

1. Which of the following best describes why an independent auditor is asked to express an opinion on the fair presentation of financial statements?
  - A. It is difficult to prepare financial statements that fairly present a company's financial position, operations, and cash flows without the expertise of an independent auditor.
  - B. It is management's responsibility to seek available independent aid in the appraisal of the financial information shown in its financial statements.
  - C. The opinion of an independent party is needed because a company may not be objective with respect to its own financial statements.
  - D. It is a customary courtesy that all stockholders of a company receive an independent report on management's stewardship of the affairs of the business.
2. Which of the following professional services is an attestation engagement?
  - A. A consulting service engagement to provide computer-processing advice to a client
  - B. An engagement to report on compliance with statutory requirements
  - C. An income tax engagement to prepare federal and state tax returns
  - D. The preparation of financial statements from a client's financial records
3. Which of the following attributes is likely to be unique to the audit work of CPAs as compared to the work performed by practitioners of other professions?
  - A. Independence
  - B. Competence
  - C. Due professional care
  - D. Complex body of knowledge
4. Operational audits generally have been conducted by internal auditors and governmental audit agencies but may be performed by certified public accountants. A primary purpose of an operational audit is to provide
  - A. a means of assurance that internal accounting controls are functioning as planned.
  - B. a measure of management performance in meeting organizational goals.
  - C. the results of internal examinations of financial and accounting matters to a company's top-level management.
  - D. aid to the independent auditor, who is conducting the audit of the financial statements.
5. Which of the following best describes the operational audit?
  - A. It requires the constant review by internal auditors of the administrative controls
  - B. as they relate to the operations of the company.
  - C. It concentrates on implementing financial and accounting control in a newly organized company.
  - D. It focuses on verifying the fair presentation of a company's results of operations.
  - E. It concentrates on seeking aspects of operations in which waste could be reduced by the introduction of controls.
6. Compliance auditing often extends beyond audits leading to the expression of opinions on the fairness of financial presentation and includes audits of efficiency, economy, effectiveness, as well as
  - A. Accuracy
  - B. adherence to specific rules or procedures.
  - C. evaluation.

- D. internal control.
7. Which of the following can be used as a criterion for evaluating information being audited?
- A. International Financial Reporting Standards (IFRS)
  - B. Generally Accepted Accounting Principles (GAAP)
  - C. Internal Revenue Code (IRC)
  - D. all of the above
8. When auditing accounting data, auditors focus on
- A. determining whether recorded information properly reflects the economic events that occurred during the accounting period.
  - B. determining if fraud has occurred.
  - C. determining if taxable income has been calculated correctly.
  - D. analyzing the financial information to be sure that it complies with government requirements.
9. \_\_\_\_\_ risk reflects the possibility that the information upon which the business decision was made was inaccurate.
- A. Client acceptance
  - B. Information
  - C. Business
  - D. Control
10. External users of the financial statements
- A. value the auditor's report because of the auditor's independence from the client.
  - B. look to the auditor's report as an indication of the statements' reliability.
  - C. use the audited information on the assumption that it is reasonably complete, accurate, and unbiased.
  - D. all of the above.
11. Any service that requires a CPA firm to issue a report about the reliability of an assertion that is made by another party is a(n)
- A. accounting and bookkeeping service.
  - B. attestation service.
  - C. assurance service.
  - D. tax service.
12. An examination of part of an organization's procedures and methods for the purpose of evaluating efficiency and effectiveness is what type of audit?
- A. operational audit
  - B. compliance audit
  - C. financial statement audit
  - D. production audit
13. Internal auditors
- A. must be independent of the entity that employs them.
  - B. report to the accounting department.
  - C. are employed by all types of organizations.
  - D. must be CPAs.
14. The three requirements for becoming a CPA include all but which of the following?
- A. uniform CPA examination requirement

- B. education requirements
  - C. character requirements
  - D. experience requirement
15. An audit to determine whether an entity is following specific procedures or rules set down by some higher authority is classified as a(n)
- A. audit of financial statements.
  - B. compliance audit.
  - C. operational audit.
  - D. production audit.
16. In a financial statement audit, the auditor
- A. gathers evidence to determine whether the statements contain material errors or other misstatements.
  - B. must have a thorough understanding of the entity and its environment.
  - C. determines whether the financial statements are stated in accordance with specified criteria.
  - D. all of the above.
17. Which of the following is an accurate statement regarding assurance services?
- A. Assurance services must be performed by a CPA.
  - B. An attestation service is not a type of assurance service.
  - C. Assurance services improve the quality of information for decision makers.
  - D. Assurance services can only be performed on financial data.
18. Which of the following best describes what is meant by U.S. auditing standards?
- A. Acts to be performed by the auditor
  - B. Measures of the quality of the auditor's performance
  - C. Procedures to be used to gather evidence to support financial statements
  - D. Audit objectives generally determined on audit engagements
19. The Responsibilities principle underlying AICPA auditing standards includes a requirement that
- A. the audit be adequately planned and supervised.
  - B. the auditor's report state whether or not the financial statements conform to generally accepted accounting principles.
  - C. professional judgment be exercised by the auditor.
  - D. informative disclosures in the financial statements be reasonably adequate.
20. What is the general character of the responsibilities characterized by the Performance principles?
- A. The competence, independence, and professional care of persons performing the audit
  - B. Criteria for the content of the auditor's report on financial statements and related footnote disclosures
  - C. The criteria of audit planning and evidence gathering
  - D. The need to maintain an independence in mental attitude in all matters pertaining to the audit
21. One of a CPA firm's basic objectives is to provide professional services that conform with professional standards. Reasonable assurance of achieving this objective is provided through
- A. a system of quality control.
  - B. a system of peer review.
  - C. continuing professional education.
  - D. compliance with generally accepted reporting standards
22. The organization that is responsible for providing oversight for auditors of public companies is called the

- A. Auditing Standards Board.
  - B. American Institute of Certified Public Accountants.
  - C. Public Oversight Board.
  - D. Public Company Accounting Oversight Board.
23. The American Institute of Certified Public Accountants (AICPA)
- A. is responsible for issuing licenses to new CPAs.
  - B. restricts its membership to CPAs who are independent auditors.
  - C. sets auditing standards for both public and private companies.
  - D. sets rules of conduct that CPAs are required to meet.
24. Who is responsible for establishing auditing standards for privately held companies?
- A. Securities and Exchange Commission
  - B. Public Company Accounting Oversight Board
  - C. Auditing Standards Board
  - D. National Association of Accounting
25. An auditor need not abide by a particular auditing standard if the auditor believes that
- A. the issue in question is immaterial in amount.
  - B. more expertise is needed to fulfill the requirement.
  - C. the requirement of the standard has not been addressed by the PCAOB.
  - D. fraud is involved.
26. The purpose of establishing quality control policies and procedures to accept or continue a client relationship is to
- A. provide reasonable assurance that personnel are adequately trained to fulfill their responsibilities.
  - B. monitor the risk factors concerning misstatements that arise from the misappropriation of assets.
  - C. document objective criteria for the CPA firm's peer review.
  - D. minimize the likelihood of associating with a client whose management may lack integrity.
27. Which staff level in a CPA firm performs most of the detailed audit work?
- A. partner
  - B. staff assistant
  - C. senior auditor
  - D. senior manager
28. Which of the following is a true statement regarding auditing standards?
- A. Prior to the passage of Sarbanes-Oxley, the FASB established auditing principles for U.S. public companies.
  - B. PCAOB auditing standards are applicable to entities outside the U.S.
  - C. There are no similarities between PCAOB standards and International Standards on Auditing.
  - D. The Auditing Standards Board has revised most of its standards to converge with the international standards.
29. Standards issued by the Public Company Accounting Oversight Board must be followed by CPAs who audit
- A. both private and public companies.
  - B. public companies only.
  - C. private companies, public companies, and nonprofit entities.

- D. private companies only.
30. In order to properly plan and perform an audit, an important fact for both the auditor and the client to understand is that
- A. the internal control policies and procedures are developed by the auditors.
  - B. the purpose of an audit is to prevent fraud.
  - C. management is responsible for the preparation of the financial statements.
  - D. management can restrict the auditor's access to important information relevant to the financial statements.
31. \_\_\_\_\_ is an attitude that includes a questioning mind, being alert to conditions that might indicate possible misstatements due to fraud or error, and a critical assessment of audit evidence.
- A. Reasonableness
  - B. Diligence
  - C. Professional skepticism
  - D. Competence
32. What is the meaning of the rule that requires the auditor be independent?
- A. The auditor must be without bias with respect to the client under audit.
  - B. The auditor must adopt a critical attitude during the audit.
  - C. The auditor's sole obligation is to third parties.
  - D. The auditor may have a direct ownership interest in the client's business if it is not material.
33. Which of the following services can be offered to public company audit clients under SEC requirements and the Sarbanes-Oxley Act?
- A. Tax services for executives involved in financial reporting
  - B. Internal audit outsourcing
  - C. Tax planning not involving tax shelters
  - D. Bookkeeping and other accounting services
34. An auditor strives to achieve independence in appearance to
- A. comply with auditing standards related to audit performance.
  - B. become independent in fact.
  - C. maintain public confidence in the profession.
  - D. maintain an unbiased mental attitude.
35. An attest client threatens the member with not awarding future additional engagements to the firm if the firm does not agree with the client on a particular accounting matter. This is an example of which type of threat to compliance with which of the rules under the AICPA's Code of Professional Conduct?
- A. management participation
  - B. self-interest
  - C. self-review
  - D. undue influence
36. For which of the following professional services must CPAs be independent?
- A. management advisory services
  - B. audits of financial statements
  - C. preparation of tax returns
  - D. all of the above

37. "Independence" in auditing means
- A. maintaining an indirect financial interest.
  - B. not being financially dependent on a client.
  - C. taking an unbiased viewpoint.
  - D. being an advocate for a client.
38. The Sarbanes-Oxley Act \_\_\_\_\_ a CPA firm from doing both bookkeeping and auditing services for the same public company client.
- A. encourages
  - B. prohibits
  - C. allows
  - D. allows on a case-by-case basis
39. The financial interests of a CPA's family members can affect the CPA's independence. Which of the following parties would **not** be included as a "direct financial interest" of the CPA?
- A. spouse
  - B. dependent child
  - C. relative supported by the CPA
  - D. sibling living in the same city as the CPA
40. Independence is required of a CPA when performing
- A. management advisory services.
  - B. all attestation services.
  - C. all attestation and tax services.
  - D. all professional services.
41. Under the Sarbanes-Oxley Act, the audit committee of a public company
- A. must meet on a monthly basis.
  - B. must be comprised entirely of financial experts.
  - C. is responsible for the oversight of the work of the independent auditor.
  - D. should have at least one independent member.
42. The members of a client's "audit committee" should be
- A. members of management.
  - B. directors who are not a part of company management.
  - C. non-directors and non-managers.
  - D. directors and managers.
43. The CPA must not subordinate his or her professional judgment to that of others in any
- A. engagement.
  - B. audit engagement.
  - C. engagement excluding tax services.
  - D. engagement where the opinion of a specialist is used.
44. Freedom from \_\_\_\_\_ means the absence of relationships that might interfere with objectivity or integrity.
- A. independence
  - B. acts discreditable
  - C. impartiality

- D. conflicts of interest
45. A CPA firm may charge a contingent fee for
- A. an audit.
  - B. consulting services for a client for which they do not perform any attestation services.
  - C. the preparation of an original tax return for a client for which they do not perform any attestation services.
  - D. the preparation of an amended tax return.
46. Which of the following best describes the reason why an independent auditor reports on financial statements?
- A. A misappropriation of assets may exist, and it is more likely to be detected by independent auditors.
  - B. Different interests may exist between the company preparing the statements and the persons using the statements.
  - C. A misstatement of account balances may exist and is generally corrected as the result of the independent auditor's work.
  - D. Poorly designed internal controls may be in existence.
47. Because of the risk of material misstatement, an audit should be planned and performed with an attitude of
- A. objective judgment.
  - B. professional skepticism.
  - C. independent integrity.
  - D. impartial conservatism.
48. The major reason an independent auditor gathers audit evidence is to
- A. form an opinion on the financial statements.
  - B. detect fraud.
  - C. evaluate management.
  - D. assess control risk.
49. An independent auditor has the responsibility to design the audit to provide reasonable assurance of detecting errors and fraud that might have a material effect on the financial statements. Which of the following, if material, is a fraud as defined in auditing standards?
- A. Misappropriation of an asset or groups of assets
  - B. Clerical mistakes in the accounting data underlying the financial statements
  - C. Mistakes in the application of accounting principles
  - D. Misinterpretation of facts that existed when the financial statements were prepared
50. An auditor reviews aged accounts receivable to assess likelihood of collection to support management's assertion about account balances of
- A. existence.
  - B. completeness.
  - C. valuation and allocation.
  - D. rights and obligations.
51. An auditor will most likely review an entity's periodic accounting for the numerical sequence of shipping documents to ensure all documents are included to support management's assertion about classes of transactions of

- A. occurrence.
  - B. completeness.
  - C. accuracy
  - D. classification.
52. In the audit of accounts payable, an auditor's procedures will most likely focus primarily on management's assertion about account balances of
- A. existence.
  - B. completeness.
  - C. valuation and allocation.
  - D. classification and understandability.
53. The objective of an audit of the financial statements is an expression of an opinion on
- A. the fairness of the financial statements in all material respects.
  - B. the accuracy of the financial statements.
  - C. the accuracy of the annual report.
  - D. the accuracy of the balance sheet and income statement.
54. If the auditor believes that the financial statements are not fairly stated or is unable to reach a conclusion because of insufficient evidence, the auditor
- A. should withdraw from the engagement.
  - B. should request an increase in audit fees so that more resources can be used to conduct the audit.
  - C. has the responsibility of notifying financial statement users through the auditor's report.
  - D. should notify regulators of the circumstances.
55. Which of the following is **not** one of the steps used to develop audit objectives?
- A. know the proper type of audit opinion to issue
  - B. divide the financial statements into cycles
  - C. know the management assertions about the financial statements
  - D. know the specific audit objectives for classes of transactions
56. The responsibility for adopting sound accounting policies and maintaining adequate internal control rests with the
- A. board of directors.
  - B. company management.
  - C. financial statement auditor.
  - D. company's internal audit department.
57. Management is **not** responsible for which of the following?
- A. adopting sound accounting policies
  - B. issuing their own opinion on the fairness of the financial statements
  - C. maintaining an effective system of internal controls
  - D. making fair representations in the financial statements
58. The auditor's best defense when material misstatements are not uncovered is to have conducted the audit
- A. in accordance with generally accepted auditing standards.
  - B. as effectively as reasonably possible.
  - C. in a timely manner.
  - D. only after an adequate investigation of the management team.



59. Which of the following is **not** one of the reasons that auditors provide only reasonable assurance on the financial statements?
- A. The auditor commonly examines a sample, rather than the entire population of transactions.
  - B. Accounting presentations contain complex estimates which involve uncertainty.
  - C. Fraudulently prepared financial statements are often difficult to detect.
  - D. Auditors believe that reasonable assurance is sufficient in the vast majority of cases.
60. When an auditor believes that an illegal act may have occurred, the auditor should first
- A. obtain an understanding of the nature and circumstances of the act.
  - B. consult with legal counsel or others knowledgeable about the illegal act.
  - C. discuss the matter with the audit committee.
  - D. withdraw from the engagement.
61. An audit must be performed with an attitude of professional skepticism. Professional skepticism consists of two primary components: a questioning mind and
- A. the assumption that upper-level management is dishonest.
  - B. a critical assessment of the audit evidence.
  - C. the assumption that all employees are motivated by greed.
  - D. verification of all critical information by independent third parties.
62. The detail tie-in is part of the \_\_\_\_\_ assertion for account balances.
- A. classification
  - B. valuation and allocation
  - C. rights and obligations
  - D. completeness
63. Balance-related audit objectives
- A. are never applied to income statement accounts.
  - B. are designed to detect fraud.
  - C. provide a framework to help the auditor accumulate sufficient appropriate evidence related to account balances.
  - D. can have only one specific-related audit objectives.
64. The auditor is determining that the correct selling price was used for billing and that the quantity of goods shipped was the same as the quantity billed. She or he is gathering evidence about which transaction-related audit objective?
- A. existence
  - B. completeness
  - C. accuracy
  - D. cut-off
65. If a short-term note payable is included in the accounts payable balance on the financial statement, there is a violation of the
- A. completeness assertion.
  - B. existence assertion.
  - C. cutoff assertion.
  - D. classification assertion.

66. Why does the auditor divide the financial statements into smaller segments?
- A. Using the cycle approach makes the audit more manageable.
  - B. Most accounts have few relationships with others and so it is more efficient to break the financial statements into smaller pieces.
  - C. The cycle approach is used because auditing standards require it.
  - D. All of the above are correct.
67. The concept of reasonable assurance indicates that the auditor is
- A. not a guarantor of the correctness of the financial statements.
  - B. not responsible for the fairness of the financial statements.
  - C. responsible only for issuing an opinion on the financial statements.
  - D. responsible for finding all misstatements.
68. Which of the following types of documentary evidence should the auditor consider to be the most reliable?
- A. A sales invoice issued by the client and supported by a delivery receipt from an outside trucker
  - B. Confirmation of an account payable balance mailed by and returned directly to the auditor
  - C. A check, issued by the company and bearing the payee's endorsement, that is included with the bank statements mailed directly to the auditor
  - D. An audit schedule prepared by the client's controller and reviewed by the client's treasurer
69. Audit evidence can come in different forms with different degrees of persuasiveness. Which of the following is the **least** persuasive type of evidence?
- A. Vendor's invoice
  - B. Bank statement obtained from the client
  - C. Computations made by the auditor
  - D. Prenumbered sales invoices
70. Which of the following presumptions is correct about the reliability of audit evidence?
- A. Information obtained indirectly from outside sources is the most reliable audit evidence.
  - B. To be reliable, audit evidence should be convincing rather than merely persuasive.
  - C. Reliability of audit evidence refers to the amount of corroborative evidence obtained.
  - D. Effective internal control provides more assurance about the reliability of audit evidence.
71. Which of the following situations has the best chance of being detected when a CPA compares 2022 revenues and expenses with the prior year and investigates all changes exceeding a fixed percent?
- A. An increase in property tax rates has not been recognized in the company's 2022 accrual.
  - B. The cashier began lapping accounts receivable in 2022.
  - C. Because of worsening economic conditions, the 2022 provision for uncollectible accounts was inadequate.
  - D. The company changed its capitalization policy for small tools in 2022.
72. Which Of the following would **not** be considered to be an analytical procedure?
- A. Estimating payroll expense by multiplying the number of employees by the average hourly wage rate and the total hours worked.
  - B. Projecting the error rate by comparing the results of a statistical sample with the actual population characteristics.
  - C. Computing accounts receivable turnover by dividing credit sales by the average net receivables.
  - D. Developing the expected current year sales based on the sales trend of the prior five years.

73. Which of the following is **not** a primary purpose of audit documentation?
- A. To coordinate the audit
  - B. To assist in preparation of the audit report
  - C. To support the financial statements
  - D. To provide evidence of the audit work performed
74. During an audit engagement, pertinent data are compiled and included in the audit files. The audit files primarily are considered to be
- A. a client-owned record of conclusions reached by the auditors who performed the engagement.
  - B. evidence supporting financial statements.
  - C. support for the auditor's representations as to compliance with auditing standards.
  - D. a record to be used as a basis for the following year's engagement.
75. Although the quantity, type, and content of audit documentation will vary with the circumstances, audit documentation generally will include the
- A. copies of those client records examined by the auditor during the course of the engagement.
  - B. evaluation of the efficiency and competence of the audit staff assistants by the partner responsible for the audit.
  - C. auditor's comments concerning the efficiency and competence of client management personnel.
  - D. auditing procedures followed and the testing performed in obtaining audit evidence.
76. Which of the following is an accurate statement regarding audit evidence?
- A. Responses to the auditor's questions by client employees are considered highly persuasive evidence.
  - B. Audit evidence should provide an absolute level of assurance.
  - C. The auditor uses evidence to determine whether the statements are fairly presented.
  - D. All evidence must be highly persuasive.
77. An \_\_\_\_\_ is the detailed instruction that explains the audit evidence to be obtained during the audit.
- A. audit objective
  - B. audit procedure
  - C. audit assertion
  - D. audit program
78. Which of the following is **not** a characteristic of the reliability of evidence?
- A. effectiveness of client internal controls
  - B. education of auditor
  - C. independence of information provider
  - D. timeliness
79. Audit documents
- A. are kept by the client for easy reference for their accounting staff.
  - B. should be considered as a substitute for the clients accounting records.
  - C. are designed to facilitate the review and supervision of the work performed by the audit team by a reviewing partner.
  - D. prepared during the engagement are the property of the client once the audit bill is paid.
80. The permanent audit file would usually include the
- A. client's working trial balance.
  - B. summary of the risk assessment procedures performed.

- C. organizational chart of the company's employees.
  - D. summary of the auditor's test of controls for the current years audit.
81. Analytical procedures are so important that they are required during the
- A. planning and test of control phases.
  - B. planning and completion phases.
  - C. test of control and completion phases.
  - D. planning, test of control, and completion phases.
82. Which of the following is a correct statement regarding confirmations?
- A. Confirmations can be in oral or written form.
  - B. Electronic confirmations are not acceptable under generally accepted auditing standards.
  - C. Confirmations are generally used in the audit of fixed asset additions.
  - D. Auditors consider alternative evidence available when determining if confirmations should be used.
83. The evaluations of financial information through analysis of plausible relationships among financial and nonfinancial data is the definition of
- A. analytical procedures.
  - B. tests of transactions.
  - C. tests of balances.
  - D. auditing.
84. When the auditor uses tracing as an audit procedure for tests of transactions, he or she is primarily concerned with which audit objective?
- A. occurrence
  - B. completeness
  - C. cutoff
  - D. classification
85. Which of the following will most likely indicate the existence of related parties?
- A. Writing down obsolete inventory prior to year end
  - B. Failing to correct deficiencies in the client's internal control
  - C. An unexplained increase in gross margin
  - D. Borrowing money at a rate significantly below the market rate
86. Which of the following is **least** likely to be included in the auditor's engagement letter?
- A. Details about the preliminary audit strategy
  - B. Overview of the objectives of the engagement
  - C. Statement that management is responsible for the financial statements
  - D. Description Of the level of assurance obtained when conducting the audit
87. Analytical procedures used in planning an audit should focus on identifying
- A. material weaknesses in internal control.
  - B. the predictability of financial data from individual transactions.
  - C. the various assertions that are embodied in the financial statements.
  - D. areas that may represent specific risks relevant to the audit.
88. When approached to perform an audit for the first time, the CPA should make inquiries of the predecessor auditor. This is a necessary procedure because the predecessor may be able to provide the successor with information that will assist the successor in determining whether

- A. the predecessor's work should be used.
  - B. the company follows the policy of rotating its auditors.
  - C. in the predecessor's opinion, internal control of the company has been satisfactory.
  - D. the engagement should be accepted.
89. A successor would most likely make specific inquiries of the predecessor auditor regarding
- A. specialized accounting principles of the client's industry.
  - B. the competency of the client's internal audit staff.
  - C. the uncertainty inherent in applying sampling procedures.
  - D. disagreements with management as to auditing procedures.
90. Which of the following circumstances would most likely pose the greatest risk in accepting a new audit engagement?
- A. Staff will need to be rescheduled to cover this new client.
  - B. There will be a client-imposed scope limitation.
  - C. The firm will have to hire a specialist in one audit area.
  - D. The client's financial reporting system has been in place
91. Which one of the following statements is correct concerning the concept of materiality?
- A. Materiality is determined by reference to guidelines established by the AICPA.
  - B. Materiality depends only on the dollar amount of an item relative to other items in the financial statements.
  - C. Materiality depends on the nature of an item rather than the dollar amount.
  - D. Materiality is a matter of professional judgment.
92. A measure of how willing the auditor is to accept that the financial statements may be materially misstated after the audit is completed and an unqualified opinion has been issued is the
- A. inherent risk.
  - B. acceptable audit risk.
  - C. statistical risk.
  - D. financial risk.
93. Initial audit planning involves four matters. Which of the following is **not** one of these?
- A. Develop an overall audit strategy.
  - B. Request that bank balances be confirmed.
  - C. Schedule engagement staff and audit specialists.
  - D. Identify the client's reason for the audit.
94. When selecting staff for the audit engagement,
- A. only staff members who are CPAs should be assigned to the audit.
  - B. only managers and above need to have appropriate competence and capabilities to perform the audit.
  - C. continuity of staff members from year to year should not be a factor.
  - D. staff assigned to the audit must be knowledgeable about the client's industry.
95. Most auditors assess the risk of material misstatement as high for related parties and related-party transactions because
- A. of the unique classification of related-party transactions required on the balance sheet.
  - B. of the lack of independence between the parties.
  - C. of the unique classification of related-party transactions required on the income statement.

- D. it is required by generally accepted accounting principles.
96. Auditing standards define \_\_\_\_\_ as the magnitude of misstatements that individually, or when aggregated with other misstatements, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements.
- A. fraud
  - B. inherent risk
  - C. materiality
  - D. significant
97. Why do auditors establish a preliminary judgment about materiality?
- A. to determine the appropriate level of staff to assign to the audit
  - B. so the client can know what records to make available to the auditor
  - C. to help plan the appropriate evidence to accumulate
  - D. to finalize the control risk assessment
98. If an auditor establishes a relatively high level for materiality, then the auditor will
- A. accumulate more evidence than if a lower level had been set.
  - B. accumulate less evidence than if a lower level had been set.
  - C. accumulate approximately the same evidence as would be the case were materiality lower.
  - D. accumulate an undetermined amount of evidence.
99. The amount(s) set by the auditor at less than the materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole is referred to as
- A. the materiality range.
  - B. the error range.
  - C. tolerable materiality.
  - D. performance materiality.
100. When allocating performance materiality,
- A. it is easy to predict in advance which accounts are most likely to be misstated.
  - B. only overstatements need to be considered.
  - C. professional judgment is critical.
  - D. the sum of all the performance materiality levels cannot exceed the preliminary judgment about materiality.

1. C	2. B	3. A	4. B	5. D
6. B	7. D	8. A	9. B	10. D
11. B	12. A	13. C	14. C	15. B
16. D	17. C	18. B	19. C	20. C
21. A	22. D	23. D	24. C	25. A
26. D	27. B	28. D	29. B	30. C
31. C	32. A	33. C	34. C	35. D
36. B	37. C	38. B	39. D	40. B
41. C	42. B	43. A	44. D	45. B
46. B	47. B	48. A	49. A	50. C
51. B	52. B	53. A	54. C	55. A
56. B	57. B	58. A	59. D	60. A
61. B	62. B	63. C	64. C	65. D
66. A	67. A	68. B	69. D	70. D
71. D	72. B	73. C	74. C	75. D
76. C	77. B	78. B	79. C	80. C
81. B	82. D	83. A	84. B	85. D
86. A	87. D	88. D	89. D	90. B
91. D	92. B	93. B	94. D	95. B
96. C	97. C	98. B	99. D	100. C