

Part II. Audit process by phase – 3. Testing and evidence

Quiz 1: The quality of audit evidence depends on whether it is relevant and reliable in supporting the conclusions of the auditor, and normally the following assumptions are correct:

- a) Only the first assumption is correct.
- b) Evidence generated by the auditor is more reliable than evidence obtained from a third party or the client.
- c) Documentary evidence is more reliable than verbal evidence.
- d) Both the above assumptions are correct.

Quiz 2: When the auditor attends the inventory counting (stocktake) and performs test counts to verify the existence of inventory and its physical condition, he/she should:

- a) Observe the performance of management count procedures.
- b) Inspect the inventory.
- c) Select items from the count records, trace them back to the physical inventory and inspect them.
- d) Select items from the physical inventory and count them back to the inventory count records.

Quiz 3: If an auditor makes a judgemental selection of specific items to be tested from those that make up a class of transactions or account balance, which items may be appropriate to select?

- a) All items below a certain amount.
- b) Items for which calculation or other process performed automatically by an information system make 100% examination cost effective.
- c) High value items or items that are unusual, suspicious or more subject to risk.
- d) A large number of small value items.

Quiz 4: When verifying the completeness, accuracy and cutoff of income the auditor may obtain sufficient appropriate evidence by:

- a) Performing a combination of tests of controls and substantive procedures, especially if substantive procedures on their own are not sufficient in view of the large number of transactions.
- b) Performing analytical procedures like comparing the level of sales over the year, on a month by month basis, with the previous year.
- c) Carrying out directional tests of detail like tracing back a sample of goods dispatch notes or till rolls to the sales ledger.
- d) Performing tests of controls on the sales system.

Quiz 5: What is the audit objective when testing the completeness assertion for account balances in the financial statements (usually balance sheet assertions)?

- a) To form an opinion as to whether assets, liabilities, and equity interests exist.

- b) To form an opinion as to whether the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
- c) To form an opinion as to whether all assets, liabilities and equity interests that should have been recorded have been recorded.
- d) To form an opinion as to whether assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Quiz 6: What is the audit objective when testing the cutoff assertion for classes of transactions and events in the financial statements (usually profit or loss assertions)?

- a) To form an opinion as to whether amounts and other data relating to recorded transactions and events have been recorded appropriately.
- b) To form an opinion as to whether transactions and events have been recorded in the correct accounting period.
- c) To form an opinion as to whether transactions and events that have been recorded have occurred and pertain to the entity.
- d) To form an opinion as to whether all transactions and events that should have been recorded have been recorded.

Quiz 7: When verifying the completeness, accuracy and cutoff of income the auditor may obtain sufficient appropriate evidence by:

- a) Performing a combination of tests of controls and substantive procedures, especially if substantive procedures on their own are not sufficient in view of the large number of transactions.
- b) Performing analytical procedures like comparing the level of sales over the year, on a month by month basis, with the previous year.
- c) Carrying out directional tests of detail like tracing back a sample of goods dispatch notes or till rolls to the sales ledger.
- d) Performing tests of controls on the sales system.

Quiz 8: What are the assertions in respect of classes of transactions and events (usually profit or loss account assertions) that need to be verified by sufficient appropriate audit evidence?

- a) Existence, ownership, completeness, valuation and allocation.
- b) All of the other three answers.
- c) Occurrence, ownership, completeness, understandability and accuracy.
- d) Occurrence, completeness, accuracy, cutoff and classification.

Quiz 9: A basic premise underlying the application of analytical procedures is that:

- a) The study of financial ratios is an acceptable alternative to the investigation of unusual fluctuations.
- b) Statistical tests of financial information may lead to the discovery of material misstatements in the financial statements.

- c) Plausible relationships among data may reasonably be expected to exist and continue in the absence of known conditions to the contrary.
- d) These procedures cannot replace tests of balances and transactions.

Quiz 10: Which of the following comparisons would an auditor most likely make in evaluating an entity's costs and expenses?

- a) The current year's accounts receivable with the prior year's accounts receivable.
- b) The current year's payroll expense with the prior year's payroll expense.
- c) The budgeted current year's sales with the prior year's sales.
- d) The budgeted current year's warranty expense with the current year's contingent liabilities.

Quiz 11: What type of analytical procedure would an auditor most likely use in developing relationships among balance sheet accounts when reviewing the financial statements of a nonpublic entity?

- a) Trend analysis.
- b) Regression analysis.
- c) Ratio analysis.
- d) Risk analysis.

Quiz 12: Which of the following would not be considered an analytical procedure?

- a) Estimating payroll expense by multiplying the number of employees by the average hourly wage rate and the total hours worked.
- b) Projecting an error rate by comparing the results of a statistical sample with the actual population characteristics.
- c) Computing accounts receivable turnover by dividing credit sales by the average net receivables.
- d) Developing the expected current year sales based on the sales trend of the prior five years.

Quiz 13: Which of the following tends to be most predictable for purposes of analytical procedures applied as substantive tests?

- a) Relationships involving balance sheet accounts.
- b) Transactions subject to management discretion.
- c) Relationships involving income statement accounts.
- d) Data subject to audit testing in the prior year.

Quiz 14: The objective of tests of details of classes of transactions performed as substantive tests is to:

- a) Comply with International Financial Reporting Standards.
- b) Attain assurance about the reliability of the information system relevant to financial reporting.
- c) Detecting materials misstatement at the assertion level.
- d) Evaluate whether management's controls operated effectively.

Quiz 15: An auditor most likely would make inquiries of production and sales personnel concerning possible obsolete or slow-moving inventory to support management's financial statement assertion of:

- a) Valuation.
- b) Rights and obligations.
- c) Existence.
- d) Completeness.

Quiz 16: In auditing intangible assets, an auditor most likely would review or recomputed amortization and determine whether the amortization period is reasonable in support of management's financial statement assertion of:

- a) Valuation.
- b) Existence.
- c) Cutoff.
- d) Classification.

Quiz 17: Cutoff tests designed to detect purchases made before the end of the year that have been recorded in the subsequent year most likely would provide assurance about management's assertion of:

- a) Valuation.
- b) Occurrence.
- c) Completeness.
- d) Classification and understandability.

Quiz 18: Auditors try to identify predictable relationships when using analytical procedures. Relationships involving transactions from which of the following accounts most likely would yield the most predictable evidence?

- a) Accounts receivable.
- b) Interest expense.
- c) Accounts payable.
- d) Travel and entertainment expense.

Quiz 19: When control risk is assessed as low for assertions related to payroll, substantive tests of payroll balances most likely would be limited to applying analytical procedures and:

- a) Observing the distribution of paychecks.
- b) Footing and cross-footing the payroll register.
- c) Inspecting payroll tax returns.
- d) Recalculating payroll accruals.

Quiz 20: Which of the following strategies most likely could improve the response rate of the confirmation of accounts receivable?

- a) Including a list of items or invoices that constitute the account balance.
- b) Restricting the selection of accounts to be confirmed to those customers with relatively large balances.
- c) Requesting customers to respond to the confirmation requests directly to the auditor by fax or e-mail.
- d) Notifying the recipients that second requests will be mailed if they fail to respond in a timely manner.