engagement on a nonpublic entity?
 a. Inquiries of management.
 b. Inquiries regarding events subsequent to the balance sheet date.
 c. Any procedures designed to identify relationships among data that appear to be unusual.
 d. A study and evaluation of internal control structure.
56. Which of the following should the auditor perform in a review engagement?
 a. Understand matters that are relevant to the financial statements.
 b. Understand the entity's internal control system.
 c. Observe the physical count of inventory.
 d. Inquire of legal counsel of pending litigations.
57. The objective of an agreed-upon procedures engagement
 a. Is to enable the auditor to express an opinion whether the financial statements are prepared in all material respects, in accordance with an identified financial reporting framework
 b. Is to enable the auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared in all material respects, in accordance with an identified financial reporting framework.
 c. Is to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.
 d. Is to use accounting expertise as opposed to auditing expertise to collect, classify and summarize financial information.
58. Which of the following is incorrect about agreed-upon procedures engagement?
 a. An engagement to perform agreed-upon procedures may involve the auditor in performing certain procedures concerning individual items of financial data.
 b. Users of the agreed-upon procedures report assess for themselves the procedures and findings reported by the auditor and draw their conclusion from the auditor's work.

- c. The auditor should be independent of the financial data or financial statements where agreed procedures have to be applied.
- d. The report is restricted to those parties that have agreed to the procedures to be preformed.
59. A CPA has been engaged to compile financial statements for a nonpublic client. Which of the following statements best describes this engagement?
- The CPA must perform the PSAs necessary to determine that the statements are in conformity with PFRSs.
 - The CPA is performing an accounting service rather than an examination of financial statements.
 - The financial statements are representations of both management and the CPA.
 - The CPA may prepare the statements from the books but may not assist in adjusting and closing the books.
60. Which of the following engagements do not require independence?
- Agreed-upon procedures
 - Compilation
 - Audit
 - Review
- I and IV
 - I and II**
 - I, II and IV
 - I, II, III and IV
61. A report issued in connection with the independent audit of financial information other than an auditor's report on financial statements.
- Special purpose auditor's report**
 - Compilation report
 - Annual report
 - Modified auditor's report
62. The auditor's report on summarized financial statements should include
- An opinion as to whether the information in the summarized financial statements is presented fairly, in all material respects.
 - An opinion as to whether the information in the summarized financial statements is consistent with the audited financial statements from which it was derived.**
 - A statement of negative assurance.
 - A description of the auditor's factual findings including sufficient details of errors and exceptions found.
63. Given one or more hypothetical assumptions, a responsible party may prepare, to the best of its knowledge and belief, an entity's expected financial position, results of operations, and cash flows. Such prospective financial statements are known as
- Pro forma financial statements
 - Financial projections**
 - Partial presentations
 - Financial forecasts
64. Which of the following is a prospective financial statement for general use upon which an accountant may appropriately report?
- Financial projection
 - Partial presentation
 - Pro forma financial statements
 - Financial forecasts**
65. Regardless of the assessed level of control risk, an auditor would perform some
- Tests of controls to determine the effectiveness of internal control policies.
 - Analytical procedures to verify the design of internal control.
 - Substantive tests to restrict detection risk for significant transaction classes.**
 - Dual-purpose tests to evaluate both the risk of monetary misstatement and preliminary control risk.
66. A written request and acknowledgement requiring a letter reply only in the event of a discrepancy
- negative confirmation**
 - positive confirmation
 - letter of confirmation
 - client's representation letter
67. Which of the following combinations of procedures would an auditor most likely perform to obtain evidence about fixed asset additions?
- Inspecting documents and physically examining assets**
 - Recomputing calculations and obtaining written management representations
 - Observing operating activities and comparing balances to prior period balances
 - Confirming ownership and corroborating transactions through inquiries of client personnel
68. Opening balances means those account balances which exist at the beginning of the period. These are based upon the closing balances of the prior period and reflect the effects of:
- Current transactions (e.g. stock dividends) that will be given retroactive effect recognition.
 - Transactions of prior periods.
 - Accounting policies applied in the prior period.
- All of these
 - I and II only
 - I only
 - II and III only**
69. The auditor should adopt one or a combination of the following approaches in the audit of an accounting estimate:
- Review and test the process used by management to develop the estimate.
 - Use an independent estimate for comparison with that prepared by management.
 - Review subsequent events which confirm the estimate made.
- Any of the above.** Either I or II
 - None of the above
 - I only
 - II only
70. Which of the following events most likely indicates the existence of related parties?
- Borrowing a large sum of money at a variable rate of interest
 - Selling real estate at a price that differs significantly from its book value
 - Making a loan without scheduled terms of repayment of the funds**
 - Discussing merger terms with a company that is a major competitor
71. Tolerable error means
- An error that arises from an isolated event that has not recurred other than on specifically identifiable occasions and is therefore not representative of errors in the population.
 - An error that the auditor expects to be present in the population.
 - The maximum error in a population that the auditor is willing to accept.**
 - The possibility that the auditor's conclusion, based on a sample may be different from the conclusion reached if the entire population were subjected to the same audit procedure.
72. Proper authorization of write-offs of uncollectible accounts should be approved in which of the following departments?
- Accounts receivable.
 - Credit.
 - Accounts payable.
 - Treasurer.**
73. CPAs in public practice are required to register with the QAR Program under the prescribed category. CPA practitioners handling clients that use the IFRS for

- SMEs or their Philippine equivalents should register under
- Category A
 - Category B**
 - Category C
 - Category D
74. The principle of objectivity imposes which of the following obligations on professional accountants?
- To maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional advice
 - To refrain from disclosing confidential information obtained as a result of professional and business relationships
 - To comply with relevant laws and regulations and avoid any situation that may bring discredit to the profession
 - Not to compromise professional or business judgment because of bias, conflict of interest or undue influence of others**
75. Examples of circumstances that may create advocacy threat include
- Undue dependence on total fees from an assurance client.
 - Concern about the possibility of losing the engagement.
 - a and b
 - neither a nor b**
76. Examples of circumstances that may create familiarity threat include
- Contingent fees relating to assurance engagements
 - A member of the assurance team giving an immediate family member or close family member who is a director or officer of the assurance client.**
 - a and b
 - neither a nor b
77. Which of the following is a characteristic of an integrated system for data processing?
- An integrated system is a real-time system where files for different functions with similar information are separated.
 - A single input record describing a transaction initiates the updating of all files associated with the transaction.**
 - Parallel operations strengthen internal control over the computer processing function.
 - Files are maintained according to organizational functions such as purchasing, accounts payable, sales, etc.
78. In "auditing around the computer" the auditor
- Processes test data on the client's computer system as part of the check of internal controls.
 - Processes test data on a separate computer system as part of the check of internal controls.
 - Tests transactions and performs account verification procedures as in non-EDP systems.**
 - Uses the client's computer program rerun on client's EDP facilities.
79. Which of the following methods of testing application controls utilizes a generalized audit software package prepared by the auditors?
- Parallel simulation.**
 - Integrated testing facility approach.
 - Test data approach.
 - Exception report tests.
80. The grandfather-father-son approach to providing protection for important computer files is a concept that is most often found in
- On-line, real-time systems
 - Punched-card systems
 - Magnetic tape systems**
 - Magnetic drum systems

End of Examination

Thank you for participating in the 2011 National Mock CPA Board Examinations!