**Chapter 22 Auditing Theory**

Multiple-Choice Questions

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| 1.easyb | Which of the following statements is correct?a. Bonds are frequently issued by companies in small amounts.b. There are relatively few transactions in the capital acquisition and repayment cycle, and each transaction is typically highly material.c. A primary emphasis in auditing debt is on existence.d. Audit procedures for Notes Payable and Interest Income are often performed simultaneously. |
| 2.easyc | The capital acquisition and repayment cycle does not include:a. payment of interest.b. payment of dividends.c. payment of vendor invoices.d. acquisition of capital through interest-bearing debt. |
| 3.easyb | Which of the following is not an objective of the auditor’s examination of notes payable?a. To determine whether internal controls are adequate.b. To determine whether client’s financing arrangements are effective and efficient.c. To determine whether transactions regarding the principal and interest of notes are properly authorized.d. To determine whether the liability for notes and related interest expense and accrued liabilities are properly stated. |
| 4.easyc | Which of the following statements regarding the capital acquisition and repayment cycle is true?a. Relatively few transactions affect the cycle, and most are smaller amounts.b. Large numbers of transactions affect the cycle, and most are smaller amounts.c. Relatively few transactions affect the cycle, and most are highly material.d. Large number of transaction affect the cycle, and most are highly material. |
| 5.easya | The primary focuses of the audit of debt are:a. accuracy and completeness.b. accuracy and existence.c. completeness and valuation.d. accuracy and valuation. |
| 6.easya | Responsibility for the issuance of new notes payable should be vested in the:a. board of directors.b. purchasing department.c. accounting department.d. accounts payable department. |
| 7.easyc | Which of the following accounts is not audited within the capital acquisition and repayment cycle?a. Notes payable.b. Interest expense.c. Accounts payable.d. Bonds payable. |
| 8.easya | The auditor’s independent estimate of interest expense from notes payable uses average interest rates and:a. average notes payable outstanding.b. year-end notes payable outstanding.c. only notes payable above the level of materiality.d. only notes payable to major lenders. |
| 9.easyc | The tests of details of balances procedure which requires the auditor to trace the totals of the notes payable list to the general ledger satisfies the objective of:a. accuracy.b. existence.c. detail tie-in.d. completeness. |
| 10.easyb | The audit objective to determine that notes payable in the schedule actually exist is verified by the test of details of balances procedure to:a. foot the notes payable list.b. confirm notes payable.c. recalculate interest expense.d. examine the balance sheet for proper disclosure of noncurrent portions. |
| 11.easyc | Tolerable misstatement is often set at a(n) \_\_\_\_\_ level for notes payable.a. highb. moderatec. lowd. unknown |
| 12.easyc | When auditing interest-bearing debt, the auditor should \_\_\_\_\_\_ verify the related interest expense and interest payable.a. notb. attempt toc. simultaneouslyd. never |
| 13.easyd | Which of the following accounts would not normally be seen in the equity section of the balance sheet?a. Donated capitalb. Dividends declaredc. Common stockd. Accrued revenue |
| 14.mediuma | Which one of the following is not a characteristic of the capital acquisition and repayment cycle?a. The exclusion of a few transactions is rarely material by itself.b. There is a legal relationship between the client and the holder of the equity securities.c. There is a direct relationship between the interest and dividends accounts and debt and equity.d. Relatively few transactions affect the account balances, but each transaction is often highly material in amount. |
| 15.mediumc | Which of the following statements is true?a. There is an inverse relationship between the interest and dividends accounts and debt and equity.b. There is no relationship between the interest and dividends accounts and debt and equity. c. There is a direct relationship between the interest and dividends accounts and debt and equity.d. None of the above is true. |
| 16.mediumd | Assessed control risk and results of substantive tests of transactions are normally unimportant for designing tests of details of balances for which of the following accounts?a. Accounts receivable.b. Inventory.c. Accounts payable.d. Notes payable. |
| 17.mediumb | In the audit of the transactions and amounts in the capital acquisitions and repayments cycle, the auditor must take great care in making sure that the significant legal requirements affecting the financial statements have been properly fulfilled and:a. any violations are reported to the SEC.b. are adequately disclosed in the financial statements.c. must issue a disclaimer if they haven’t been fulfilled.d. any departures from the agreements are made with management’s knowledge and consent. |
| 18.mediumd | Which of the following is an auditor least likely to consider in determining the appropriate tests of details of balances for notes payable?a. Business risk.b. Inherent risk.c. Results of analytical procedures.d. Acceptable audit risk. |
| 19.mediumc | Which of the following audit tests would provide evidence regarding the balance-related audit objective of existence for an audit of notes payable?a. Examine due dates on duplicate copies of notes.b. Examine balance sheet for proper presentation and disclosure of notes payable.c. Examine corporate minutes for loan approval.d. Foot the notes payable list for notes payable and accrued interest. |
| 20.mediuma | Which of the following balance-related audit objectives is not applicable to the audit of notes payable?a. Realizable value.b. Detail tie-in.c. Cutoff.d. Classification. |
| 21.mediumb | When there are not numerous transactions involving notes payable during the year, the normal starting point for the audit of notes payable is:a. a schedule of notes payable and accrued interest prepared by the audit team.b. a schedule of notes payable and accrued interest obtained from the client.c. a schedule of only those notes with unpaid balances at the end of the year prepared by the client.d. the notes payable account in the general ledger. |
| 22.mediumd | When there are numerous transactions involving notes payable during the year, the auditor will likely:a. prepare a schedule of notes payable and accrued interest prepared.b. review a schedule of notes payable and accrued interest obtained from the client.c. request the client to prepare a schedule of only those notes with unpaid balances at the end of the year.d. perform some other procedure. |
| 23.mediumb | The tests of details of balances procedure which requires the auditor to examine notes paid after year-end to determine whether they were liabilities at the balance sheet date is an attempt to satisfy the audit objective of:a. existence.b. completeness.c. accuracy.d. classification. |
| 24.mediumc | Which of the following owners’ equity transactions do corporations not record in their accounting systems?a. Issuance of cash dividends.b. Issuance of preferred stock.c. Sale of common stock on the secondary market.d. Each of the above is recorded. |
| 25.mediumb | The audit of owners’ equity of public and private companies is very different. Which of the following is not one of these differences?a. The number of transactions (private companies have fewer transactions).b. Payment of dividends (public companies rarely pay dividends).c. Complexity of transactions (public companies generally have more complex transactions).d. Type of noncurrent debt (public companies issue more bonds). |
| 26.mediumd | The audit objective that requires that existing notes payable are included in the notes payable schedule is satisfied by performing which of the following audit procedures?a. confirm notes payable.b. trace the total of the notes payable schedule to the general ledger.c. review the notes payable schedule to determine whether any are related parties.d. obtain confirmations from creditors who have held notes from the client in the past and are not currently included in the notes payable schedule. |
| 27.medium | Which of the following owners’ equity transactions usually require specific authorization from a company’s board of directors? |
| a |  |  |  |  |  |  |
|  |  | Repurchase of common stock |  | Issuance of common stock |  | Declaration of dividends |
|  | a. | Yes |  | Yes |  | Yes |
|  | b. | Yes |  | No |  | Yes |
|  | c. | No |  | Yes |  | No |
|  | d. | No |  | No |  | Yes |
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| 28.mediumb | When a company maintains its own records of stock transactions and outstanding stock, internal controls must be adequate to ensure that:a. actual owners are recorded in the bylaws.b. the correct amount of dividends is paid to stockholders owning the stock on the dividend record date.c. the correct amount of dividends is paid to stockholders owning the stock on the declaration date.d. actual owners are recorded in the minutes. |
| 29.mediumd | The audit objective that requires the auditor to determine that notes payable on the notes payable schedule are properly classified can be tested by performing the procedure to:a. confirm notes payable.b. examine corporate minutes for loan approval.c. examine notes, minutes, and bank confirmations for restrictions.d. review the notes to determine whether any are with related parties. |
| 30.mediumc | The amount of time spent verifying owners’ equity is frequently minimal for closely held corporations because:a. these companies are so small that it is not necessary to audit the capital section.b. the few owners all have access to the books so the auditor spends more time on accounts like liabilities, which affect outsiders.c. there are few if any transactions during the year for the capital stock accounts, except for earnings and dividends.d. there is no public interest in these companies. |
| 31.mediumd | Which of the following types of owners’ equity transactions would not require authorization by the board of directors?a. Issuance of capital stock.b. Repurchase of capital stock.c. Declaration of dividends.d. None of the above. |
| 32.mediumb | The record of the issuance and repurchase of capital stock for the life of the corporation is maintained in the:a. shareholders’ capital stock master file.b. capital stock certificate record.c. schedule of stock owners.d. corporate directory. |
| 33.mediumd | The record of the outstanding shares at any given time is maintained in the:a. corporate directory.b. stock certificate books.c. schedule of stock owners.d. shareholders’ capital stock master file. |
| 34.mediuma | When a dividend is declared by the board of directors, the source for determining who should receive dividend checks is the:a. shareholders’ capital stock master file.b. stock certificate books.c. common stock account in the general ledger.d. corporate directory. |
| 35.mediumd | The authorization of an issuance of capital stock normally includes all but which of the following?a. Type of stock to be issued.b. Number of shares to be issued.c. Date shares are to be issued.d. Amount of dividend to be paid on shares issued. |
| 36.mediumd | Any company with stock listed on a securities exchange is required to engage a(n) \_\_\_\_\_\_\_\_\_.a. equity analystb. stock transfer agentc. independent registrard. equity placement specialist |
| 37.mediumc | Which of the following audit objectives is least important in the audit of capital stock and paid-in-capital in excess of par?a. Completeness.b. Accuracy.c. Rights and obligations.d. Presentation and disclosure. |
| 38.mediumd | The primary concern in determining whether retained earnings is correctly disclosed on the balance sheet is:a. correct calculation of the net income or loss for the year.b. correct calculation of dividend payments for the year.c. whether prior-period adjustments have been made correctly.d. whether there are any restrictions on the payment of dividends. |
| 39.mediumd | An auditor would most likely verify the interest earned on bond investments by:a. testing the internal controls over cash receipts.b. vouching the receipt and deposit of interest checks.c. confirming the bond interest rate with the issuer of the bonds.d. recomputing the interest earned on the basis of face amount, interest rate, and period held. |
| 40.mediuma | What type of audit test will auditors use when testing to see if existing capital stock transactions are recorded? |
|  |  | Tests of details of balances |  | Tests of transactions |  | Tests of controls |
|  | a. | No |  | Yes |  | Yes |
|  | b. | Yes |  | No |  | Yes |
|  | c. | Yes |  | No |  | No |
|  | d. | No |  | Yes |  | No |
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| 41.mediuma | During the course of an audit, a CPA observes that the recorded interest expense seems to be excessive in relation to the balance in the long-term debt account. This observation could lead the auditor to suspect that:a. long-term debt is understated.b. discount on bonds payable is overstated.c. long-term debt is overstated.d. premium on bonds payable is understated. |
| 42.mediuma | A company issued bonds for cash during the year under audit. To ascertain that this transaction was properly recorded, the auditor’s best course of action is to:a. trace the cash received from the issuance to the accounting records.b. confirm the results of the issuance with the underwriter or investment banker.c. verify that the new cash received is credited to an account entitled “Bonds Payable.”d. request a statement from the bond trustee as to the amount of bonds issued and outstanding. |
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| 43.mediumd | What type of audit test will auditors use when testing to see if the amounts of capital stock transactions are accurately recorded? |
|  |  | Tests of details of balances |  | Tests of transactions |  | Tests of controls |
|  | a. | No |  | Yes |  | Yes |
|  | b. | Yes |  | No |  | Yes |
|  | c. | No |  | Yes |  | No |
|  | d. | Yes |  | No |  | No |
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| 44.mediumc | If a company employs a capital stock registrar and/or transfer agent, the registrar or agent, or both, should be requested to confirm directly to the auditor the number of shares of each class of stock:a. surrendered and canceled during the year.b. authorized at the balance sheet date.c. issued and outstanding at the balance sheet date.d. authorized, issued, and outstanding during the year. |
| 45.challenginga | When a company has treasury stock certificates on hand, a year-end count of the certificates by the auditor is:a. always required.b. not required if treasury stock is a deduction from stockholders’ equity.c. required when the company classifies treasury stock with other assets.d. required when the company had treasury stock transactions during the year. |
| 46.challengingd | In the audit of notes payable, it is common to include tests of principal and interest payments as a part of the audit of the acquisitions and payment cycle because the payments are in the cash disbursements journal that is being sampled. It is also normal to test these transactions as part of the capital acquisitions and repayment cycle because:a. it is not unusual for the auditor to duplicate a process, thereby gathering a larger quantity of evidence.b. replicating the evidence will provide the auditor with a higher level of assurance.c. the tests done in the acquisitions and payments cycle will look only at the cash credit side so the tests done in the capital acquisitions and repayment cycle will look at the debit side of the transaction.d. due to the infrequency of these transactions, in many cases no transactions involving notes payable are included in the sample tests of acquisitions and payments. |
| 47.challengingd | It is normal practice to verify all capital stock transactions:a. only when the client is small.b. that are in excess of a material amount.c. if there aren’t very many during the year.d. regardless of the controls in existence, because of their materiality and permanence in the records. |
| 48.challengingb | During its fiscal year, a company issued, at a discount, a substantial amount of first-mortgage bonds. When performing audit work in connection with the bond issue, the independent auditor should:a. confirm the existence of the bondholders.b. review the minutes for authorization.c. trace the net cash received from the issuance to the bond payable account.d. inspect the records maintained by the bond trustee. |
| 49.challengingb | In connection with the audit of a current issue of long-term bonds payable, the auditor should:a. decide whether the bond issue was made without violating state or local law.b. ascertain that the client has obtained the opinion of counsel on the legality of the issue.c. calculate the effective interest rate to see if it is substantially the same as the rates for similar issues.d. determine whether bondholders are persons other than owners, directors, or officers of the company issuing the bond. |
| 50.challenginga | The auditor can best verify a client’s bond sinking fund transactions and year-end balance by:a. confirmation with the bond trustee.b. confirmation with individual holders of retired bonds.c. examination and count of the bonds retired during the year.d. recomputation of interest expense, interest payable, and amortization of bond discount or premium. |

Essay Questions

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| 51.easy | What is a note payable? |
|  | Answer: A note payable is legal obligation to a creditor which may be secured or unsecured by assets and bears interest. |
| 52.easy | What is the difference between an independent registrar and a stock transfer agent? |
|  | Answer:Companies whose shares are listed on a securities exchange are required to enlist the services of an independent registrar. The registrar is responsible for making sure that all stock is issued by a corporation in accordance with the corporate charter and is properly authorized by the board of directors. The registrar is also responsible for signing all newly issued shares. A stock transfer agent maintains stockholder records, including transfers of stock ownership. Transfer agents may also disburse cash dividends to shareholders. |
| 53.easy | Why are analytical procedures essential for notes payable? |
|  | Answer: They are essential because tests of details for interest expense and accrued interest can often be eliminated if the results from the analytical procedures are favorable. |
| 54.medium | What are two important procedures that companies should implement to prevent misstatements in owners’ equity? |
|  | Answer:  Companies should develop:1. well-defined policies for preparing stock certificates and recording capital stock transactions, and
2. independent internal verification of information in the owners’ equity records.
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| 55.medium | What are the two most important balance-related audit objectives in notes payable? |
|  | Answer:* Existing notes payable are included (completeness).
* Notes payable are accurately recorded (accuracy).
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| 56.medium | Describe the methodology for designing tests of details of balances for notes payable. |
|  | Answer: The methodology is:* Set materiality and access acceptable audit risk and inherent risk for notes payable.
* Assess control risk for notes payable.
* Design and perform tests of controls and substantive tests of transactions for the acquisition and payment, and sales and collection cycle.
* Design and perform analytical procedures for notes payable balance.
* Design tests of details of notes payable balance to satisfy balance-related audit objectives. Decide sample size, items to select for testing, audit procedures, and timing of procedures.
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| 57.medium | Identify three analytical procedures commonly performed for notes payable. |
|  | Answer: Some possible analytical procedures for notes payable include:* Recalculate approximate interest expense on the basis of average interest rates and overall monthly notes payable.
* Compare individual notes outstanding with the prior year’s.
* Compare total balance in notes payable, interest expense, and accrued interest with prior years.
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| 58.medium | The starting point for the audit of notes payable is a schedule of notes payable and accrued interest. Discuss the information typically included in the schedule. |
|  | Answer:The usual schedule includes detailed information of all transactions that took place during the entire year for principal and interest, the beginning and ending balances for notes and interest payable, and descriptive information about the notes, such as the due date, the interest rate, and the assets pledged as collateral. |
| 59.medium | When a company maintains its own records of stock transactions and outstanding stock, the internal controls must be adequate to accomplish three purposes. What are these? |
|  | Answer: The three purposes are:* Actual owners of the stock are recognized in the corporate records.
* The correct amount of dividends is paid to the stockholders owning the stock as of the dividend record date.
* The potential for misappropriation is minimized.
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| 60.challenging | Discuss the four characteristics of the capital acquisition and repayment cycle that make it unique from other cycles. |
|  | Answer:The four characteristics are:* Relatively few transactions affect the account balances, but each transaction is often highly material in amount.
* The exclusion of a single transaction could be material in itself.
* There is a legal relationship between the client entity and the holder of the stock, bond, or similar ownership document.
* There is a direct relationship between the interest and dividends accounts and debt and equity.
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| 61.challenging | Discuss the four key controls over notes payable. |
|  | Answer: The four key controls over notes payable are:* *Proper authorization for the issue of new notes.* Responsibility for the issuance of new notes should be vested in the board of directors or high-level management personnel, with signatures of two authorized officials required for all loan agreements.
* *Adequate controls over the repayment of principal and interest.* At the time notes are issued, the accounting department should receive a copy in the same manner in which it receives vendors’ invoices and receiving reports. The accounts payable department should automatically issue checks for the notes when they become due, in the same manner in which it prepares checks for acquisitions of goods and services.
* *Proper documents and records.* These include the maintenance of subsidiary records and control over blank and paid notes by a responsible person. Paid notes should be canceled and retained under the custody of an authorized official.
* *Periodic independent verification.* The detailed note records should be reconciled periodically with the general ledger and compared with the note holders’ records by an employee who is not responsible for maintaining the detailed records.
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| 62.challenging | Discuss the internal controls related to owners’ equity that are of concern to the auditor. |
|  | Answer:* *Proper authorization of transactions.* Material transactions should be approved by the board of directors, including issuance of capital stock, repurchase of capital stock, and declaration of dividends.
* *Proper recordkeeping and segregation of duties.* This should include well-defined policies for preparing stock certificates and recording capital stock transactions, and independent internal verification of information in the records. Many companies use a capital stock certificate book and a shareholders’ capital stock master file to improve control over capital stock transactions.
* *Independent registrar and stock transfer agent.* An independent registrar acts as a control to prevent the improper issuance of stock certificates. A stock transfer agent acts as a control over the stock records.
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| 63.challenging | Discuss the overall objectives of the audit of notes payable. |
|  | Answer:The overall objectives of the audit of notes payable are to determine whether:* The internal controls over notes payable are adequate.
* Transactions for principal and interest involving notes payable are properly authorized and recorded as defined by the six transaction-related audit objectives.
* The liability for notes payable and the related interest expense and accrued liability are properly stated as defined by eight of the nine balance-related audit objectives (realizable value is excluded).
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| 64.challenging | State the four most important audit objectives for capital stock and describe how the auditor typically verifies each of the four objectives. |
|  | Answer: The four most important audit objectives for capital stock are:* *Existing capital stock transactions are recorded (completeness).* Confirm with the registrar or transfer agent whether any capital stock transactions occurred.
* *Recorded capital stock transactions occurred and are accurately recorded (occurrence and accuracy).* Existence can be tested by examining the minutes of the board of directors’ meetings for proper authorization. Accuracy can be tested by confirming the amount with the transfer agent and tracing the amount of the recorded capital stock transactions to the cash receipts journal.
* *Capital stock is accurately recorded (accuracy).* The ending balance in the capital stock account is verified by first determining, via confirmation from the transfer agent, the number of shares outstanding at the balance sheet date. The recorded par value in the capital account can be verified by multiplying the number of shares outstanding by the par value of the stock.
* *Capital stock is properly presented and disclosed (presentation and disclosure).* Using the corporate charter, the minutes of board of directors’ meeting and the auditor’s analysis of capital stock transactions, the auditor should determine that there is a proper description of each class of stock. The proper presentation and disclosure of stock options, stock warrants, and convertible securities should also be verified by examining legal documents or other evidence of the provisions of these agreements.
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| 65.challenging | List six accounts in the capital acquisition and repayment cycle commonly found on balance sheets. What characteristics do these accounts have in common that distinguish them from other accounts? |
|  | Answer:Balance sheet accounts in the capital acquisition and repayment cycle include:* Notes payable
* Contracts payable
* Mortgages payable
* Bonds payable
* Accrued interest
* Cash in the bank
* Capital stock‑common
* Capital stock‑preferred
* Paid-in capital in excess of par
* Donated capital
* Retained earnings
* Appropriations of retained earnings
* Treasury stock
* Dividends declared
* Dividends payable

**The unique characteristics of these accounts are:*** Relatively few transactions affect the account balances, but each transaction is often highly material in amount.
* The exclusion of a single transaction could be material in itself.
* There is a legal relationship between the client entity and the holder of the stock, bond, or similar ownership document.
* There is a direct relationship between the interest and dividends accounts and debt and equity.
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Other Objective Answer Format Questions

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| 66.medium | Match six of the terms (a-i) used in the capital acquisitions and repayment cycle with the descriptions provided below (1-6): |
|  | a. Capital acquisition and repayment cycle |
|  | b. Capital stock certificate book |
|  | c. Closely held corporation |
|  | d. Independent registrar |
|  | e. Note payable |
|  | f. Publicly held corporation |
|  | g. Stock transfer agent |
|  | h. Schedule of notes payable and accrued interest |
|  | i. Stock maintenance agent |
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| d |  1. An outside person engaged by a corporation to make sure that its stock is issued in accordance with capital stock provisions in the corporate charter and authorizations by the board of directors. |
| h |  2. The normal starting point for the audit of notes payable; includes detailed information of all transactions related to notes payable that took place during the year. |
| b |  3. A record of the issuance and repurchase of capital stock for the life of the corporation. |
| g |  4. An outside person engaged by a corporation to maintain the stockholder records, and often to disburse cash dividends. |
| f |  5. An entity that is required to engage an independent registrar. |
| a |  6. The cycle that concerns the acquisition of capital resources through interest-bearing debt and owners’ equity and repayment of the capital. |
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| 67.easya | One unique characteristic of the capital acquisition and repayment cycle is that relatively few transactions affect the account balances, but each transaction is often highly material in amount.a. Trueb. False |
| 68.easya | The exclusion of a single equity transaction is often highly material.a. Trueb. False |
| 69.easyb | Notes payable are generally for short periods of time.a. Trueb. False |
| 70.easya | When performing analytical procedures for notes payable, if actual interest expense is materially larger than the auditor’s expectation, one possible cause would be interest payments on unrecorded notes payable.a. Trueb. False |

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| 71.easyb | Auditors seldom learn about the capital acquisition and repayment cycle when gaining an understanding of the client’s business and industry.a. Trueb. False |
| 72.easyb | The Securities and Exchange Commission requires companies to employ stock transfer agents. a. Trueb. False |
| 73.easyb | Public companies whose stock is listed on a stock exchange must employ a stock transfer agent.a. Trueb. False |
| 74.easya | Public companies whose stock is listed on a stock exchange must employ an independent registrar.a. Trueb. False |
| 75.easya | The shareholders’ capital stock master file is used as the basis for the payment of dividends and also acts as a check on the accuracy of the common stock balance in the general ledger.a. Trueb. False |
| 76.easyb | Independent registrars commonly disburse cash dividends to shareholders.a. Trueb. False |
| 77.easya | Any restrictions on the payment of dividends must be disclosed in the footnotes to the financial statements.a. Trueb. False |
| 78.mediuma | When auditing the capital acquisition and repayment cycle, it is common to verify each transaction taking place in the cycle for the entire year as a part of verifying the balance sheet accounts.a. Trueb. False |
| 79.mediumb | Few large companies employ stock transfer agents, but small companies commonly do so.a. Trueb. False |
| 80.mediuma | The balance-related audit objective *realizable value* is not applicable when auditing notes payable.a. Trueb. False |
| 81.mediumb | The three most important balance-related audit objectives for notes payable are existence, realizable value, and accuracy.a. Trueb. False |
| 82.mediumb | The audit procedure “Foot the notes payable list and trace the totals to the general ledger” is performed when verifying the accuracy objective for notes payable.a. Trueb. False |
| 83.mediuma | The accuracy of a dividend declaration can be audited by recalculating the amount on the basis of the dividend per share times the number of shares outstanding.a. Trueb. False |
| 84.mediumb | The audit procedure “Examine notes payable, minutes, and bank confirmations for restrictions” is performed when verifying the classification objective for notes payable.a. Trueb. False |
| 85.mediuma | For most companies, the only transactions involving retained earnings are net earnings for the year and dividends declared.a. Trueb. False |
| 86.mediumb | Examining the minutes of the board of directors’ meetings for proper authorization ordinarily tests the existence objective for capital stock transactions.a. Trueb. False |
| 87.mediuma | Examining the minutes of the board of directors’ meetings for proper authorization ordinarily tests the occurrence objective for capital stock transactions.a. Trueb. False |
| 88.mediumb | The emphasis in the audit of dividends is on the ending balance rather than the transactions.a. Trueb. False |
| 89.mediumb | Any company that has more than 10 percent of its stock owned by one person is considered to be closely held.a. Trueb. False |
| 90.mediumb | A shareholders’ capital stock master file is a record of the issuance and repurchase of capital stock over the life of the corporation.a. Trueb. False |
| 91.mediumb | Capital stock represents a legal obligation to a shareholder and ensures a certain return to the shareholder.a. Trueb. False |
| 92.mediuma | The audit procedure “Examine paid notes for cancellation to make sure they are not still outstanding” is performed when verifying the completeness objective for notes payable.a. Trueb. False |