Examination Questions: Auditing, Saturday Morning, May 12, 1934

Michigan State Board of Accountancy

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Auditing

Question 1:
What general questions should an auditor ask in order to inform himself with respect to the internal check of cash in a company he is auditing for the first time?

Question 2:
In auditing the payroll of a corporation employing several hundred employees, all paid by check, what general procedure would you follow? What questions would you ask concerning internal check?

Question 3:
In making a balance-sheet audit, how would you proceed to verify the inventory of finished goods? The management has certified to you as to the correctness of quantities and condition. Assume for the purpose of the question that the finished products consist of radios and that a standard cost system is used in the costing out of sales and for pricing inventories?

Question 4:
In your audit of a printing establishment, you find that advances are made to certain customers who publish monthly magazines, these advances taking the form of four-month acceptances which are discounted immediately at the bank, the proceeds being credited to customers' accounts. As the acceptances mature, they are replaced by acceptances for similar amounts which are likewise discounted immediately. How would you reflect this condition on the balance sheet?

Question 5:
Under financial expenses in the accounts of a branch plant of a large manufacturing company, you find an item of $2,600.00, representing excess payments above charges for consumption of electric power, made necessary during the year to meet an agreed minimum monthly rate. Due to the partial shut-down of the plant, actual consumption at regular rates in only two months of the year amounted to as much as the minimum rate. Do you believe this item has been properly classified? Give reasons.
Question 6:
To what extent should an auditor regard himself as responsible to third parties?

Question 7:
In your audit at December 31, 1933, of the cash on hand and in banks of the Y Company, you find the following items:

(a) Federal tax on checks in December bank statements not on books, $85.20.
(b) Checks from customers located at distant points, dated in December but not received by Y Company until January 2 and 3, $10,256.88.
(c) Vouchers in petty-cash fund representing advances to employees in anticipation of the January 4th payroll, $587.50.
(d) Cash in Uruguay banks, subject to restricted withdrawal, $25,466.10.
(e) Cash in closed U. S. banks, estimated to be worth ultimately 50%, $18,743.26.

How would you dispose of these items on your balance sheet?

Question 8:
(a) How would you indicate, on the balance sheet of a mining corporation, inventories which had been pledged as security on a bank loan?
(b) If in your investigation you discovered that the management had pledged ore in certain locations, part of which belonged to outside interests, how would you treat the situation on the balance sheet?

Question 9:
Why is it desirable in a security count of a financial institution to complete the examination as quickly as possible?

Question 10:
You have been asked as auditor for the Blank Auto Supply Company to lay down broad principles which the company's employees should observe in making a physical count of the company's merchandise inventories (consisting of approximately 10,000 different items) at the close of its fiscal year June 30, 1934. What suggestions would you make?

Question 11:
"Proper balance of inventories has weight in their valuation." Explain the meaning of this quotation and how you would ascertain whether such balance is present.
Question 12:

In your audit of a manufacturing company for 1933, you are told by one of your principals: “There are approximately 1,000 additions to the property accounts during the year. Vouch 100 of them.” What general course of procedure would you follow in making your selection of items to be vouched?

Question 13:

Do you believe that a mortgage obligation may ever appear as a deduction on the balance sheet from the asset to which it relates?

Question 14:

Under what conditions do you believe it proper to carry forward advertising expenses as deferred charges?