一、Multiple-Choice Questions (30%)
1. In determining whether the transactions have been recorded, the direction of the audit testing should be from the:
   (A) General ledger balances.
   (B) Adjusted trial balance.
   (C) Original source documents.
   (D) General journal entries.

2. While performing a test of details during an audit, the auditor determined that the sample results supported the conclusion that the recorded account balance was materially misstated. It was, in fact, not materially misstated. This situation illustrates the risk of:
   (A) Assessing control risk too high.
   (B) Assessing control risk too low.
   (C) Incorrect rejection.
   (D) Incorrect acceptance.

3. When approached to perform an audit for the first time, the CPA should make inquiries of the predecessor auditor. This is a necessary procedure because the predecessor auditor may be able to provide the successor with information that will assist the successor in determining whether:
   (A) the engagement should be accepted.
   (B) in the predecessor’s opinion internal control of the company has been satisfactory.
   (C) The predecessor’s work should be used.
   (D) The company follows the policy of rating its auditors.

4. Analytical procedures used in planning an audit should focus on identifying
   (A) The predictability of financial data from individual transactions.
   (B) Material weaknesses of internal controls.
   (C) Areas that may present specific risks relevant to the audit.
   (D) The assertions that are embodied in the financial statements.

5. Which of the following would an auditor most likely use in determining the auditor’s preliminary judgment about materiality?
   (A) The anticipated sample size of the planned substantive tests.
   (B) The entity’s annualized interim financial statements.
   (C) The results of the internal control questionnaire.
   (D) The contents of the management representation letter.

6. On the basis of the audit evidence gathered and evaluated, an auditor decides to increase the
assessed level of control risk from that originally planned. To achieve an overall audit risk level that is substantially the same as the planned audit risk level, the auditor would:

(A) decrease substantive testing.
(B) decrease detection risk
(C) increase inherent risk.
(D) Increase materiality level.

7. A CPA establishes quality control policies and procedures for deciding whether to accept new clients and whether to continue to perform services for current clients. What is the primary purpose for establishing such policies and procedures?
(A) To enable the auditor to attest to the integrity or reliability of a client.
(B) To comply with the quality control standards established by regulatory bodies
(C) To minimize the likelihood of association with clients whose managements lack integrity.
(D) To lessen the exposure to litigation resulting from failure to detect irregularities in client financial statements.

8. The risk of incorrect acceptance and likelihood of assessing control risk too low relate to the:
(A) Allowable risk of tolerable misstatement.
(B) Preliminary estimates of materiality levels.
(C) Efficiency of the audit.
(D) Effectiveness of the audit.

9. If the auditor is concerned that a population may contain exceptions, the determination of a sample size sufficient to include at least one such exception is a characteristic of:
(A) Discovery sampling.
(B) Variables sampling.
(C) Random sampling.
(D) Dollar-unit sampling.

10. A CPA agree with an entity changed from the straight-line method to the declining-balance method of depreciation for all newly acquired assets. This change has material effect on the current year's financial report and to be disclosed in the notes to the financial statements, the should issue a report with a(n)
(A) qualified opinion.
(B) unqualified opinion with explanatory paragraph.
(C) unqualified opinion.
(D) qualified opinion with explanatory paragraph regarding consistency.

二、Problems
1. In accordance with GAAS in the U.S.A., what circumstances are required for an unqualified report with an explanatory paragraph or modified wording to be issued? (15%) What are differences between the related standards in the U.S.A. and R.O.C.? (10%)
2. The following are examples of audit procedures:
   a. Examine a piece of equipment to make sure that a major acquisition was actually received and is in operation
   b. Obtain a letter from management stating that there are no unrecorded liabilities
   c. Compare a duplicate sales invoice with the sales journal for customer name and amount
   d. Extend the cost of inventory times the quantity on an inventory listing to test whether it is accurate
   e. Trace the total on the cash disbursements journal to the general ledger

**Required:** (20%)
Classify each of the preceding items according to the seven types of audit evidence:
(a) physical examination, (b) confirmation, (c) documentation, (d) analytical procedures, (e) inquiries of the client, (f) re-performance, and (g) observation

3. Chao Yang Company had poor internal control over its cash transactions. The following are facts about its cash position at November 30. The cash books showed a balance of $18,901.62, which included undeposited receipts. A credit of $100 on the bank statement did not appear on the company’s books. The balance, according to the bank statement, was $15,550. Outstanding checks were no. 62 for $116.25, no. 183 for $150.00, no. 284 for $253.25, no. 8621 for $190.71, no. 8623 for $206.80, and no. 8632 for $145.28. The only deposit was in the amount of $3,794.41 on December 7.

The cashier handles all incoming cash and makes the bank deposits personally. He also reconciles the monthly bank statement. His November 30 reconciliation follows:

<table>
<thead>
<tr>
<th>Balance, per books, November 30</th>
<th>$18,901.62</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: Outstanding checks:</td>
<td></td>
</tr>
<tr>
<td>8621</td>
<td>$190.71</td>
</tr>
<tr>
<td>8623</td>
<td>$206.80</td>
</tr>
<tr>
<td>8632</td>
<td>$145.28</td>
</tr>
<tr>
<td></td>
<td>$19,344.41</td>
</tr>
<tr>
<td>Less: Undeposited receipts</td>
<td>3,794.41</td>
</tr>
<tr>
<td>Balance per bank, November 30</td>
<td>$15,550.00</td>
</tr>
<tr>
<td>Deduct: Unrecorded credit</td>
<td>100.00</td>
</tr>
<tr>
<td>True cash, November 30</td>
<td>$15,450.00</td>
</tr>
</tbody>
</table>

**Required:**
1. You suspect that the cashier may have misappropriated some money and are concerned specifically that some of the undeposited receipts of $3,794.41 may have been taken. Prepare a schedule showing your estimate of the loss. (6%)
2. How did the cashier attempt to conceal the theft? (6%)
3. On the basis of this information only, name two specific features of internal control that were apparently missing. (6%)
4. If the cashier’s October 31 reconciliation is known to be in order and you start your audit on December 10, what specific auditing procedures could you perform to discover the theft? (7%)