Auditing & Assurance Services 2026 Release 1st edition Louwers Test Bank

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) The audit objective that all transactions and accounts that should be presented in the financial statements are in fact included is related to which of the PCAOB assertions?
   A) Existence
   B) Rights and obligations
   C) Completeness
   D) Valuation

2) Cutoff tests designed to detect purchases made before the end of the year that have been recorded in the subsequent year provide assurance about management's assertion of
   A) presentation and disclosure.
   B) completeness.
   C) rights and obligations.
   D) existence.

3) During an audit of an entity's stockholders' equity accounts, the auditor determines whether there are restrictions on retained earnings resulting from loans, agreements, or state law. This audit procedure most likely is intended to verify management's assertion of
   A) existence or occurrence.
   B) completeness.
   C) valuation or allocation.
   D) presentation and disclosure.

4) The confirmation of an account payable balance selected from the general ledger provides primary evidence regarding which management assertion?
   A) Completeness
   B) Valuation
   C) Allocation
   D) Existence

5) What type of evidence would provide the highest level of assurance in an attestation engagement?
   A) Evidence secured solely from within the entity.
   B) Evidence obtained from independent sources.
   C) Evidence obtained indirectly.
   D) Evidence obtained from multiple internal inquiries.

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6) Which of the following management assertions is an auditor most likely testing if the audit objective states that all inventory on hand is reflected in the ending inventory balance?
   A) The entity has rights to the inventory.
   B) Inventory is properly valued.
   C) Inventory is properly presented in the financial statements.
   D) Inventory is complete.

7) An auditor traces the serial numbers on equipment to a nonissuer's subledger. Which of the following management assertions is supported by this test?
   A) Valuation and allocation
   B) Completeness
   C) Rights and obligations
   D) Presentation and disclosure

8) An auditor has substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time because of negative cash flows and working capital deficiencies. Under these circumstances, the auditor would be most concerned about the
   A) control environment factors that affect the organizational structure.
   B) correlation of detection risk and inherent risk.
   C) effectiveness of the entity's internal control activities.
   D) possible effects on the entity's financial statements.

9) Which of the following types of audit evidence provides the**least** assurance of reliability?
   A) Receivable confirmations received from the client's customers.
   B) Prenumbered receiving reports completed by the client's employees.
   C) Prior months' bank statements obtained from the client.
   D) Municipal property tax bills prepared in the client's name.

10) Which of the following is a management assertion regarding account balances at the period end?
   A) Transactions and events that have been recorded have occurred and pertain to the entity.
   B) Transactions and events have been recorded in the proper accounts.
   C) The entity holds or controls the rights to assets, and liabilities are obligations of the entity.
   D) Amounts and other data related to the transactions and events have been recorded appropriately.

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11) A practitioner is engaged to express an opinion on management's assertion that the square footage of a warehouse offered for sale is 150,000 square feet. The practitioner should refer to which of the following sources for professional guidance?
    A) Statement of Auditing Standards.
    B) Statements on Standards for Attestation Engagements.
    C) Statements on Standards for Accounting and Review Services.
    D) Statements on Standards for Consulting Services.

12) In auditing the long-term debt account, an auditor's procedures most likely would focus primarily on management's assertion of
    A) existence.
    B) completeness.
    C) allocation.
    D) rights and obligations.

13) An auditor selected items for test counts from the client's warehouse during the physical inventory observation. The auditor then traced these test counts into the detailed inventory listing that ultimately agreed to the financial statements. This procedure most likely provided evidence concerning management's assertion of
    A) completeness.
    B) valuation.
    C) presentation and disclosure.
    D) existence.
    E) rights and obligations.

14) An auditor selected items from the client's detailed inventory listing (that agreed to the financial statements). During the physical inventory observation, the auditor then found each item selected and counted the number of units on hand. Assuming that the amount on hand was the same as the amount in the client's detailed inventory listing, this procedure most likely would provide evidence concerning management's assertion of
    A) completeness.
    B) valuation.
    C) presentation and disclosure.
    D) existence.
    E) rights and obligations.

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15) According to PCAOB Auditing Standard No. 2201 (*AS 2201*), the auditor should identify significant accounts and disclosures and their relevant assertions. Which of the following financial statement assertions is *not* explicitly identified in *AS 2201*?
   A) Completeness
   B) Valuation or allocation
   C) Accuracy
   D) Existence or occurrence
   E) All of these are assertions identified in *AS 2201*.

16) When testing the completeness assertion for a liability account, an auditor ordinarily works from the
   A) financial statements to the potentially unrecorded items.
   B) potentially unrecorded items to the financial statements.
   C) accounting records to the supporting evidence.
   D) trial balance to the subsidiary ledger.

17) If an auditor is performing procedures related to the information that is contained in the client's pension footnote, he/she is most likely to obtain evidence concerning management's assertion about
   A) rights and obligations.
   B) existence.
   C) valuation.
   D) presentation and disclosure.

18) Which of the following questions would be**inappropriate** for an auditor to ask a client when exhibiting an appropriate level of professional skepticism while completing an audit procedure related to the internal control system?
   A) What can go wrong in this process?
   B) Which of your employees is a fraudster?
   C) What else is important to know about this process?
   D) What happens when a key employee goes on vacation?

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19) To be proficient as an auditor, a person must *first* be able to accomplish which of these tasks in a decision-making process?
   A) Identify audit evidence relevant to the verification of assertions management makes in its unaudited financial statements and notes.
   B) Formulate evidence-gathering procedures (audit plan) designed to obtain sufficient, competent evidence about assertions management makes in financial statements and notes.
   C) Recognize the financial assertions made in management's financial statements and footnotes.
   D) Evaluate the evidence produced by the performance of procedures and decide whether management's assertions conform to generally accepted accounting principles and reality.

20) Which of the following is an underlying condition that in part creates the demand by users for reliable information?
   A) Economic transactions that are numerous and complex.
   B) Decisions that are time-sensitive.
   C) Users separated from accounting records by distance and time.
   D) Financial decisions that are important to investors and users.
   E) All of these choices are correct.

21) Which of the following is *not* included in the American Accounting Association (AAA) definition of auditing?
   A) Potential conflict of interest
   B) Systematic process
   C) Assertions about economic actions
   D) Established criteria

22) What is the term used to identify the risk that the client's financial statements may be materially false and misleading?
   A) Business risk
   B) Information risk
   C) Client risk
   D) Risk assessment

23) Which of the following is *not* a recommendation usually made following the completion of an operational audit?
   A) Economic and efficient use of resources.
   B) Effective achievement of business objectives.
   C) Attesting to the fairness of the financial statements.
   D) Compliance with company policies.

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24) In order to be considered as external auditors with respect to government agencies, GAO auditors must be
   A) organizationally independent.
   B) empowered as the accounting and auditing agency by the U.S. Congress.
   C) funded by the federal government.
   D) guided by standards similar to GAAS.

25) Which of the following is the essential purpose of the audit function?
   A) Detection of fraud.
   B) Examination of individual transactions to certify as to their validity.
   C) Determination of whether the client's financial statement assertions are fairly stated.
   D) Assurance of the consistent application of correct accounting procedures.

26) The audit objective that all the transactions and accounts presented in the financial statements represent real assets, liabilities, revenues, and expenses is related most closely to which of the PCAOB assertions?
   A) Existence or occurrence
   B) Rights and obligations
   C) Completeness
   D) Presentation and disclosure

27) The audit objective that all transactions are recorded in the proper period is related most closely to which of the Audit Standards Board (ASB) assertions about classes of transactions and events and related disclosures?
   A) Occurrence
   B) Completeness
   C) Cutoff
   D) Accuracy

28) The audit objective that all transactions are recorded in the proper account is related most closely to which one of the ASB assertions about classes of transactions and events and related disclosures?
   A) Occurrence
   B) Completeness
   C) Accuracy
   D) Classification

29) The audit objective that all balances include items owned by the client is related most closely to which one of the ASB assertions about account balances and related disclosures?
   A) Existence
   B) Rights and obligations
   C) Completeness
   D) Valuation

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30) The audit objective that all balances include all items that should be recorded in that account is related most closely to which one of the ASB assertions about account balances and related disclosures?
   A) Existence
   B) Rights and obligations
   C) Completeness
   D) Valuation

31) The audit objective that footnotes in the financial statements should be clear and expressed such that the information is easily conveyed to the readers of the financial statements is related most closely with which of the ASB assertions about account balances and related disclosures ?
   A) Occurrence
   B) Rights and obligations
   C) Comprehensibility
   D) Presentation

32) The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. The auditor reviewed all work orders that were capitalized as part of the equipment costs. Which of the following is the ASB assertion about classes of transactions and events and related disclosures most closely related to the auditor's testing?
   A) Occurrence
   B) Completeness
   C) Accuracy
   D) Classification

33) The engineering department at Omni Company built a piece of equipment in the company's own shop for use in the company's operations. When looking at the ending balance for the fixed asset account the auditor examined all work orders, purchased materials, labor cost reports, and applied overhead that were capitalized as part of the equipment costs. Which of the following is the ASB assertion about account balances and related disclosures most closely related to the auditor's testing?
   A) Existence
   B) Completeness
   C) Rights and obligations
   D) Valuation

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34) Which of the following best describes the primary role and responsibility of independent external auditor?
   A) Produce a company's annual financial statements and notes.
   B) Express an opinion on the fairness of a company's annual financial statements and footnotes.
   C) Provide business consulting advice to audit clients.
   D) Obtain an understanding of the client's internal control structure and give management a report about control problems and deficiencies.

35) Which of the following best describes the main reason independent auditors report on management's financial statements?
   A) Management fraud may exist and it is likely to be detected by independent auditors.
   B) The management that prepares the statements and the persons who use the statements may have conflicting interests.
   C) Misstated account balances may be corrected as the result of the independent audit work.
   D) The management that prepares the statements may have a poorly designed system of internal control.

36) The auditor's judgment concerning the overall fairness of the presentation of financial position, results of operations, and cash flows is applied within the framework of
   A) quality control.
   B) generally accepted auditing standards, which include the concept of materiality.
   C) the auditor's evaluation of the audited company's internal control.
   D) the applicable financial reporting framework (i.e., GAAP in the United States).

37) Assurance services involve all of the following, *except*
   A) relevance as well as the reliability of information.
   B) nonfinancial information as well as traditional financial statements.
   C) providing absolute rather than reasonable assurance.
   D) electronic databases as well as printed reports.

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38) Because of the risk of material misstatement, an audit of financial statements in accordance with generally accepted auditing standards should be planned and performed with an attitude of

A) objective judgment.
B) independent integrity.
C) professional skepticism.
D) impartial conservatism.

39) Which of the following best describes assurance services?

A) Independent professional services that report on the client's financial statements.
B) Independent professional services that improve the quality of information for decision makers.
C) Independent professional services that report on specific written management assertions.
D) Independent professional services that improve the operations of the client.

40) Which of the following is *not* a PCAOB assertion about inventory related to presentation and disclosure?

A) Inventory is properly classified as a current asset on the balance sheet.
B) Inventory is properly stated at its cost on the balance sheet.
C) Major inventory categories and their valuation bases are adequately disclosed in notes.
D) All of these are PCAOB presentation and disclosure assertions about inventory.

41) Which of the following is *not* an ASB assertion about inventory ?

A) Inventory is properly classified as a current asset on the balance sheet.
B) Inventory is properly stated at cost on the balance sheet.
C) Major inventory categories and their valuation bases are adequately disclosed in notes.
D) All of these are ASB assertions about inventory.

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42) In performing an attestation engagement, a CPA typically
A) supplies litigation support services.
B) assesses control risk at a low level.
C) expresses a conclusion on an assertion about some type of subject matter.
D) provides management consulting advice.

43) An attestation engagement is one in which a CPA is engaged to
A) issue, or does issue, a report on subject matter or an assertion about the subject matter that is the responsibility of another party.
B) provide tax advice or prepare a tax return based on financial information the CPA has not audited or reviewed.
C) testify as an expert witness in accounting, auditing, or tax matters, given certain stipulated facts.
D) assemble prospective financial statements based on the assumptions of the entity's management without expressing any assurance.

44) The underlying conditions that create demand by users for reliable information include all of the following, *except*
A) transactions are numerous and complex.
B) users lack professional skepticism.
C) users are separated from accounting records by distance and time.
D) financial decisions are important to investors and users.
E) decisions are time-sensitive.

45) Cutoff tests designed to detect credit sales made before the end of the year that have been recorded in the subsequent year provide assurance about the PCAOB assertion of
A) presentation.
B) completeness.
C) rights.
D) existence.

46) Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the PCAOB assertion of
A) completeness.
B) existence.
C) presentation.
D) valuation.
E) rights and obligations.

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47) Inquiries of warehouse personnel concerning possible obsolete or slow-moving inventory items provide assurance about the ASB assertions about account balances and related disclosures of
A) completeness.
B) existence.
C) presentation.
D) valuation.
E) rights and obligations.

48) The probability that the information circulated by a company will be false or misleading is referred to as
A) business risk.
B) information risk.
C) assurance risk.
D) audit risk.

49) The Sarbanes–Oxley Act of 2002 requires that the key company officials *certify* the financial statements. Certification means that the company CEO and CFO must sign a statement indicating
A) they have read the financial statements.
B) they are not aware of any false or misleading statements (or any key omitted disclosures).
C) they believe that the financial statements present an accurate picture of the company's financial condition.
D) All of these choices are correct.

50) The process of a CPA obtaining a certificate and license in a state other than the state in which the CPA's certificate was originally obtained is referred to as
A) substantial equivalency.
B) quid pro quo.
C) relicensing.
D) reexamination.

51) The risk an entity will fail to meet its objectives is referred to as
A) business risk.
B) information risk.
C) assurance risk.
D) audit risk.

52) The four basic requirements for becoming a CPA in most states are
A) education, the CPA Examination, experience, and substantial equivalency.
B) the CPA Examination, experience, continuing professional education, and a state certificate.
C) continuing professional education, the CPA Examination, experience, and an AICPA certificate.
D) education, the CPA Examination, experience, and a state certificate.

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53) The study of business operations for the purpose of making recommendations about the efficient use of resources, effective achievement of business objectives, and compliance with company policies is referred to as
   A) environmental auditing.
   B) financial auditing.
   C) compliance auditing.
   D) operational auditing.

54) Inquiries of warehouse personnel concerning inventory items that are held on consignment would likely provide assurance about the financial statement assertion of
   A) Occurrence.
   B) Valuation.
   C) Accuracy.
   D) Rights and Obligations.

55) The confirmation of a long-term note payable balance selected from the general ledger provides primary evidence regarding which management assertion?
   A) Existence
   B) Valuation
   C) Rights and Obligations
   D) Completeness

56) During an audit of an entity's stockholders' equity accounts, the auditor determines that there are four different classes of common stock. This audit procedure most likely is intended to provide evidence related to management's financial statement assertion of
   A) Existence.
   B) Valuation.
   C) Presentation and Disclosure.
   D) Completeness.

57) The accounting, auditing, and investigating agency of the U.S. Congress, headed by the U.S. Comptroller General, is known as
   A) the Federal Bureau of Investigation (FBI).
   B) the U.S. Government Accountability Office (GAO).
   C) the Internal Revenue Service (IRS).
   D) the United States Legislative Auditors (USLA).

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

58) What are the differences between the American Accounting Association and AICPA definitions and objectives of auditing?

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59) What is operational auditing and by whom is it performed?

60) What is information risk? What is business risk?

61) What are the four basic requirements for becoming a CPA?

62) Define assurance, attestation, and auditing in the context of "lending credibility."

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Answer Key

Test name: Chapter 01-01

1) C
2) B
3) D
4) D
5) B
6) D
7) B
8) D
9) B
10) C
11) B
12) B
13) A
14) D
15) C
16) B
17) D
18) B
19) C
20) E
21) A
22) B
23) C
24) A
25) C
26) A
27) C
28) D
29) B
30) C
31) D
32) D
33) D
34) B
35) B
36) D
37) C
38) C
39) B
40) B
41) D
42) C
43) A
44) B
45) B
46) D
47) D
48) B
49) D
50) A
51) A
52) D
53) D
54) D
55) A
56) C
57) B
58) Essay
59) Essay
60) Essay
61) Essay
62) Essay

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

1) Which of the PCAOB assertions (A–E) are best verified by the following audit procedures (1–4)?

A. Existence or occurrence
B. Rights and obligations
C. Valuation or allocation
D. Completeness
E. Presentation and disclosure

1. _____ Confirming inventory held on consignment by the client with independent third party.
2. _____ Consulting the Wall Street Journal for year-end prices of securities held by the client.
3. _____ Physically examine all major property and equipment additions.
4. _____ Review the aged trial balance for significant past due accounts.

2) ABC Company had a major sale to XYZ Company. This sale accounted for 20% of the revenue of ABC Company. The auditors performed the audit procedures listed 1–3. For each audit procedure select the ASB assertion about classes of transactions and events and related disclosures that is most likely being tested.

A. Occurrence
B. Completeness
C. Cutoff
D. Accuracy
E. Classification

1. _____ The auditor reviewed the shipping documents to check the date that product was shipped to XYZ Company.
2. _____ The auditor reviewed the shipping documents to ensure that all product included in the sales revenue to XYZ had been shipped.
3. _____ The auditor reviewed the invoice sent to XYZ Company to ensure that XYZ had been properly billed.

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3) Auditors are auditing the warehouse of Huge Lots Corporation. The auditors performed the audit procedures listed 1–5. For each audit procedure select the ASB assertions about account balances and related disclosures that is most likely being tested.

A. Existence
B. Rights and obligations
C. Completeness
D. Accuracy
E. Valuation

1. _____ The auditors walked through the warehouse looking for obsolete inventory.
2. _____ The auditors compared invoices received from suppliers with the cost of inventory listed in the inventory accounts.
3. _____ The auditors reviewed purchase orders to determine if any inventory was on consignment.
4. _____ The auditors reviewed vendor invoices to determine if freight costs, taxes, tariffs, or other costs had been included in inventory costs.
5. _____ The auditors selected items from the inventory and reviewed inventory records to ensure these items were included in those records.

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Answer Key

Test name: Chapter 01-02

1) Essay
2) Essay
3) Essay

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