1. CPA-02304

The fourth standard of reporting requires the auditor's report to contain either an expression of opinion regarding the financial statements taken as a whole or an assertion to the effect that an opinion cannot be expressed. The objective of the fourth standard is to prevent:

a. An auditor from expressing different opinions on each of the basic financial statements.
b. Restrictions on the scope of the audit, whether imposed by the client or by the inability to obtain evidence.
c. Misinterpretations regarding the degree of responsibility the auditor is assuming.
d. An auditor from reporting on one basic financial statement and not the others.

CPA-02304

Choice "c" is correct. The objective of the fourth reporting standard is to prevent any misinterpretation of the degree of responsibility the auditor assumes when his or her name is associated with financial statements.

Choice "a" is incorrect. The auditor may express different opinions on each of the basic financial statements.

Choice "b" is incorrect. While the fourth reporting standard may deter deliberate limitation of scope by the client, this is not its objective.

Choice "d" is incorrect. An auditor may express an opinion on one financial statement, such as a balance sheet, and not on other related financial statements, as long as the auditor's procedures have not been restricted.

2. CPA-02370

The auditor's standard report should include reference to the United States as the country of origin of:

I. The accounting principles used to prepare the financial statements.
II. The auditing standards the auditor followed in performing the audit.

a. I only.
b. II only.
c. Both I and II.
d. Neither I nor II.

CPA-02370

Choice "c" is correct. The auditor's standard report should include reference to the United States as the country of origin of both the accounting principles used to prepare the financial statements and the auditing standards the auditor followed in performing the audit.

Choice "a" is incorrect, since the auditor's standard report should include reference to the country of origin of the auditing standards the auditor followed in performing the audit.

Choice "b" is incorrect, since the auditor's standard report should include reference to the country of origin of the accounting principles used to prepare the financial statements.

Choice "d" is incorrect, since the auditor's standard report should include reference to the country of origin of both the accounting principles used to prepare the financial statements and the auditing standards the auditor followed in performing the audit.

© 2009 DeVry/Becker Educational Development Corp. All rights reserved.

3. CPA-02302

Harris, CPA, has been asked to audit and report on the balance sheet of Fox Co., but not on the statements of income, retained earnings, or cash flows. Harris will have access to all information underlying the basic financial statements. Under these circumstances, Harris may:

a. Not accept the engagement because it would constitute a violation of the profession's ethical standards.
b. Not accept the engagement because it would be tantamount to rendering a piecemeal opinion.
c. Accept the engagement because such engagements merely involve limited reporting objectives.
d. Accept the engagement but should disclaim an opinion because of an inability to apply the procedures considered necessary.

CPA-02302

Choice "c" is correct. An auditor may express an opinion on one financial statement, such as a balance sheet, and not on other related financial statements, provided that the auditor's procedures and access to all information underlying the basic financial statements have not been restricted. This is simply an engagement with limited reporting objectives.

Choice "a" is incorrect. Compliance with this request would not violate any ethical standards of the profession.

Choice "b" is incorrect. A "piecemeal" opinion, which is prohibited, is one in which different opinions are issued on enough different elements in the same financial statement as to constitute a "major portion" of the financial statements.

Choice "d" is incorrect. As long as the auditor's scope has not been limited, the auditor may report on only one financial statement.

4. CPA-02787

Management believes and the auditor is satisfied that a material loss probably will occur when pending litigation is resolved. Management is unable to make a reasonable estimate of the amount or range of the potential loss, but fully discloses the situation in the notes to the financial statements. If management does not make an accrual in the financial statements, the auditor should express a(an):

a. Qualified opinion due to a scope limitation.
b. Qualified opinion due to a departure from GAAP.
c. Unqualified opinion with an explanatory paragraph.
d. Unqualified opinion in a standard auditor's report.

CPA-02787

Choice "d" is correct. If a contingent liability is probable, but not estimable, and it is disclosed in the footnotes, the auditor issues an unqualified audit report without an explanatory paragraph.

Choice "a" is incorrect. When a contingent liability is probable, but not estimable, it should be disclosed in the footnotes. A qualified opinion due to a scope limitation would result if the sufficient audit evidence exists, but is not available to the auditor (possibly due to client imposed restrictions).

Choice "b" is incorrect. A qualified opinion due to a departure from GAAP would be issued if the client did not disclose the contingent liability in the footnotes to the financial statements.

Choice "c" is incorrect. If a contingent liability is probable, but not estimable, and it is disclosed in the footnotes, the auditor issues an unqualified audit report without an explanatory paragraph.

© 2009 DeVry/Becker Educational Development Corp. All rights reserved.

5. CPA-02483

The introductory paragraph of an auditor's report contains the following sentences:

We did not audit the financial statements of EZ Inc., a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 27 percent and 29 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EZ Inc., is based solely on the report of the other auditors.

These sentences:

a. Indicate a division of responsibility.
b. Assume responsibility for the other auditor.
c. Require a departure from an unqualified opinion.
d. Are an improper form of reporting.

CPA-02483

Choice "a" is correct. The paragraph presented is the proper form of disclosure when another auditor performs a substantial portion of the audit. When the principal auditor makes reference to the audit of another auditor, the report should indicate clearly (in all three paragraphs) the division of responsibility between the portion of the financial statements covered by each audit.

Choice "b" is incorrect. By making the disclosure that another auditor performed part of the audit, the auditor explicitly does not assume responsibility for the other auditor's work. If the disclosure is omitted, then the auditor implicitly does assume responsibility for the other auditor's work.

Choice "c" is incorrect. Reference in the report of the principal auditor to the fact that part of the audit was performed by another auditor is not a qualification of the opinion. It is simply an indication of the divided responsibility between the auditors who conducted the audits of various components of the overall financial statements.

Choice "d" is incorrect. The paragraph presented is the proper form of disclosure when another auditor performs a substantial portion of the audit.

© 2009 DeVry/Becker Educational Development Corp. All rights reserved.

6. CPA-02544

A principal auditor decides not to refer to the audit of another CPA who audited a subsidiary of the principal auditor's client. After making inquiries about the other CPA's professional reputation and independence, the principal auditor most likely would:

a. Add an explanatory paragraph to the auditor's report indicating that the subsidiary's financial statements are not material to the consolidated financial statements.
b. Document in the engagement letter that the principal auditor assumes no responsibility for the other CPA's work and opinion.
c. Obtain written permission from the other CPA to omit the reference in the principal auditor's report.
d. Contact the other CPA and review the audit programs and audit documentation pertaining to the subsidiary.

CPA-02544

Choice "d" is correct. When the principal auditor decides not to make reference to the audit of the other auditor, in addition to satisfying himself or herself as to the other auditor's professional reputation and independence, he or she should visit the other auditor, discuss the audit procedures, and/or review the audit programs and audit documentation of the other auditor.

Choice "a" is incorrect. The principal auditor may decide not to make reference to the other auditor even when the portion of the financial statements audited by the other auditor is material. When the auditor takes this position, he or she should not state in his report that part of the audit was made by another auditor.

Choice "b" is incorrect. The principal auditor's decision not to assume responsibility for the other auditor's work need not be included in the engagement letter.

Choice "c" is incorrect. The principal auditor does not need permission from the other auditor to assume responsibility. Permission is needed only if the principal auditor decides to divide responsibility and would like to refer to the other auditor by name.

7. CPA-02764

When financial statements contain a departure from GAAP because, due to unusual circumstances, the statements would otherwise be misleading, the auditor should explain the unusual circumstances in a separate paragraph and express an opinion that is:

a. Unqualified.
b. Qualified.
c. Adverse.
d. Qualified or adverse, depending on materiality.

CPA-02764

Choice "a" is correct. When circumstances indicate that financial presentation in accordance with GAAP would be misleading, a departure from GAAP is permissible. In such cases, the auditor should disclose the departure in an explanatory paragraph, but may issue an unqualified opinion on the financial statements.

Choices "b", "c", and "d" are incorrect. The auditor's opinion need not be qualified or adverse since the financial statements are presented fairly.

© 2009 DeVry/Becker Educational Development Corp. All rights reserved.