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to have them audited and to list them at a public registry where they can be accessed by parties who might do business with the company. Which of the following services provides the lowest level of assurance about a company's financial statements?

- A. Review of financial statements
- B. Audit of financial statements
- C. These services provide no assurance about a company's financial statements
- D. These services provide the same level of assurance about a company's financial statements

**Correct Answer:** A

### **QUESTION 46**

Dan Lawrence is the auditor of Nava Ltd. The directors are Bernard Russell, Pauli Morin and Cyndi Clifford. They are also the only shareholders owning 35% of total shares by Russell and Morin and the rest by Cyndi. Recent dispute between Russell and Morin arises that Dan believes may be impossible to resolve. However, Morin requested Dan to provide her with details of all last year purchases through company's accounts by Russell and Cyndi. Dan Lawrence has all the company's books and records in his office. What would be the most appropriate action by Dan Lawrence when Pauli Morin asked him to disclose company's accounts details?

- A. Provide with all the relevant information as was requested by Pauli Morin because she has the controlling interest in the company.
- B. Decline the request of Pauli Morin even if she has the controlling interest in the company.
- C. Provide the relevant information before taking the consent from other directors.
- D. Arrange dispute resolution meeting and find a way to resolve the dispute between Russell and Morin.

**Correct Answer:** B

### **QUESTION 47**

Internal auditors and management have become increasingly concerned about computer fraud. Which of the following control procedures would be least important in preventing computer fraud?

- A. Programme change control that requires a distinction between production programmes and test programmes.
- B. Testing of new applications by users during the systems development process.
- C. Segregation of duties between the applications programmer and the programme librarian function.
- D. Segregation of duties between the programmer and systems analyst.

**Correct Answer:** D

### **QUESTION 48**

A payroll clerk with authorised access to the local area network (LAN) was able to update personnel files directly, independent of the application programmes. The best control to prevent a clerk from doing this would be to

- A. Restrict access to LAN workstations by such means as automatic lock-up after a predefined period of keyboard inactivity.
- B. Restrict access to and monitor installation of software products or tools having powerful update capabilities.
- C. Use password security to authenticate users as they attempt to log on to the LAN.
- D. Establish a security policy for the department that prohibits direct updating of data files.

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**Correct Answer:** B

### **QUESTION 49**

Adam & Co is the external auditor of Green plc, a listed company. Adam & Co is going to start the audit of financial statement of year 2011-12. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, what will be the action by Adam & Co?

- A. Adam & Co shall discuss the matter with management of Green plc and shall determine whether it is necessary to modify the opinion in their report.
- B. Adam & Co shall discuss the matter with management of Green plc and shall determine whether it is necessary to rework the audit.
- C. Adam & Co shall discuss the matter with the shareholders of Green plc and shall determine whether it is necessary to modify the opinion in their report.
- D. Adam & Co shall discuss the matter with the audit committee and shall determine whether it is necessary to modify the opinion in their report.

**Correct Answer:** A

### **QUESTION 50**

Indicate the most objective and relevant evidence in a computer environment involving fraud.

- A. Physical examination.
- B. Physical observation.
- C. Inquiries of people.
- D. Computer logs.

**Correct Answer:** D

### **QUESTION 51**

Sheraton & Co places orders 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. The risk of management fraud could increase in this case for Sheraton & Co in the presence of \_\_\_\_\_.

- A. improved internal control system of Sheraton & Co
- B. frequent changes in supplies by Sheraton & Co
- C. substantial increases in sales of Sheraton & Co
- D. Sheraton and Co's management incentive system based on sales done in a quarter

**Correct Answer:** D

### **QUESTION 52**

Grey Ltd has recently discovered that it has been paying invoices in respect of goods which had been returned as faulty prior to acceptance. It is company policy to record goods only if they have been accepted. Which of the following controls would be useful in preventing such incidence in

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future?

- A. Matching of purchase invoices with goods received notes
- B. Matching of purchase invoices with orders
- C. Comparison of supplier statements with payables ledger accounts
- D. Date stamping purchase invoices on receipt

**Correct Answer:** A

### **QUESTION 53**

Smith and Co is considering preliminary audit strategy for Well Ltd. Well Ltd is an established company with well-documented systems and controls. It has an internal audit function whose principal activity is to monitor the implementation and effectiveness of existing controls. Which of the following statements would be correct about the reliability of audit evidence of Well Ltd?

- A. To be reliable, evidence of Well Ltd should be conclusive rather than persuasive
- B. Effective internal control system of different systems of Well Ltd can provide reliable audit evidence
- C. Evidence obtained from outside sources routed through Well Ltd will be more reliable
- D. Limited internal control system of Well Ltd can provide reliable audit evidence

**Correct Answer:** B

### **QUESTION 54**

The management of Tory Bank Ltd suspects that a bank loan officer frequently made loans to fictitious companies, disbursed loan proceeds to his wife's accounts, and then the loan has been written-off as irrecoverable. Some significant facts about the loan officer include

- A high standard of living, explained as the result of sound investments and not taking vacations
- An expensive personal car obtained through business contacts
- Gasoline and repair bills submitted for an assigned company car that is higher than company average (mileage logs were submitted on a quarterly basis)
- Marked annoyance with questions from auditors

The most appropriate trend analysis to indicate this potential fraud is

- A. Loan default rates by loan officer.
- B. Accumulation of unpaid vacation days.
- C. Automobile operating expenses by loan officer.
- D. Total dollar volume of loans by loan officer.

**Correct Answer:** A

### **QUESTION 55**

The auditor finds a situation where one person has the ability to collect receivables, make deposits, issue credit memos, and record receipt of payments. The auditor suspects the individual may be stealing from cash receipts. Which of the following audit procedures would be most effective in discovering fraud in this scenario?

- A. Send negative confirmations to all outstanding accounts receivable customers.
- B. Send positive confirmations to a random selection of customers.
- C. Perform a detailed review of debits to customer discounts, sales returns, or other debit accounts,

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excluding cash posted to the cash receipts journal.

- D. Take a sample of bank deposits and trace the detail in each of the bank deposit back to the corresponding entry in the cash receipts journal.

**Correct Answer: C**

### **QUESTION 56**

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%.

If the auditor decides that there are significant problems with the standard cost system, the next audit step to perform would be to:

- A. Interview divisional management to determine why the standard cost system has not been updated on a timely basis.
- B. Select a random sample of products and review the standard cost build-up by tracing purchases to the standard cost record.
- C. Use generalised audit software to prepare a listing of gross margin by product by comparing standard cost with sales price. Select all high-gross-margin items for further investigation.
- D. Schedule all variances and determine their source and their disposition, that is, whether they are allocated to inventory or cost of goods sold.

**Correct Answer: D**

### **QUESTION 57**

A firm's inventory consisted of 5,000 various types of stocks, 100 of which accounted for 75% of the total monetary value. The most recent regular quarterly manual count revealed that there was an unnecessary two years' supply of the more expensive items. The control that would best help to correct this oversupply problem is

- A. Use of a control total over the number of unique inventory items.
- B. Limit check on the total monetary value of the inventory.
- C. Use of authorising signatures on requisitions for inventory requested by production.
- D. Maintain perpetual inventory of the larger dollar value items in the inventory.

**Correct Answer: D**

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### **QUESTION 58**

ISA 570 states that when preparing accounts, management should make an explicit assessment of the entity's ability to continue as a going concern. Most accounting frameworks require management to do so. When management are making the assessment, the following factors should be considered except

- A. The degree of uncertainty about the events or conditions being assessed increases significantly the further into the future the assessment is made.
- B. Judgements are made on the basis of the information available at the time.
- C. Lack of staff to ensure segregation of duties.
- D. The auditor shall inquire of management as to its knowledge of events or conditions and related business risks beyond the period of assessment used by management that may cast significant doubt on the entity's ability to continue as a going concern.

**Correct Answer: D**

### **QUESTION 59**

A significant employee fraud took place shortly after an internal audit. The internal auditor may not have properly fulfilled the responsibility for the deterrence of fraud by failing to note and report that:

- A. Policies, practices, and procedures to monitor activities and safeguard assets were less extensive in low-risk areas than in high-risk areas.
- B. A system of control that depended on separation of duties could be circumvented by collusion among three employees.
- C. There were no written policies describing prohibited activities and the action required whenever violations are discovered.
- D. Divisional employees had not been properly trained to distinguish between bona fide signatures and cleverly forged ones on authorisation forms.

**Correct Answer: C**

### **QUESTION 60**

New credit policies have been implemented to prevent entering any new sales order that would cause customers' accounts receivable balance to exceed average sales for any two-month period in the prior twelve month period resulting in controlled collectability. After implementation there were decreased sales and slower order entries as reported from divisional sales management. Division management contends that these are a direct result of the new credit policy constraints. Sales management's data and information provides:

- A. Feedback control data on the new credit policy.
- B. Irrelevant argumentative information.
- C. Evidence that the new credit policy is not meeting the stated corporate objective to control the collectability of new sales volume.
- D. A statistically valid conclusion about the impact on customer goodwill concerning the credit policy.

**Correct Answer: A**

### **QUESTION 61**

The management of Tory Bank Ltd suspects that a bank loan officer frequently made loans to

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