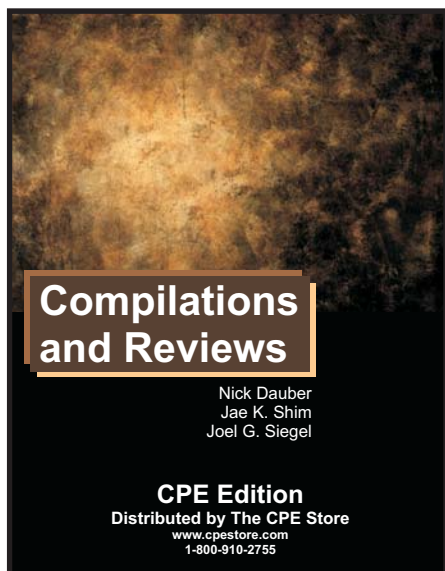


# Compilations and Reviews

## Course Instructions and Final Examination



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# Compilations and Reviews

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## **Course Objectives**

After completing this course, you will be able to:

- Pinpoint the meaning of comprehensive income
- Identify which method of revenue recognition should be used when future costs can be estimated
- Recognize the method of revenue recognition used in a company selling inventory
- Identify a requirement for amortization to begin
- Spot a characteristic of factoring accounts receivable
- Pinpoint what step under dollar-value LIFO is
- Recognize a circumstance in which interest on borrowed money is capitalized to the asset account and then amortized
- Recognize the basis for fair market value in a nonmonetary exchange
- Determine what should be footnoted for an impairment loss
- Identify a necessary factor in estimating useful lives for limited life intangibles
- Pinpoint one of the three classifications, under IFRS and U.S. GAAP, to specify cash flows
- Identify the meaning of cash outflows for operating activities
- Choose what an analysis of the statement of cash flows can help creditors and investors determine
- Recognize a criterion which must be met for prior-period adjustments in interim periods
- Spot a guideline for preparing the statement of financial condition
- Identify the account which is credited for the net difference when a partnership is formed
- Recognize what is included in the highest level of the GAAP hierarchy
- Spot the change in accounting which requires retrospective application to previous years' financial statements
- Identify a type of prior-period adjustment
- Recognize an example of an accounting policy
- Discern a factor to consider in deriving the imputed interest rate
- Determine a requirement which must be met for anticipatory hedge accounting
- Spot a circumstance in which a consolidation is negated
- Recognize an entity or activity which uses the equity method of accounting
- Identify the focus of the purchase method of accounting
- Identify a characteristic of available-for-sale securities
- Recognize items which are included in a lessee's MLP
- Identify the footnote disclosure which is required for the direct financing method
- Identify a key characteristic of a compilation
- Determine a circumstance that warrants modification of the standard compilation report
- Recognize what is required by an accountant in a compilation or review engagement
- Spot the guideline which should be followed if an accountant agrees to a lower level of service
- Identify the meaning of prospective financial statements
- Choose the correct definition of a material weakness
- Determine what is accomplished with the top-down approach
- Recognize a service under the Sarbanes-Oxley Act of 2002 that will impair auditor independence
- Select a responsibility of the Public Company Accounting Oversight Board
- Recognize a factor which a CPA firm should consider in connection with human resources
- Identify a criterion which affects the decision to accept or continue a client relationship or a specific engagement
- Determine what should be considered in connection with leadership responsibilities for quality with the firm

## **Course Instructions**

To fully benefit from this course, please follow all of the steps below.

1. Read each chapter in the text to get a good understanding of the material.
2. Answer the study guide problems which appear at the end of each chapter. After answering the problems, compare your answers with the correct answers to ensure that you understand the material.
3. When you feel that you have a good understanding of the material contained in the chapter, answer the questions on the final examination.

4. When you have completed the final examination, record your answers on the answer sheet provided and submit it for grading. A score of 70% or better is required to pass. Please also complete the course evaluation that accompanied the course and submit it to us along with your answer sheet. Upon passing you will receive a Certificate of Completion stating that you have successfully completed the course and earned the continuing education credit.

### **Prerequisites and Advance Preparation**

No prerequisites or advance preparation are required for this course.

### **CPE Credit**

This course is recommended for 20 CPE credits.

### **Final Exam Grading**

- ▶ Online: Our fastest option, with instant results. Simply go to **www.cpestore.com** and click the link for online grading. Just follow the instructions from there. When you finish entering your answers, you'll receive instant test results and a Certificate of Completion to print.
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### **About Our Courses**

The CPE Store's courses are developed to satisfy the continuing education requirements of the American Institute of Certified Public Accountants, each state's Board of Accountancy and the National Association of State Boards of Accountancy (NASBA). If your state requires registration of sponsors, our sponsor number will appear on your Certificate of Completion.

Our courses are designed to meet the continuing education requirements of accounting professionals. A great deal of care has been taken to ensure that the course material is both interesting and relevant to the practice of accounting. The information presented is, to the best of our knowledge, current and accurate. However, The CPE Store is not in the business of rendering legal, accounting or other professional advice and as such, the material presented in our courses is intended as an overview. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

# Compilations and Reviews

## 20-Hour Course

### Final Examination

A score of 70% or higher is required to pass the exam. If you score less than 70% on your first attempt, we will allow you to take the test a second time.

#### Chapter 1 – Financial Statement Reporting: The Income Statement

1. What is comprehensive income?
  - A. Change in equity occurring from transactions and other events with nonowners
  - B. Investments made by owners
  - C. Extraordinary items both unusual in nature and infrequent in occurrence
  - D. Casualty losses
2. Which of the following is considered other comprehensive income per Accounting Standards Codification (ASC) 220-10-45-3?
  - A. Transaction items from the previous year
  - B. Realized gain on available-for-sale securities
  - C. Foreign currency transaction gain or loss
  - D. Gross income
3. Which of the following is one of the two components of discontinued operations?
  - A. Losses on expropriation of property by a foreign government
  - B. Gain on life insurance proceeds
  - C. Loss from prohibition under a newly enacted law or regulation
  - D. Income or loss from operations
4. What method of revenue recognition should be used when future costs can be estimated?
  - A. Realization
  - B. Completion of production
  - C. During production
  - D. Cash basis
5. Which of the following is required to use the completion of production method of revenue recognition?
  - A. Determinable selling price
  - B. Interchangeability in units
  - C. A completed transaction that can be objectively measured
  - D. An assured price for the completed item as defined by contractual agreement
6. What method of accounting does IFRS prohibit for long-term construction contracts?
  - A. Completed contract
  - B. Percentage of completion
  - C. Cash basis
  - D. Accrual basis
7. Which method of revenue recognition is used in the case of a company selling inventory?
  - A. Cash basis
  - B. Cost-to-cost method
  - C. During production
  - D. Accrual basis
8. What is a situation for which the cash basis of revenue recognition must be used?
  - A. Risks as to collection from customer
  - B. Selling price is determinable
  - C. Stable selling price
  - D. Absence of material marketing costs to complete the final transfer

## Final Exam

9. What consideration can be used in predicting returns?
  - A. Selling price is known
  - B. Whether purchase of the item has economic feasibility for the buyer
  - C. Seller's previous experience should be weighted in estimating returns for similar products
  - D. Seller does not have to render future performance in order that the buyer will be able to resell the goods
10. Which of the following is an indication of substantial performance for which a franchisor can record revenue from the initial sale of the franchise?
  - A. Absence of intent to give cash refunds or relieve the accounts receivable due from the franchise
  - B. Only material tasks need to be done by the franchisor
  - C. Sponsor sells a product to another franchise and agrees to reacquire the product
  - D. Sponsor controls the distribution of the product that has been bought by the franchise
11. Which of the following applies when part of the initial franchise fee is comprised of tangible property?
  - A. Revenue is deferred
  - B. Revenue recognition is based on the fair value of the assets
  - C. Revenue is recognized as earned and receivable
  - D. Costs are expensed
12. Which of the following are recorded at present value?
  - A. Unearned franchise fees
  - B. Initial franchise fee
  - C. Continuing franchise fees
  - D. Salaries of personnel involved with R&D
13. What is a circumstance in which installment or cost recovery accounting may be employed to account for franchisee fee revenue?
  - A. Long collection period is involved and future uncollectability of receivables cannot be accurately predicted
  - B. The franchisor sells equipment and inventory to the franchisee at no profit
  - C. Indirect costs of an operating and recurring nature are expensed immediately
  - D. Part of the initial fee constitutes a nonrefundable amount for services already performed
14. Which of the following should be disclosed by multiple deliverables?
  - A. Amount of compensation earned
  - B. Assumptions
  - C. Factors and estimates used to determine estimated selling price
  - D. Sinking fund requirements
15. Which of the following may be included as Research & Development?
  - A. Quality control
  - B. Market research
  - C. Legal costs of obtaining a patent
  - D. Pilot plant costs
16. What is required for amortization to begin?
  - A. Availability of a product for customer release
  - B. Research & Development activities are approved
  - C. A liability does not exist when the transfer of financial risk involved to the other party is substantive and genuine
  - D. Revenue is deferred
17. What phrase means a security will be converted into common stock at a later date, reducing earnings per share?
  - A. Deferred expenses
  - B. Deferred revenue
  - C. General and administrative costs
  - D. Potentially dilutive

18. Which of the following is a variable used in calculating basic EPS?
- A. Effect of convertible securities
  - B. Net effect of stock options
  - C. Weighted-average number of common shares outstanding
  - D. Net of tax interest
19. What must be presented if potentially dilutive securities that are outstanding exist?
- A. Both basic and diluted earnings per share
  - B. Net income less preferred dividends
  - C. Dividend and participation rights
  - D. Call prices
20. Which of the following applies if a subsidiary has been acquired under the purchase accounting method during the year?
- A. Dilutive convertible security must be converted into common stock
  - B. Weighted-average shares outstanding for the year are used from the purchase date
  - C. Add-back interest expense (net of tax) results in an adjusted net income figure used to determine earnings per share
  - D. Denominator of diluted earnings per share increases by the number of shares assumed issued, owing to exercise of options or warrants reduced by the assumed treasury shares bought

## Chapter 2 – Financial Statement Reporting: The Balance Sheet

21. Which of the following is not deducted from receivables to derive the net receivable?
- A. Finance charges
  - B. Interest included in the face of receivables
  - C. Quantity
  - D. Unearned discounts
22. What is characteristic in a factoring of accounts receivable?
- A. Receivables are in effect sold
  - B. Requires the incurrence of a financing charge
  - C. Requires interest expense on the note
  - D. Applies exclusively to intangibles
23. What method of calculating value is used by department stores and other large retail businesses that carry inventory items at retail selling price?
- A. Lower of cost or market value method
  - B. Retail method
  - C. Dollar-value LIFO
  - D. Conventional retail method
24. What is a step under dollar-value LIFO?
- A. Restate ending inventory in the current year into base dollars by applying a price index
  - B. Estimate the ending inventory at cost by employing a cost-to-retail ratio
  - C. Inventories are recorded when market value is less than the floor
  - D. Inventories are recorded at cost if cost is below market value
25. Which fixed assets should be reclassified from property, plant, and equipment to other assets and shown at salvage value reflecting a loss?
- A. Cost of buying the assets
  - B. Cost of additions to existing assets
  - C. Obsolete fixed assets
  - D. Self-constructed fixed assets
26. Which of the following is a circumstance in which interest on borrowed money is capitalized to the asset account and then amortized?
- A. Assets purchased for the company's own use by arrangements mandating a down payment and/or progress payments
  - B. Assets produced in large volume
  - C. Assets in use or ready for use
  - D. Assets not in use and not being prepared for use



## **Final Exam**

27. Which of the following may be the basis for fair market value in a nonmonetary exchange?
- A. Expenditures incurred
  - B. Whether work is proceeding to take the asset ready for intended use
  - C. Quoted market price
  - D. Interest incurred
28. What should be footnoted for an impairment loss?
- A. Method used to derive fair value
  - B. Nature of transaction
  - C. Gain
  - D. Loss
29. What is a factor in estimating useful lives for limited life intangibles?
- A. Whether it can be categorized as a fixed asset
  - B. Service lives of essential employees within the organization
  - C. Weighted-average interest rate
  - D. Average accumulated expenditures

## **Chapter 3 – Financial Statement Reporting: Statement of Cash Flows and Other Disclosures**

30. What is one of the three classifications, under IFRS and U.S. GAAP, to specify cash flows?
- A. Convertible
  - B. Cash
  - C. Operating
  - D. Reconciled
31. What are cash inflows from investing activities?
- A. Amounts received from disposing of fixed assets
  - B. Disbursements for loans made by the company and payments to buy debt securities of other entities
  - C. Funds received from the sale of stock
  - D. Funds obtained from the incurrence of debt
32. What are cash outflows for operating activities?
- A. Cash sales or collections on receivables arising from the initial sale of merchandise
  - B. Receipt of a litigation settlement
  - C. Reimbursement under an insurance policy
  - D. Cash payments to suppliers
33. What should be reconciled from operating activities when using either the direct or indirect reconciliation method?
- A. Receipts from dividends and interest
  - B. Tax payments
  - C. Deferrals of past operating cash receipts
  - D. Net income to net cash flow
34. What does an analysis of the statement of cash flows help creditors and investors determine?
- A. Impact on the firm's financial position of cash and noncash investing and financing transactions
  - B. Accounting principles used in the last year's annual report
  - C. Amount of gain or loss deferred to a future interim period
  - D. LIFO
35. Which of the following applies when a change in principle is made in the first interim period?
- A. Interim periods must be restated using the new principle
  - B. The cumulative effect of a change in principle account should be shown net of tax
  - C. Data should be restated to conform to newly adopted policies
  - D. Disclosure should be made of the effect of the new practice would have had on prior data
36. Which of the following must be met for prior-period adjustments in interim periods?
- A. Materiality
  - B. Financial planning
  - C. Compliance with disclosure requirements
  - D. Identification of intangibles

37. What is a disclosure in personal financial statements?
  - A. Adjustment of income taxes
  - B. Renegotiation proceedings
  - C. Identification of major investments
  - D. Utility revenue under rate-making processes
  
38. What is a guideline for preparing the statement of financial condition?
  - A. Present breakdown between current and noncurrent classifications
  - B. Assets are reflected at the estimated current value and are listed in the order of liquidity
  - C. Net income for the current period should include the portion of the effect related to current operations
  - D. Prior-period adjustments should be included in the earnings of the first interim period of the current year
  
39. What can be prepared to show the mix of business and personal items in personal financial statements?
  - A. Interim report
  - B. Partnership report
  - C. Statement of changes
  - D. Statement of financial condition
  
40. Which of the following applies when an unincorporated entity incorporates and issues stock or debt securities in exchange for the assets of the unincorporated business?
  - A. The new corporation recognizes the gain or loss on the issuance of stock in exchange for the unincorporated entity's assets
  - B. Assets acquired are recorded at fair market value
  - C. Long-term liabilities are not recorded
  - D. Stock issued is recorded at face value
  
41. What is credited for the net difference when a partnership is formed?
  - A. Assets
  - B. Liabilities
  - C. Common stock
  - D. Capital
  
42. What results when using the bonus method to account for the admission of a new partner?
  - A. Reduction in the old partners' capital accounts based on the on the profit-and-loss ratio
  - B. Increases in the old partners' current values of assets
  - C. Decreases in the new partners' current amounts of liabilities
  - D. Decrease in the old partners' estimated taxes due

**Chapter 4 – Accounting and Disclosures**

43. Which of the following is included in the highest level of the GAAP hierarchy?
  - A. FASB statements and interpretations
  - B. FASB technical bulletins
  - C. AICPA accounting standards executive committee practice bulletins
  - D. Implementation guides
  
44. What part of the Codification represents a collection of guidance and reside in four main areas: presentation, financial statement accounts, broad transactions and industries?
  - A. Subsections
  - B. Sections
  - C. Subtopics
  - D. Topics
  
45. Which of the following changes requires retrospective application to previous years' financial statements?
  - A. Change in estimate
  - B. Change in principle
  - C. Change in reporting entity
  - D. Change in operating profit

## Final Exam

46. Which of the following is accounted for as a prior-period adjustment?
  - A. Change in accounting method used
  - B. Change in accounting estimate
  - C. Change in reporting entity
  - D. Correction of an error
47. What is a type of prior-period adjustment?
  - A. Recognition of a tax loss carryforward benefit arising from a purchased subsidiary
  - B. Restatement for a change in reporting entity showing proper trends in comparative financial statements
  - C. Presentation consolidated statements instead of statements of individual companies
  - D. The need to more readily conform to industry practice
48. Which of the following is an accounting policy?
  - A. Financial statement classification method
  - B. Qualitative method
  - C. Depreciation method
  - D. Litigation method
49. Which of the following is an activity of a development-stage enterprise?
  - A. Amortization for a patent
  - B. Developing markets
  - C. Consolidation
  - D. Inventory pricing
50. Which of the following is a disclosure to be made by segments?
  - A. Revenue to unaffiliated customers
  - B. Operating profit or loss
  - C. Identifiable assets
  - D. Aggregate depreciation, depletion, and amortization expense
51. What is a factor to consider in deriving the imputed interest rate?
  - A. Geographical proximity
  - B. Economic affinity
  - C. Change in product groupings
  - D. Collateral
52. Which of the following is not eligible for an imputed interest rate?
  - A. Usual lending activities of banks
  - B. Non-interest bearing notes
  - C. Notes that provide for an unrealistically low interest rate
  - D. A note with a face value that is significantly different from the going selling price of the property or market value of the note
53. What is a requirement for a "hedge-type" futures contract?
  - A. Identification exists of the major terms of the contemplated transaction
  - B. A change in the market value for the purposes of hedging a firm commitment is included in measuring the transaction satisfying the commitment
  - C. It is probable that the expected transaction will take place
  - D. Possibility that other types of transactions may be undertaken to accomplish the desired goal
54. What requirement must be met for anticipatory hedge accounting?
  - A. Net quantities of proved reserves and changes during a year
  - B. Property acquisitions
  - C. Adverse operational effects of not engaging in a transaction
  - D. Results of operations
55. What should be capitalized when accounting for oil, gas and water?
  - A. Production costs
  - B. Uncompleted wells, equipment and facilities
  - C. Exploration costs
  - D. Development costs

56. What should be disclosed when accounting for oil, gas and water?
- A. Measure of discounted future net cash flows
  - B. Mineral interests in properties classified as proved or unproved
  - C. Wells and related equipment
  - D. Support equipment and facilities used in relevant activities

### Chapter 5 – Key Financial Accounting Areas

57. What is a circumstance in which a consolidation is negated?
- A. Parent owns more than 50 percent of the voting common stock of the subsidiary
  - B. Company making up the consolidated group maintains their individual legal identity
  - C. Subsidiary has a material amount of debt
  - D. Parent has sold or contracted to sell subsidiary shortly after year-end making the subsidiary a temporary investment
58. What is characteristic of a minority interest in a subsidiary?
- A. Parent is not in actual control
  - B. Parent has sold or contracted to sell the subsidiary
  - C. Includes eliminations for intercompany payables and receivables, advances and profits
  - D. Represents the stockholders' equity in the partially owned subsidiaries outside of the parent's controlling interest
59. Which of the following uses the equity method of accounting?
- A. Consolidated subsidiaries
  - B. Intercompany payables and receivables
  - C. Unconsolidated subsidiaries
  - D. Recognize the difference between the cost of the subsidiary and the equity in net assets at the acquisition date
60. What is characteristic of the acquisition method?
- A. Focus is on fair value of the acquired entity
  - B. Acquisitions continue to be accounted for
  - C. Acquisitions will continue to be consolidated until entities are sold, closed or otherwise disposed of
  - D. Income and expenses of the acquiree are reported retrospectively
61. What is the focus of the purchase method?
- A. Historical cost of the acquisition
  - B. Assets and liabilities
  - C. Fair value of contingent
  - D. Acquiree in-process research and development costs and other purchased intangibles
62. Which of the following applies exclusively to debt securities?
- A. Pooling interest
  - B. Held-to-maturity
  - C. Trading securities
  - D. Purchase method
63. What is characteristic of available-for-sale securities?
- A. Often held for trading reasons
  - B. Often held to maturity
  - C. Reported at market value with the accumulated unrealized loss or gain shown as a separate item in the stockholders' equity section of the balance sheet
  - D. Can only be recorded as debt
64. Which of the following requires the equity method of accounting?
- A. Investor owns between 20 and 50 percent of the voting common stock of an investee
  - B. Investment is classified as held for sale
  - C. Investment is acquired solely to be disposed of within 12 months
  - D. Conditions exist similar to those that would exempt an entity from preparing consolidation statements

## Final Exam

65. What results in the occurrence of interperiod income tax allocation?
- A. The equity method should be discontinued
  - B. The investor shows the investee's profits for book reporting but dividends for tax reporting
  - C. Ownership goes below 20 percent
  - D. Temporary decline in price of investments is ignored
66. What allows a lessee to use the capital lease method of accounting?
- A. Rental payments become payable while rent expense is debited and cash and/or payables are credited
  - B. Lessee does not show anything on his balance sheet
  - C. Rent expense is reflected on a straight-line basis
  - D. There is a bargain purchase option where the lessee can either acquire the property at a nominal amount or renew the lease at nominal rental payments
67. What is not included in the lessee's MLP?
- A. Lease term plus any residual value guaranteed by the lessee
  - B. Any payment that the lessee must pay due to failure to extend or renew the lease at expiration
  - C. Lessee's obligation for executor costs
  - D. MLP over the lease term and exercise option payment
68. Which of the following is included as an initial direct cost?
- A. Relevant portion of salespersons' and other employees' compensation
  - B. Costs for unconsummated leases
  - C. Supervisory expenses
  - D. Administrative expenses
69. What footnote disclosure is necessary for the direct financing method?
- A. Date of inception of a lease
  - B. Assets leased out by category
  - C. Future minimum lease payments in total for each of the next five years
  - D. Total future sublease rentals
70. Which of the following applies when using a sales-by-type lease?
- A. Cost and fair value of the leased property must be the same at the inception of the lease
  - B. Salvage value must be adjusted
  - C. Cost of the leased property is matched against the selling price in determining the assumed profit in the year of lease
  - D. Initial direct costs of the lease are not expensed
71. Which of the following is used by actuaries in determining the employer contribution to ensure that sufficient funds will be available at employee retirement?
- A. Actuarial assumptions
  - B. Actuarial cost method
  - C. Actuarial present value of accumulated plan benefits
  - D. Benefit information date
72. Which of the following results in a liability loss?
- A. Actual return is greater than expected return
  - B. Actual return is less than expected return
  - C. Unexpected decrease in the projected benefit obligation
  - D. Unexpected increase in the projected benefit obligation
73. What is an accepted application for the corridor method?
- A. Determining a net asset gain
  - B. Determining a net asset loss
  - C. Amortize the accumulated other comprehensive income account balance when it becomes excessive
  - D. Calculating change in the fair market value of plan assets and the amount of change in the projected benefit obligation

74. Which of the following applies to pension benefits?
- A. Benefits are typically funded
  - B. Benefits are not typically funded
  - C. Benefits are usually uncapped
  - D. Benefits show significant fluctuation
75. What is the attribution period?
- A. Time during which change in pension benefit obligations due to curtailment are allowed
  - B. Time during which the projected benefit obligation is measured
  - C. Time during which the postretirement benefits accrue
  - D. Time used to determine present value of vested and nonvested benefits
76. What type of transaction results in temporary differences when accounting for income taxes?
- A. Installment sales
  - B. Earned revenue
  - C. Earned income from discontinued operations
  - D. Income from extraordinary items
77. What represents the ratio between a unit of one currency and that of another at a particular time?
- A. Foreign currency transaction
  - B. Exchange rate
  - C. Functional currency
  - D. Reporting currency

#### Chapter 6 – Compilation, Review, and Other Reporting Services

78. What is a key characteristic of a compilation?
- A. No opinion or any other form of assurance is expressed on the fairness of the presentation of the financial statements
  - B. Assist management in presenting in the form of financial statements information that is the representation of non-management
  - C. Perform procedures to verify or review management-furnished information
  - D. Enhance the degree of confidence users have in the financial statement
79. What should an accountant report at the conclusion of a compilation engagement in which the financial statements are reasonably expected to be used by a third party?
- A. Adjustment of client books
  - B. Request that management consider the possible effects on the financial statements
  - C. General understanding of the flow and nature of the transactions underlying the client's financial records
  - D. A paragraph that states management's responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
80. What is a circumstance that warrants modification of the standard compilation report?
- A. Management prepares the financial statements
  - B. Omission of the statement of cash flows
  - C. Financial statements are prepared in accordance with OCBOA
  - D. Accountant establishes independence
81. What is the objective of a review?
- A. Assist management in presenting financial information
  - B. Confirm that the preparation and fair presentation of the financial statements are completed by the accountant performing the audit
  - C. Obtain limited assurance that the financial statements do not require material modifications to be in conformity with the applicable financial reporting framework
  - D. Serve as the reliable resource to disclose all significant matters that would surface in an audit

## Final Exam

82. Which of the following can help an accountant identify unusual relationships and individual items?
- A. Comparing current-period financial information with that of prior periods
  - B. Verifying representations made by management and personnel
  - C. Consideration of the client's internal control and the gathering of audit evidence
  - D. Consideration the effect of management's response on the accountant's ability to express limited assurance
83. When should an accountant consider obtaining an updating representation letter from management?
- A. Management acknowledges its responsibility for prevention and detection of fraud
  - B. A predecessor accountant is requested by a former client to reissue his or her report on the financial statements of a prior period that are to be presented on a comparative basis with reviewed financial statements of a subsequent period
  - C. Management acknowledges its responsibility for the fairness of the financial statement presentation
  - D. Omission of a written report describing the actual review procedures performed
84. Which of the following is not required by an accountant in a compilation or review engagement?
- A. Indicating that the engagement includes primarily performance of analytical procedures
  - B. Stating whether an engagement is substantially less in scope than an audit
  - C. Written statement that includes the expression of limited assurance
  - D. Performing procedures to identify subsequent events
85. What guideline should be followed if the accountant agrees to a lower level of service?
- A. The report that is issued should not refer to the original engagement or any procedures previously performed
  - B. Present one report that covers both the basic financial statements and supplemental information
  - C. Include a paragraph in which the accountant states that all additional information was compiled from information provided by management
  - D. Accountant should include a written statement expressing his or her opinion
86. What is pro forma financial information?
- A. Facts that bear on the integrity of management
  - B. Disagreements about accounting principles
  - C. Intended to show what the significant effects on historical financial statements might have been had a consummated or proposed transaction occurred earlier
  - D. Disagreements about the performance of relevant procedures
87. What are prospective financial statements?
- A. Disclosure of fraud or illegal acts to parties other than senior management
  - B. Financial forecasts and financial projections
  - C. Pro forma financial statements
  - D. Partial presentations
88. Which of the following exists when an existing control, when operating as designed, would not enable a control objective to be satisfied?
- A. Deficiency in design
  - B. Deficiency in internal control
  - C. Significant deficiency
  - D. Deficiency in internal control over financial reporting
89. What is a material weakness?
- A. Errors or fraud that could result in financial statement misstatement
  - B. Deficiency in internal control or a combination of deficiencies in internal control, resulting in a reasonable possibility that a material financial statement misstatement will not be prevented or detected and corrected timely
  - C. An account balance or disclosure item that has a reasonable possibility of containing one or more misstatements
  - D. Financial statement assertion that has a reasonable possibility of containing one or more misstatements that could result in materially misstated financial statements

90. What is the objective of an examination of internal control?
- A. Provide absolute assurance that the financial statements are reliable
  - B. Management's conclusion concerning the effectiveness of internal control that they include in their report on internal control
  - C. Expression of an opinion on the effectiveness of internal control
  - D. Design and integrate detective controls to eliminate misstatements
91. What should an accountant consider when planning an examination of internal controls?
- A. Number of business lines
  - B. Complexity of business processes
  - C. Complexity of the financial reporting systems
  - D. Publicly available information relevant to the possibility of financial statement misstatements
92. What factor is considered in scaling the engagement?
- A. Knowledge of internal controls during other types of engagements or review of a predecessor's working papers
  - B. Intra-industry matters such as pertinent laws and regulations
  - C. Preliminary judgments concerning materiality, audit risk, and other factors pertaining to material weaknesses in internal control
  - D. Extent of senior management's involvement in daily business activities
93. What is accomplished with the top-down approach?
- A. Verification of the understanding of the risks in the entity's processes
  - B. Selection of accounting policies
  - C. Recording journal entries in the general ledger
  - D. Determining the extent to which information technology impacts the financial reporting process
94. What should an auditor assess in his or her evaluation of the period-end financial reporting process?
- A. Centralized processing and related controls
  - B. Controls used to monitor operating results
  - C. Control environment
  - D. Inputs, procedures performed, and outputs of the financial statement preparation process

**Chapter 7 – Sarbanes-Oxley Act of 2002**

95. What is a service under the Sarbanes-Oxley Act of 2002 that will impair auditor independence?
- A. Reporting on the effectiveness of internal controls over financial reporting
  - B. Providing expert opinions in litigation or in regulatory or administrative proceedings
  - C. Providing tax services
  - D. Providing tax advice and preparing tax returns
96. Which of the following is a responsibility of the Public Company Accounting Oversight Board?
- A. Issuance of contribution-in-kind reports
  - B. Internal audit outsourcing
  - C. Provide actuarial advice concerning amounts included in financial statements
  - D. Establishing auditing and accounting standards

**Chapter 8 – Quality Control**

97. Which of the following factors should a CPA firm consider in connection with human resources?
- A. Nature and complexity of the practice
  - B. Cost/benefit
  - C. Policies and procedures to maintain relevant ethical requirements
  - D. Advancement
98. What affects the decision to accept or continue a client relationship or a specific engagement?
- A. The integrity of the client
  - B. Appropriateness of the firm's practice aids
  - C. Effectiveness of the firm's professional development activities
  - D. Assignment of staff to specific duties based on experience and other qualifications



**Final Exam**

99. What consideration is involved with monitoring?
- A. Risks associated with performing specific professional services
  - B. Relevance and adequacy of the firm's policies and procedures relevant to the other elements of quality control
  - C. Whether the CPA firm reasonably expects to complete a specific engagement
  - D. Professional development including continuing professional education
100. What should be considered in connection with leadership responsibilities for quality with the firm?
- A. Relevant ethical requirements
  - B. Acceptance and continuance of client relationships
  - C. Conduct training seminars and staff brainstorming sessions
  - D. Qualifications and experience of the firm's personnel and the authority granted the personnel

**Thank you for taking our course.  
We hope you enjoyed it.**

# Compilations and Reviews

Course Number: AA122501

Qualifies for 20 hours of CPE credit

If you are mailing or faxing your test to us for grading, please fill in Member ID \_\_\_\_\_ and Validation number \_\_\_\_\_.

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\* Answer each question A, B, C, or D, as appropriate.

\* Be sure you are answering questions from the Final Examination, not from the Study Guide

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## Course Evaluation

Course # \_\_\_\_\_

Your Name \_\_\_\_\_

### About the Course

Were the stated learning objectives met?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

If applicable, were prerequisite requirements appropriate and sufficient?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely     N/A

Was the text well-written, accurate and easy to understand?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

Was the final exam well-written, accurate and easy to understand?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

Were course materials relevant and did they contribute to the achievement of the learning objectives?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

Was the time allotted to the learning activity appropriate?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

If applicable, were the individual instructors effective?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely     N/A

### About the Service

Were you satisfied with the ordering process?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

Were your course materials in good condition when they arrived?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

Did you receive your materials in a timely manner?

- 1 - Not at all     2 - Marginally     3 - Somewhat     4 - Mostly     5 - Absolutely

### About You

What is your preferred method for completing your CPE?

- Textbook     PDF materials downloaded from the internet     Online courses     Live seminars

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