

Scroll Down to See the Question Set

Acc 490 – Week 2 Solution:

SOLUTIONS FOR MULTIPLE-CHOICE QUESTIONS

- 6.24 a. Correct Risk is high when the company always estimates the inventory but never take a complete physical count.
- 6.25 d. Correct Practice management "of the people and for the people" to help them share personal and professional problems is the best long-run way to stop fraud.
- 6.26 a. Correct Many frauds are motivated by employees who have problems due to debt, addictions, or family problems. Establishing an employee assistance program addresses these issues and may reduce the motivation to commit fraud for some employees.
- 6.27 c. Correct The violation of the code of ethics by senior management would reduce the effectiveness of the code of ethics since the tone at the top would provide a message to employees that the code of ethics was not important.
- 6.28 c. Correct Bank reconciliation has no outstanding checks or deposits older than 15 days is a sign of a good bank reconciliation, a fraud detection technique.
- 6.29 b. Correct Overstating sales revenue and overstating bad debt expense does not misstate income or assets but will hide an employee embezzlement.
- 6.30 c. Correct Expense accounts are often good places to hide fraud since accounts are closed at the end of the year. Consulting expense is a particularly good place to hide a fraud since no actual product is provided which may be counted or compared to the expense.
- 6.31 a. Correct The inventory warehouse manager can steal inventory and manipulate the records.
- 6.32 c. Correct The cashier would have both custody of cash and record keeping responsibility, hence could steal money and fix the records without interference by anyone else.
- 6.33 c. Correct Kiting involves a mismatching of dates of recording around year-end, and the schedule of bank transfers is designed to show all the relevant dates so the auditor can see that the entries are in the proper periods.
- 7.29 b. Correct The earning process is complete at this point
- 7.30 c. correct this is often the same as the bill of lading date
- 7.31 b. Correct this would have the balance for confirming.
- 7.32 d. correct even though this involves shipments, it is considered part of the expenditure and disbursement cycle
- 7.33 c. correct credit approval helps ensure the sale will be collectible

- 7.34 c. Correct Nobody in the company has access to cash, therefore it cannot be stolen.
- 7.35 a. Correct Impropriety of write-offs can be controlled by the review and approval by someone outside the credit department.
- 7.36 b. Correct Less sales revenue and correct amount of cost of goods sold results in less gross profit, therefore the ratio of gross profit to sales will decrease. (Actually, the gross profit numerator will decrease at a greater rate than the sales denominator in the ratio, causing the ratio to decrease.)
- 7.37 d. Correct The direction of the test establishes support for recorded amounts.
- 7.38 d. Correct A bookkeeper could steal money and "write off" to unsuspecting customer's balance with a fictitious "sales return."
- 9.24 c. Correct The weakness is an improper combination of inventory custody and record keeping responsibilities.
- 9.25 c. Correct This is the most disaggregated level of the choices given.
- 9.26 c. Correct The separate space facilitates security, and the frequent counts enable company personnel to detect shortages in a timely manner.
- 9.27 d. Correct If the sample is from the inventory in the physical location, the tracing has the objective of auditing the completeness of the final inventory schedule.
- 9.28 b. Correct Unrecorded credit memos means that the returned inventory is not in the perpetual records, thus the recorded amount will be smaller than the amount on hand.
- 9.29 b. Correct Auditors rely on accurate perpetual records to maintain an accurate inventory balance during the intervening period between the physical count and the balance sheet date.
- 9.30 c. Correct Checking the numbering sequence on prenumbered receiving reports is a way to detect omission of the recording of inventory received.
- 9.31 a. Correct An auditor does not expect all inventories to which the auditee has title to be on hand at the date of the count. Some purchased goods may still be in transit at that time. Also, some inventory may be on consignment or in public warehouses although properly included in the count.
- 9.32 c. Correct If control risk is high, a timelier audit procedure may be necessary, and extending the results of work done on an interim basis to year-end might be inappropriate. Thus, observation of inventory at year-end would provide the best evidence as to existence.
- 9.33 b. Correct Tracing the details of test counts to the final inventory schedule assures the auditor that items in the observed physical inventory are included in the inventory records. The auditor should compare the inventory tag sequence numbers in the final inventory schedule to those in the records of his/her test counts made during the client's physical inventory.

MULTIPLE-CHOICE QUESTIONS

Ch. 6: 6-24 to 6-33

Ch. 7: 7-29 to 7-38

Ch. 9: 9-24 to 9-33

Multiple Choice Questions for Practice and Review

6.24

When auditing with "fraud awareness," auditors should especially notice and follow up employee activities under which of these conditions?

- a) The company always estimates the inventory but never takes a complete physical count.
- b) The petty cash box is always locked in the desk of the custodian.
- c) Management has published a company code of ethics and sends frequent communication newsletters about it.
- d) The board of directors reviews and approves all investment transactions.

6.25

The best way to enact a broad fraud-prevention program is to

- a) Install airtight control systems of checks and supervision.
- b) Name an ethics officer who is responsible for receiving and acting on fraud tips.
- c) Place dedicated hotline telephones on walls around the workplace with direct communication to the company ethics officer.
- d) Practice management "of the people and for the people" to help them share personal and professional problems.

6.26

A good fraud prevention program should address employees' motivation to steal from the company. The best method for doing this is to

- a) Establish employee assistance programs.
- b) Require a fidelity bond on all employees.
- c) Require reconciliations of all accounts to be reviewed by a supervisor.
- d) Ensure audits of all accounts with high inherent risk of fraud.

6.27

A code of ethics is an important element of a fraud prevention program. Which of the following would diminish the effectiveness of a company's code of ethics?

- a) The establishment of a chief ethics officer.
- b) The establishment of a hot line for reporting unethical behavior.
- c) The violation of the code of ethics by senior management.
- d) The posting of the code of ethics in the company workplace.