

CPA MULTIPLE CHOICE QUESTIONS -- Testing

1. An auditor confirms a representative number of A/R and investigates respondents exceptions and comments. By this procedure the auditor would be most likely to learn which of the following?

- a) One of the cashiers has been engaged in lapping.
- b) One of the sales clerks has not been preparing charge slips for credit sales to family and friends.
- c) The EDP control clerk has been removing all sales invoices applicable to his account from the data file.
- d) The credit manager has misappropriated remittances from customers whose accounts have been written-off.

2. Customers having substantial year-end past due balances fail to reply after second request forms have been mailed directly to them. Which of the following is the most appropriate audit procedure?

- a) Examine shipping documents.
- b) Review collections during the year being examined.
- c) Intensify the study of the client's internal control system with respect to receivables.
- d) Increase the balance in the accounts receivable allowance (contra) account.

3. To determine that sales transactions have been recorded in the proper accounting period, the auditor performs a cut-off review. Which of the following best describes the overall approach used when performing a cut-off review?

- a) Ascertain that management has included in the representation letter a statement that transactions have been accounted for in the proper accounting period.
- b) Confirm year-end transactions with regular customers.
- c) Examine cash receipts in the subsequent period.
- d) Analyze transactions occurring within a few days before and after year-end.

4. The confirmation of the client's trade accounts receivable is a means of obtaining evidential matter and is specifically considered to be generally accepted auditing

- a) Principle.
- c) Procedure.
- b) Standard.
- d) Practice.

5. Approximately 95% of returned accounts receivable confirmations indicated that the customer owed a smaller balance than the amount confirmed. This might be explained by the fact that

- a) The cash receipts journal was held open after year-end.
- b) There is a large number of unrecorded liabilities.
- c) The sales journal was closed prior to year end.
- d) The sales journal was held open after year-end.

6. Which of the following is not a principal objective of the auditor in the examination of revenues?

- a) To verify cash deposited during the year.
- b) To evaluate internal control, with particular emphasis on the use of accrual accounting to record revenue.
- c) To verify that earned revenue has been recorded, and recorded revenue has been earned.
- d) To identify and interpret significant trends and variations in the amounts of various categories of revenue.

7. Which of the following procedures would ordinarily be expected to best reveal unrecorded sales at the balance sheet date?

- a) Compare shipping documents with sales records.
- b) Apply gross profit rates to inventory disposed of during the period.
- c) Trace payments received subsequent to the balance sheet date.
- d) Send accounts receivable confirmation requests.

8. If accounts receivable turned over 7.1 times in 1979 as compared to only 5.6 times in 1980, it is possible that there were

- a) Unrecorded credit sales in 1980.
- b) Unrecorded cash receipts in 1979.

- c) More thorough credit investigations made by the company late in 1979.
- d) Fictitious sales in 1980.

9. Lapping would most likely be detected by

- a) Examination of canceled checks clearing in the bank cut-off period.
- b) Confirming year-end bank balances.
- c) Preparing a schedule of interbank transfers.
- d) Investigating responses to accounts receivable confirmations.

10. When there are a large number of relatively small account balances, negative confirmation of A/R is feasible if I/C is

- a) Strong, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration.
- b) Weak, and the individuals receiving the confirmation requests are likely to give them adequate consideration.
- c) Weak, and the individuals receiving the confirmation requests are unlikely to give them adequate consideration
- d) Strong, and the individuals receiving the confirmation requests are likely to give them adequate consideration.

11. An examination of the A/P account is ordinarily not designed to

- a) Detect accounts payable which are substantially past due.
- b) Verify that accounts payable were properly authorized.
- c) Ascertain the reasonableness of recorded liabilities.
- d) Determine that all existing liabilities at B/S date are recorded.

12. When title to merchandise in transit has passed to the audit client, the auditor engaged in the performance of a purchase cutoff will encounter the greatest difficulty in gaining assurance with respect to the

- a) Quantity.
- b) Quality
- c) Price.
- d) Terms.

13. Auditor confirmation of A/P balances may not be necessary because

- a) This is a duplication of cutoff tests.
- b) A/P balances may not be paid before the audit is completed.
- c) Correspondence with the audit client's attorney will reveal all legal action by vendors for non-payment.
- d) There is likely to be other reliable external evidence available to support the balances.

14. Which of the following would detect an understatement of a purchase discount?

- a) Verify footing and crossfooting of purchases and disbursements.
- b) Compare purchase invoice terms with disbursement records and checks.
- c) Compare approved purchase orders to receiving reports.
- d) Verify the receipt of items ordered and invoiced.

15. Which of the following is one of the better auditing techniques that might be used by an auditor to detect kiting?

- a) Review composition of authenticated deposit slips.
- b) Review subsequent bank statements and canceled checks received directly from the bank.
- c) Prepare a schedule of bank transfers from the client's books.
- d) Prepare year-end bank reconciliations.

16. Sorry, I couldn't transfer #16.

17. When auditing merchandise inventory at year-end, the auditor performs a purchase cutoff test to obtain evidence that

- a) All goods purchased before year-end are received before the physical inventory count.
- b) No goods held on consignment for customers are included in the inventory balance.
- c) No goods observed during the physical count are pledged or sold.
- d) All goods owned at year-end are included in the inventory balance.

18. On receiving the bank cutoff statement, the auditor should trace

- a) Deposits in transit on the year-end bank reconciliation to deposits in the cash receipts journal.
- b) Checks dated prior to year-end to the outstanding checks listed on the year-end bank reconciliation.
- c) Deposits listed on the cutoff statement to deposits in the cash receipts journal.
- d) Checks dated subsequent to year-end to the outstanding checks listed on the year-end bank reconciliation.

19. An auditor ordinarily should send a standard confirmation request to all banks with which the client has done business during the year under audit, regardless of the year-end balance, because this procedure

- a) Provides for confirmation regarding compensating balance arrangements.
- b) Detects kiting activities that may otherwise not be discovered.
- c) Seeks information about indebtedness to the bank.
- d) Verifies securities held by the bank in safekeeping.

20. Which of the following is the best audit procedure for determining the existence of unrecorded liabilities at year-end?

- a) Examine a sample of invoices dated a few days prior to and subsequent to year-end to ascertain whether they have been properly recorded.
- b) Examine a sample of cash disbursements in the period subsequent to year-end.
- c) Examine confirmation requests returned by creditors whose accounts appear on a subsidiary trial balance of A/P.
- d) Examine unusual relationships between monthly accounts payable balances and recorded purchases.

21. Instead of taking a physical count on the balance sheet date, the client may take physical counts prior to the year-end if internal controls are adequate and

- a) Computerized records of perpetual inventory are maintained.
- b) Inventory is slow-moving.
- c) EDP error reports are generated for missing prenumbered inventory tickets.
- d) Obsolete inventory items are segregated and excluded.

22. After accounting for a sequence of inventory tags, an auditor traces a sample of

tags to the physical inventory listing to obtain evidence that all items

- a) Included in the listing have been counted.
- b) Represented by inventory tags are included in the listing.
- c) Included in the listing are represented by inventory tags.
- d) Represented by inventory tags are bona fide.

23. In verifying debits to perpetual inventory records of a non-manufacturing company, the auditor would investigate the

- a) Purchase journal.
- b) Purchase requisitions.
- c) Purchase orders.
- d) Vendors invoices.

24. An auditor would be most likely to learn of slow-moving inventory through

- a) Inquiry of sales personnel.
- b) Inquiry of stores' personnel.
- c) Purchase orders.
- d) Review of perpetual inv. records.

25. A client's physical count of inventories was higher than the inventory quantities per the perpetual records. This situation could be the results of the failure to record

- a) Sales.
- b) Sales Discounts.
- c) Purchases.
- d) Purchase returns.

26. A common audit procedure in the audit of payroll transactions involves tracing selected items from the payroll journal to employee time cards that have been approved by supervisory personnel. This procedure is designed to provide evidence in support of the audit proposition that

- a) Only bona fide employees worked and their pay was properly computed.
- b) Jobs on which employees worked were charged with the appropriate labor cost.
- c) Internal controls relating to payroll disbursements are operating effectively.
- d) All employees worked the number of hours used to compute their pay.

27. A bookkeeper perpetrated a theft by preparing erroneous W-2 forms. The bookkeeper's FICA withheld was overstated by \$500.00 and the FICA withheld from all other employees was understated. Which of the following is an audit procedure which would detect such a fraud?

- a) Multiplication of the applicable rate by the individual gross taxable earnings.
- b) Utilizing form W-4 and withholding charts to determine whether deductions authorized per pay period agree with amounts deducted per pay period.
- c) Footing and crossfooting of the payroll register followed by tracing postings to the general ledger.
- d) Vouching canceled checks to federal tax forms 941.

28. In testing the payroll of a large company, the auditor wants to establish that the individuals included in a sample actually were employees of the company during the period under review. What will be the best source to determine this?

- a) Telephone contacts with the employees.
- b) Tracing from the payroll register to the employees' earnings records.
- c) Confirmation with the union or other independent organizations.
- d) Examination of personnel department records.

29. A surprise observation by an auditor of a client's regular distribution of payroll checks is primarily designed to satisfy the auditor that

- a) All unclaimed payroll checks are properly returned to the cashier.
- b) The paymaster is not involved in the payroll distribution.
- c) All employees have in their possession proper employee ID.
- d) Names on the company payroll are those of bona fide employees presently on the job.

30. An auditor decides that it is important and necessary to observe a client's distribution of payroll checks on a particular audit. The client organization is so large that the auditor cannot conveniently observe the distribution of the entire payroll. In these circumstances, which of the following is most acceptable to the auditor?

- a) Observation should be limited to one or more selected departments.
- b) Observation should be made for all departments regardless of the inconvenience.

- c) Observation should be eliminated and other alternative auditing procedures should be utilized to obtain satisfaction.
- d) Observation should be limited to those departments where employees are easily available.

31. In an audit of inventories, an auditor would least likely verify that

- a) All inventory owned by the clients is on hand at the time of the count.
- b) The client has used proper inventory pricing.
- c) The financial statement presentation of inventories is appropriate.
- d) Damaged goods and obsolete items have been properly accounted for.

32. When auditing prepaid insurance, an auditor discovers that the original insurance policy on plant equipment is not available for inspection. The policy's absence most likely indicates the possibility of a(an)

- a) Insurance premium due but not recorded.
- b) Deficiency in the coinsurance provision.
- c) Lien on the plant equipment.
- d) Understatement of insurance expense.

33. A client maintains perpetual inventory records in both quantities and dollars. If the assessed level of control risk is high, an auditor would probably

- a) Insist that the client perform physical counts of inventory items several times during the year.
- b) Apply gross profit tests to ascertain the reasonableness of the physical counts.
- c) Increase the extent of tests of controls of the inventory cycle.
- d) Request the client to schedule the physical inventory count at the end of the year.

34. An auditor should trace bank transfers for the last part of the audit period and first part of the subsequent period to detect whether

- a) The cash receipts journal was held open for a few days after the year end.
- b) The last checks recorded before the year end were actually mailed by the year end.
- c) Cash balances were overstated because of kiting.
- d) Any unusual payments to or receipts from related parties occurred.

35. Periodic or cycle counts of selected inventory times are made at various times during the year rather than single inventory count at year end. Which of the following is necessary if the auditor plans to observe inventories at interim dates?

- a) Complete recounts by independent teams are performed.
- b) Perpetual inventory records are maintained.
- c) Unit cost records are integrated with production accounting records.
- d) Inventory balances are rarely at low levels.

36. An auditor most likely would extend substantive tests of payroll when

- a) Payroll is extensively audited by the state government.
- b) Payroll expense is substantially higher than in the prior year.
- c) Overpayments are discovered in performing tests of details.
- d) Employees complain to management about too much overtime.