

# CPA REVIEW SCHOOL OF THE PHILIPPINES

Manila

## AUDITING THEORY

### Professional Accounting Practice

*Related PSA : Preface to PSA and Related Services*

1. The following statements relate to the accounting profession:
  - I. To merit public trust and confidence, the professional person must convince the public that he will place public service ahead of personal reward.
  - II. A CPA certificate is evidence of basic competence in the discipline of accounting at the time the certificate is granted.
  - III. A code of professional conduct is one of the most important distinguishing characteristics of a profession.

State whether the foregoing statements are true or false.

  - a. **All of the statements are true.**
  - c. Only two of the statements are true.
  - b. Only one of the statements is true.
  - d. All of the statements are false.
2. Which of the following is not normally a service rendered by public accountants?
  - a. Management consultation service
  - c. **Internal auditing**
  - b. Attest function
  - d. Taxation
3. A CPA firm offers management advisory services to clients. Its primary purpose is to
  - a. **Furnish professional advice and assistance which will enable the client to improve operations.**
  - b. Keep the CPA firm competitive with other firms.
  - c. Establish the firm as a consultant, thus ensuring its future expansion and growth.
  - d. Permit the firm's staff members to acquire expertise in other areas of practice.
4. The government agency tasked by law of implementing and enforcing the regulatory policies of the national government with respect to the regulation and licensing of the various professions and occupations under its jurisdiction is
  - a. **PRC**
  - b. BOA
  - c. COA
  - d. SEC
5. Which of the following mostly describes the function of ASPC?
  - a. To monitor full compliance by auditors to PSAs.
  - b. **To promulgate auditing standards, practices and procedures that shall be generally accepted by the accounting profession in the Philippines.**
  - c. To assist the Board of Accountancy in conducting administrative proceedings on erring CPAs in audit practice.
  - d. To undertake continuing research on both auditing and financial accounting in order to make them responsive to the needs of the public.
6. In the absence of pronouncements issued by the ASPC and the PICPA, published statements and guidelines issued by other authoritative bodies like AICPA, IAASB and AFA are the bases of determining generally accepted auditing standards (GAAS). What effect do these pronouncements provide in determining the GAAS?
  - a. Authoritative
  - b. **Persuasive**
  - c. Parallel
  - d. Alternative
7. Which statement is incorrect regarding the pronouncements of ASPC?
  - a. The PSAs and Interpretations may also have application, as appropriate, to other related activities of auditors.
  - b. PSAs contain basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material.
  - c. PSAs need only be applied to material matters.
  - d. **The Interpretations have the same authority as the PAPSS.**
8. The Philippine Standards on Auditing issued by ASPC
  - a. **Apply to independent examination of financial statements of any entity when such an examination is conducted for the purpose of expressing an opinion thereon.**
  - b. Must not apply to other related activities of auditors
  - c. Need to be applied on all audit related matters.

- d. Require that in no circumstances would an auditor may judge it necessary to depart from a PSA, even though such a departure may result to more effective achievement of the objective of an audit
9. These statements are issued to provide practical assistance to auditors in implementing the PSAs  
a. Interpretations      b. SASP      c. PAPS      d. SPA
10. A body that is created through the Philippine Accountancy Act of 2004 and is intended to replace the ASPC.  
a. Auditing and Assurance Standards Council (AASC)  
b. Financial Reporting Standards Council (FRSC)  
c. Education Technical Council (ETC)  
d. Philippine Institute of Certified Public Accountants (PICPA)
11. Which of the following government agencies is represented both to the Auditing Standards and Practices Council and the Auditing and Assurance Standards Council?  
a. Bangko Sentral ng Pilipinas      c. Securities and Exchange Commission  
b. Bureau of Internal Revenue      d. Commission on Higher Education
12. Are the following government agencies represented both to Auditing Standards and Practices Council (ASPC) and the new Auditing and Assurance Standards Council (AASC)?
- |                                      | <u>a</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|--------------------------------------|----------|----------|----------|----------|
| • Board of Accountancy               | Yes      | Yes      | Yes      | Yes      |
| • Securities and Exchange Commission | Yes      | Yes      | No       | No       |
| • Commission on Audit                | Yes      | Yes      | Yes      | Yes      |
| • Bangko Sentral ng Pilipinas        | Yes      | No       | Yes      | No       |
13. Which statement is correct regarding AASC?  
a. The AASC shall be composed of 15 members plus a Chairman.  
b. The chairman and members of the AASC shall be appointed by the President of the Philippines upon the recommendation of PRC.  
c. The chairman and members of the AASC shall have a non-renewable term of 3 years.  
d. The chairman should have been or presently a senior practitioner in public accountancy.
14. The following sectors represented by the PICPA to the membership of AASC have one representative, except  
a. Government      c. Commerce and industry  
b. Public practice      d. Academe
15. Statements on financial accounting standards constituting GAAP are issued by the  
a. Philippine Institute of CPAs.      c. Audit Standards and Practices Council.  
b. Securities and Exchange Commission.      d. Accounting Standards Council.
16. Indicate whether the following functions would be performed by:  
P – Partner      S – Senior  
M – Manager      AS – Audit Assistant
- |   |  |                                      |                        |
|---|--|--------------------------------------|------------------------|
| (1) Supervises two or more concurrent audit engagements | (2) Performs detailed audit procedures | (3) Overall responsibility for audit | (4) Signs audit report |
| (1)   | (2)                                    | (3)                                  | (4)                    |
| a. P  | AS                                     | S                                    | M                      |
| b. M  | S                                      | M                                    | P                      |
| c. M  | AS                                     | P                                    | P                      |
| d. P  | AS                                     | S                                    | M                      |
17. The amount of audit fees depend largely on the  
a. Size and capitalization of the company under audit.  
b. Amount of profit for the year.  
c. Availability of cash.  
d. Volume of audit work and degree of competence and responsibilities involved.

18. In determining audit fees, an auditor may take into account each of the following except
  - a. Volume and intricacy of work involved.
  - b. Degree of responsibility assumed.
  - c. Number and cost of manhours needed.
  - d. **Size and amount of capital of client.**
19. Under this method of billing a client, the external auditors charges on the basis of time spent by principals/partners, supervisors, seniors and juniors at predetermined rates agreed upon with the client
  - a. Maximum fee basis
  - b. Retainer basis
  - c. Flat sum basis
  - d. **Per diem basis**

RA No. 9298 – Philippine Accountancy Act of 2004 and its IRR

1. Which of the following is not one of the specified objectives of the Accountancy Act of 2004?
  - a. Examination for registration of CPAs.
  - b. Supervision, control, and regulation of accounting practice.
  - c. Standardization and regulation of accounting education.
  - d. **Promulgation of accounting and auditing standards.**
2. In all of the following situations except one, a person is deemed to be engaged in professional accounting practice. Which of them is the exception?
  - a. Performing audits or verification of financial transactions and records for more than one client.
  - b. Employed as the department chairman that supervises the BSA program of an educational institution.
  - c. Employment as controller of a private business enterprise and such employment requires that the holder thereof should be a CPA.
  - d. **Appointment in the government where first grade civil service eligibility is a prerequisite.**
3. A person is not deemed to be engaged in professional accounting practice if
  - a. Her merely holds himself out as skilled in the science and practice of accounting and qualified to render services as a CPA.
  - b. He merely offers to render services as a CPA to the public, but does not actually render such services.
  - c. **He offers or renders bookkeeping services to more than one client.**
  - d. He installs and revises accounting systems for more than one client.
4. Practice in Public Accountancy shall constitute in a person
  - a. Involved in decision making requiring professional knowledge in the science of accounting, or when such employment or position requires that the holder thereof must be a certified public accountant.
  - b. In an educational institution which involve teaching of accounting, auditing, management advisory services, finance, business law, taxation, and other technically related subjects.
  - c. Who holds, or is appointed to, a position in an accounting professional group in government or in a government owned and/or controlled corporation, including those performing proprietary functions, where decision making requires professional knowledge in the science of accounting,
  - d. **Holding out himself/herself as one skilled in the knowledge, science and practice of accounting, and as a qualified person to render professional services as a certified public accountant; or offering or rendering, or both, to more than one client on a fee basis or otherwise.**
5. Any position in any business or company in the private sector which requires supervising the recording of financial transactions, preparation of financial statements, coordinating with the external auditors for the audit of such financial statements and other related functions shall be occupied only by a duly registered CPA. Provided (choose the incorrect one)
  - a. That the business or company where the above position exists has a paid-up capital of at least P5,000,000 and/or an annual revenue of at least P10,000,000.
  - b. The above provision shall apply only to persons to be employed after the effectivity of the Implementing Rules and Regulations of RA 9298.
  - c. The above provision shall not result to deprivation of the employment of incumbents to the position.
  - d. **None of the above.**

6. The integrated national professional organization of Certified Public Accountants accredited by the BOA and the PRC per PRC accreditation No. 15 dated October 2, 1975.
- Auditing and Assurance Standards Council (AASC)
  - Financial Reporting Standards Council (FRSC)
  - Education Technical Council (ETC)
  - Philippine Institute of Certified Public Accountants (PICPA)**
7. As defined in the IRR of RA 9298, it is an organization engaged in the practice of public accountancy, consisting of sole proprietor, either alone or with one or more staff members.
- Firm**
  - Individual CPA
  - Partnership
  - Sector
8. The following statements relate to the Board of Accountancy. Which statement is correct?
- The Board consists of a Chairman and six members.
  - The chairman and members are appointed by the President of the Philippines upon recommendation of PICPA.
  - The Professional Regulation Commission may remove from the Board any member whose certificate to practice has been removed or suspended.
  - Majority of the board members shall as much as possible be in public practice.
9. The APO shall submit its nominations with complete documentation to the Commission not later than \_\_\_\_\_ prior to the expiry of the term of an incumbent chairman or member.
- 30 days
  - 60 days**
  - 90 days
  - 120 days
10. A member of the BOA shall, at the time of his/her appointment, possess the following qualifications, except
- Must be a natural-born citizen and resident of the Philippines.
  - Must be a duly registered CPA with more than ten (10) years of work experience in any scope of practice of accountancy.**
  - Must be of good moral character and must not have been convicted of crimes involving moral turpitude.
  - Must not be a director or officer of the APO at the time of his/her appointment.
11. Which statement is incorrect regarding the term of office of the chairman and the members of the Board of Accountancy (BOA)?
- The Chairman and members of the Board shall hold office for a term of three years.
  - No person who has served two (2) successive complete terms shall be eligible for reappointment until the lapse of one (1) year.
  - A person may serve the BOA for not more than twelve years.
  - A member of the BOA may continuously serve office for more than nine years.**
12. The Board shall exercise the following specific powers, functions and responsibilities:
- |  | <u>a</u>   | <u>b</u> | <u>c</u> | <u>d</u> |
|--|------------|----------|----------|----------|
| • To supervise the registration, licensure and practice of accountancy   | <b>Yes</b> | Yes      | Yes      | Yes      |
| • To issue, suspend, revoke, or reinstate the Certificate of Registration for the practice of the accountancy profession                   | <b>Yes</b> | No       | Yes      | Yes      |
| • To monitor the conditions affecting the practice of accountancy  | <b>Yes</b> | Yes      | No       | Yes      |
| • To conduct an oversight into the quality of audits of financial statements   | <b>Yes</b> | No       | Yes      | No       |
| • To issue a cease or desist order to any person, association, partnership or corporation engaged in violation of any provision of the Act | <b>Yes</b> | Yes      | No       | Yes      |
13. Which of the following is not one of the penalties that can be imposed by the Board of Accountancy?
- Fine or imprisonment**
  - Revocation of CPA certificate
  - Reprimand
  - Suspension of CPA certificate
14. The creation of FRSC and AASC is intended to assist the BOA in carrying out its function to
- To monitor the conditions affecting the practice of accountancy and adopt such measures, rules and regulations and best practices as may be deemed proper for the**

- enhancement and maintenance of high professional, ethical, accounting and auditing standards.
- b. To supervise the registration, licensure and practice of accountancy in the Philippines.
  - c. To prescribe and adopt the rules and regulations necessary for carrying out the provisions of RA 9298.
  - d. To prepare, adopt, issue or amend the syllabi of the subjects for examinations.
15. A body that is created to assist the BOA in the attainment of the objective of continuously upgrading the accountancy education in the Philippines to make the Filipino CPAs globally competitive.
- a. Philippine Institute of Certified Public Accountants (PICPA)
  - b. Education Technical Council (ETC)
  - c. Financial Reporting Standards Council (FRSC)
  - d. Associations of CPAs in Education (ACPAE)
16. Which of the following is are grounds for suspension or removal of members of BOA?
- I. Neglect of duty or incompetence.
  - II. Violation or tolerance of any violation of the CPA's Code of Ethics.
  - III. Final judgment of crimes involving moral turpitude.
  - IV. Rigging of the certified public accountant's licensure examination results.
- a. I, II, III and IV      b. I, II and III      c. III and IV      d. I, III and IV
17. The following statements relate to CPA examination ratings. Which of the following is incorrect?
- a. To pass the examination, candidates should obtain a general weighted average of 75% and above, with no rating in any subject less than 65%.
  - b. Candidates who obtain a rating of 75% and above in at least four subjects shall receive a conditional credit for the subjects passed.
  - c. Candidates who failed in four complete examinations shall no longer be allowed to take the examinations the fifth time.
  - d. Conditioned candidates shall take an examination in the remaining subjects within two years from the preceding examination.
18. The Board, subject to the approval of the Commission, may revise or exclude any of the subjects and their syllabi, and add new ones as the need arises. Provided that the change shall not be more often than every
- a. 2 years      b. 3 years      c. 4 years      d. 5 years
19. The BOA shall submit to the PRC the ratings obtained by each candidate within how many calendar days after the examination?
- a. 5 days      b. 10 days      c. 15 days      d. 30 days
20. A Professional Identification Card bearing the registration number, date of issuance, expiry date, duly signed by the chairperson of the Commission, shall be issued to every registrant renewable every
- a. Two years      b. Three years      c. Four years      d. Five years
21. The certified public accountant shall be required to indicate which of the following numbers on the documents he/she signs, uses or issues in connection with the practice of his/her profession?
- |                                       | <u>A</u> | <u>b</u> | <u>c</u> | <u>d</u> |
|---------------------------------------|----------|----------|----------|----------|
| • His/her Certificate of Registration | Yes      | Yes      | Yes      | No       |
| • Professional Identification Card    | Yes      | Yes      | Yes      | Yes      |
| • Professional Tax Receipt            | Yes      | Yes      | No       | Yes      |
| • Telephone                           | Yes      | No       | No       | No       |
22. The BOA shall not refuse the registration of any person who successfully passed the CPA examinations if
- a. Convicted by a court of competent jurisdiction of a criminal offense involving moral turpitude
  - b. Convicted for a political offense.
  - c. Guilty of immoral and dishonorable conduct
  - d. None of the above.



23. Which of the following is not one of the grounds for proceedings against a CPA?
- Gross negligence or incompetence in the practice of his profession.
  - Engaging in public practice while being employed in a private enterprise.
  - Insanity.
  - Immoral or dishonorable conduct.
24. A person whose CPA certificate has been revoked
- Can no longer be reinstated as a CPA
  - Is automatically reinstated as a CPA after two years if the has acted in an exemplary manner
  - May be reinstated as a CPA by the Board of Accountancy after two years if he has acted in an exemplary manner
  - May be reinstated by the PRC after two years if he has acted in an exemplary manner
25. Who is not permitted by law to practice accountancy?
- A corporation whose stockholders are all CPAs
  - A partnership of CPAs
  - An individual CPA practitioner
  - A partnership of CPAs with some non-CPA staff
26. A certificate of accreditation shall be issued to certified public accountants in public practice only upon showing, in accordance with rules and regulations promulgated by the Board and approved by the Commission, that such registrant has acquired how many years of meaningful experience in any of the areas of public practice?
- One
  - Two
  - Three
  - Four
27. A meaningful experience shall be considered as satisfactory compliance with the requirements of Section 28 of RA 9298 if it is earned in (Choose the incorrect one)
- Commerce and industry and shall include significant involvement in general accounting, budgeting, tax administration, internal auditing, liaison with external auditors, representing his/her employer before government agencies on tax and matters related to accounting or any other related functions.
  - Academe/education and shall include teaching for at least three (3) trimesters or two (2) semesters subjects in either financial accounting, business law and tax, auditing problems, auditing theory, financial management and management services.
  - Government and shall include significant involvement in general accounting, budgeting, tax administration, internal auditing, liaison with the Commission on Audit or any other related functions.
  - Public practice and shall include at least two years as audit assistant and at least one year as auditor in charge of audit engagement covering full audit functions of significant clients.
28. The Accountancy Law provides that all working papers made during an audit shall be the property of the auditor. These working papers shall include the following, except:
- Schedules and memoranda made by the CPA and his staff.
  - Working papers prepared and submitted by the client.
  - Excerpts or copies of documents furnished the auditor.
  - Reports submitted by the CPA to the client.
29. Individual CPAs, Firms or Partnerships of CPAs, including partners and staff members thereof shall register with the BOA and the PRC. If the application for registration of AB and Co., CPAs was approved on August 30, 2005, it shall file for renewal on or before
- September 30, 2007
  - September 30, 2008
  - December 31, 2007
  - August 30, 2008
30. Which statement is correct regarding CPE requirements for renewal of professional license?
- The total CPE credit units required for CPAs shall be sixty (60) units for three (3) years, provided that a minimum of twenty (20) credit units shall be earned in each year.
  - A registered professional shall be permanently exempted from CPE requirements upon reaching the age of 60 years old.
  - A registered professional who is working abroad shall be temporarily exempted from compliance with CPE requirement during his/her stay abroad, provided that he/she is has been out of the country for at least one year immediately prior to the date of renewal.

- d. Those who failed to renew professional licenses for a period of five (5) continuous years from initial registration, or from last renewal shall be declared delinquent.
31. Any person who shall violate any of the provisions of RA 9298 or any of its implementing rules and regulations as promulgated by the Board subject to the approval of the Commission, shall, upon conviction, be punished by
- A fine of not less than fifty thousand pesos (P 50,000.00) or by imprisonment for a period not exceeding two (2) years or both.
  - A fine of not less than one hundred thousand pesos (P 100,000.00) or by imprisonment for a period not exceeding two (2) years or both.
  - A fine of not less than fifty thousand pesos (P 50,000.00) or by imprisonment for a period not exceeding three (3) years or both.
  - A fine of not less than one hundred thousand pesos (P 100,000.00) or by imprisonment for a period not exceeding three (3) years or both.
32. The primary duty to enforce the provisions of RA 9298 and its IRR rests with
- The PRC
  - The BOA
  - The PRC and BOA
  - The AASC
33. The PICPA shall renew its Certificate of Accreditation once every how many years after the date of the Resolution granting the petition for re-accreditation and the issuance of the said certificate upon submission of the requirements?
- 2 years
  - 3 years
  - 4 years
  - 6 years
34. Below are the names of three CPA firms and pertinent facts relative to each firm. Unless otherwise indicated, the individuals named are CPAs and partners, and there are no other partners. Which firm name and related facts indicates a violation of the IRR of RA 9298?
- Joyce, Ara and Angela, CPAs (Joyce died about 10 years ago, Ara and Angela are continuing the firm)
  - Lupin and Fujico, CPAs ( the name of Goymon a third active partner is omitted in the firm name)
  - Hugo and Pugo, CPAs (Hugo died 25 months ago, Pugo is continuing the firm as a sole proprietor)
  - Bubu and Bibi, CPAs (Bibi died 3 years ago, Bobot was admitted into the partnership 2 months after Bibi's death.)

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