

科目：審計學

系所組：會計學系碩士班

請應試考生注意：

1. 未在彌封答案卷內作答者，扣該科總分 20 分。
2. 選擇題未按作答格式(範例)作答者，扣該科總分 10 分。

選擇題作答格式(範例)：

1.a	2.a	3.b	4.b	5.c
6.a	7.a	8.d	9.c	10.c
11.a	12.a	13.d	14.a	15.d
16.a	17.c	18.e	19.b	20.d

請依照上述範列之格式，以橫式書寫方式將全部答案寫在彌封答案卷第1頁，答案字母請用正楷小寫(a, b, c, d)。

I. Multiple-choice questions (40 points in total; 2 points for each.)

1. 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.
2. 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.
3. The engineering department at Beda 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 transaction assertion most closely related to the auditor's testing?
 - a. Occurrence.
 - b. Completeness.
 - c. Accuracy
 - d. Classification.
4. It is always a good idea for auditors to begin an audit with the professional skepticism characterized by the assumption that
 - a. A potential conflict of interest always exists between the auditor and the management of the enterprise under audit.
 - b. In audits of financial statements, the auditor acts exclusively in the capacity of an auditor.
 - c. The professional status of the independent auditor imposes commensurate professional obligations..
 - d. Financial statements and financial data are verifiable.

※注意：1.考生須在「彌封答案卷」上作答。

2.本試題紙空白部分可當稿紙使用。

3.考生於作答時可否使用計算機、法典、字典或其他資料或工具，以簡章之規定為準。

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5. Which of the following is not considered a type of audit evidence?
- Entity's trial balance.
 - Auditors' calculations.
 - Physical observation.
 - Verbal statements made by client personnel.
6. Which of the following procedures would provide the most reliable audit evidence?
- Inquiries of the client's accounting staff held in private.
 - Inspection of prenumbered client shipping documents.
 - Inspection of bank statements obtained directly from the client's financial institution.
 - Analytical procedures performed by auditors on the client's trial balance.
7. Which of the following statements is not true with respect to the evidence that would be gathered when assessments of control risk are high?
- Auditors would be required to rely on external (rather than internal) forms of evidence
 - Auditors would be required to perform procedures at interim periods rather than at year-end.
 - Auditors would be required to confirm a larger number of customer accounts receivable balances.
 - Auditors would be required to obtain more evidence through direct personal observation.
8. The primary purpose of the auditors' study of internal control for a nonpublic entity is:
- To provide constructive suggestions to the client for improving its internal control.
 - To report on internal control as required by Auditing Standard No. 5.
 - To identify and detect fraud and irregularities perpetrated by client personnel.
 - To determine the nature, timing, and extent of substantive procedures.
9. A CPA's retention of a client's records to enforce payment of overdue fees would be considered
- an impairment of independence.
 - a discreditable act.
 - acceptable under professional standards.
 - both a. and b.
10. In determining whether transactions have been recorded, the direction of the audit testing should start from the
- General ledger balances itors.
 - Adjusted trial balance.
 - Original source documents.
 - General journal entries.

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11. In accepting a client, auditing standards suggest that the auditor focus on four questions. Which of the following is **not** one of those four required questions of the predecessor?
- Integrity of management.
 - The strength of the client's internal control.
 - Disagreements with management as to accounting principles, auditing standards, or other similarly significant matters.
 - None of the above.
12. In considering overall materiality for planning purposes, an auditor believes that misstatements aggregating \$10,000 would have a material effect on an entity's income statement but that misstatements would have to aggregate \$20,000 to materially affect the balance sheet. Ordinarily, it would be appropriate to design audit procedures that would be expected to detect misstatements aggregating
- \$10,000.
 - \$15,000.
 - \$20,000.
 - \$30,000.
13. John, CPA, is auditing the financial statements of XYZ Retailing, Inc. What assurance does Jones provide that direct effect noncompliance that is material to XYZ's financial statements and noncompliance that has a material but indirect effect on the financial statements will be detected?
- Direct effect noncompliance: Reasonable; indirect effect noncompliance: Limited.
 - Direct effect noncompliance: Reasonable; indirect effect noncompliance: None.
 - Direct effect noncompliance: Limited; indirect effect noncompliance: Reasonable.
 - Direct effect noncompliance: Limited; indirect effect noncompliance: None.
14. If tests of controls induce the audit team to change the assessed level of control risk for fixed assets from 0.4 to 1.0 and audit risk (0.05) and inherent risk remain constant, the acceptable level of detection risk is most likely to
- Change from 0.1 to 0.04.
 - Change from 0.2 to 0.3.
 - Change from 0.25 to 0.1.
 - Be unchanged.
15. When a company that sells its products for a (gross) profit increases its sales by 15 percent and its cost of goods sold by 7 percent, the cost of goods sold ratio will
- Increase.
 - Decrease.
 - Remain unchanged.
 - Not be able to be determined with the information provided.

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16. Which of the following statements is not true with respect to the auditors' report on internal control over financial reporting?
- The report will be dated as of the date of the financial statements.
 - The report will express an opinion on the effectiveness of internal control over financial reporting.
 - The auditor will issue an adverse opinion if one or more material weaknesses exist.
 - The report may be presented with the report on the entity's financial statements as a combined report.
17. Which of the following information would be included in the introductory paragraph of the auditors' report on internal control over financial reporting if the report is presented separately from the auditors' report on the entity's financial statements?
- The fact that the auditors conducted an audit of the entity's financial statements
 - Statements identifying the responsibility of the auditors and management for internal control over financial reporting.
 - The definition of a material weakness in internal control over financial reporting.
 - A reference to the auditors' report and opinion on the entity's financial statements.
18. Embezzlement is a type of fraud that involves:
- An employee's misappropriating an employer's money or property not entrusted to him or her.
 - A manager's falsification of financial statements for the purpose of misleading investors and creditors.
 - An employee's mistaken representation of opinion that causes incorrect accounting entries.
 - An employee misappropriating an employer's money or property entrusted to the employee's control in the employee's normal job.
19. An auditor noted that client sales had increased 10 percent for the year. At the same time, cost of goods sold as a percentage of sales had decreased from 45 percent to 40 percent and year-end accounts receivable had increased by 8 percent. The auditor interviewed the sales manager who stated that the increase in sales without a corresponding increase in cost of goods sold was due to a price increase enacted by the company during the year. How would the auditor best test the sales manager's representation?
- Perform additional inquiries with sales personnel.
 - Obtain copies of all price lists in use during the year and vouch the prices to sales invoices.
 - Send confirmations asking customers about unit prices paid for product.
 - Vouch vender invoices to payments made after year-end.
20. The major disadvantage of an integrated test facility is that
- Data processed through the client's system must be "backed out" very carefully.
 - The cost of setting up the facility adds to overhead of the system.
 - Audit teams need extensive knowledge of computer programming.
 - It is a costly use of computer resources.

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II. Essay questions (60 points)

1. This question comprises two independent sub-questions involving the audit sampling concepts.

Part A. (16 points)

You overheard the following dialogue between Fahy (a staff assistant) and Loyola (his supervisor).

Required:

Referring to appropriate professional standards, comment on each of these statements.

- a. "It's unfortunate that generally accepted auditing standards don't allow us to use nonstatistical sampling for this control. I just don't feel that the extra time and effort to use statistical sampling are worth the benefits."
- b. "I'm not sure what level of control risk we should plan to use. We need to determine the amount of substantive procedures that we will conduct and then assess control risk accordingly."
- c. "We really need to be careful to limit our exposure to the risk of overreliance. This risk could result in our failure to perform enough substantive procedures."
- d. "Separation of duties is such an important control that we should use statistical sampling to evaluate the extent to which the custody, recording, and approval functions for purchases are performed by different individuals."
- e. "Because we're really relying heavily on this control, it's important that it be operating very effectively. That's why I set the tolerable rate of deviation at such a low level."
- f. "We found six deviations of the 120 items we examined. That's a 5 percent rate of deviation. Because our tolerable rate of deviation is 8 percent, it looks like we can rely on internal control as planned."
- g. "A deviation is a deviation. Some of these problems were honest mistakes, but others looked like client employees intentionally ignored the controls. However, they all have the same effect on the upper limit rate of deviation."
- h. "Because our upper limit rate of deviation is lower than the tolerable rate of deviation, we don't have to do anything with the deviations we found."

Part B. (5 points)

Urbania, a newly promoted senior at your firm, has been assigned as in charge of the audit of D Electronics. D has been a client of your firm for years. Controls are considered effective, and statistical attributes sampling to test sales transactions has been used for several years. Last year's audit documentation reveals the following: risk of overreliance, 5%; expected population deviation rate, 2%; tolerable rate of deviation, 5%; sample size, 181; deviations found, 3; and upper limit rate of deviation, 4.2%. Urbania's conclusion from the documentation is that the controls were accepted as operating effectively.

Deciding to use nonstatistical sampling this year to reduce audit hours, Urbania selected 100 invoices from the December invoice files, reasoning that tests closer to year-end are more effective, by selecting every 10th invoice until 100 invoices had been identified. Two invoices differed in amount from the shipping document, and one invoice could not be located. Urbania decided to accept the controls as effective again this year, reasoning the sample rate of deviation was only 2%, which is much less than the tolerable rate of deviation used last year.

Required:

As the manager of the D Electronics audit, you have been reviewing the audit documentation. Prepare a list of reviewer comments to discuss with Urbania.

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2. This question comprises two independent sub-questions involving the concepts of audit reports.

Part A. (10 points)

Ricci has been engaged as the auditor of Patriot Company and is currently planning the year-end physical inventory counts. Patriot is a retailer that holds significant inventories in its warehouses and stores in six regions across the United States. Because of timing and logistics, Ricci is able to observe the physical inventory at only one of Patriot's warehouses, which accounts for 20 percent of Patriot's inventories.

In Ricci's professional judgment, the fact that inventories held at only one warehouse can be observed does not provide sufficient evidence with respect to Patriot's inventory balances at the date of the financial statements. Although physical inventory counts could be delayed at the remaining warehouses for Ricci to observe the counts, the flow of goods in and out of the warehouses would result in a discrepancy between the inventory quantities on hand at year-end and the inventory quantities on hand at the date of the count.

Required:

- a. Assume that Ricci observes physical inventory at only the one warehouse and does not perform alternative procedures related to inventories held at the other warehouses. Does a scope limitation exist in this situation? If so, is this a client-imposed or circumstance imposed scope limitation?
- b. What type of opinion would Ricci likely issue for the situation in (a)? How would the wording in the standard report be modified to reflect this opinion?

Part B. (14 points)

Various types of "accounting changes" can affect the auditors' reporting responsibility under generally accepted auditing standards. This standard indicates that the auditors' report should be modified to identify situations in which accounting principle have not been consistently observed in relation to prior years. Assume that the following list describes changes that have a material effect on an entity's financial statements for the current year:

1. A change from the completed-contract method to the percentage-of-completion method of accounting for long-term construction-type contracts.
2. A change in the estimated useful life of previously recorded fixed assets based on newly acquired information.
3. The correction of a mathematical error in inventory pricing made in a prior period.
4. A change from prime costing to full absorption costing for inventory valuation.
5. A change from presentation of statements of individual entities to presentation of consolidated statements.
6. A change from deferring and amortizing preproduction costs to recording such costs as an expense when incurred because future benefits of the costs have become doubtful. The new accounting method was adopted in recognition of the change in estimated future benefits.
7. A change from the FIFO method of inventory pricing to the LIFO method of inventory pricing.

Required:

Identify the type of change described in each preceding item as a change in accounting principle, change in the reporting entity, error correction, combined error correction and change in principle, or change in an

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accounting estimate. State whether any explanatory paragraph is required in the auditors' report. **Organize your answer sheet as in the following table, otherwise you will lose 5 points.** For example, a change from the LIFO method of inventory pricing to the method of the FIFO inventory pricing would appear as follows:

Item No.	Type of Change	Should the Auditor's Report Be Modified?
Example	An accounting change from one GAAP to another GAAP.	Yes
1.		
2.		
...		

3. (15 points)

Beda Industries, a manufacturer of radio and cable TV equipment and an operator of subscription TV systems, had a multitude of problems. Subscription services in a market area, for which \$12 million of cost had been deferred, were being terminated and the customers were not paying on time (\$4 million receivables in doubt). The chances are 50~50 that the business will survive another two years.

An electronic part turned out to have defects that needed correction. Warranty expenses are estimated to range from \$2 million to \$6 million. The inventory of this part (\$10 million) is obsolete, but \$1 million can be recovered in salvage, or the parts in inventory can be rebuilt at a cost of \$2 million (selling price of the inventory on hand would then be \$8 million with 20 percent of the selling price required to market and ship the products, and the normal profit expected is 5 percent of the selling price). If the inventory were scrapped, the company would manufacture a replacement inventory at a cost of \$6 million, excluding marketing and shipping costs and normal profit.

The company has defaulted on completion of a military contract, and the government is claiming a \$2 million refund. Company attorneys think the dispute might be settled for as little as \$1 million. The auditors had previously determined that an overstatement of income before taxes of \$7 million would be material to the financial statements. These items were the only ones left for audit decisions about possible adjustment. Management has presented the following analysis for the determination of loss recognition:

Write off deferred subscription costs	\$3,000,000
Provide allowance for bad debts	4,000,000
Provide for expected warranty expense	2,000,000
Lower-of-cost-or-market inventory write-down	2,000,000
Loss on government contract refund	
Total write-offs and losses	<u>\$11,000,000</u>

Required:

Prepare your own analysis of the amount of adjustment to the financial statements. Assume that none of these estimates have been recorded yet and give the adjusting entry you would recommend. Give any supplementary explanations you believe necessary to support your recommendation.