Auditing & Assurance Services - A Systematic Approach 2025 Release 1st edition Messier Test Bank

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

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Auditing focuses on rules, techniques, and computations required to prepare and analyze financial information.
   - ◎ true
   - ◎ false

2) Decision makers demand reliable information that is provided by accountants and accounting information systems.
   - ◎ true
   - ◎ false

3) Information asymmetry seldom occurs.
   - ◎ true
   - ◎ false

4) Conflicts of interest often occur between absentee owners (principals) and managers (agents).
   - ◎ true
   - ◎ false

5) Auditing services and attestation services are exactly the same thing.
   - ◎ true
   - ◎ false

6) Auditing is a type of attest service.
   - ◎ true
   - ◎ false

7) Testing all transactions that occurred during the period is cost prohibitive in the absence of computer-based audit data analytic approaches.
   - ◎ true
   - ◎ false

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

8) Why do auditors often use a sampling approach to evidence gathering?
   - A) Auditors are experts and do not need to look at much to know whether the financial statements are correct or not.
   - B) Auditors must balance the cost of the audit with the need for precision and for some types of evidence, computer-based audit data analytic approaches can't be used.
   - C) Auditors must limit their exposure to their auditee to maintain independence.
   - D) The auditor's relationship with the auditee is generally adversarial, so the auditor will not have access to all of the financial information of the company.

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9) Which of the following statements best describes a relationship between sample size and other elements of auditing?
   A) If materiality increases, sample sizes will need to increase.
   B) If the desired level of assurance increases, sample sizes will decrease.
   C) If materiality decreases, sample sizes will need to increase.
   D) There is no relationship between sample size and materiality or the desired level of assurance.

10) Which of the following statements about the study of auditing is NOT true?
   A) The study of auditing can be valuable to future accountants and business decision makers whether or not they plan to become auditors.
   B) The study of auditing focuses on learning the analytical and logical skills necessary to evaluate the relevance and reliability of information.
   C) The study of auditing focuses on learning the rules, techniques, and computations required to analyze financial statements for making investment recommendations.
   D) The study of auditing begins with the understanding of a coherent logical framework and techniques useful for gathering and analyzing evidence about others' assertions.

11) The basic definition of auditing essentially indicates that, overall, auditing is a process to:
   A) detect fraud.
   B) examine individual transactions so that the auditor may certify as to their validity.
   C) objectively obtain and evaluate evidence regarding assertions made by another party.
   D) assure the consistent application of correct accounting procedures.

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12) Assurance services may improve all of the following except:
A) relevance.
B) credibility.
C) periodicity.
D) reliability.

13) Evidence is reliable if it:
A) signals the true state of a management assertion.
B) applies to the period being audited.
C) relates to the audit assertion being tested.
D) is sufficient to justify a conclusion.

14) Which of the following best describes the concept of audit risk?
A) The risk of the auditor being sued because of association with an auditee.
B) The risk that the auditor will provide an inappropriate opinion on financial statements that are, in fact, materially misstated.
C) The overall risk that a material misstatement exists in the financial statements.
D) The risk that auditors use audit procedures that are inappropriate.

15) An auditor who accepts an audit engagement and does not possess expertise with respect to the business entity's industry at that point, should:
A) engage financial experts familiar with the nature of the business entity.
B) obtain a knowledge of matters that relate to the nature of the entity's business and the industry in which it operates.
C) refer a substantial portion of the audit to another CPA, who will act as the principal auditor.
D) first inform management that an unqualified opinion cannot be issued.

16) For publicly-held companies, which of the following is integrated with the audit of financial statements?
A) budgetary information audit
B) the audit of internal controls
C) audit of management forecasts
D) audit of interim financial statements

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17) During the client acceptance/continuance phase of an audit, a CPA most likely would:
   A) identify specific internal control activities that are likely to prevent fraud.
   B) evaluate the reasonableness of the company's accounting estimates.
   C) evaluate the integrity of management.
   D) inquire of the company's attorney as to whether any unrecorded claims are probable or asserted.

18) In the context of agency theory, information asymmetry refers to the idea that:
   A) information can vary in its reliability.
   B) information can vary in its relevance.
   C) management has more information about the entity's true financial results and position than do the absentee owners (i.e. stockholders).
   D) management likely will not act in the best interests of the absentee owners.

19) Which of the following best describes why an independent auditor is engaged to express an opinion on the fair presentation of financial statements?
   A) It is difficult to prepare financial statements that fairly present a company's financial position and changes in cash flows without the expertise of an independent auditor.
   B) It is management's responsibility to seek available independent aid in the appraisal of the financial information shown in its financial statements.
   C) The opinion of an independent party is needed because a company is not considered objective with respect to its own financial statements.
   D) It is a customary courtesy that all stockholders of a company receive an independent report on management's stewardship in managing the affairs of the business.

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20) Which of the following best describes the fundamental, underlying reason for why there is demand for an independent auditor to report on financial statements?
   A) A management fraud may exist and it is more likely to be detected by auditors if they are independent.
   B) Different interests may exist between the company preparing the statements and the parties using the statements.
   C) A misstatement of account balances may exist and it is the independent auditor's responsibility to ensure that financial statements are not misstated.
   D) A poorly designed internal control system may be in place.

21) Which of the following best describes why publicly-traded companies follow the practice of having the external auditor appointed by the audit committee and ratified by the stockholders?
   A) to promote an adversarial relationship between the auditor and the corporation's management
   B) to comply with requirements set forth by the Sarbanes-Oxley Act of 2002 and to enhance auditor independence from the management of the corporation
   C) to encourage a policy of rotation of the independent auditors
   D) to give management more leverage over the auditor's decisions

22) Auditing can be defined as a "systematic process of objectively obtaining and evaluating evidence regarding assertions..." What is meant by "systematic process" in this definition?
   A) All audits involve obtaining the same evidence.
   B) All audits involve evaluating evidence in the same manner.
   C) There should be a well-planned approach for obtaining and evaluating evidence that is relevant and reliable for each particular audit engagement.
   D) All assertions are equally important for all audits.

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23) Which of the following would best be described as an assurance service?
A) preparing a report representing a client's position during an IRS audit
B) working with a company to develop a more efficient method of processing financial transactions
C) offering an opinion concerning the validity of statements made on an entity's website relating to its online privacy policies
D) assisting a company in identifying potential sources of capital for potential acquisitions

24) Which of the following statements is *not* true with respect to assurance, attest, and audit services?
A) These services are applied only to financial statements and financial statement accounts.
B) These services all involve obtaining and evaluating evidence.
C) These services all involve determining the correspondence of some information to a set of criteria.
D) These services all involve issuing a report.

25) Auditors are most likely to use the most rigorous audit procedures to examine:
A) routine transactions.
B) management assertions that are deemed to be of low risk in a particular engagement.
C) only the rights and obligations assertion.
D) management assertions that are deemed to be of significant risk in a particular engagement.

26) When obtaining an understanding of the entity and its environment, the auditor should obtain an understanding of internal controls primarily to:
A) identify areas of relatively significant risk of misstatement and plan the audit accordingly.
B) provide suggestions for improvement to the company.
C) serve as a basis for setting audit risk and materiality.
D) decide whether to perform an audit for the company.

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27) Which one of the following statements best describes the concept of materiality?
   A) Materiality is determined by reference to specific quantitative guidelines established by the AICPA and the PCAOB.
   B) Materiality depends only on the dollar amount of an item relative to other items in the financial statements.
   C) Materiality depends on the nature of an item but not on the dollar amount of the item.
   D) Materiality is largely a matter of professional judgment and reflects both quantitative and qualitative considerations.

28) Before accepting an engagement to audit a new entity, an auditor is required to:
   A) make inquiries of the predecessor auditor.
   B) tell the company whether or not the auditor is willing to issue a "clean" opinion.
   C) prepare a memorandum setting forth the staffing requirements and documenting the preliminary audit plan.
   D) become a member of the entity's board of directors.

29) An investor is reading the financial statements of the Peres Corporation and observes that the statements are accompanied by an auditor's unqualified report. From this, the investor may conclude that:
   A) any disputes over whether Peres' financial statements are fairly stated in accordance with GAAP have been settled to the auditor's satisfaction.
   B) the auditor is satisfied that Peres will be highly profitable in the future.
   C) the auditor is certain that Peres' financial statements have been prepared accurately and that all account balances are precisely correct.
   D) the auditor has determined that Peres' management is not qualified to lead the company.

30) During the client acceptance/continuance phase, preliminary engagement activities include:
   A) evaluating internal controls.
   B) assessing audit risk at the account balance level.
   C) setting materiality.
   D) performing background checks on top management.

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31) The auditor's report is generally addressed to the:
A) chief operating officer.
B) Securities and Exchange Commission.
C) stockholders of the company.
D) chief financial officer.

32) An auditor would issue an adverse opinion if:
A) the auditor encounters adverse attitudes toward the auditor on the part of company management.
B) a qualified opinion cannot be given because the auditor is not qualified to do so.
C) an immaterial misstatement is present.
D) the financial statements taken as a whole do not fairly present the financial condition and results of operations of the company.

33) Which of the following is true with respect to the auditor's report?
A) The report indicates that the company's financial statements were audited in accordance with generally accepted accounting standards.
B) The report indicates that the company's financial statements were audited in accordance with applicable auditing standards.
C) The report indicates that the company's financial statements were audited in accordance with the auditor's best judgment.
D) The report indicates that the company's financial statements were audited in accordance with statements issued by the FASB.

34) Which of the following is not a concept that is included in the audit report in the paragraph on the auditor's responsibilities?
A) The conformance of the financial statements with generally accepted accounting principles.
B) The audit was conducted in accordance with applicable auditing standards.
C) The audit was planned and performed to obtain reasonable, rather than absolute, assurance.
D) A description of when misstatements are considered material.

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35) Which of the following is not a benefit of emerging audit technologies?

A) automate much of the more tedious work that auditors perform
B) the potential to dramatically enhance the effectiveness and the value of the external audit
C) leave more time for auditors to better understand the businesses they are auditing and the underlying risks related to financial reporting
D) remove the challenge of junior auditor work and make that work less interesting

36) Information Risk is defined as:

A) the risk that information conveyed by a company's management will be false, inaccurate, or misleading.
B) the risk that an assertion contains a misstatement, before considering internal controls.
C) the risk that the auditor has followed appropriate auditing standards and issued a standard unqualified opinion, and the financial statements contain a material misstatement.
D) the risk that the internal controls will not prevent or detect a misstatement in the financial statements.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

37) The accounting processes of a business involve, among other things, individual transactions, internal controls, and account balances.

Required:

A. Describe the relationship between internal controls, individual transactions, and account balances presented in the financial statements.
B. Discuss how evidence regarding each of these three areas can help an auditor determine if the financial statements are fairly stated.

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38) Sally Thompson's company, Sally's Shoes, is a successful shoe retail business with one store. Sally would like to expand to two locations, but the bank has asked for an independent audit before it will provide financing. Sally hires her brother-in-law, George Thompson, to perform the audit. George has experience in auditing non-profit organizations, and he decides to perform the audit the same way as his other audits. After completing all the steps of the audit process, George issues an unqualified opinion indicating that he is certain that the company's financial statements contain no misstatements. Comment on any potential problems with George's audit of Sally's Shoes.

39) Explain the relationship between audit, attest and assurance services.

40) Define "information asymmetry" and discuss how it plays a role in companies in the context of the principal-agent model. Include in your discussion how information asymmetry can be reduced.

41) The textbook presents the concept of auditing using an analogy that involves buying a house and hiring a house inspector. Name three desirable qualities of a house inspector and discuss how those qualities apply to an auditor and why those qualities are important for an auditor to possess.

42) Provide a brief overview of the financial statement audit process using the terms "assertion," "evidence," and "report."

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43) You are a new employee at the accounting firm Murray & Murray, CPAs. Before you are assigned to your first audit, your supervisor tests your knowledge and asks you to explain the term "scope" in the context of a financial statement audit.

Required:

A. Provide a definition of scope.
B. Describe what influences an auditor's determination of scope.

44) Why must an auditor assess materiality as part of planning an audit engagement?

45) You are a new staff auditor, and you are auditing a company's inventory account. Briefly describe one way you might obtain direct evidence and one way you might obtain indirect evidence that the inventory account balance is fairly stated.

46) Name and discuss the seven phases of the audit process.

47) A standard, unqualified auditor's report for a public company may contain three sections. Provide a brief (one or two sentences) description for each section.

48) Explain the relationship between sample size and materiality, and between sample size and desired level of assurance.

49) Other than a financial statement audit, give examples of two other assurance services? How do these assurance services differ from a financial statement audit?

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50) The cost of capital can be generally defined as the rate of return expected by a party that provides capital to a company (e.g. an investor or a creditor). How can a financial statement audit reduce the cost of capital for a company?

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Answer Key

Test name: Chapter 01

1) FALSE
2) TRUE
3) FALSE
4) TRUE
5) FALSE
6) TRUE
7) TRUE
8) B
9) C
10) C
11) C
12) C
13) A
14) B
15) B
16) B
17) C
18) C
19) C
20) B
21) B
22) C
23) C
24) A
25) D
26) A
27) D
28) A
29) A
30) D
31) C
32) D
33) B
34) A
35) D
36) A
37) Short Answer
38) Short Answer
39) Short Answer
40) Short Answer
41) Short Answer
42) Short Answer
43) Short Answer
44) Short Answer
45) Short Answer
46) Short Answer
47) Short Answer
48) Short Answer
49) Short Answer
50) Short Answer

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