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**Exam** : **AA**

**Title** : **Audit & Insurance**

**Vendor** : **CPA**

**Version** : **DEMO**

NO.1 In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA.

In the country Bepara, financial reporting authority's requirement regarding recognition of agricultural assets is stricter than guided in IAS.

Under the circumstances, what will be the BEST action by the auditor of Xyl Ltd in Bepara?

- A. The auditor shall perform complex audit procedures for Xyl Ltd to achieve the aim of the requirement.
- B. The auditor shall perform alternative audit procedures for Xyl Ltd to achieve the aim of the requirement.
- C. The auditor shall perform local audit procedures to achieve the aim of the requirement.
- D. The auditor shall not perform any audit activity for agricultural asset of Xyl Ltd.

**Answer:** B

NO.2 When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA 315, the auditor shall perform certain procedures to obtain information for use in identifying the risks of material misstatement due to fraud.

Which of the following is not a part of an entity's risk assessment process?

- A. Identify relevant business risks
- B. Assess the likelihood of occurrence
- C. Decide upon actions to manage the risks
- D. Report the process to the auditors

**Answer:** D

NO.3 When questions arise on the appropriateness of the going concern assumption made by management and the existence of material misstatements which was not adequately disclosed in the financial statements would lead to auditor's-

- A. Qualified opinion
- B. Unmodified opinion
- C. Disclaimer of opinion
- D. Unmodified opinion (but have to include an emphasis of matter paragraph in the auditor's report)

**Answer:** A

NO.4 John has been given the following draft figures for Kulran Ltd for the year ended 30 June 2011 to analyse. Materiality has been set at \$35,000 and the finance director has told John in a planning meeting that there have been few changes in the year. Budgets were set at 2010 levels and there have been no major movements in non-current assets.

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Revenue 3,497,2843,487,286

Cost of sales 1,867,2942,008,967

Salaries 467,900420,975

Which of the following is normally designed to detect possible material monetary errors in the above figures of financial statements?

- A. Test of control
- B. Walk-through test
- C. Analytical procedure

D. Observation of a procedure

**Answer:** C

NO.5 An auditor performs an analytical review by comparing the gross margins of various divisional operations with those of other divisions and with the individual division's performance in previous years. The auditor notes a significant increase in the gross margin at one division. The auditor does the preliminary investigation and notes that there were no changes in products, production methods, or divisional management during the year.

Based on the above information, the most likely cause of the increase in gross margin would be

- A. An increase in the number of competitors selling similar products.
- B. A decrease in the number of suppliers of the material used in manufacturing the product.
- C. An overstatement of year-end inventory.
- D. An understatement of year-end accounts receivable.

**Answer:** C

NO.6 Internal auditors must exercise due care if they are to meet their responsibilities for fraud detection. Thus, the existence of certain conditions should raise auditor's professional scepticism concerning possible fraud. Which of the following is most likely to be considered as an indication of possible fraud?

- A. A new management team installed as the result of a takeover.
- B. Rapid turnover of financial executives.
- C. Rapid expansion into new markets.
- D. Tax authorities' audit of tax returns.

**Answer:** B

NO.7 The internal auditing department has been assigned to perform an audit of a division. Based on background review, the auditor knows the following about management policies:

Company policy is to rapidly promote divisional managers who show significant success. Thus, successful managers rarely stay at a division for more than three years.

A significant portion of division management's compensation comes in the form of bonuses based on the division's profitability.

The division was identified by senior management as a turnaround opportunity. The division is growing, but is not scheduled for a full audit by the external auditors this year. The division has been growing about 7% per year for the past three years and uses a standard cost system.

During the preliminary review, the auditor notes the following changes in financial data compared to the prior year:

Sales have increased by 10%.

Cost of goods sold has increased by 2%.

Inventory has increased by 15%.

Divisional net income has increased by 8%.

Assume the auditor found that there was a plan to overstate inventory and therefore increase reported profits for the division. If reported correctly, the division would not have shown an increase in net income. The auditor has substantial evidence that the divisional manager was aware of and approved the plan to overstate inventory. There is also some evidence that the manager may have been responsible for the implementation of the plan.

The appropriate audit action would be to

- A. Continue to conduct interviews with subordinates until a clear-cut case is made and then report

the case to the audit committee.

- B. Inform management and the audit committee of the findings and discuss proper follow-up action and/or further investigation with them.
- C. Inform the divisional manager of the audit suspicions and obtain the manager's explanation of the findings before pursuing the matter further.
- D. Document the case thoroughly and report the suspicions to the external auditor for further review and external reporting.

**Answer:** B

NO.8 Internal auditors and management have become increasingly concerned about computer fraud. Which of the following control procedures would be least important in preventing computer fraud?

- A. Programme change control that requires a distinction between production programmes and test programmes.
- B. Testing of new applications by users during the systems development process.
- C. Segregation of duties between the applications programmer and the programme librarian function.
- D. Segregation of duties between the programmer and systems analyst.

**Answer:** D