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Vendor: CPA

Exam Code: AA

Exam Name: Audit & Insurance

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Q & As: 80

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QUESTION 1

The production department of Cates Ltd is headed by Brad Hogg, whose deputy is Michael. Brad reports to the managing director, John Silver. There are several other departments namely sales and marketing, treasury, accounting, production, processing, purchasing, HR and internal audit. Which of the following is the BEST method to make 'purchase orders' from production department?

- A. Brad Hogg and Michael should make purchase orders as production needs dictate.
- B. Brad Hogg should make purchase orders, although Michael could make requisitions as production needs dictate.
- C. Brad Hogg and Michael should send requisition for materials as production needs dictate, but orders should be placed by the purchasing department.
- D. Brad Hogg and Michael should send requisition for materials as production needs dictate but orders should be placed by the purchasing department, having been authorised by John Silver.

Correct Answer: C

QUESTION 2

Michael Gove audited the financial statement of Barays Co in the year 2010-11. Recently Barays Co have brought some changes in their reporting system. While auditing, Michael Gove evaluates the effect of a change in accounting principles of Barays Co. What will be the basis of evaluating the materiality of the change?

- A. Compare the change with the prior years presented.
- B. Check the current year effect of the change.
- C. Whatever basis Michael Gove considers appropriate.
- D. The effect of the change on total assets.

Correct Answer: B

QUESTION 3

The auditor of Net plc carried out an external confirmation of receivables at the year end to confirm the accuracy of total trade receivables in the balance sheet at that date. Two of the replies to the confirmations disagreed the balance.

For each of these two disagreements, select whether the disagreement would be considered as a misstatement or would not be considered as a misstatement for the purposes of evaluating the accuracy of total trade receivables in the balance sheet at the year end.

(i) Word Ltd disagreed the balance because they had made a payment two days before the year end. The auditor has confirmed that the cheque cleared the bank two days after the year end.

(ii) Red Ltd disagreed the balance because their records did not contain invoice number SI 00942. This invoice and associated goods were despatched by Net plc on the last day of the year. The auditor has verified that the despatch note and cut-off with inventory are correct.

- A. Both (i) and (ii) would be considered as misstatement
- B. (i) would be considered as misstatement and (ii) would not be considered as misstatement
- C. (i) would not be considered as misstatement and (ii) would be considered as misstatement
- D. Both (i) and (ii) would not be considered as misstatement

Correct Answer: D

QUESTION 4

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Management is legally required to prepare a shipping document for all movement of hazardous materials. The document must be filed with bills of lading. Management expects 100% compliance with the procedure. Which of the following sampling approaches would be most appropriate?

- A. Attributes sampling
- B. Judgment sampling
- C. Targeted sampling
- D. Discovery sampling

Correct Answer: D

QUESTION 5

When preparing audit documentation, the auditor of a smaller entity may find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality, assessed risks, significant matters noted during the audit, and conclusions reached. Which one of the following would not be included in the overall audit strategy?

- A. Details of economic factors and industry conditions
- B. The results of initial analytical procedures
- C. Confirmation of management's responsibility for the financial statements
- D. Identification of specific audit risks

Correct Answer: C

QUESTION 6

A production manager for a medium-sized manufacturing company began ordering excessive raw materials and had them delivered to a wholesale company he runs as a side business. He falsified receiving documents and approved the invoices for payment. Which of the following audit procedures would most likely detect this fraud?

- A. Take a sample of cash disbursement; compare purchase orders, receiving reports, invoices, and check copies.
- B. Take a sample and confirm the amount purchased, purchase price, and date of shipment with the vendors.
- C. Observe the receiving dock and count material received; compare your counts to receiving reports completed by receiving personnel.
- D. Prepare analytical tests, comparing production, material purchased, and raw material inventory levels and investigate differences.

Correct Answer: D

QUESTION 7

Auditors seek written representations from management to support oral representations that have

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been made during the course of the audit.

Which of the following would require a written representation in relation to a statutory audit?

- (i) The directors have fulfilled their responsibility for the preparation of the financial statements
 - (ii) The accounting policies selected and applied by management are appropriate
 - (iii) A material item, subject to management judgement, for which no other evidence could reasonably be expected to exist
- A. (i) only
 - B. (i) and (iii) only
 - C. (ii) and (iii) only
 - D. (ii) only

Correct Answer: A

QUESTION 8

When you audit a company, your main goal is to provide assurance to the users of the company's financial statements that those documents are free of material misstatement. You use the audit risk model, which consists of inherent, control, and detection risk on your client's financial statements. 'Audit risk' here does refer to _____.

- A. process of auditing
- B. loss from litigation
- C. adverse publicity
- D. events arising in connection with the audit of financial statements

Correct Answer: A

QUESTION 9

Hiltson Hotels is a global group of hotels. The parent company, Hiltson Holdings plc employs an internal audit function which carries out audits and investigations on the individual hotels in the group. Which of the following could the internal audit function carry out and still operate effectively?

- A. Secondment to the accounts department of the Singapore Hiltson to cover the maternity leave of the financial controller
- B. Special investigation into the profits of the New York Hiltson where the group directors suspect a fraud may have been carried out
- C. Secondment to the finance department of the Edinburgh Hiltson
- D. Identification of risks at the proposed Nairobi Hiltson, which is due to open in nine months' time

Correct Answer: B

QUESTION 10

Pahari Robert has been appointed the auditor of Safe Haven which has a year end of 31 May. Safe Haven is a small registered charity based in a small town in Warshire. The organisation

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provides shelter for abandoned dogs and puppies with the aim of finding new homes for as many as possible. Safe Haven also employs a number of paid employees. The shelter is managed by John and Jane Sheldon, who are husband and wife. Safe Haven has a high turnover of staff in the accounts department. Which type of risk has been illustrated in Safe Haven?

- A. Inherent risk
- B. Control risk
- C. Detection risk
- D. Audit risk

Correct Answer: B

QUESTION 11

Jones & Co is the external auditor of Blue plc, a listed company. The directors of Blue plc have requested that Jones & Co carry out a review engagement assessing the effectiveness of its corporate governance policies against the UK Corporate Governance Code. For the above review engagement, select which part of the engagement description constitutes the subject matter?

- A. Blue plc's corporate governance policies
- B. The UK Corporate Governance Code
- C. Jones & Co
- D. The directors of Blue plc

Correct Answer: A

QUESTION 12

One category of fraud is fraudulent statements. This is usually in the form of falsification of financial statements in order to obtain some form of improper benefit. It also includes falsifying documents such as employee credentials. Which one of the following is correct about risk assessment procedures related to fraud by the external auditor?

- A. The auditor has no duty to identify fraud in the organisation, hence no inquiries are required.
- B. The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
- C. The auditor shall make inquiries of top management only as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.
- D. The auditor shall not evaluate any unusual or unexpected relationships that have been identified in performing analytical procedures which may indicate risks of material misstatement due to fraud.

Correct Answer: B

QUESTION 13

A subsidiary president terminated a controller and hired a replacement without the required corporate approvals. Sales, cash flow, and profit statistics were then manipulated by the new controller and president via accelerated depreciation and sale of capital assets to obtain