

# DUMPS ARENA

**Audit & Insurance**

**CPA AA**

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**QUESTION NO: 1**

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

**ANSWER: D****QUESTION NO: 2**

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.

**ANSWER: D****QUESTION NO: 3**

The financial statements are the management's responsibility. They should therefore inform the auditors of any material subsequent events between the date of the auditor's report and the date the financial statements are issued. If, after the date of the auditor's report but before the financial statements are issued, the auditor becomes aware of a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report.

In the above situation, which of the following may NOT be an appropriate action taken by the auditor?

- A. Discuss the matter with the management

- B. Consider whether the financial statements need amendment
- C. Inquire how management intends to address the matter in the financial statements
- D. Issue a new audit report dated no earlier than the date of approval of the amended financial statements

**ANSWER: D**

#### **QUESTION NO: 4**

Allisons and Co is a firm of Chartered Accountants. It has a reputation for excellence in the banking and insurance industry and has been invited to accept engagements by various institutions. Recently it has been invited by Nationally plc, the leading building society in the UK.

Which of the following usages would be the BEST use of an engagement letter for Allisons and Co?

- A. Auditor will obtain sufficient appropriate audit evidence for the audit of Nationally plc.
- B. Confirmation of management representation letter of Nationally plc.
- C. Provides access to all books, accounts and vouchers required for audit purpose of Nationally plc.
- D. Endorsement of cooperation from other auditors of Nationally plc.

**ANSWER: C**

#### **QUESTION NO: 5**

Elody Gaindy was discussing about the contents of audit report produce on the audit of ABC Ltd with his friend Evie Christoffelsen. Evie informed Elody the matters on which auditors are required to report by exception such as:

- Adequate accounting records of ABC Ltd have not been kept, or returns adequate for the audit have not been received from branches of ABC Ltd not visited by Elody Gaindy; or
- The financial statements of ABC Ltd are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration of ABC Ltd specified by law are not made

Which of the following statements is not true about the audit report prepared by Elody Gaindy?

- A. A one-paragraph report is generally used when the auditor is not independent.
- B. A three-paragraph report ordinarily indicates there are no exceptions in the audit.
- C. More than three paragraphs in the report indicates there must be some type of qualification in the audit report.
- D. An unqualified opinion with modified wording has three paragraphs.

**ANSWER: C**

**QUESTION NO: 6**

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

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

**ANSWER: B****QUESTION NO: 7**

After completing an internal control review of the accounts payable department partially, the auditor suspects that some type of fraud has occurred. To ascertain whether the fraud is present, the best sampling approach would be to use

- A. Simple random sampling to select a sample of vouchers processed by the department during the past year.
- B. Monetary unit sampling to select a sample of vouchers processed by the department during the past year.
- C. Discovery sampling to select a sample of vouchers processed by the department during the past year.
- D. Judgmental sampling to select a sample of vouchers processed by clerks identified by the department manager as acting suspiciously.

**ANSWER: C****QUESTION NO: 8**

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.

**ANSWER: D****QUESTION NO: 9**

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

**ANSWER: C****QUESTION NO: 10**

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 extent of loans made to fictitious borrowers by the loan officer could best be determined by

- A. Reviewing a representative sample of the loan officer's transactions for compliance with bank policies and procedures.
- B. Reviewing a representative sample of loan files for properly completed documents, such as loan agreements, credit approvals, and approval of secured loan.
- C. Comparing current loan approval balances with those of prior years.
- D. Requesting positive confirmations for all outstanding loans made by the loan officer.

**ANSWER: B**