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| **Practice & Past MCQ Quiz Questions:** | **Answer** | **Explanation** |
| Comfy is a chain of tea shops which stocks certified organic tea. Comfy’s success and good reputation depend on each individual tea shop’s compliance with Comfy’s internal policy of only purchasing tea from Fairtrade certified organic tea producers. In a report to the board, Comfy’s mgmt stated that it has complied with Comfy’s internal policy relating to purchase of tea. The audit committee, which is chaired by an independent director, has reviewed the report and wishes to obtain independent assur. on the claims made by mgmt. Beth works for AAA Auditors (AAA), the CA practice which has been engaged to provide assur. over mgmt’s claims. She is currently assessing whether it would be appropriate to accept the engagement with Comfy, as one of the preconditions for engagement acceptance is that the engagement meets the definition of an ‘assur. engagement’. To meet the definition, one necessary condition is to have an appropriate underlying subject matter.  In this scenario, what is the underlying subject matter?  A. Producers’ compliance with organic certification rules.  B. Process of purchasing tea from certified organic producers.  C. Mgmt’s compliance with Comfy’s internal policy relating to purchase of tea.  D. Board’s compliance with Comfy’s internal policy relating to purchase of tea. | **C** | * Correct answer is C * In this scenario, the underlying subject matter of the assur. engagement is mgmt’s compliance with Comfy’s internal policy relating to purchase of tea (refer to International Framework for Assur. Engagements). |
| Z Accountants (ZA) is a med.-sized acct. firm with approximately 80 staff, of whom 30 are full-time audit staff. ZA has two small, listed audit clients and several non-listed clients. ZA currently uses Excel in their audit testing work but does not otherwise use data analytics in their audits. ZA’s managing partner, Lynne Kyrios, wants to keep ZA up-to-date with the latest trends in technology. Lynne is preparing to discuss the use of data analytics with ZA’s clients and she asks you to create a short presentation that outlines the benefits of using data analytics in audits.  Which of the following statements is correct, regarding the use of data analytics from a client’s perspective?  A. Use of data analytics allows all of the client’s data to be available to the auditor. Therefore, the client’s mgmt will no longer be required to be available to talk to the auditor.  B. Use of data analytics allows 100% of transactions to be audited. Therefore, the auditor will no longer be required to obtain an understanding of internal controls. This will reduce the work effort and consequently reduce the audit fee.  C. Use of data analytics will benefit the clients by providing them further insight into their business.  D. Use of data analytics allows 100% of transactions to be audited. This will result in an overall level of assur. that is higher than reasonable. | **C** | * The correct answer is C * Use of data analytics will benefit the clients by providing them further insight into their business. The auditor may, for example, use data visualisation to illustrate insight they have obtained about the client, or use benchmarking to illustrate how the clients compare with similar businesses. |
| R Accountants (RA) is an acct. firm with approximately 80 staff, of whom 30 are full-time audit and assur. staff. The firm informally markets itself as one that provides ‘straightforward advice’. RA has two small, listed audit clients and several non-listed clients, including a new client which operates in the mining industry. Lisa is an audit senior at RA. She is currently completing the CA program. She learns that, in accordance with international auditing pronouncement **ISQC 1 Quality Control for Audit Firms** (ISCQ 1), firms have extensive responsibilities in relation to quality control. One such responsibility is for firms to have documentation in place that provides evidence of operation for each element of quality control.  Which one of the following events represents a breach of the requirements of ISQC 1?  A. The last written report on the results of the engagement monitoring process was issued to the partners 10 months ago.  B. Each partner independently manages their clients and the services provided to them. Furthermore, RA does not keep a record of all client relationships and services.  C. RA lacked sufficient expertise in the mining industry and so offered a partnership to an audit director from another firm who has extensive mining industry experience. This was done so that RA would be able to accept a new audit client which operates in the mining industry.  D. Due to tight deadlines, an engagement quality control review (EQCR) partner, who was assigned to an audit of a listed client, did not review all of the work papers. | **B** | * The correct answer is B * If each partner independently manages their clients and the services provided to them, and RA does not keep a record of all the client relationships, threats to independence may arise. * In accordance with ISQC 1, the firm must accumulate and communicate relevant information relating to independence threats. * This is to enable the firm and its personnel to readily determine whether they satisfy independence requirements, and to maintain and update its records relating to independence. * The lack of a system to track and record the shares that partners and staff hold in listed clients would be a breach of requirements of ISQC 1. |
| You are an audit senior assigned to the 30 June 20x1 F/S audit of Rich Services Corporation (Rich). Rich is an investment bank with a diverse investment portfolio and various revenue streams.  During the planning phase of the audit, you have obtained the following information about Rich:   * Rich has an internal audit function that reports to the audit committee. * During the year, large number of customers phoned Rich with instructions to modify the investments in their portfolio, rather than making the changes online. This resulted in several clerical errors, such as transposition errors, when Rich’s customer service staff input the data manually. * Rich’s board has set aggressive sales targets relating to sales of Rich’s own managed funds. The bonuses received by Mgmt are dependent on the achievement of these targets. * During the year, one sales representative’s employment was terminated due to their providing of inappropriate investment advice to a client. The client has taken Rich to court with a claim, as they seek to reimburse their losses. If Rich loses the law suit, it will have material impact on Rich’s F/S.   Which one of these circumstances represents a risk of fraud in revenue recognition?  A. Revenue may be lost due to the inappropriate investment advice given to a client.  B. Incorrect data may be entered into the system because of clients phoning Rich with changes to their portfolios.  C. Mgmt may manipulate sales figures to achieve the aggressive sales targets.  D. Complexities associated with acct. for revenue from various revenue streams. | **C** | Mgmt may have an incentive to manipulate sales figures to achieve the aggressive sales targets relating to sales of Rich's own managed funds. Mgmt may be able to manipulate sales figures by overriding existing controls. This factor represents a risk of fraud in revenue recognition. |
| You are a senior auditor on the Fit Health Limited (Fit Health) F/S audit engagement for the year ending 30 June 20x1. Fit Health specialises in designing and manufacturing implantable hearing aids. It is now May 20x1 and, while undertaking audit planning procedures, you encounter the following information.   * In July 20x0, Fit Health began production and sales of its latest hearing implant, the TT200. Recently, Fit Health discovered a defect in TT200, which could result in implant failure. Initial investigations suggest that the defect is due to a fault in the manufacturing process. Fit Health has begun a recall of the product and currently has a large quantity of implants in stock. * In February 20x1, Fit Health was sued by multiple customers who have experienced serious accidents due to not being able to hear properly, as their implants malfunctioned. In March 20x1, the medical devices authority commenced a large-scale investigation into Fit Health, which may result in significant fines. In the worst case, Fit Health may be unable to continue its business if the medical devices authority cancels Fit Health’s permit to manufacture medical devices.   In respect of the Fit Health 30 June 20x1 audit, what is the key financial statement level risk?  A. There may be a fault in the manufacturing process.  B. Fit Health may not be able to continue as going concern.  C. Fit Health may incur significant legal expenses.  D. Fit Health may not be able to sell the devices it has already manufactured. | **D** | The key risk at the financial statement level is that Fit Health would not be able to continue as a going concern, if the medical devices authority cancels Fit Health’s permit to manufacture medical devices.  This question relates to Unit 3, topic ‘Financial statement level and assertion level risks’ |
| Blender manufactures and sells a range of small kitchen appliances such as toasters, kettles and blenders. You are an audit senior assigned to the audit of Blender's 30 June 20x1 F/S.  You are currently planning for the audit and have obtained the following information about the warranty provision, which is material to Blender’s F/S:   * Blender’s FC is responsible for estimating the warranty provision. He is a newly qualified CA who has been in the role for three months. * Blender’s FC estimates the warranty provision based on the cost of replacement parts and the expected number of appliances returned for repair. * The appliances sold only require a few standard parts. The standard costing system at Blender provides accurate data on the cost of replacement parts. During the 20x1 year, Blender engaged a new subcontractor to manufacture some of the parts required. More appliances have been returned during April to June 20x1 than earlier in the year when the previous subcontractor was used. * Blender does not keep any detailed records or data relating to repairs required by each model of each appliance sold.   You also refer to the previous year’s audit file and note that a material misstatement was identified in relation to the warranty provision. This was corrected by mgmt.  In relation to warranty provision, which one of the following statements is correct?  A. Mgmt’s estimate is based on sufficient data.  B. Mgmt’s process for estimating the warranty provision appears effective.  C. The risk of material misstatement associated with the warranty provision is considered high.  D. The risk of material misstatement associated with the warranty provision is considered low. | **D** | The risk of material misstatement associated with the warranty provision is considered high. This is because the provision, which includes estimation uncertainty, is a material balance. Although the warranty provision is based on routine transactions which potentially lower the estimation uncertainty, there are many factors that increase the estimation uncertainty. In this scenario, the estimate is made based on inaccurate or incomplete data; the FC who is making the estimate lacks experience; and Blender has engaged a new subcontractor. As a result, the number of appliances returned for repair has increased. In addition, a material misstatement relating to the estimate was identified in the previous year’s audit. |
| Your audit firm has been requested to audit the F/S of Marvel Limited (Marvel), as Marvel’s bank requires an audited copy of F/S.  You are the audit senior currently planning the audit of Marvel’s 30 June 20x1 F/S. You have obtained the following information about Marvel:   * Marvel commenced operations five years ago as an online fashion retailer. * Marvel is a family-owned business. One of the family members is the managing director and three other members of the family also work in the business. * Two of the family members are involved in sales, and one is responsible for purchasing. * Marvel has an accountant who is responsible for banking and accounts payable. The family member working in purchasing approves all purchase invoices. * Marvel’s accountant uses a standardised, cloud-based acct. software. * The F/S are compiled by an external acct. firm based on a trial balance prepared by the accountant.   Which one of the following statements is correct, relating to Marvel’s internal control?  A. Since Marvel is a family-owned business, the owner-manager may be able to oversee the business effectively and create an effective control environment.  B. Since Marvel uses a cloud-based acct. software, it means that the IT environment is complex.  C. Since all family members are also owners of the business, Marvel has not been able to implement any segregation of duties controls.  D. Since Marvel is a family-owned business with no board of directors, it is not possible for it to have an effective control environment. | **A** | The control environment within small entities is likely to differ from that of larger entities. In a small owner-managed entity, the owner- manager may be able to exercise more effective oversight of the business than in a larger entity. Active involvement of the owner- manager in the business may mitigate certain risks and provide an appropriate ‘tone at the top’.  This question relates to Unit 4, topic ‘Entity level controls’ |
| You are an audit senior assigned to the F/S audit of Autos Limited (Autos), a car company. All the financial reporting processes are also highly automated.  The workers are paid by the hour, and most work between 7 and 8 hours a day. The workers use their swipe card to enter the factory floor. Every week, the IT manager reviews the list of access rights to ensure access is granted to authorised workers only. The workers’ swipe cards are integrated with the timekeeping system, and the timekeeping system is integrated with the payroll system. The payroll system auto calculates the wages based on the hourly rate and the hours worked. The system generates an exception report when the number of standard hours worked exceeds 8 hours. The payroll manager reviews the weekly exception report and follows up any exceptions. The payroll system also auto calculates annual leave entitlements. Every month, the payroll manager reviews the total amount of annual leave balance for reasonableness. The total balance consists of the leave entitlements of all the workers. If workers are required to work overtime, the overtime must be approved by their team leader on the factory floor. At the end of each week, team leaders receive an overtime report. The team leader then signs off on the report in the timekeeping system. The payment for overtime is only processed in the payroll system if the hours have been approved by the team leader.  Which one of the following statements is incorrect, with regards to the payroll process?  A. Evidence over the design and implementation of all relevant controls in the process can be obtained by evaluating the manual controls only.  B. The process includes multiple IT application controls; therefore, the audit team must have sufficient skills and capabilities to test the automated controls.  C. Enquiry of the payroll manager combined with observation and inspection of payroll process documentation would be appropriate in obtaining evidence over the design and implementation of controls over the payroll process.  D. Performing a walk-through is an appropriate test to obtain evidence over the design and implementation of controls. | **B** | The payroll process includes fully automated IT application controls and multiple IT dependent manual controls. Therefore, the auditor would not be able to obtain sufficient appropriate evidence of all relevant controls in the process by evaluating the manual controls only.  This question relates to Unit 4, topic ‘Process level controls’ |
| You are the audit senior working at Landau Accountants (LA). You have been assigned to the 30 June 20x1 F/S audit of Versal Limited (Versal). During the planning meeting with Versal’s CFO, you are told that Versal has decided to improve efficiencies by outsourcing its entire payroll function in January 20x1 to an external provider, PayMaster. PayMaster provides payroll services to over 1,000 organisations, ranging from small businesses to large corporations. Versal mgmt advises that the basis of their decision to choose PayMaster, instead of other external payroll providers, is the highly effective controls PayMaster has in place to ensure that payroll is processed accurately. Versal’s accountant provides you with a detailed document describing the controls used at PayMaster. As controls at PayMaster are so comprehensive, Versal’s mgmt does not consider it necessary to implement controls over payroll transactions at Versal.  Which one of the following options alone would not provide LA with sufficient appropriate evidence over the design and implementation of payroll related controls?  A. LA plans to engage another auditor to perform a walk-through of payroll controls at PayMaster.  B. LA plans to perform enquiries and inspect documentation relating to controls over payroll transactions at PayMaster.  C. LA plans to request PayMaster’s auditor to provide them with a report containing the description and design of controls at PayMaster.  D. LA plans to perform enquiries of Versal’s accountant. | **A** | Performing enquiries of Versal’s accountant alone would not provide sufficient appropriate evidence over the design and implementation of payroll-related controls. The facts of the scenario state that Versal has not implemented controls over payroll transactions. Further, enquiries alone do not provide sufficient appropriate evidence.  This question relates to Unit 4, topic: Auditor’s responsibility when a client uses a service organisation. |
| Locke & Brown (L&B) is a two-partner suburban acct. practice headed by James Locke, the audit and business services partner, and Kyle Brown, the tax and financial planning partner. You are an audit senior on the 30 June 20x1 audit of Gamer Pty Ltd (Gamer), a privately-owned company. Gamer is an online retailer of pre-owned electronic games. L&B has been the auditor of Gamer for the past two years. Diana Smith, Gamer’s FC, has been extensively researching opportunities to expand the business in Asia. Due to time constraints, Diana is finding it difficult to properly manage all the acct. and tax requirements, so she asks L&B to prepare the tax return. Diana herself takes an overall responsibility for the tax return and will calculate Gamer’s current and deferred tax balances for the 30 June 20x1 F/S.  Which one of the following statements is correct?  A. Gamer’s tax return cannot be prepared by L&B as it creates a self- review threat when L&B subsequently performs the 30 June 20x1 audit.  B. Gamer’s tax return cannot be prepared by L&B due to the degree of subjectivity involved in estimating the tax liability balance.  C. Gamer’s tax return can be prepared by L&B if Diana takes responsibility for the tax return and any significant judgements required.  D. Gamer’s tax return can be prepared by L&B without applying safeguards, if L&B also calculates the current and deferred tax balances. | **C** | As Gamer’s mgmt (Diana) takes responsibility for the tax return and any significant judgements made, the preparation of Gamer’s tax return by L&B does not create a threat to independence and would be permitted (IESBA Code section 290 ‘Taxation Services’).  This question relates to Unit 2, topic ‘Auditor independence’. |
| You are an audit senior planning for the financial statement audit of Lamb & Veal (L&V) for 30 June 20x1. L&V is a butchery chain which sells premium meats. All the meat is from cattle owned by L&V. The business was started by Duncan Rucksen 10 years ago. Duncan has been on the board of L&V from the first establishment of the business to the present day. Duncan’s son Mark became interested in the meat industry and, in 20X1, started his own cattle feed business called Mark’s Munch (Munch), of which he is the sole director. L&V sources most of its cattle feed from Munch. Stocks of cattle feed appear on L&V’s statement of financial position as inventory.  Which one of the following statements is correct?  A. In the audit of L&V, you consider L&V’s reliance on purchases made from Munch as an indicator of going concern risk.  B. Existence of inventory is at risk of material misstatement due to the possible non-arm’s length transactions.  C. In the audit of L&V, you consider L&V’s purchases made from Munch as a fraud risk.  D. L&V’s purchases made from Munch represent transactions outside its normal course of business. | **C** | L&V’s purchases made from Munch is a related party transaction which presents a risk of fraud. There is risk that transactions to purchase cattle feed from a related party are not made at non-arm’s length terms.  This question relates to Unit 3, topic: ‘Risk of fraud’. |
| You are the audit senior working at Hindik Accountants (HA). You have been assigned to the 30 June 20x1 F/S audit of Versal Limited (Versal). During the planning meeting with Versal’s CFO, you are told that Versal has decided to improve efficiencies by outsourcing its entire payroll function in January 20x1 to an external provider, PayMaster. PayMaster provides payroll services to over 1,000 organisations, ranging from small businesses to large corporations. Versal mgmt advises that the basis of their decision to choose PayMaster, instead of other external payroll providers, is the excellent customer service provided by PayMaster. The CFO tells you that Versal’s accountant reviews and ensures that the payroll data sent over to PayMaster is complete, and also reviews the accuracy of individual payments processed by PayMaster on a sample basis. Versal’s CFO considers these controls to be adequate to mitigate any risks of material misstatement relating to payroll expense.  Which one of the following statements is incorrect, relating to HA’s responsibilities?  A. HA must evaluate the design and implementation of controls over payroll transactions at Versal.  B. HA must evaluate the design and implementation of controls over payroll transactions at PayMaster.  C. HA must review the contract the between Versal and PayMaster to understand the contract terms.  D. HA must understand the nature and materiality of the payroll transactions outsourced by Versal. | **B** | The CFO has told you that Versal has implemented adequate controls over the payroll transactions. Therefore, it is expected that you would be able to obtain an understanding of controls over payroll transactions located at Versal, and that you do not need to evaluate the design and implementation of controls over payroll transactions at PayMaster (refer to ISA 402).  This question relates to Unit 4, topic: Auditor’s responsibility when a client uses a service organisation. |
| Cozy Tea Place (Cozy) is a chain of tea shops which stocks certified organic tea. Cozy's success and good reputation depend on each individual tea shop's compliance with Cozy's internal policy of only purchasing tea from Fairtrade certified organic tea producers. In a report to the board, Cozy's mgmt stated that it has complied with Cozy's internal policy relating to purchase of tea. The audit committee, which is chaired by an independent director, has reviewed the report and wishes to obtain independent assur. on the claims made by mgmt.  Beth works for AAA Auditors (AAA), the CA practice which has been engaged to provide assur. over mgmt's claims. She is currently assessing whether it would be appropriate to accept the engagement with Cozy, as one of the preconditions for engagement acceptance is that the engagement meets the definition of an 'assur. engagement'. To meet the definition of an 'assur. engagement', one necessary condition is to have a three-party relationship. In this scenario, who are the parties to the three-party relationship?  A. Cozy's mgmt, Cozy's audit committee and Cozy's shareholders.  B. AAA, Cozy's mgmt and Cozy's audit committee.  C. AAA, Cozy's shareholders and the producers of the certified organic tea.  D. AAA, Cozy's mgmt and the producers of the certified organic tea. | **B** | As per the International Framework for Assur. Engagements all assur. engagements involve at least three separate parties: the assur. practitioner, the responsible party and the intended users.  The assur. practitioner obtains sufficient appropriate evidence about whether the subject matter information is free from material misstatement. The responsible party is responsible for the underlying subject matter. The intended users make decisions based on the subject matter information.  Therefore, in this scenario, AAA is the practitioner, Cozy's mgmt is the responsible party and Cozy's audit committee is the intended user.  This question relates to Unit 1. |
| Q Accountants (QA) is a med.-sized acct. firm with approximately 80 staff, of whom 30 are full-time audit staff. QA has two small, listed audit dients and several non-listed clients. QA currently uses Excel in its audit testing work but does not otherwise use data analytics in their audits.  QA's managing partner, Lynne Kyrios, wants to keep QA up-to-date with the latest trends in technology. To encourage the workplace to accept the idea of increased use of data analytics in audits, she asks you to create a short presentation that outlines the benefits of using data analytics in audits.  Which one of the following statements is correct, regarding the use of data analytics from an audit firm's perspective?  A. Use of data analytics is likely to improve audit quality.  B. Use of data analytics in the audit is not encouraged by those who set Auditing Standards until the Auditing Standards have been revised to incorporate further guidance.  C. Use of data analytics allows 100% of transactions to be audited. Therefore, the auditor will no longer be required to obtain an understanding of internal controls.  D. Use of data analytics allows 100% of transactions to be audited. This will result in an overall level of assur. that is higher than reasonable. | **A** | Use of data analytics can provide audit evidence that is more focused to the audit risks and can therefore increase audit quality.  This question relates to Unit 1, topic 'Current issues in audit'. |
| R Accountants (RA) is an acct. firm with approximately 80 staff, of whom 30 are full-time audit and assur. staff. The firm informally markets itself as one that provides 'straightforward advice'. RA has two small, listed audit clients and several non-listed clients, including a new dient which operates in the mining industry.  Lisa is an audit senior at RA. She is currently completing the CA program. She learns that, in accordance with international auditing pronouncement ISQC 1 Quality Control for Auditors (ISCQ 1), firms have extensive responsibilities in relation to quality control. One such responsibility is for firms to have documentation in place that provides evidence of operation for each element of quality control.  Which one of the following events represents a breach of the requirements of ISQC 1?  A. Due to tight deadlines, an engagement quality control review (EQCR) partner, who was assigned to an audit of a listed client, did not review all of the work papers.  B. RA lacked sufficient expertise in the mining industry and so offered a partnership to an audit director from another firm who has extensive mining industry experience. This was done so that RA would be able to accept a new audit client which operates in the mining industry.  C. The last written report on the results of the engagement monitoring process was issued to the partners 10 months ago.  D. Each partner independently manages their clients and the services provided to them. Furthermore, RA does not keep a record of all client relationships and services. | **D** | If each partner independently manages their clients and the services provided to them, Feedback: and RA does not keep a record of all the client relationships, threats to independence may arise. In accordance with ISQC 1, the firm must accumulate and communicate relevant information relating to independence threats. This is to enable the firm and its personnel to readily determine whether they satisfy independence requirements, and to maintain and update its records relating to independence. The lack of a system to track and record the shares that partners and staff hold in listed clients would be a breach of requirements of ISQC 1.  This question relates to Unit 2, topic 'Quality control at the audit firm level'. |
| GM Accountants (GMA) is a med.-sized partnership formed by Anna Grant and Samantha Ming. X Anna is the audit partner, and Samantha is the advisory partner. Samantha also provides assistance with property valuation to various clients. One of the firm's audit clients is Hause, a non-listed entity that buys old properties, renovates them and then re-sells them when it believes the market is most favourable. The property balance is material to Hause's F/S.  Due to significant fluctuations in the property market over the past 12 months, Hause's FC has requested GMA to assist with the valuation of Hause's most recently renovated properties. Which is correct?   1. GMA cannot provide the valuation service because the provision of valuation services to audit clients is not permitted under any circumstances. 2. GMA cannot provide the valuation service because the property balance is material to Hause's F/S and the valuation involves high degree of subjectivity. 3. GMA can provide the valuation service if appropriate safeguards are applied. An acceptable safeguard would be to ensure that an engagement quality review partner is appointed. 4. GMA can provide the valuation service if appropriate safeguards are applied. An acceptable safeguard would be to ensure that Anna is not involved in providing the valuation service. | **B** | Hause is an asset-based entity which buys, renovates and re-sells properties when it believes the market is most favourable. Due to the fact that the valuation of Hause's property involves a high degree of subjectivity and the property balance is material to the F/S, over which GMA will express an audit opinion, no safeguards could reduce the self-review threat to an acceptable level (IESBA Code section 290 "Valuation Services'). Consequently, GMA is not permitted to provide the service.  This question relates to Unit 2, topic 'Auditor independence'. |
| You are an audit senior assigned to the 30 June 20x1 F/S audit of Rich Services Corporation (Rich). Rich is an investment bank with a diverse investment portfolio and various revenue streams.  During the planning phase of the audit, you have obtained the following information about Rich:  • Rich has an internal audit function that reports to the audit committee.  • During the year, large number of customers phoned Rich with instructions to modify the investments in their portfolio, rather than making the changes online. This resulted in several as transposition errors, when Rich's customer service staff input the data manually.  • Rich's board has set aggressive sales targets relating to sales of Rich's own managed funds. The bonuses received by Mgmt are dependent on the achievement of these targets.  • During the year, one sales representative's employment was terminated due to their providing of inappropriate investment advice to a client. The client has taken Rich to court with a claim, as they seek to reimburse their losses. If Rich loses the law suit, it will have material impact on Rich's F/S.  A. Mgmt may manipulate sales figures to achieve the aggressive sales targets.  B. Incorrect data may be entered into the system because of clients phoning Rich with changes to their portfolios.  C. Complexities associated with acct. for revenue from various revenue streams.  D. Revenue may be lost due to the inappropriate investment advice given to a client. | **A** | Mgmt may have an incentive to manipulate sales figures to achieve the aggressive sales targets relating to sales of Rich's own managed funds. Mgmt may be able to manipulate sales figures by overriding existing controls. This factor represents a risk of fraud in revenue recognition.  This question relates to Unit 3, topic 'Risk of fraud'. |
| You are a senior auditor on the Vit Health Limited's (Vit Health) F/S audit engagement for the year ending 30 June 20x1. Vit Health specialises in designing and manufacturing implantable hearing aids. It is now May 20x1 and, while undertaking audit planning procedures, you encounter the following information.  • In July 20x0, Vit Health began production and sales of its latest hearing implant, the TT200. Demand for the TT200 has been extremely high. Vit Health has sold large volumes of the product, and also currently has large volumes of TT200 in stock.  • In April 20x1, Vit Health discovered a defect in the TT200, which could result in implant failure. Vit Health recalled all sold TT200 units while it investigated the cause of the defect. Initial investigations suggest that the defect is due to a fault in the manufacturing process.  In respect of the Vit Health 30 June 20x1 audit, what is the key assertion and account at risk?  A. Accuracy of recall expense.  B. Existence of inventory.  C. Occurrence of revenue.  D. Accuracy, valuation and allocation of inventory. | **D** | As the large stockpile of inventory is now unsaleable due to the product defect, inventory may be overstated and must be written down to net realisable value of zero, in accordance with IAS 2 Inventories. Therefore, the key assertion at risk is accuracy, valuation and allocation of inventory. |
| Toaster Ltd (Toaster) manufactures and sells a range of small kitchen appliances such as toasters, kettles and blenders. You are an audit senior assigned to the audit of Toaster's 30 June 20x1 F/S.  You are currently planning for the audit and have obtained the following information about the warranty provision:  • Toaster's FC makes the estimate for warranty provision. He is a CA who has been with the company for the last five years.  • Toaster's FC estimates the warranty provision based on the cost of replacement parts and the expected number of appliances returned for repair.  The appliances sold only require a few standard parts. The standard costing system at Toaster provides accurate data on the cost of replacement parts.  • Toaster's records provide accurate historical data on repairs required for each model of each appliance sold.  • For the past five years, subsequent warranty claims have shown that the warranty provision recorded at balance date has been accurate. Warranty provision has proved to be highly accurate.  In relation to warranty provision, which one of the following statements is correct?   1. The risk of material misstatement is considered high, because mgmt's process for estimating the warranty costs appears inadequate. 2. The risk of material misstatement is considered high, because the data used to make the estimate appears unreliable. 3. The risk of material misstatement due to estimation uncertainty is considered low. 4. The risk of material misstatement due to estimation uncertainty is considered high. | **C** | The risk of material misstatement due to estimation uncertainty is considered low. The warranty provision is based on routine transactions and reliable data. It is not highly dependent on mgmt's judgement.  This question relates to Unit 3, topic 'Financial statement level and assertion level risks |
| You are the audit senior currently planning the audit of Marvel's 30 June 20x1 F/S. You have obtained the following information about Marvel:  • Marvel commenced operations five years ago as an online fashion retailer.  • Marvel is a family-owned business. One of the family members is the managing director and three other members of the family also work in the business.  • Two of the family members are involved in sales, and one is responsible for purchasing.  • Marvel has an accountant who is responsible for banking and accounts payable. The family member working in purchasing approves all purchase invoices.  • Marvel’s accountant uses a standardised, doud-based acct. software.  • The F/S are compiled by an external acct. firm based on a trial balance prepared by the accountant.  Which one of the following statements is correct, relating to Marvel's internal control?  A. Since Marvel is a family-owned business, the owner-manager may be able to oversee the business effectively and create an effective control environment.  B. Since Marvel is a family-owned business with no board of directors, it is not possible for it to have an effective control environment.  C. Since all family members are also owners of the business, Marvel has not been able to implement any segregation of duties controls.  D. Since Marvel uses a cloud-based acct. software, it means that the IT environment is complex. | **A** | The control environment within small entities is likely to differ from that of larger entities. In a small owner-managed entity, the owner-manager may be able to exercise more effective oversight of the business than in a larger entity. Active involvement of the owner-manager in the business may mitigate certain risks and provide an appropriate tone at the top'.  This question relates to Unit 4, topic 'Entity level controls. |
| You are an audit senior assigned to the F/S audit of Autos Limited (Autos), a car company. Autos uses robotics and automation in its manufacturing process. All the financial reporting processes are also highly automated. The workers are paid by the hour, and most work between 7 and 8 hours a day. The workers use their swipe card to enter the factory floor. Every week, the IT manager reviews the list of access rights to ensure access is granted to authorised workers only. The workers swipe cards are integrated with the timekeeping system, and the timekeeping system is integrated with the payroll system. The payroll system auto calculates the wages based on the hourly rate and the hours worked. The system generates an exception report when the number of standard hours worked exceeds 8 hours. The payroll manager reviews the weekly exception report and follows up any exceptions.  The payroll system also auto calculates annual leave entitlements. Every month, the payroll manager reviews the total amount of annual leave balance for reasonableness. The total balance consists of the leave entitlements of all the workers. If workers are required to work overtime, the overtime must be approved by their team leader on the factory floor. At the end of each week, team leaders receive an overtime report. The team leader then signs off on the report in the timekeeping system. The payment for overtime is only processed in the payroll system if the hours have been approved by the team leader.  Which one of the following statements is incorrect, with regards to the payroll process?   1. The process includes multiple IT application controls; therefore, the audit team must have sufficient skills and capabilities to test the automated controls. 2. Enquiry of the payroll manager combined with observation and inspection of payroll process documentation would be appropriate in obtaining evidence over the design and implementation of controls over the payroll process. 3. Evidence over the design and implementation of all relevant controls in the process can be obtained by evaluating the manual controls only. 4. Performing a walk-through is an appropriate test to obtain evidence over the design and implementation of controls. | **C** | The payroll process includes fully automated IT application controls and multiple IT dependent manual controls. Therefore, the auditor would not be able to obtain sufficient appropriate evidence of all relevant controls in the process by evaluating the manual controls only.  This question relates to Unit 4, topic 'Process level controls' |
| You are the audit senior working at Hindik Accountants (HA). You have been assigned to the 30 June 20x1 F/S audit of Versal Limited (Versal). During the planning meeting with Versal's CFO, you are told that Versal has decided to improve efficiencies by outsourcing its entire payroll function in January 20x1 to an external provider, PayMaster. PayMaster provides payroll services to over 1,000 organisations, ranging from small businesses to large corporations. Versal mgmt advises that the basis of their decision to choose PayMaster, instead of other external payroll providers, is the excellent customer service provided by PayMaster. The CFO tells you that Versal's accountant reviews and ensures that the payroll data sent over to PayMaster is complete, and also reviews the accuracy of individual payments processed by PayMaster on a sample basis. Versal's CFO considers these controls to be adequate to mitigate any risks of material misstatement relating to payroll expense.  Which one of the following statements is incorrect, relating to HA's responsibilities?   1. HA must understand the nature and materiality of the payroll transactions outsourced by Versal. 2. HA must evaluate the design and implementation of controls over payroll transactions at PayMaster. 3. HA must evaluate the design and implementation of controls over payroll transactions at Versal. 4. HA must review the contract between Versal and PayMaster to understand the contract terms. | **B** | The CFO has told you that Versal has implemented adequate controls over the payroll transactions. Therefore, it is expected that you would be able to obtain an understanding of controls over payroll transactions located at Versal, and that you do not need to evaluate the design and implementation of controls over payroll transactions at PayMaster (refer to ISA 402)  This question relates to Unit 4, topic: Auditor's responsibility when a client uses a service organisation |
| Y Accountants (YA) is an acct. firm with approximately 80 staff, of whom 30 are full-time audit and assur. staff. The firm markets itself as one that provides ‘straightforward advice’. Lisa is an audit senior at YA. She is currently completing the CA program. She learns that, in accordance with international auditing pronouncement ISQC 1 Quality Control for Firms that Perform Audits and Reviews of F/S, and Other Assur. and Related Services Engagements (ISCQ 1), firms have extensive responsibilities in relation to quality control. One such responsibility is for firms to have documentation in place to that provides evidence of operation for each element of quality control. Lisa noted that during a planning and risk assessment discussion for an audit engagement, the engagement partner emphasised the importance of quality control. However, Lisa cannot find any quality control documentation at YA. Lisa asks the managing partner about this and the partner tells her that quality control documentation was never finished as YA grew and the partners became busier with client work. Lisa volunteers to document YA’s policies and procedures relating to quality control. The managing partner is delighted, but tells Lisa that she will need to take responsibility for quality control as the managing partner does not have the time.  Which one of the following statements is correct, relating to YA’s system of quality control?  A. As YA is classified as a smaller firm, it does not need to have formal documentation relating to policies and procedures regarding quality control.  B. Holding a planning and risk assessment meeting with staff which reinforces the emphasis on quality control is an example of promoting audit quality under ISQC 1.  C. Once Lisa has documented the quality control policies and procedures, she can be confident that the firm is fully compliant with ISQC 1.  D. As Lisa is nearly a qualified CA, it is appropriate for the managing partner to delegate the operational responsibility for quality control to Lisa. | **B** | Correct. Holding a planning and risk assessment meeting with staff which emphasises the importance of quality control is an example of promoting audit quality under ISCQ 1.  This question relates to Unit 2, topic ‘Quality control at the audit firm level’. |
| Locke & Brown (L&B) is a two-partner suburban acct. practice headed by James Locke, the audit and business services partner, and Kyle Brown, the tax and financial planning partner. You are an audit senior on the 30 June 20x1 audit of Gamer Pty Ltd (Gamer), a privately-owned company. Gamer is an online retailer of pre-owned electronic games. L&B has been the auditor of Gamer for the past two years. Diana Smith, Gamer’s FC, has been extensively researching opportunities to expand the business in Asia. Due to time constraints, Diana is finding it difficult to properly manage all the acct. and tax requirements, so she asks L&B to prepare the tax return. Diana herself takes an overall responsibility for the tax return and will calculate Gamer’s current and deferred tax balances for the 30 June 20x1 F/S.  Which one of the following statements is correct?  A. Gamer’s tax return can be prepared by L&B without applying safeguards, if L&B also calculates the current and deferred tax balances.  B. Gamer’s tax return cannot be prepared by L&B due to the degree of subjectivity involved in estimating the tax liability balance.  C. Gamer’s tax return cannot be prepared by L&B as it creates a self-review threat when L&B subsequently performs the 30 June 20x1 audit.  D. Gamer’s tax return can be prepared by L&B if Diana takes responsibility for the tax return and any significant judgements required. | **D** | As Gamer’s mgmt (Diana) takes responsibility for the tax return and any significant judgements made, the preparation of Gamer’s tax return by L&amp;B does not create a threat to independence and would be permitted (IESBA Code section 290 ‘Taxation Services’).  This question relates to Unit 2, topic ‘Auditor independence’. |
| Your audit firm has been requested to audit the F/S of Wonder Limited (Wonder), as Wonder’s bank requires an audited copy of F/S.  You are the audit senior currently planning the audit of Wonder’s 30 June 20x1 F/S. You have obtained the following information about Wonder:   * Wonder commenced operations five years ago as an online fashion retailer. * Wonder is a family-owned business. One of the family members is the managing director and three other members of the family also work in the business. * Two of the family members are involved in sales, and one is responsible for purchasing. * Wonder has an accountant who is responsible for banking and accounts payable. The family member working in purchasing approves all purchase invoices. * Wonder’s accountant uses a standardised, cloud-based acct. software. * The F/S are compiled by an external acct. firm based on a trial balance prepared by the accountant.   Which one of the following statements is correct, relating to your responsibilities as Wonder’s auditor?  A. Since Wonder is a family-owned business with no board of directors, you must raise the lack of a board as a control deficiency.  B. Since Wonder is a family-owned business and one of the owners is the managing director, you should be alert for the possibility of the manager overriding controls.  C. Since the F/S are compiled by an external acct. firm, you are not required to obtain an understanding of any of the financial reporting processes.  D. Since Wonder uses a cloud-based acct. software, you are not required to obtain an understanding of IT. | **B** | In an entity where the owner is also the manager, the owner-manager may be more able to override controls because the system of internal control is less structured. This is noted by the auditor when identifying the risks of material misstatement due to fraud. The auditor has a responsibility to be alert for the possibility of mgmt override of controls.  This question relates to Unit 4, topics ‘Entity level controls’, ‘Obtaining and understanding of IT and assessing IT risks’. |
| You are an audit senior assigned to the F/S audit of Cars Limited (Cars), a car manufacturing company. Cars uses robotics and automation in its manufacturing process. All the financial reporting processes are also highly automated.  The workers are paid by the hour, and most work between 7 and 8 hours a day. The workers use their swipe card to enter the factory floor. Every week, the IT manager reviews the list of access rights to ensure access is granted to authorised workers only. The workers’ swipe cards are integrated with the timekeeping system, and the timekeeping system is integrated with the payroll system. The payroll system auto calculates the workers’ wages based on the hourly rate and the hours worked. The system generates an exception report when the standard number of hours worked exceeds 8 hours. The payroll manager reviews the weekly exception report and follows up any exceptions.  The payroll system also auto calculates annual leave entitlements. Every month, the payroll manager reviews the total amount of annual leave balance for reasonableness. The total balance consists of the leave entitlements of all the workers.  If workers are required to work overtime, the overtime must be approved by their team leader on the factory floor. At the end of each week, team leaders receive an overtime report. The team leader then signs off on the report in the timekeeping system. The payment for overtime is only processed in the payroll system if the hours have been approved by the team leader.  Which one of the following statements is correct, relating to controls over the payroll process?  A. There are no controls addressing occurrence of the wages expense.  B. There are no controls addressing classification of the wages expense.  C. There are no controls addressing accuracy, valuation and allocation of annual leave provision.  D. There are no controls addressing accuracy of wages expense. | **B** | There are no controls addressing classification of the wages expense. Cars should have a control in place which ensures that the wages expense is recorded in the correct account in the general ledger. The controls described in the scenario address accuracy and occurrence of the wages expense and accuracy, valuation and allocation of annual leave provision.  This question relates to Unit 4, topic ‘Process level controls’ |
| Pricey Princess (PP) is a manufacturer of leather handbags. PP buys the leather from Supplier ABC. The company has an ethical leather-sourcing policy, which is monitored by the board. In a report to the board, PP’s mgmt has stated that the materials used in the handbags are ethically sourced and comply with the ethical leather-sourcing policy. The audit committee, which is chaired by an independent director, has reviewed the report and wants to verify the claims.  Mary Beth works for XYZ, a CA practice engaged to provide assur. over these claims. She is drafting the engagement letter for the assur. engagement. Mary Beth knows that one of the elements necessary to meet the definition of an ‘assur. engagement’ is having an appropriate underlying subject matter.  In this scenario, what is the underlying subject matter?  A. Compliance with the ethical leather-sourcing policy.  B. The process of sourcing the leather.  C. The mgmt’s report to the board.  D. Monitoring of the ethical leather sourcing policy. | **A** | Compliance with ethical leather-sourcing policy is the underlying subject matter that XYZ reports on.  This question relates to Unit 1, Learning outcome 2. |
| Shannon Partners, an acct. firm, has been approached by Green Fields, a family-run landscaping company, to conduct an audit of the annual F/S. After carrying out a detailed investigation, Ali Birks, the audit partner, decides that Shannon Partners should accept the engagement based on the following reasons:   * Shannon Partners is currently looking to expand the audit department and so can afford to quote a competitive fee. * While no audit staff has particular knowledge of the landscaping business, this is not considered an impediment to performing a quality audit. * None of the staff or partners of Shannon Partners have any close personal relationships with the directors of Green Fields.   Which of the reasons above are directly related to the firm's compliance with the requirements of ISQC 1 Quality Control for Firms that Perform Audits and Reviews of F/S, and Other Assur. and Related Services Engagements (ISQC 1)?  A. (i) and (ii) only.  B. (i), (ii) and (iii).  C. (i) and (iii) only.  D. (ii) and (iii) only. | **D** | ISCQ 1 para. 16 establishes the elements of quality control.  Reason (i) – business plans to expand the firm and setting the fee are not directly related to the firm’s compliance with ISQC 1.  Reason (ii) – not having the necessary skills and knowledge about the industry may impact audit quality and is related to the firm’s compliance with the acceptance and continuance of client relationships and specific engagements (ISQC 1 para. 26(a)).  Reason (iii) – having no close personal relationships (independence) is related to the firm’s compliance with the relevant ethical requirements (ISQC 1 para. 21) and with the acceptance and continuance of client relationships and specific engagements (ISQC 1 para. 26(a)). |
| Spencer and Co is an acct. firm headed by Mr Bishop, the audit and business services partner, and Ms Gates, the tax and financial planning partner. One of the firm’s clients is Click n Wear (CnW) – a company that rents vintage clothing. CnW has been audited by Spencer and Co for the last four years. Mr Bishop is the audit partner.  Due to its rapid growth, CnW's FC, Mr Vegos, is finding it challenging to manage all aspects of acct. and tax work. He has approached Mr Bishop to ask if Spencer and Co could assist the firm in preparing its 20x0 tax return. Mr Vegos clarifies that he is asking for assistance in preparing the tax return only. CnW’s accountant is calculating CnW’s current and deferred tax balances for financial acct. purposes.  Considering the requirements of the IESBA Code of Ethics for Professional Accountants (IESBA Code), which of the following statements is correct?  A. Spencer and Co is prohibited by the IESBA Code to prepare CnW’s tax return because it creates a self-review threat when Spencer and Co subsequently audits CnW’s F/S.  B. Spencer and Co is permitted by the IESBA Code to prepare CnW’s tax return if CnW’s mgmt takes responsibility for the tax return and any significant judgements made.  C. Spencer and Co is prohibited by the IESBA Code to prepare CnW’s tax return because of the degree of subjectivity involved in estimating the tax liability.  D. Spencer and Co is permitted by the IESBA Code to prepare CnW’s tax return. Materiality of the tax liability balance is a key consideration in assessing whether this service is permitted. | **B** | As CnW’s mgmt takes responsibility for the tax return and any significant judgements made, preparation of CnW’s tax return does not create a threat to independence and would be permitted (s. 290.180 IESBA Code).  This question relates to Unit 3, Learning outcome 1. |
| DNA CA (DNA) is considering whether to accept potential audit engagements. The following describes situations in relation to two of the prospective engagements under consideration:  i. For the annual audit of F/S for 20x0, the mgmt of RAR Limited (RAR) has indicated that it will make available to DNA all documentation relating to its overseas operations. However, due to logistical difficulties, RAR cannot provide DNA with direct access to its overseas personnel located in Asia. DNA considers the Asian operations material to the F/S of RAR.  ii. There was some recent media coverage about Fossil Limited (Fossil). The media reported an incident whereby an employee was directing part of the funds received from the sales of precious metals to their own bank account. Fossil’s mgmt has since reviewed the controls currently in place and is in the process of implementing new controls to prevent and detect fraud.  Considering only the facts above and assuming there are no laws or regulations requiring DNA to accept either engagements, which of the two audit engagements can DNA accept in accordance with ISA 210 Agreeing the terms of audit engagements (ISA 210)?  A. Engagement (i) only.  B. Neither engagement (i) nor engagement (ii).  C. Engagement (ii) only.  D. Both engagements (i) and (ii). | **C** | DNA cannot accept engagement (i) but can accept engagement (ii).  ISA 210 contains guidance about preconditions for audit that must be met before an audit engagement can be accepted (ISA 210 paras 6–8).  In engagement (i), mgmt cannot provide the auditor unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence. Providing the auditor with such access is a precondition for an audit (ISA 210 para. 6(b)(iii)).  In engagement (ii), following an instance of fraud, mgmt has reviewed controls currently in place and is in the process of implementing new controls. Therefore, this engagement meets the precondition for an audit contained in ISA 210 para. 6(b) (i.e. mgmt understands and acknowledges its responsibilities in relation to internal control necessary to enable the preparation of the F/S that are free from material misstatements, whether due to error or fraud).  This question relates to Unit 3, Learning outcome 3. |
| Alan Gibbons is the newly-appointed audit senior at Choice Acct. (Choice). One of his first engagements is the audit of the F/S of Kids-In- Danger (KID), a small charity that promotes anti-bullying initiatives in local schools. The charity is mainly funded by government grants and public donations. KID was founded by a local parent, Stan Matheson, whose daughter suffered injuries as a result of a bullying incident.  The board consists of Stan, his wife and some concerned residents from Stan’s neighbourhood. The acct. work is performed by one of the board members who is a CA. The board reviews the accounts in its monthly meeting. No board member receives any remuneration.  Alan knows the importance of understanding the entity and its environment in planning the audit, so he arranges to meet with the board. During the meeting, Stan explains that KID is run by volunteers and does not have any documented controls in place. Since there is no formal process for risk mgmt, the board deals with any risk issues as they come arise. Alan wonders what impact this information will have on the audit.  Which of the following is correct in relation to Alan’s consideration of internal control at KID?  A. In the absence of documented controls, the auditor is not required to obtain an understanding of internal controls.  B. In the context of planning an audit, understanding the external economic, industry and regulatory factors and risks is more important than understanding the internal controls of a business.  C. Although there are no documented controls or formal risk assessment process, the board’s review of accounts is a control that Alan could use in his audit plan.  D. It may be impractical for smaller entities to have controls and risk mgmt processes in place. Therefore, Alan does not need to consider internal controls in his audit plan. | **C** | The board’s review of the monthly accounts is an internal control that Alan could use in his audit plan.  While smaller entities may have different controls and systems to larger entities (ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment (ISA 315) paras A17–A20), it does not mean that they have no controls. Even if an entity does not have an established risk assessment process, or has an ad hoc process, the auditor can discuss with the mgmt of the entity whether business risks relevant to the financial reporting objectives have been identified, and how they have been addressed (ISA 315 para. 17).  This question relates to Unit 4, Learning outcome 1. |
| Chartered acct. firm XYZ are the auditors of Lotus Limited (Lotus). Lotus outsources its payroll function to PayPro, a large payroll processing company. PayPro has many large listed clients who need assur. regarding their internal controls. PayPro has therefore undergone an independent audit to provide a Type 2 report on its controls, which PayPro made available to all of its clients.  XYZ plans to rely on the Type 2 report for its audit of Lotus as evidence that controls at PayPro are operating effectively.  Which of the following is true in relation to the use of the Type 2 report?  A. XYZ cannot rely on the Type 2 report to provide evidence that controls at PayPro are operating effectively.  B. XYZ must include a reference to the Type 2 report issued by another independent auditor, if it is issuing an unmodified auditor’s report.  C. As the Type 2 report is issued by another independent auditor and PayPro made it available to all of its clients, XYZ can rely on the report without performing any additional audit procedures.  D. XYZ must evaluate whether the tests of controls performed by the PayPro’s auditor and the results are relevant, and provide sufficient appropriate audit evidence to support XYZ’s risk assessment. | **D** | If XYZ plans to use a Type 2 report as audit evidence that controls at the service organisation are operating effectively, it must determine whether the service auditor’s report provides sufficient appropriate audit evidence about the effectiveness of controls to support XYZ’s risk assessment. XYZ can do this by evaluating whether both the tests of controls performed by the service auditor and the results provide sufficient appropriate audit evidence to support XYZ’s risk assessment (ISA 402 Audit Considerations Relating to an Entity Using a Service Organization para. 17(a)).  This question relates to Unit 4, Learning outcome 4. |
| Using professional judgement, which of the following two scenarios (if any) is most likely to be assessed as a significant risk by the auditor?  **1. Warranty provision at Marlin Limited (Marlin):**  Marlin is a manufacturer of industrial and commercial heating systems. Since the company began trading many years ago, it has offered a three-year warranty on all of its products. This has resulted in the company having to recognise a provision for warranties in its statement of financial position. Mgmt keeps detailed statistics on warranty claims, which it uses as the basis for its estimations of future provisions. Mgmt’s estimates have historically been accurate.  **2. Revenue in advance at Helenville College (Helenville):**  Helenville is a private college. Aside from tuition fees from students, Helenville also receives some recurrent annual government grants. These grants tend to be very similar from year to year. In 20x1 the federal government announced that schools and colleges may be eligible to apply for a special, one-off grant to complete a major capital project (e.g. build a new library). The college applied for and received the grant, and the money was received late in the 20x1 financial year. Helenville initially recorded it as a ‘revenue in advance’; however, in preparing the 30 June 20x2 F/S, mgmt knows it needs to consider whether to release some or all of the liability to revenue. The amount will depend on how far advanced the capital project is. Helenville’s chief financial officer tells the auditor that the school council is expecting to see the full amount of the special grant recognised as revenue by the end of 20x2 financial year.  A. Neither scenario 1 nor 2.  B. Scenario 2 only.  C. Scenario 1 only.  D. Scenarios 1 and 2. | **B** | Paragraphs 27 and 28 of ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment (ISA 315) define significant risks as risks that require ‘special audit consideration’, and identify factors that the auditor should consider when assessing whether a risk is a significant risk.Scenario 1 is unlikely to be a significant risk. Having a warranty provision is not unusual transaction for a manufacturer. Marlin has been calculating the provision for many years and, historically, mgmt’s estimate has been accurate.  Scenario 2 is likely to be a significant risk. The transaction is a one- off, with which the mgmt is unlikely to be familiar. The year- end balance of revenue in advance will require estimation and judgement about how far along the capital project is (ISA 315 paras A132-A135). There may also be an incentive to manipulate the amount to satisfy the expectations of the school council to recognise the full amount as revenue.  This question relates to Unit 5, Learning outcome 1. |
| Jennifer is performing the audit of the courier company Fast Freddy. While performing audit procedures over the fixed asset register of cars owned by Fast Freddy, Jennifer identified the following discrepancies:   |  |  | | --- | --- | | **Asset description per register** | **Misstatements** | | Green sports car APR | Does not appear in the fixed asset register despite documentation showing that Fast Freddy owns the car | | Gold saloon 2061 | Appears in the fixed asset register but the car cannot be located | | Silver sports car CDE | Recorded in the fixed asset register at its fair value but was sold before the end of the financial year | | Black saloon SLA | Is not worth what it is carried at |   Which misstatement relates to the completeness assertion?  A. Gold saloon 206i.  B. Green sports car APR.  C. Black saloon SLA.  D. Silver sports car CDE | **B** | The completeness assertion relates to ensuring that all assets, liabilities and equity interests that should have been recorded have been recorded.  If an asset exists (e.g. the green sports car APR) but does not appear in the fixed asset register, the fixed asset register is not complete and the fixed assets balance may be understated.  This question relates to Unit 5, Learning outcome 2. |
| Stony Hills Golf Club (Stony Hills) is a private golf club that is required to have its F/S audited in accordance with its constitution. After being audited by JB Acct. (JB) for a number of years up to and including 30 June 20x1, Stony Hills decides to put its upcoming 30 June 20x2 audit to tender. At the conclusion of the tender process, CC Partners (CC) is awarded the contract, replacing JB. Stony Hills had an unmodified audit opinion for the 20x1 financial year.  Steve Young, the audit partner at CC is concerned about CC's obligations in respect of auditing the opening balances of Stony Hills.  What advice would you give to Steve?  A. CC could consider reviewing JB’s audit work papers from the 30 June 20x1 audit and note the work done on all material balances. However, it is important that CC does not focus on trying to review acct. policies and financial statement disclosures, as these will change from year to year.  B. CC can rely on the unmodified audit opinion for the 30 June 20x1. As the closing balances for 30 June 20x1 were fairly stated, no work needs to be done on the opening balances in the 20x2 audit.  C. CC could consider reviewing JB’s audit work papers from the 30 June 20x1 audit and note the work done on all material balances.  D. CC could consider ISA 510 Initial Audit Engagements – Opening Balances (ISA 510) as irrelevant, because this is not the first time the entity has been audited. ISA 510 only applies to entities that have never been audited before. | **C** | Reviewing the predecessor auditor’s work papers to obtain evidence about the opening balance is one of the procedures an auditor should undertake in an initial audit (ISA 510 para. 6(c)(i)).  This question relates to Unit 5, Learning outcome 3. |
| Emma is an auditor for the Lifestyle Basics Limited (Lifestyle) audit engagement for the financial year ending 30 June 20x1. Lifestyle specialises in the manufacture of household and commercial appliances.  Lifestyle owns two technologically advanced machines that it uses to manufacture refrigerators. The government has recently passed a new environmental legislation which will become effective in the next 12 months. Under the new legislation, Lifestyle is required to substantially modify its current refrigerator manufacturing processes and machinery. Lifestyle’s mgmt is confident the machines can be re-engineered to enable refrigerator manufacturing that complies with the new legislation. The modification is expected to be completed before 30 June 20x1.  Lifestyle accounts for all machinery under the revaluation model, and the next valuation will be performed at 30 June 20x1. Given the company’s intention to complete the modification before 30 June 20x1, mgmt will be undertaking a revaluation based on the market value of the re-engineered and modified machines.  Which one of the following actions is Emma least likely to perform in relation to the audit of the valuation of the ‘Machinery’ account balance for the year ending 30 June 20x1?  A. Consider whether there is reliable, market-based evidence of fair value for the machines after they have been re-engineered.  B. Consider processes for the review and approval of the estimates and assumptions used in calculating the machines’ fair value.  C. Inspect the machines to check that the re-engineering and modifications were completed.  D. Request a written representation from mgmt on whether it believes that significant assumptions used in calculating the machine's fair value are reasonable. | **C** | Emma is least likely to inspect the machines as this does not provide direct evidence about the carrying value of the machines. Sighting the asset may be a valid procedure for testing the existence of the machine.  This question relates to Unit 5, Learning outcome 4. |
| C&K Financial Services (C&K) is a business which offers services such as investment advice and portfolio mgmt for wealthy individuals. The company has been approached by a bank to discuss the possibility of a business deal whereby the bank would outsource some of its financial advisory services to C&K.  Before the deal could proceed, the bank requires an assur. report of C&K's compliance with the internal control requirements applicable to the financial services industry. These requirements address matters such as how client money is receipted, recorded and administered, how investment decisions are made, and how performance is monitored and reported to investors. The bank requires the highest level of assur. applicable to these types of engagements. C&K approaches Direct Acct. Partners (DAP), an acct. firm, to conduct the engagement and provide the report requested by the bank.  Which one of the following statements is true?   1. DAP does not need to consider independence in deciding whether or not to accept this engagement as this is not a full financial statement audit. 2. DAP will only be able to provide limited level of assur. for this particular engagement. 3. DAP should provide no assur. to C&K for this particular engagement. 4. DAP will need to consider whether there is appropriate underlying subject matter and sufficient appropriate evidence before issuing an assur. report. | **D** | As per para. 22 of the International Framework for Assur. Engagements, appropriate underlying subject matter and sufficient appropriate evidence are two of the five elements that must be exhibited in an assur. engagement.  This question relates to Unit 1, Learning outcome 2. |
| SolPower is a manufacturer of solar powered panels. You are an audit senior with Mayo CA and you are working on the SolPower 30 June 20x0 F/S audit engagement. The audit manager wants to make sure the audit team obtains sufficient appropriate documentation for the audit file.  Some of the key audit issues being addressed are:  • **Litigation:** SolPower has two ongoing legal cases with two different lawyers. The audit team sends standard external confirmation request letters to both lawyers requesting confirmation of the status of these legal cases. The first lawyer replies immediately, but the second lawyer refuses to return the letter. To avoid lack of documentation, you call the lawyer to discuss the case and include a memo of your conversation in the audit file. SolPower recognises a contingent liability in their F/S about both legal cases, which is consistent with the information you obtained from both lawyers.  • **Inventory:** During the stocktake, the audit team cannot account for 20% of stock recorded in the inventory ledger. SolPower explains that the stock has already been shipped to a major customer in a remote location. Because of the terms of agreement with the customer, the title of the stock recorded does not pass from SolPower to the customer until after the customer has had time to inspect and test it, which usually takes between 20 to 30 days. As a result, the stock is still included in SolPower's ledger, even though it is no longer on SolPower's premises.  The audit team is unable to physically see and count the stock before it is installed by the customer because of the area's remoteness. As a compromise, you obtain a copy of the agreement between SolPower and the customer confirming SolPower is still the legal owner of the stock, and shipping documents that confirm the quantity and value of the stock.  Which one of the following is correct?   1. You need to insist on obtaining written confirmation from the second lawyer, because the memo that you wrote does not constitute proper audit documentation. 2. You must meet with the second lawyer and sight the documentation relating to the legal cases without the need to obtain written confirmation. 3. It appears that you have performed and documented appropriate procedures to obtain audit evidence over the stock. 4. To ensure there is sufficient documentary evidence for stock, you should have visited the remote location and documented that you had seen it. | **C** | It appears that you have performed and documented appropriate procedures to obtain audit evidence over the stock.  This question relates to Unit 2, Learning outcome 4. |
| McCormak Accountants (MCA) is the auditor of Construct Limited (Construct), a non-listed entity in the construction industry. Debra McCormak is a partner at MCA who has significant experience in the building and construction industry and is familiar with its specific, complex acct. issues.  For the past three years, the audit testing work at Construct had been led by an audit manager who was an expert in the building and construction industry but has now left MCA to pursue a new career. Debra has assigned to you the role of audit team leader at the client site. You are an audit senior with several years' experience, but have not worked on an engagement within the building and construction industry. Debra has asked Jim Newman (another audit partner with MCA) to be the engagement quality control reviewer for the Construct 30 June 20x0 F/S audit.  Which one of the following statements is true?   1. As Construct is a non-listed entity, the appointment of an engagement quality control reviewer will compensate for your lack of experience in the industry. 2. The composition of the engagement team does not affect the quality control of the audit. 3. MCA must withdraw from the audit of Construct as the audit manager with expertise in the building and construction industry no longer works at McA. 4. Debra's responsibilities for the performance of the engagement remain the same, even though an engagement quality control review will be performed. | **D** | ISA 220 Quality Control for an Audit of F/S (ISA 220) para. A27 states that the performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.  This question relates to Unit 2, Learning outcome 3. |
| Crones Ltd (Crones) is a large, publicly listed company.  Crones has its own internal audit department, led by the head of internal audit (HIA). The company has a separate board of directors, which comprises the chief financial officer (CFO). chief executive officer (CEO) and the HIA, along with three independent directors, who oversee the strategic direction of Crones. The board meets monthly; however, the CFO is often absent.  The external auditors mainly deal with the FC (FC) and CFO during their audit work, and meet with them throughout and at the conclusion of their audit to communicate significant findings.  Which of the following must the auditor communicate to those charged with governance?  I. Details of written representations the auditor is requesting from the CFO and FC.  II. Significant matters arising from the audit that were discussed with the CFO and FC.  III. Significant difficulties encountered during the audit that were discussed with the CFO and  FC.  A. I only.  B. Il only.  C. III only.  D. I, II and III. | **D** | As those charged with governance are not involved in managing the entity (with the exception of the CFO, who is often absent), all of these matters must be communicated with those charged with governance, as per ISA 260 (Revised) Communication with Those Charged with Governance paras 14–17.  This question relates to Unit 3, Learning outcome 3. |
| Locke & Brothers (L&B) is a two-partner suburban acct. firm headed by James Locke, the audit and business services partner, and Kyle Brothers, the tax and financial planning partner. You are an audit senior on the 30 June 20x0 audit of Gamer Ltd (Gamer), a non-listed entity, which is an online retailer of pre-owned electronic games. L&B have been the auditors of Gamer for the last two years.  Diana Smith is Gamer's FC who has been working long hours researching opportunities to expand the business in Asia. Due to time constraints, Diana is finding it difficult to properly manage all the acct. and tax requirements, so she asks L&B for assistance in preparing the tax return. Diana is in the process of calculating Gamer's current and deferred tax balances for the 30 June 20x0 F/S.  Which of the following statements is correct?   1. Gamer's tax return can be prepared by L&B depending on the materiality of the tax liability balance. 2. Gamer's tax return cannot be prepared by L&B due to the degree of subjectivity involved in estimating the tax liability balance. 3. Gamer's tax return can be prepared by L&B if Diana takes responsibility for the tax return and any significant judgements required. 4. Gamer's tax return cannot be prepared by L&B as it creates a self-review threat when L&B subsequently preforms the 30 June 20x0 audit. | **C** | As Gamer's mgmt takes responsibility for the tax return and any significant judgements made, preparation of Gamer's tax return does not create a threat to independence and would be permitted (IESBA Code section 290 'Taxation Services').  This question relates to Unit 3, Learning outcome 1. |
| Morvel Limited (Morvel) commenced operations five years ago as an on-line fashion retailer. You are an audit senior currently planning the audit of Morvel's 30 June 20x0 F/S and have gathered the following information:  I. In March 20x0, Simon Cosh, who was the Morvel CFO since start up, resigned. Morvel were fortunate to find a replacement within four weeks of Simon's resignation. Although the new CFO doesn't have experience in the fashion industry, they have several years' experience in the retail industry as CFO of a major grocery chain.  II. Morvel's website has consistently experienced problems, with customers often complaining that website crashes occur particularly in the final stages of their on-line payment options. The IT team have been working on a new ERP system for the past six months and they expect to go live' before 30 June 20x0.  III. During the year, Morvel mgmt decided to perform quarterly stocktakes rather than an annual year end stocktake which was performed in previous years. Although the need for quarterly stocktakes causes major disruptions in the business, it has assisted mgmt with identifying discrepancies and keeping adjustments to the inventory balance at a minimum at year end.  IV. Morvel mgmt are excited to announce on their website their latest fashion item 'fluorescent footwear'. They believe this will be a major seller for the new Spring 20x0 season. They have been importing stock from France, and the majority of the footwear is already in inventory at year end in anticipation of the excess demand for Spring.  Which of the above items will impact the risk of material misstatement at the financial statement level?   1. III and IV only. 2. I and II only. 3. II and III only. 4. I and IV only. | **B** | Both I and II impact the risk of misstatement across the F/S – they are not risks which would be directly linked to specific accounts in the financial  statements.  This question relates to Unit 4, Learning outcome 3. |
| You are an audit senior at Acc Services (AccS) and you are working on the Graham Small Goods (GSG) 30 June 20x0 F/S audit. Accs have been the auditors of GSG for the past three years.  GSG is a major importer and wholesaler of delicatessen-style gourmet foods. Its customers range from major grocery stores to small fruit shops and cafes. Harry Graham founded GSG 20 years ago and together with his two children, Peter and Tracey, the three family members continue to work in the business today.  Unlike other employees of GSG, the three family members do not have employment contracts. They do not believe an employment contract is necessary as they have always had a great working relationship. All three family members are also on the company's board. GSG stakeholders indude: Finance Bank, which provides a substantial loan and financing facility, the Graham family, who owns 80% of the shares; and numerous other investors, who own 20% of the shares.  In previous years' audits, Accs have conducted significant testing of the accounts receivable balance as prompt cash collection is critical for the cash flow of the business. Although previous experience indicates poor collection from some smaller customers like cafes, this has not resulted in any cash flow problems to date. A small allowance for impairment of accounts receivable is recognised in the F/S. Accs has concluded that there is no risk of material misstatement due to fraud relating to revenue recognition and has therefore rebutted this as a significant risk.  Which one of the following would most likely be considered a significant risk in the audit of GSG 30 June 20x0 F/S?   1. Revenue - because revenue will always be the main concern for stakeholders, especially external stakeholders. 2. Accounts receivable - due to poor collection from some customers in the past, and because cash-flow is critical to the business. 3. Going concern - because it is important to ensure GSG can repay the loan to Finance Bank. 4. Related parties - because transactions may not be at arm's length and recorded correctly, and respective disclosures will be necessary for key mgmt personnel. | **D** | Related parties are most likely to be considered a significant risk requiring special audit consideration as there is the potential for non-arm's length transactions and amounts being recorded incorrectly. Three family members are key mgmt personnel who do not have employment contracts. Therefore, it will be difficult to identify all payments and transactions with all members of the Graham family which will require disclosure in the F/S.  This question relates to Unit 4, Learning outcome 1. |
| You are a senior auditor on the Vit Health Limited (VHL) F/S audit engagement for the year ending 30 June 20x0. VHL specialises in the design and manufacture of implantable hearing aids. It is now May 20x0, and while undertaking audit planning procedures you encounter the following information.  In July 20X5, VHL began production and sales of its latest hearing implant, the TT200. Demand for the TT200 has been extremely high. VHL has sold large volumes of the product and manufactured a large stockpile in anticipation of ongoing high demand.  Recently, VHL discovered a defect in TT200, which could result in implant failure. VHL recalled all sold TT200 units while it investigated the cause of the defect. Initial investigations suggest that the defect is due to a fault in the manufacturing process.  In respect of the VHL 30 June 20x0 audit, what is the key assertion at risk for the inventory account?   1. Completeness. 2. Accuracy, valuation and allocation. 3. Existence. 4. Classification. | **B** | As the large stockpile of inventory is now unsaleable due to the product defect, the inventory needs to be written down. In accordance with Acct. Standard IAS 2, the key issue with inventory is that the write-down to net realisable value needs to be appropriately recorded.  This question relates to Unit 5, Learning outcome 1. |
| Watson Partners were advised of their successful audit tender for Glasic Ltd (Glasic). As you were part of the Watson Partners team that prepared and presented the proposal to the Glasic mgmt, you have been assigned as the audit senior for the 30 June 20x0 audit of the Glasic F/S. You have obtained access to the work papers of Glasic's previous auditor, A1 Services. A1 Services issued an unmodified opinion for the 30 June 20X5 F/S.  It is now July 20x0 and you are auditing the accounts payable balance. In reviewing A1 Services work papers, you note that the prior year's accounts payable balance was based on a listing dated 29 June 20X5, instead of 30 June 20X5. You obtain a copy of the 30 June 20X5 accounts payable ledger from the client, and calculate the difference between the two totals. The difference is material to the 30 June 20X5 accounts payable balance in the F/S, with a corresponding impact on the purchases and inventory accounts.  What is the most appropriate action Watson Partners should take next?   1. Watson Partners should perform additional audit procedures in order to determine the effect on the 30 June 20x0 results. 2. Watson Partners should inform mgmt immediately that they will need to issue a qualified auditor's report for the 30 June 20x0 audit. 3. Watson Partners should inform those charged with governance that they need to withdraw from the engagement. 4. Watson Partners should contact A1 Services and advise them that they need to reissue their auditor's report for the 30 June 20X5 audit. | **A** | ISA 510 Initial Audit Engagements - Opening Balances para. 6(a) requires the auditor to determine whether the prior period closing balances are correctly stated. As such, the most appropriate action Watson Partners should take next is to perform additional procedures to determine the impact of a prior period misstatement on the 30 June 20x0 audit.  This question relates to Unit 3, Learning outcome 4. |
| Sensor Ltd (Sensor) is a manufacturer of sensor-controlled garage doors. The company sells the garage doors to a wide range of clients, predominately in the manufacturing industry and offers a three-year warranty on all units sold. If there are any malfunctions or breakdowns during that period, Sensor will provide replacement parts and the labour required to fix the fault, free of charge.  You are an audit senior working on the 30 June 20x0 F/S audit of Sensor. You have been assigned to perform audit procedures on the warranty provision. The audit partner has advised the audit team that the warranty provision is a significant risk for the Sensor audit. As a first step, you discuss with Nick White (Sensor's financial accountant) the Sensor acct. policy regarding warranties. Nick advises the following:  "Our warranty policy is based on the world leader in our industry. Garage World Limited (GWL), a company located in the United States. I can provide you with a copy of GWL's audited current year and prior year F/S, which outline the company's warranty policy. GWL calculates its warranty provision at 2% of total sales, which is based on historical data and trends globally. We base our policy on GWL's policy and set our warranty provision at 2% of total sales as well. We are comfortable with our policy and will sign a representation letter to state that we are confident with our estimate of the warranty provision.”  Which one of the below statements are true?   1. You need to request a confirmation letter from GWL to confirm its warranty policy based on global data. 2. You need to ask Nick to recalculate the warranty provision based on Australian data to support the 30 June 20x0 warranty provision in the F/S. 3. As Sensor has based its provision on GWL and has not adopted any other ways of estimating the warranty provision, you will need to develop additional audit procedures to determine the reasonableness of the warranty provision. 4. As Nick agrees to sign a written representation letter, this supports the basis of the warranty provision and, due to the nature of this estimate, there is no need to perform additional testing. | **C** | Performing additional audit procedures to determine the reasonableness of the estimate is an appropriate step for the auditor to undertake if the client is unwilling to change their calculation.  This question relates to Unit 5, Learning outcome 3. |