

Comptronix corporation case study

[Business](#), [Company](#)



A439: Advanced Auditing Accounting and Review Services Take Home Quiz

February 6, 2008

Instructions:

1. On the Scantron form in box labeled “ Test No. ” print “ Review Services. ”
2. Use the Scantron form to indicate your answers to the questions below.
3. Turn-in the Scantron sheet on the due date.
4. Open book, open note, online searches are all allowed.
5. NOT allowed – using other students, people or CPA exam review books.

Suggestion: If you plan to take the Auditing portion of the CPA Exam “ soon,” take 10 – 15 minutes to review your notes and text, and then take the quiz without notes, etc.

After that if you want to do research and change answers do so, but keep track of the original answers so you can assess your knowledge level for this topic.

Questions:

1. Which of the following statements is correct regarding a review engagement of a nonpublic company’s financial statements performed in accordance with the Statements on Standards for Accounting and Review Services (SSARs)? a. An accountant must establish an understanding with the client in an engagement letter. b. An accountant must obtain an

understanding of the client's internal control when performing a review. . A review provides an accountant with a basis for expressing limited assurance on the financial statements. d. A review report contains an accountant's opinion of the financial statements taken as a whole.

2. Which of the following procedures does a CPA normally perform first in a review engagement in accordance with Statements on Standards for Accounting and Review Services (SSARS)? a. Inquiry regarding the client's principles and practices and the method of applying them b. Inquiry concerning the effectiveness of the client's system of internal control c. Inquiry to identify transactions between related parties and management d. Inquiry of the client's professional advisors including bankers, insurance agents, and consultants.

3. North Co. , a privately held entity, asked its tax accountant, King, a CPA in public practice, to generate North's interim financial statements on King's personal computer when King prepared North's quarterly tax return. King should not submit these financial statements to North unless, as a minimum, King complies with the provisions of a. Statements on Standards for Accounting and Review Services. b. Statements on Standards for Unaudited Financial Services. c. Statements on Standards for Consulting Services. d. Statements on Standards for Attestation Engagements.

4. Statements on Standards for Accounting and Review Services establish standards and procedures for which of the following engagements? a. Assisting in adjusting the books of account for a partnership. b. Reviewing interim financial information required to be filed by public companies with the SEC. . Processing financial data for clients of other accounting firms. d.

Compiling an individual's personal financial statement to be used to obtain a mortgage.

5. May an accountant accept an engagement to compile or review the financial statements of a not-for-profit entity if the accountant is unfamiliar with the specialized industry accounting principles but plans to obtain the required level of knowledge before compiling or reviewing the financial statements? a. b. c. d. Compilation No Yes No Yes Review No No Yes Yes

6. In a review engagement, the accountant should establish an understanding with the entity, preferably in writing, regarding the services to be performed. the understanding should include all of the following except a a. Description of the nature and limitations of the services to be performed. b. Description of the report the accountant expects to issue. c. Provision that the engagement cannot be relied upon to disclose errors, fraud, or illegal acts. d. Provision that any errors, fraud, or illegal acts that come to the accountant's attention need not be reported.

7. Statements on Standards for Accounting and Review Services (SSARs) require an accountant to report when the accountant has a. Typed client-prepared financial statements, without modification, as an accommodation to the client. b. Provided a client with a financial statement format that does not include dollar amounts to be used by the client in preparing financial statements. c. Proposed correcting journal entries to be recorded by the client that change client-prepared financial statements. d. Prepared, through the use of computer software, financial statements to be used by third parties.

8. When an accountant performs more than one level of service (for example, a compilation and a review, or a compilation and an audit) concerning the financial statements of a nonpublic entity, the accountant ordinarily should issue the report that is appropriate for a. The lowest level of service rendered. b. The highest level of service rendered. c. A compilation engagement. d. A review engagement.

9. An accountant should not submit unaudited financial statements to the management of a nonpublic company unless, at a minimum, the accountant a. Assists in adjusting the books of account and preparing the trial balance. b. Types or reproduces the financial statements. c. Complies with the standards applicable to compilation engagements. d. Applies analytical procedures to the financial statements.

10. When engaged to compile the financial statements of a nonpublic entity, an accountant is required to possess a level of knowledge of the entity's accounting principles and practices. This requirement most likely will include obtaining a general understanding of the a. Stated qualifications of the entity's accounting personnel. b. Design of the entity's internal controls that have been implemented. c. Risk factors relating to misstatements arising from illegal acts. d. Internal control awareness of the entity's senior management.

11. When compiling a nonpublic entity's financial statements, an accountant is least likely to a. Perform analytical procedures designed to identify relationships that appear to be unusual. b. Read the compiled financial statements and consider whether they appear to include adequate disclosure. c. Omit substantially all of the disclosures required by generally

accepted accounting principles. . Issue a compilation report on one or more, but not all, of the basic financial statements.

12. Which of the following should not be included in an accountant's standard report based upon the compilation of an entity's financial statements? a. A statement that a compilation is limited to presenting in the form of financial statements information that is the representation of management. b. A statement that the compilation was performed in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA. c. A statement that the accountant has not audited or reviewed the statements. d. A statement that the accountant does not express an opinion but provides only negative assurance on the statements.

13. How does an accountant make the following representations when issuing the standard report for the compilation of a nonpublic entity's financial statements? The Financial Statements Have Not Been Audited a. b. c. d. Implicitly Explicitly Implicitly Explicitly The Accountant Has Compiled the Financial Statements Implicitly Explicitly Explicitly Implicitly

14. When an accountant attaches a compilation report to a nonpublic entity's financial statements that omit substantially all disclosures required by GAAP, the accountant should indicate in the compilation report that the financial statements are a. Not designed for those who are uninformed about the omitted disclosures. b. Prepared in conformity with a comprehensive basis of accounting other than GAAP. c. Not compiled in accordance with Statements on Standards for Accounting and Review Services. d. Special-purpose financial statements that are not comparable to those of prior periods.

15. Which of the following representations does an accountant make implicitly when issuing the standard report for the compilation of a nonpublic entity's financial statements? a. The accountant is independent with respect to the entity. b. The financial statements have not been audited. c. A compilation consists principally of inquiries and analytical procedures. d. The accountant does not express any assurance on the financial statements.

16. Miller, CPA, is engaged to compile the financial statements of Web Co., a nonpublic entity, in conformity with the income tax basis of accounting. If Web's financial statements do not disclose the basis of accounting used, Miller should a. Disclose the basis of accounting in the accountant's compilation report. b. Clearly label each page "Distribution Restricted—Material Modifications Required." c. Issue a special report describing the effect of the incomplete presentation. d. Withdraw from the engagement and provide no further services to Web.

17. Which of the following should be the first step in reviewing the financial statements of a nonpublic entity? a. Comparing the financial statements with statements for comparable prior periods and with anticipated results. b. Completing a series of inquiries concerning the entity's procedures for recording, classifying, and summarizing transactions. c. Obtaining a general understanding of the entity's organization, its operating characteristics, and its products or services. d. Applying analytical procedures designed to identify relationships and individual items that appear to be unusual.

18. In reviewing the financial statements of a nonpublic entity, an accountant is required to modify the standard review report for which of the following matters? Inability to Assess the Risks of Material Misstatement Due

to Fraud a. b. c. d. Discovery of Significant Deficiencies in the Design of the Internal Control ___ Yes Yes No No Yes No Yes No

19. Which of the following procedures should an accountant perform during an engagement to review the financial statements of a nonpublic entity? a. Communicating control deficiencies discovered during the assessment of control risk. b. Obtaining a client representation letter from members of management. c. Sending bank confirmation letters to the entity's financial institutions. . Examining cash disbursements in the subsequent period for unrecorded liabilities.

20. 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 control deficiencies discovered during the consideration of internal control.

21. Performing inquiry and analytical procedures is the primary basis for an accountant to issue a a. Report on compliance with requirements governing major federal assistance programs in accordance with the single Audit Act. b. Review report on prospective financial statements that present an entity's expected financial position, given one or more hypothetical assumptions. c. Management advisory report prepared at the request of a client's audit committee. d. Review report on comparative financial statements for a nonpublic entity in its second year of operations.

22. Financial statements of a nonpublic entity that have been reviewed by an accountant should be accompanied by a report stating that a review a. Provides only limited assurance that the financial statements are fairly presented. b. Includes examining, on a test basis, information that is the representation of management. c. Consists principally of inquiries of company personnel and analytical procedures applied to financial data. d. Does not contemplate obtaining corroborating evidential matter or applying certain other procedures ordinarily performed during an audit.

23. An accountant who reviews the financial statements of a nonpublic entity should issue a report stating that a review a. Is substantially less in scope than an audit. b. Provides negative assurance that internal control is functioning as designed. c. Provides only limited assurance that the financial statements are fairly presented. d. Is substantially more in scope than a compilation.

24. An accountant's standard report on a review of the financial statements of a nonpublic entity should state that the accountant a. Does not express an opinion or any form of limited assurance on the financial statements. . Is not aware of any material modifications that should be made to the financial statements for them to conform with GAAP. c. Obtained reasonable assurance about whether the financial statements are free of material misstatement. d. Examined evidence, on a test basis, supporting the amounts and disclosures in the financial statements.

25. Baker, CPA, was engaged to review the financial statements of Hall Company, a nonpublic entity. Evidence came to Baker's attention that

indicated substantial doubt as to Hall's ability to continue as a going concern.

The principal conditions and events that caused the substantial doubt have been fully disclosed in the notes to Hall's financial statements. Which of the following statements best describes Baker's reporting responsibility concerning this matter? a. Baker is not required to modify the accountant's review report. b. Baker is not permitted to modify the accountant's review report. c. Baker should issue an accountant's compilation report instead of a review report. d. Baker should express a qualified opinion in the accountant's review report.

26. When an auditor reports on financial statements prepared on an entity's income tax basis, the auditor's report should a. Disclaim an opinion on whether the statements were examined in accordance with generally accepted auditing standards. b. Not express an opinion on whether the statements are presented in conformity with the comprehensive basis of accounting used. c. Include an explanation of how the results of operations differ from the cash receipts and disbursements basis of accounting. d. State that the basis of presentation is a comprehensive basis of accounting other than GAAP.

27. An auditor's special report on financial statements prepared in conformity with the cash basis of accounting should include a separate explanatory paragraph before the opinion paragraph that a. Justifies the reasons for departing from generally accepted accounting principles. b. States whether the financial statements are fairly presented in conformity with another comprehensive basis of accounting. c. Refers to the note to the

financial statements that describes the basis of accounting. d. Explains how the results of operations differ from financial statements prepared in conformity with generally accepted accounting principles.

28. Delta Life Insurance co. prepares its financial statements on an accounting basis insurance companies use pursuant to the rules of a state insurance commission. If Wall, CPA, Delta's auditor, discovers that the statements are not suitably titled, Wall should a. Disclose any reservations in an explanatory paragraph and qualify the opinion. b. Apply to the state insurance commission for an advisory opinion. c. Issue a special statutory basis report that clearly disclaims any opinion. d. Explain in the notes to the financial statements the terminology used.