

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

A. MULTIPLE CHOICE QUESTIONS (30%)

1. Which of the following is a factor that relates to incentives or pressures to commit fraudulent financial reporting?

- A. Significant accounting estimates involving subjective judgments
- B. Excessive pressure for management to meet debt repayment requirements
- C. Management's practice of making overly aggressive forecasts
- D. High turnover of accounting, internal audit, and information technology staff

2. If the balance sheet of a private company is dated December 31, 2022, the audit report is dated February 8, 2023, and both are released on February 15, 2023, this indicates that the auditor has searched for subsequent events that occurred up to:

- A. December 31, 2022.
- B. January 1, 2023.
- C. February 8, 2023.
- D. February 15, 2023

3. A qualified opinion can be issued for which of the following?

- I. When a limitation on the scope of the audit has occurred
- II. When the auditor lacks independence
- III. When generally accepted accounting principles have not been used

- A. I and II
- B. I and III
- C. II and III
- D. I, II and III

4. Which of the following loans would be prohibited between the auditor and an his audit client?

- A. Automobile loans
- B. Loans fully collateralized by cash deposits at the same financial institution
- C. New home mortgage loans
- D. Unpaid credit card balances not exceeding \$10,000 in total

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

5. The responsibility for the preparation of the financial statements and the accompanying disclosures belongs to:

- A. the auditor.
- B. management.
- C. both management and the auditor equally.
- D. management for the statements and the auditor for the notes.

6. Evidence is usually more persuasive for balance sheet accounts when it is obtained:

- A. as close to the balance sheet date as possible.
- B. only from transactions occurring on the balance sheet date.
- C. from various times throughout the client's year.
- D. From the time period when transactions in that account were most numerous during the fiscal period.

7. An auditor should examine minutes of the board of directors' meetings:

- A. through the date of the financial statements.
- B. through the date of the audit report.
- C. only at the beginning of the audit.
- D. on a test basis.

8. Which audit tests involve physical examination and confirmation?

- A. Tests of controls
- B. Tests of transactions
- C. Tests of balances
- D. Analytical procedures

9. Cutoff procedures for inventory purchased should be designed by companies to assure that the company's:

- A. inventory owned has been received.
- B. inventory included in the year end inventory count has been paid.
- C. inventory received before year end was recorded before year end.
- D. inventory was correctly valued at year end.

10. The two most important balance related objectives in notes payable are:

- A. completeness and accuracy.
- B. existence and completeness.
- C. accuracy and classification.
- D. existence and occurrence.

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

11. In which situation would the auditor be choosing between "except for" qualified opinion and an adverse opinion?

- A. The auditor lacks independence.
- B. A client-imposed scope limitation
- C. A circumstance imposed scope limitation
- D. Lack of full disclosure within the footnotes

12. When dealing with materiality and scope limitation conditions:

- A. a disclaimer of opinion must be issued.
- B. it is easier to evaluate the materiality of potential misstatements resulting from a scope limitation than for failure to follow IFRS.
- C. scope limitations imposed by the client are always considered material.
- D. a unqualified opinion may still be issued depending on the materiality of the scope limitation.

13. The auditor uses knowledge gained from the understanding of the client's business and industry to assess:

- A. client business risk.
- B. control risk.
- C. inherent risk.
- D. audit risk.

14. A related party transaction may be indicated when another company:

- A. subsidizes certain operating expenses of the company.
- B. purchases its securities at their fair value.
- C. loans to company at market rates.
- D. has had a distributor relationship with the company for 10 years.

15. Which of the following is the primary basis used to decide materiality for a for-profit entity?

- A. Net sales
- B. Net assets
- C. Net income before tax
- D. All of the above

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

16. The primary objective of analytical procedures used in the final review stage of an audit is to

- A. Obtain evidence from details tested to corroborate particular assertions.
- B. Identify areas that represent specific risks relevant to the audit.
- C. Assist the auditor in assessing the validity of the conclusions reached.
- D. Satisfy doubts when questions arise about a client's ability to continue in existence.

17. When making a review of interim financial information the auditor's work consists primarily of

- A. Studying and evaluating limited amounts of documentation supporting the interim financial information.
- B. Scanning and reviewing client-prepared, internal financial statements.
- C. Making inquiries and performing analytical procedures concerning significant accounting matters.
- D. Confirming and verifying significant account balances at the interim date.

18. Which of the following procedures is usually performed by the accountant in a review engagement of a nonpublic entity?

- A. Sending a letter of inquiry to the entity's lawyer.
- B. Comparing the financial statements with statements for comparable prior periods.
- C. Confirming a significant percentage of receivables by direct communication with debtors.
- D. Communicating reportable conditions discovered during the study of the internal control

19. Management prepares accounting estimates and the auditor is responsible for evaluating the reasonableness of the estimates. Which of the following would not be an auditor's objective when evaluating estimates?

- A. All accounting estimates which could be material to the financial statements have been developed.
- B. The accounting estimates developed by management are accurate with 100% certainty.
- C. The accounting estimates developed by management are reasonable.
- D. The accounting estimates are presented in accordance with the International Financial Reporting Standards.

20. Management's attitude toward aggressive financial reporting and its emphasis on meeting projected profit goals most likely would significantly influence an entity's control environment when

- A. The audit committee is active in overseeing the entity's financial reporting policies.
- B. External policies established by parties outside the entity affect its accounting practices.
- C. Management is dominated by one individual who is also a shareholder.
- D. Internal auditors have direct access to the board of directors and entity management.

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

B. TRUE & FALSE (20%)

- 1. When a successor auditor requests information from a company's previous auditor, and there are legal problems or disputes between the client and the predecessor auditor, the predecessor auditor's response to the new auditor may be limited to stating that no information will be provided.**
 - True
 - False

- 2. Auditing standards prohibit reliance on the work of internal auditors due to the lack of independence of the internal auditors.**
 - True
 - False

- 3. When analytical procedures reveal unusual fluctuations in an account balance, the auditor will probably perform fewer tests of details for that account and increase the tests of controls related to the account**
 - True
 - False

- 4. Test of details of balances focus on beginning and ending of the year balances.**
 - True
 - False

- 5. It is equally acceptable under professional auditing standards for auditors to use either statistical or non-statistical sampling methods**
 - True
 - False

- 6. If an auditor assigns a tolerable misstatement of \$1,000 to accounts payable, he or she would need to obtain more audit evidence for that account than if \$100,000 had been assigned.**
 - True
 - False

- 7. When a successor auditor contacts a company's previous auditor, the predecessor auditor is required to respond fully and without limit to the request for information.**
 - True
 - False

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

- 8. Walkthroughs combine observation, inspection, and inquiry to assure that the controls designed by management have been implemented.**
- True
 - False
- 9. Review reports are normally dated as of the client's balance sheet date.**
- True
 - False
- 10. Audit documentation is the joint property of the auditor and the audit client.**
- True
 - False
- 11. Confirmations are ordinarily used to verify account balances, but may be used to verify transactions.**
- True
 - False
- 12. The quick ratio has the same denominator as the current ratio.**
- True
 - False
- 13. Adequate documents and records is a subcomponent of the control environment.**
- True
 - False
- 14. In auditing cash, the auditor is more interested in changes during the year than the ending balance.**
- True
 - False
- 15. Regression analysis measures the rate by which an independent variable changes in relation to dependent variable**
- True
 - False
- 16. Audit risk is the risk there will be an audit failure for a given audit engagement.**
- True
 - False

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

17. Many litigation experts believe that a well written engagement letter significantly reduces the likelihood of adverse legal actions.

- True
- False

18. When an auditor believes that an illegal act may have occurred, the first step he or she should take is to gather additional evidence to determine the extent of the illegality and if there is a direct impact on the financial statements.

- True
- False

19. An engagement letter can affect the CPA firm's legal responsibilities to the client, but does not affect responsibility to external users of audited financial statements.

- True
- False

20. Walkthroughs combine observation, inspection, and inquiry to assure that the controls designed by management have been implemented.

- True
- False

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

C. Choose TWO out of the THREE below cases (25% each)

Case #1:

Below are 12 audit procedures. Classify each procedure according to the following types of audit evidence:

- (1) physical examination,
- (2) confirmation,
- (3) documentation,
- (4) observation,
- (5) inquiry of the client,
- (6) reperformance, and
- (7) analytical procedure.

Type of Evidence	Audit Procedures
	1. Watch client employees count inventory to determine whether company procedures are being followed.
	2. Count inventory items and record the amount in the audit files.
	3. Trace postings from the sales journal to the general ledger accounts.
	4. Calculate the ratio of cost of goods sold to sales as a test of overall reasonableness of gross margin relative to the preceding year.
	5. Obtain information about the client's internal controls by asking questions of client personnel.
	6. Trace column totals from the cash disbursements journal to the general ledger.
	7. Examine a piece of equipment to make sure a recent purchase of equipment was actually received and is in operation.
	8. Review the total of repairs and maintenance for each month to determine whether any month's total was unusually large.
	9. Compare vendor names and amounts on purchase invoices with entries in the purchases journal.
	10. Foot entries in the sales journal to determine whether they were correctly totaled by the client.
	11. Make a surprise count of petty cash to verify that the amount of the petty cash fund is intact.
	12. Obtain a written statement from the client's bank stating the client's year-end balance on deposit.

LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MAY 2023 – AUDIT EXAM

Case # 2

In November 2022, the head office of XYZ was damaged by a fire. Many of the company's accounting records were destroyed before the audit for the year ended on December 31, 2022 took place. The company's financial accountant has prepared financial statements for the year ended 31 December 2022 on the basis of estimates and the information he has been able to recover. You have completed the audit of these financial statements but have not been able to obtain sufficient audit evidence in all areas.

Required:

(a) Draft, for inclusion in the auditor's report, wording appropriate to XYZ.

Note: You are not required to reproduce the auditor's report in full. Only the differences for an unmodified report were required.

(b) Explain and distinguish between the following forms of modified report.

- (i) Emphasis of a matter;
- (ii) qualified opinion;
- (iii) disclaimer of opinion;
- (iv) adverse opinion.

Case #3:

Prepare an audit plan for a verification of a cash cycle.

The audit plan should include all 5 assertions. For each assertion, you should choose 2 audit steps.

Good Luck