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larger performance bonuses for the controller and the subsidiary president. Which of the following approaches might detect this fraudulent activity?

- A. Analysis of overall management control for segregation of duties.
- B. Exit interview for all terminated employees.
- C. Periodic changes of outside public accountants.
- D. Regular analytical review of operating divisions.

Correct Answer: D

QUESTION 14

Cates plc is a large organisation with a complex accounting and information system. Critical to an understanding of the system are the reporting lines and relationships between different departments. Which of the following represents inherent limitation of a system of internal controls in Cates plc?

- A. Lack of controls over the purchases system
- B. Lack of in-depth knowledge of the purposes of controls
- C. Lack of staff to ensure segregation of duties
- D. The possibility that staff members will collude in fraud

Correct Answer: D

QUESTION 15

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA 315, the auditor shall perform certain procedures to obtain information for use in identifying the risks of material misstatement due to fraud. Which of the following is not a part of an entity's risk assessment process?

- A. Identify relevant business risks
- B. Assess the likelihood of occurrence
- C. Decide upon actions to manage the risks
- D. Report the process to the auditors

Correct Answer: D

QUESTION 16

Acer Ltd is a client of your firm and is seeking funding in order to expand the business. The directors have prepared profit and cash flow forecasts for the next three years ending 30 June 2016 in support of the request for funding. The company's bankers require this information to be reviewed by independent accountants and the board of directors has requested that your firm undertakes this review.

The following is an extract from an independent accountant's unmodified report on the profit and cash flow forecasts:

'Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast.'

Which of the following BEST describes the type of assurance provided by this statement?

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- A. Positive assurance expressed negatively
- B. Negative assurance expressed positively
- C. High level of assurance expressed negatively
- D. Limited level of assurance expressed negatively

Correct Answer: D

QUESTION 17

When questions arise on the appropriateness of the going concern assumption made by management and the existence of material misstatements which was not adequately disclosed in the financial statements would lead to auditor's?

- A. Qualified opinion
- B. Unmodified opinion
- C. Disclaimer of opinion
- D. Unmodified opinion (but have to include an emphasis of matter paragraph in the auditor's report)

Correct Answer: A

QUESTION 18

David Copper is performing the audit of financial statement of Igma Co and is in doubt about some of the transactions. If David believes an illegal act may have occurred, which of the following will be the LEAST necessary action?

- A. Inquire of management of Igma Co, at a level above those likely to be involved with the illegality.
- B. Consult with Igma Co's legal counsel.
- C. Consider accumulating additional evidence to determine if there is actually an illegal act.
- D. File a case against the client as soon as possible.

Correct Answer: D

QUESTION 19

The internal auditing department has been assigned to perform an audit of a division. Based on background review, the auditor knows the following about management policies:

- Company policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than three years.
- A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing, but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past three years and uses a standard cost system.

During the preliminary review, the auditor notes the following changes in financial data compared to the prior year:

- Sales have increased by 10%.
- Cost of goods sold has increased by 2%.
- Inventory has increased by 15%.
- Divisional net income has increased by 8%.

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Which of the following items might alert the auditor to the possibility of fraud in the division?

- A. The division is not scheduled for an external audit this year
- B. Sales have increased by 10%
- C. A significant portion of management's compensation is directly tied to reported net income of the division
- D. Inventory has increased by 15%

Correct Answer: C

QUESTION 20

The auditor is subject to relevant ethical requirements. Relevant ethical requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive. Interpretations of the IESBA Code of Professional Conduct are dominated by the concept of _____.

- A. Independence.
- B. Compliance with standards.
- C. Accounting.
- D. Acts discreditable to the profession.

Correct Answer: A

QUESTION 21

The auditor shall maintain an attitude of professional scepticism throughout the audit, recognising the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of management and those charged with governance. Which of the following best describes professional scepticism?

- A. The auditor should not believe anything that management tells him.
- B. The auditor should not believe anything that management tells him, without obtaining supporting evidence.
- C. The auditor should apply a questioning mind to the information and evidence he obtains.
- D. The auditor should always assume the worst outcome in cases of uncertainty.

Correct Answer: C

QUESTION 22

Mike Robin, ACA is identifying risk in the statement of Mohin Co as a part of his audit work. Which of the following defines control risk for Mohin Co?

- A. The risk that the financial statements of Mohin Co are materially misstated prior to audit.
- B. The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls of Mohin Co.
- C. The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by Mohin Co's internal control.
- D. The risk that the procedures performed by Mike to reduce audit risk to an acceptably low level will

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not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Correct Answer: C

QUESTION 23

As related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Which of the following sources of information may not assist the auditor in identifying related parties?

- A. Prior year working papers and disclosures
- B. Work on employee's personal tax
- C. Enquiry of management
- D. Statutory books and returns

Correct Answer: B

QUESTION 24

Audit documentation provides evidence that the audit complies with the ISAs. However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example the existence of an adequately documented audit plan demonstrates that the auditor has planned the audit. Which one of the following is not an objective of audit planning?

- A. To determine the scope of the engagement
- B. To ensure appropriate attention is devoted to the important areas of the audit
- C. To identify potential problems and resolve them on a timely basis
- D. To assign work to members of the audit team

Correct Answer: A

QUESTION 25

Saturn Ltd has offered Jack Lee to be the head of their treasury department during the audit of Saturn Ltd. Jack Lee is the audit manager who is currently in charge of Saturn Ltd. Jack Lee discussed the role with Saturn Ltd and intends to accept the appointment. Which of the following is a safeguard that the audit firm of Jack Lee should adopt?

- A. Objectivity and independence could be compromised
- B. Manager will be carrying out work whilst negotiating position: might overlook errors
- C. Possible intimidation of audit team by manager once position taken up
- D. Re-review any work of the team previously reviewed by manager/ independent partner review

Correct Answer: D

QUESTION 26

The following describes the processes which make up the sales system in operation at Shevrol and Co.

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Which of the following processes represents strength or weakness in the system?

- (i) Orders are placed by telephone. When a call is received, the person receiving the order checks that the customer's credit status supports the order and that the customer's current balance is below the maximum level and then immediately inputs the order into the system.
 - (ii) The order automatically generates a message to the distribution centre which despatches the goods and to the accounts department, which immediately raises an invoice and sends it to the customer.
 - (iii) Customer queries are dealt with by reception staff.
- A. (i) and (ii) represent strengths and (iii) represents weakness
 - B. (i) represents strength and (ii) and (iii) represent weaknesses
 - C. (ii) represents strength and (i) and (iii) represent weaknesses
 - D. All processes represent strengths

Correct Answer: B

QUESTION 27

When questions arise on the appropriateness of the going concern assumption, some of the normal audit procedures carried out by the auditors may take on an additional significance. Auditors may also have to carry out additional procedures or to update information obtained earlier. The ISA lists various procedures which the auditors shall carry out in this context. Which of the following is not included in the list of additional audit procedures that are to be carried out by the auditor?

- A. Assess the financial ability of such parties to provide additional funds
- B. Inquire of the entity's lawyer regarding litigation and claims
- C. Evaluate management's plans for future actions based on its going concern assessment
- D. Confirm the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties

Correct Answer: C

QUESTION 28

Panama and Co has been asked to take on the role of internal auditor at one of its clients and would be responsible for implementing its own recommendations. Which of the following will NOT be considered by external auditors in their assessment of whether to use the work of internal audit?

- A. To whom the internal audit department of Panama and Co reports
- B. The technical training of the staff of the audit department of Panama and Co
- C. The fact that the fee will fall if much use can be made of internal audit work
- D. Whether internal audit work is properly documented

Correct Answer: C

QUESTION 29

During the audit planning for your client Shang Ltd for the year ending 30 April 2013, you read the following comment on the 'points forward for next year' schedule included in last year's audit

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