Name: ____________________ Class: ____________________ Date: __________

2. An overview of the postulates and concepts of auditing

1. Which of the following is not a credibility concept?

a. Due care
b. Ethics
c. Risk management
d. Independence

ANSWER: c

2. The inclusion of a value for Receivables in the financial statements implies that certain assertions are true. Which of the following statements is not a valid assertion?

a. That all the Receivables are collectable
b. That all Receivables exist
c. That all receivables are owed to the organization
d. That all the amounts shown can be collected within the terms of trade of the business
e. That the figure for Receivables is properly shown in the financial statements

ANSWER: d

3. Which of the following is not a component of audit risk?

a. Inherent risk
b. Business risk
c. Detection risk
d. Control risk

ANSWER: b

4. During an audit the auditor suspects that the accountant who controls the cash book and the accounts receivable ledger has been committing fraud by teeming and lading.

How might the auditor establish whether or not this is the case when the cashier has control of all the records?

a. It's not possible except by contacting all the customers and asking about what they paid and when.
b. By adding up all the invoices issued and all the cash received and seeing if the difference equals the total of balances in the Receivables ledger
c. By checking whether or not a receipt entered as one amount in the cash book is actually credited to two customer accounts in separate amounts
d. By checking the receipts in the Cash Book against the bank statements

ANSWER: c

5. Complete the definition of control risk using the following words:

1. disclosure
2. risk
3. account balance
4. assertion

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2. An overview of the postulates and concepts of auditing

5. shown
6. internal control
7. singly
8. financial statement
9. detected
10. material
11. accounting systems
12. individually

The ________________ that a misstatement that should occur in an ________________about a class of transaction, account balance or ________________ and that could be ________________ either ________________ or when aggregated with other misstatements will not be prevented or ________________ and corrected on a timely basis by the entity's ________________.

ANSWER: Complete the definition of control risk using the following words:

1. disclosure
2. risk
3. account balance
4. assertion
5. shown
6. internal control
7. singly
8. financial statement
9. detected
10. material
11. accounting systems
12. individually

The Group 1 that a misstatement that should occur in an Group 2 about a class of transaction, account balance or Group 3 and that could be Group 4 either Group 5 or when aggregated with other misstatements will not be prevented or Group 6 and corrected on a timely basis by the entity's Group 7 .

Answer Groups	Answers
Group 1	risk
Group 2	assertion
Group 3	disclosure
Group 4	material
Group 5	individually
Group 6	detected

2. An overview of the postulates and concepts of auditing

Group 7	internal control

6. Which of the following are components of the internal control environment?

1. The management information system
2. The internal control procedures
3. Management policies
4. Ethical policies

a. 1, 2, 3, 4
b. 2, 3, 4
c. 1, 3, 4
d. 1, 2, 4

ANSWER: b

7. Which of the following groups might not have an interest in an entity's published financial statements?

a. Senior management
b. Project managers
c. Employees
d. Lenders

ANSWER: b

8. Corporate Governance is defined as 'the system by which companies are directed and controlled.' (UK Corporate Governance Code, 2016). This involves several components all of which have a part to play in proper governance.

Which of the following are not classed as part of an entity's corporate governance?

a. The Audit Committee
b. The Auditors
c. The Regulator
d. The Shareholders
e. The Public

ANSWER: e