MULTIPLE CHOICE (15 items x 1 point)

Choose the letter of the correct answer. Write your answers neatly in the space provided or on your answer sheet. Make sure to review each situation before selecting your response, as some questions require proper application of accounting principles.

1. Which assertion is primarily tested when the auditor performs surprise cash counts?
   a. Completeness
   b. Rights and obligations
   c. Existence
   d. Valuation

2. **Statement 1:** Bank overdrafts with the same bank may be offset against positive balances.
   Statement 2: Bank overdrafts with different banks are classified as liabilities.
   a. Both statements are True
   b. Statement 1 is True; Statement 2 is False
   c. Statement 1 is False; Statement 2 is True
   d. Both statements are False

3. A bank reconciliation prepared by the auditor is mainly intended to:
   a. Prove the accuracy of the petty cash fund balance
   b. Confirm the completeness of revenue transactions
   c. Reconcile recorded and actual cash balances
   d. Replace the client's responsibility to reconcile

4. Which of the following is considered a fraud risk that auditors should be alert to when auditing interbank transfers?
   a. Lapping
   b. Window dressing
   c. Kiting
   d. Embezzlement

5. When auditing foreign currency bank accounts, the auditor focuses on:
   a. Timing of deposits in transit
   b. Stale checks
   c. Proper translation at the closing rate
   d. Segregation of duties

6. Which of the following is **NOT** normally included in a standard bank confirmation request?
   a. Balances in open and closed accounts
   b. Details of contingent liabilities
   c. Client bank signature cards
   d. Collateral and loan terms

7. **Statement 1:** A check becomes stale if it remains uncashed after one year.
   Statement 2: Stale checks should be reclassified as part of accounts receivable.
   a. Both statements are True.
   b. Statement 1 is True; Statement 2 is False.
   c. Statement 1 is False; Statement 2 is True.
   d. Both statements are False.

8. If an entity records postdated checks received from customers as part of year-end cash, which assertion is misstated?
   a. Completeness
   b. Valuation
   c. Rights and obligations
   d. Existence

9. The primary audit procedure for verifying cash in bank balances is:
   a. Bank confirmation
   b. Review of internal controls
   c. Observation of cash count
   d. Trace deposits to the bank cut-off

10. **Statement 1:** Proof of cash reconciles both balances and transactions between the bank and the books.
    Statement 2: It is mainly used to detect timing errors in depreciation expense.
    a. Both statements are True.
    b. Statement 1 is True; Statement 2 is False.
    c. Statement 1 is False; Statement 2 is True.
    d. Both statements are False.

11. An auditor observes that deposits made on December 31 were not reflected in the bank statement until January 3. How should these be treated in the year-end bank reconciliation?
    a. Outstanding checks
    b. Deposits in transit
    c. Cash equivalents
    d. Adjusting journal entries

12. A cashier delays recording cash receipts for one customer until another customer pays, using the later payment to cover the earlier one. This indicates:
    a. Window dressing
    b. Lapping
    c. Kiting
    d. Teeming and lading

13. During the audit, the auditor notes that the client reported cash sales of ₱100,000, but only ₱90,000 was deposited in the bank. Which procedure would be most effective to investigate the discrepancy?
    a. Review of compensating balances
    b. Cash cutoff test
    c. Trace cash receipts to deposit slips
    d. Review of stale checks

14. A company's balance sheet includes a sinking fund investment maturing in 18 months under "Cash and Cash Equivalents." What is the proper classification?
    a. Cash equivalent
    b. Noncurrent investment
    c. Restricted current asset
    d. Current liability

15. An auditor is performing bank transfer testing and observes that the disbursement date on the source bank is recorded in January, while the receipt in the destination bank is recorded in December. What risk is the auditor most concerned about?
    a. The risk that the entity is attempting to hide shortages of cash by creating the illusion of higher balances.
    b. The risk that the entity is incorrectly applying the valuation rules for foreign currency cash accounts.
    c. The risk that the entity is misclassifying restricted cash equivalents as current cash in the financial statements.
    d. The risk that the entity is failing to record compensating balances required under loan agreements