

QUESTION 1

Which of the following provides the most authoritative guidance for an audit of an issuer?

- A.** General guidance provided by the Public Company Accounting Oversight Board Auditing Standards.
- B.** An article in the AICPA CPA Letter addressing frequently asked questions on a new auditing standard.
- C.** Specific guidance provided by the Statement on Auditing Standards.
- D.** Audit disclosure checklists obtained from a continuing professional education class.

Explanation

Choice "A" is correct. General guidance provided by the Public Company Accounting Oversight Board Auditing Standards is the most authoritative level of auditing guidance for audits of issuers.

Choice "B" is incorrect. The AICPA CPA Letter has no authoritative status.

Choice "C" is incorrect. Guidance provided by the Statement on Auditing Standards is the most authoritative level of auditing guidance for nonissuers.

Choice "D" is incorrect. Information obtained from a continuing professional education class has no authoritative guidance.

QUESTION 2

When a PCAOB auditing standard indicates that an auditor "could" perform a specific procedure, how should the auditor decide whether and how to perform the procedure?

- A. By evaluating whether the audit is likely to be subject to inspection by the PCAOB.
- B. By soliciting input from the issuer's audit committee.
- C. By exercising professional judgment in the circumstances.**
- D. By comparing the PCAOB standard with related AICPA auditing standards.

Explanation

Choice "C" is correct. The words "may," "might," and "could" describe actions and procedures that auditors have a responsibility to consider. Matters described in this fashion require the auditor's attention and understanding. How and whether the auditor implements these matters in the audit will depend on the exercise of professional judgment in the circumstances consistent with the objectives of the standard.

Choice "A" is incorrect. Whether the audit is likely to be subject to inspection by the PCAOB should not be a factor on the auditor's decision to perform a procedure.

Choice "B" is incorrect. The auditor should not solicit input from the issuer's audit committee, as audit procedure decisions need to be made by the auditor.

Choice "D" is incorrect. "Could" does not mean that the auditor should compare the PCAOB standard with the related AICPA standards.

QUESTION 3

Which of the following accurately depicts the auditor's responsibility with respect to Statements on Auditing Standards?

- A.** The auditor is generally required to follow the guidance provided by the Standards, and should be able to justify any departures.
- B.** The auditor is generally required to follow the guidance provided by the Standards, unless following such guidance would result in an audit that is not cost-effective.
- C.** The auditor is required to follow the guidance provided by the Standards, without exception.
- D.** The auditor is generally required to follow the guidance provided by Standards with which he or she is familiar, but will not be held responsible for departing from provisions of which he or she was unaware.

Explanation

Choice "A" is correct. The auditor is generally required to follow the guidance provided by the Standards, and should be able to justify any departures.

Choice "B" is incorrect. The cost associated with following the guidance provided by a SAS is not an acceptable reason for departing from its guidance.

Choice "C" is incorrect. On rare occasions, the auditor may depart from the guidance provided by the SASs, but he or she must justify such departures.

Choice "D" is incorrect. Lack of familiarity with a SAS is not a valid reason for departing from its guidance. The auditor is expected to have sufficient knowledge of the SASs to identify those that are applicable to a given audit engagement.

QUESTION 4

An auditor of a nonissuer must conduct the audit in accordance with:

- I. ASB standards.
 - II. PCAOB standards.
- A. II.
 - B. Either I or II, but not both.
 - C. Both I and II.
 - D. I.

Explanation

Choice "D" is correct. An auditor of a nonissuer must conduct the audit in accordance with ASB standards.

Choice "A" is incorrect. An auditor of a nonissuer is not required to conduct the audit in accordance with PCAOB standards.

Choice "B" is incorrect. While an auditor is only *required* to conduct the audit in accordance with ASB standards, the auditor may choose to follow PCAOB standards as well.

Choice "C" is incorrect. An auditor of a nonissuer is not required to conduct the audit in accordance with PCAOB standards.

QUESTION 5

Which of the following provides the most authoritative guidance for the auditor of a nonissuer?

- A. Specific guidance provided by an interpretation of a Statement on Auditing Standards.
- B. A *Journal of Accountancy* article discussing implementation of a new standard.
- C. General guidance provided by a Statement on Auditing Standards.
- D. An AICPA audit and accounting guide that provides specific guidance with respect to the accounting practices in the client's industry.

Explanation

Choice "C" is correct. General guidance provided by a Statement on Auditing Standards is the most authoritative of level of auditing guidance for audits of nonissuers. Auditors are required to comply with SASs, and should be prepared to justify any departures therefrom.

Choice "B" is incorrect. *Journal of Accountancy* articles have no authoritative status, but may be helpful to the auditor.

Choices "D" and "A" are incorrect. AICPA audit and accounting guides and SAS interpretations are interpretive publications that provide guidance regarding how SASs should be applied in specific situations. They are not as authoritative as SASs.

QUESTION 6

Which of the following terms used within standards indicates a presumptively mandatory requirement?

- A. May
- B. Might
- C. Should
- D. Must

Explanation

Choice "C" is correct. The term "should" indicates a presumptively mandatory requirement, which must be followed in all cases in which the requirement is relevant, except in rare circumstances when departure from the requirement is permitted if there is appropriate justification, performance of sufficient alternative procedures, and thorough documentation.

Choice "A" is incorrect. The term "may" indicates explanatory material that does not impose a professional requirement for performance.

Choice "B" is incorrect. The term "might" indicates explanatory material that does not impose a professional requirement for performance.

Choice "D" is incorrect. The term "must" indicates an unconditional requirement, which must be followed in all cases in which the requirement is relevant.

QUESTION 7

The phrase "U.S. generally accepted accounting principles" is an accounting term that:

- A. Includes broad guidelines of general application but not detailed practices and procedures.
- B. Provides a measure of conventions, rules, and procedures governed by the AICPA.
- C. Encompasses the conventions, rules, and procedures necessary to define U.S. accepted accounting practice at a particular time.
- D. Is included in the audit report to indicate that the audit has been conducted in accordance with generally accepted auditing standards (GAAS).

Explanation

Choice "C" is correct. The literature pertaining to U.S. GAAP changes over time, and therefore U.S. generally accepted accounting principles can be said to encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. U.S. GAAP is one of the financial reporting frameworks acceptable for preparation of financial statements. IFRS is another one.

Choice "A" is incorrect. The literature pertaining to U.S. GAAP does provide detailed practices and procedures.

Choice "B" is incorrect. The phrase "U.S. generally accepted accounting principles" does not provide a measure of conventions, rules, and procedures governed by the AICPA. The AICPA provides Statements on Auditing Standards, which relate to proper performance of a financial statement audit, not to accounting principles.

Choice "D" is incorrect. Inclusion of the phrase "U.S. generally accepted accounting principles" in the audit report indicates whether the financial statements are presented in accordance with the conventions, rules, and procedures that define accepted accounting practice in the United States. Inclusion of this phrase does not indicate whether the audit has been conducted in accordance with generally accepted auditing standards (GAAS).

QUESTION 8

Which of the following best describes what is meant by the term generally accepted auditing standards?

- A.** Measures of the quality of the auditor's performance.
- B.** Procedures to be used to gather evidence to support financial statements.
- C.** Pronouncements issued by the Auditing Standards Board.
- D.** Rules acknowledged by the accounting profession because of their universal application.

Explanation

Choice "A" is correct. Generally accepted auditing standards ("GAAS") are measures of the quality of the auditor's performance, and guide the auditor in the performance of a properly planned and executed audit.

Choice "B" is incorrect. Auditing standards differ from auditing procedures in that procedures relate to acts to be performed, whereas standards deal with the quality of the performance of those acts.

Choice "C" is incorrect. The Auditing Standards Board (ASB) issues many types of pronouncements, including (but not limited to) "Statements on Auditing Standards" (SASs). While SASs are considered to be interpretations of GAAS, not all ASB pronouncements relate to audits. Therefore, just because something is issued by the ASB does not make it GAAS.

Choice "D" is incorrect. GAAS are not "rules," nor are they universally applicable. GAAS are measures of the quality of an auditor's performance.