

**Professional Education Services, LP**

# **New Auditing Standards: SAS Nos. 142-145**

**#8090**

**EXAM MATERIAL**



**Professional Education Services, LP**

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# **NEW AUDITING STANDARDS: SAS NOs. 142-145 (COURSE #8090)**

## **COURSE DESCRIPTION**

The objective of this course is to address the new auditing standards issued by the Auditing Standards Board as SAS Nos. 142-145. The first segment of the course addresses SAS No. 142's expanded guidance on what comprises audit evidence in a financial statement audit. Topics include: evaluating audit evidence; testing audit evidence; relevance and reliability of audit evidence, including its source; susceptibility to management bias; corroborative or contradictory information; evaluating whether information is sufficiently precise and detailed for the auditor's purposes; and use of automated tools and techniques. The second segment is a review of SAS No. 143's guidance on accounting estimates, including the degree of estimation uncertainty; risk assessment procedures related to accounting estimates; identifying and assessing the risks of material misstatement, including responses to the assessment; indicators of possible management bias, and more. The third segment consists of a review of SAS No. 144's changes to auditing standards in connection with use of specialists (management and auditor specialists) and use of price information obtained from external sources. The final section addresses significant changes made by SAS No. 145 to the auditor's understanding of an entity and its environment and the assessment of risks of material misstatement. No prerequisites. Course level: Basic. Course #8090 - 4 CPE hours.

## **LEARNING ASSIGNMENTS AND OBJECTIVES**

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### **ASSIGNMENT 1:     SUBJECT                           SAS No. 142: Audit Evidence**

Study the course materials from pages 1 to 32  
Complete the review questions at the end of the section  
Answer the exam questions 1 to 5

#### **Objectives:**

- To identify an example of an attribute of information obtained as audit evidence
- To recognize actions an auditor should perform in evaluating information used as audit evidence
- To recognize attributes of information to be used as audit evidence
- To identify an attribute that affects the reliability of information used as audit evidence
- To recall functions on which an auditor can use automated tools and techniques

**ASSIGNMENT 2:     SUBJECT**

**SAS No. 143: Auditing Accounting Estimates and Related Disclosures**

Study the course materials from pages 33 to 70

Complete the review questions at the end of the section

Answer the exam questions 6 to 10

**Objectives:**

- To identify an example of an accounting estimate related to classes of transactions, account balances, and disclosures identified in SAS No. 143
- To recognize how inherent and control risks should be assessed in accordance with SAS No. 143
- To recognize an example of an inherent risk factor
- To identify examples of approaches that can be performed in assessing the risks of material misstatement from accounting estimates

**ASSIGNMENT 3:     SUBJECT**

**SAS NO. 144: Amendments to AU-C 501, 540, and 620 Related to the Use of Specialists and Use of Pricing Information Obtained from External Information Sources**

Study the course materials from pages 71 to 92

Complete the review questions at the end of the section

Answer the exam questions 11 to 14

**Objectives:**

- To recall one of the amendments made to AU-C 501 by SAS No. 144 in connection with using the work of an external inventory-taking firm
- To identify some instances in which an auditor may conclude that a specialist's work is not adequate

## **ASSIGNMENT 4: SUBJECT**

### **SAS No. 145: Understanding the Entity, Its Environment, and Assessing the Risks of Material Misstatement**

Study the course materials from pages 93 to 132

Complete the review questions at the end of the section

Answer the exam questions 15 to 20

#### **Objectives:**

- To identify a type of risk assessment procedure that an auditor can use in accordance with SAS No. 145
- To recall examples of risk assessment procedures that an auditor may perform in SAS No. 145
- To recognize how to perform risk assessment procedures when relying on information obtained from previous experience with an entity
- To identify examples of risk assessment procedures to obtain audit evidence in accordance with SAS No. 145
- To recognize a new requirement made by SAS No. 145 in connection with assessing inherent risk and control risk in an audit
- To identify how an auditor should respond if the auditor does not plan to test the operating effectiveness of an entity's controls

## **ASSIGNMENT 5:**

- Complete the Answer Sheet and Course Evaluation and submit to PES

### **NOTICE**

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**NEW AUDITING STANDARDS: SAS NOs. 142-145  
(COURSE #8090)  
EXAM INFORMATION**

**COURSE EXPIRATION DATE:** Per AICPA and NASBA standards, this course must be completed within **ONE YEAR** from the date of purchase.

**TEST FORMAT:** The following final exam, consisting of 20 multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

**LICENSE RENEWAL INFORMATION:** The New Auditing Standards: SAS Nos. 142-145 course (#8090) qualifies for **4 CPE hours**.

**PROCESSING:** You must score 70% or better to pass. If you mail or fax your exam, when you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this. When completing your exam online, grading is instantaneous. Upon achieving a passing score, the completion certificate is immediately available in your account under "My Completed CPE." **Please note:** failed exams may be retaken. Per NASBA and AICPA guidelines, missed questions cannot be indicated until after you pass.

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- **MAIL** – Your exam will be graded and your certificate of completion mailed to you within one business day. Your certificate will be dated according to the **postmark date**. Please mail your answer sheet to:

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**THANK YOU FOR USING PROFESSIONAL EDUCATION SERVICES.**

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**NEW AUDITING STANDARDS: SAS NOs. 142-145  
(COURSE #8090) – FINAL EXAM**

The following questions are multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. In accordance with SAS No. 142, which of the following is an example of an attribute of information obtained as audit evidence:
  - A. its relevance
  - B. its volume
  - C. its location
  - D. its timing relative to the audit report release date
2. Sally CPA is auditing the financial statements of Marie's Sweet and Sour Donuts LLC. In evaluating the information she uses as audit evidence, which of the following should Sally do:
  - A. evaluate whether the information is sufficiently abundant
  - B. evaluate whether the information is sufficiently precise and detailed
  - C. evaluate whether the information is correlated with the information needed for the engagement
  - D. evaluate whether the information is targeted toward high risk areas
3. Louie CPA is auditing the financial statements of Sal's Safeway Construction Co. In evaluating information to be used as audit evidence, which of the following is an attribute of the information obtained in Louie's audit:
  - A. whether such information corroborates or contradicts assertions in the financial statements
  - B. whether such information corroborates but does not contradict assertions in the financial statements
  - C. whether such information contradicts but does not corroborate assertions in the financial statements
  - D. whether such information neither corroborates nor contradicts assertions in the financial statements
4. Antonio CPA is auditing the financial statements of Larry's Gourmet Pizza. Which of the following is an attribute that affects the reliability of information to be used as audit evidence:
  - A. accuracy of the information
  - B. the materiality of the information
  - C. whether the information is relevant to the financial statements
  - D. the risk associated with accepting the information
5. Melissa CPA is auditing the financial statements of Company Y. Melissa wants to use automated tools and techniques on information that can be used as audit evidence. In accordance with SAS No. 142, Melissa can use automated tools and techniques on which of the following functions:
  - A. to perform a risk assessment procedure but not substantive procedures which must be performed manually
  - B. to perform risk assessment procedures, substantive tests, and internal control
  - C. limited to obtaining audit evidence about Y's internal control.
  - D. limited to performing substantive procedures
6. Lori CPA is auditing Shemp's Auto Parts and is considering the company's myriad accounting estimates. Which of the following is an example of an accounting estimate related to classes of transactions, account balances and disclosures identified in SAS No. 143:
  - A. inventory obsolescence
  - B. long-term debt
  - C. short-term notes receivable
  - D. dividends paid

7. SAS No. 143 defines \_\_\_\_\_ as “susceptibility to an inherent lack of precision in measurement.”
- A. estimation uncertainty
  - B. control risk
  - C. inherent risk
  - D. authenticity
8. Larry CPA is auditing Lee’s Last Minute Soup Co. In addressing the Company’ accounting estimates, SAS No. 143 requires which of the following:
- A. inherent risk should be assessed but not control risk
  - B. control risk should be assessed but not inherent risk
  - C. both inherent risk and control risk should be assessed together, simultaneously
  - D. inherent risk and control risk should be assessed separately
9. Charlie is applying SAS No. 143 to Company Y’s accounting estimates. In assessing Y’s inherent risk of Y’s accounting estimates, which of the following is an example of an inherent risk factor that Charlie should consider:
- A. authenticity
  - B. inspection
  - C. complexity
  - D. relevancy
10. Phil CPA is auditing Sarah’s Famous Barbeque. In response to Phil’s assessing the risks of material misstatement from accounting estimates, Phil is performing further audit procedures. Which of the following is not one of the three approaches that SAS No. 143 references should be performed:
- A. obtaining audit evidence from events occurring up to the date of the auditor’s report
  - B. testing how management made the accounting estimate
  - C. developing an auditor’s point estimate or range
  - D. determine whether any risk is a significant risk
11. SAS No. 144 makes amendments to AU-C 501, one of which is:
- A. it eliminates reference to using the work of an external inventory-taking firm as using the work of a management’s specialist
  - B. it adds using the work of an external inventory-taking firm to the list of types of firms that are included as using the work of a management’s specialist
  - C. provides a new restriction that precludes use of an external inventory-taking firm if an audit is performed on an entity’s financial statements
  - D. redefines an external inventory-taking firm as used within AU-C 501

**12. Greg CPA is auditing the financial statements of Company X. X hires an external inventory-taking firm to take the physical inventory counts and issue a report. Which of the following is true:**

- A.** Greg can rely on the physical counts and report issue by the external inventory-taking firm
- B.** the report of the external inventory-taking firm does not provide the auditor with sufficient appropriate audit evidence
- C.** X is not permitted to hire an external inventory-taking firm if an audit is performed on its financial statements
- D.** if X engages a physical inventory-taking firm, Greg must observe the physical inventory simultaneous to the inventory-taking firm performing physical counts

**13. SAS No. 144 amends AU-C 501 to require the auditor to perform which of the following with following steps with respect to a management's specialist:**

- A.** obtain an understanding of the work of the specialist
- B.** negotiate the terms of the agreement to engage a management's specialist
- C.** make recommendations to management about changes in scope that should be negotiated into the engagement letter with a management's specialist
- D.** override management by deciding to engage an auditor's specialist in lieu of management hiring its own specialist

**14. Lucy CPA is an auditor who has hired an auditor's specialist in connection with her audit of Company Y. Instances in which Lucy may conclude that the specialist's work is not adequate include all of the following except:**

- A.** the specialist's use of data or significant assumptions was not based on consideration of relevant information available to the specialist
- B.** the methods used by the specialist were appropriate
- C.** the specialist's work was not performed in accordance with the auditor's instructions
- D.** the specialist's findings and conclusions are inconsistent with the results of the work performed by the specialist

**15. Sally CPA is auditing the financial statements of Company X. Which of the following is a type of risk assessment procedure Sally can perform in accordance with SAS No. 145:**

- A.** confirmation procedures
- B.** substantive tests
- C.** inquiries of management and others
- D.** tests of account balances

**16. Jake CPA is performing risk assessment procedures on Company K in accordance with SAS No. 145. Jake has previous experience with Company K because Jake has audited K for the past 12 years. If Jake intends to use the information from his previous experience with K, Jake should determine that the information to be used is which of the following:**

- A.** relevant and reliable
- B.** current
- C.** material
- D.** complex

17. In accordance with SAS No. 145, risk assessment procedures to obtain audit evidence about the design and implementation of identified controls in the control activities component may include all of the following except:

- A. inquiring of entity personnel
- B. observing the performance of specific controls
- C. inspecting documents and reports
- D. substantive tests of account balances

18. SAS No. 145 includes examples of disclosures that have qualitative aspects that may have relevant assertions and may be significant. Examples of such disclosures include all of the following except:

- A. exposure to losses in an account
- B. significant contingent liabilities
- C. key sources of estimation uncertainty
- D. disclosure of property, plant and equipment

19. Sally CPA is auditing Sharon's Sweet Tea, LLC. Which of the following is a new requirement under SAS No. 145:

- A. Sally must assess inherent and control risk simultaneously as one unit
- B. if Sally assesses inherent risk, it may choose not to test control risk
- C. Sally must separately assess inherent risk and control risk
- D. Sally may choose to separately assess inherent risk and control risk

20. Louie CPA is auditing the financial statements of Raphael's Pizza LLC. If Louie does not plan to test the operating effectiveness of the LLC's controls, which of the following should Louie do:

- A. assess control risk at the maximum level
- B. test internal controls and set control risk below maximum
- C. set control risk at the lowest possible level
- D. assess control risk at such a level that the risk of material misstatement is lower than the assessment of inherent risk.

***Congratulations –***

***you've completed the exam!***

**NEW AUDITING STANDARDS: SAS NOs. 142-145 #8090  
(4 CPE HOURS) – ANSWER SHEET (4/22)**



**IMPORTANT NOTE:** For certification, this answer sheet must be completed and submitted to PES for grading within **ONE YEAR** from the date of purchase. Please use **BLACK INK** and **PRINT** for quicker processing – thank you.

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**PLEASE INDICATE YOUR ANSWER BY FILLING IN THE APPROPRIATE CIRCLE**

	A	B	C	D		A	B	C	D
1.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	11.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	12.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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6.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	16.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
7.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	17.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
8.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	18.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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10.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	20.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

***Please complete the attached course evaluation - your opinion is extremely valuable!***

**NEW AUDITING STANDARDS: SAS NOs. 142-145 #8090**  
**COURSE EVALUATION**

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

1. The course met the course objectives described in the promotional material. \_\_\_\_\_
2. The course was up to date, held my interest, was timely, and effective. \_\_\_\_\_
3. The course materials were understandable, valuable, and suitable for a correspondence course. \_\_\_\_\_
4. The amount of advance knowledge and stated prerequisites were appropriate. \_\_\_\_\_
5. The completion time was appropriate for the number of credits allowed. \_\_\_\_\_
6. The course met my professional education needs. \_\_\_\_\_

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4. What other courses/subjects would you like to see PES offer in the future? \_\_\_\_\_  
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