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*Eighth Edition*

# **AUDITING & SYSTEMS**

**Exam Questions  
and Explanations**

*Comprehensive and systematic coverage of auditing,  
including the most recent authoritative pronouncements*

*by*  
**Irvin N. Gleim**  
**William A. Hillison**

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# **Eighth Edition**

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# **AUDITING & SYSTEMS**

## **Exam Questions and Explanations**

by

Irvin N. Gleim, Ph.D., CPA, CIA, CMA, CFM

and

William A. Hillison, Ph.D., CPA, CMA

with the assistance of  
Grady M. Irwin, J.D.

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Gainesville, Florida 32604  
(352) 375-0772  
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FAX: (352) 375-6940  
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Internet: www.gleim.com

ISSN 1092-4159  
ISBN 1-58194-010-6

This is the second printing of the eighth edition of ***Auditing & Systems Exam Questions and Explanations***. Please e-mail update@gleim.com with AUD EQE 8-2 as the subject or text. You will receive our current update as a reply.

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Second Printing: June 1999

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The authors also appreciate and thank the Information Systems Audit and Control Association for permission to use sample CISA questions from *Study Guide - Certified Information Systems Auditor*.

The authors also appreciate and thank the Institute for Certification of Computing Professionals for permission to use sample CDP questions from the *CDP Instruction Manual*.

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The authors appreciate questions contributed by the following individuals: Lynn Bailey, David Bradley, John Brooks, George Fiebelkorn, D. Finkbiner, Jim Heian, Kenneth Macur, Deborah Pavelka, Ken Plucinski, Nathan Schmukler, C.J. Skender, James Swearingen, and Don Wells.

## PREFACE FOR ACCOUNTING STUDENTS

The purpose of this study manual is to help you learn and understand auditing and systems concepts and their application. In turn, these skills will enable you to perform better on your undergraduate examinations, as well as look ahead to the CDP, CIA, CISA, CMA, CFM, and CPA examinations.

One of the major benefits of this study manual is comprehensive coverage of auditing and systems topics. Accordingly, when you use this study manual to help prepare for auditing courses and examinations, you are assured of covering virtually all topics that could reasonably be expected to be studied in typical college or university auditing courses.

The question-and-answer format is designed and presented to facilitate effective study. Students should be careful not to misuse this text by referring to the answers before independently answering each question. Accordingly, we have provided two removable bookmarks at the back of this book to use to cover the answers while considering the questions.

The majority of the questions in this book are from past CDP, CIA, CISA, CMA, and CPA examinations. In addition, hundreds of publisher-written questions test areas covered in current textbooks but not directly tested on accounting certification examinations.

All of the questions in *Auditing & Systems Exam Questions and Explanations* have been modified, if necessary, to accommodate changes in professional pronouncements, to clarify questions, and/or to emphasize an auditing or systems concept or its application.

Note that this study manual should not be relied upon exclusively to prepare for the professional examinations. You should primarily use review manuals specifically developed for each examination. The *Gleim CIA Review*, *CMA Review*, *CFM Review*, *CPA Review*, and *EA Review* are up-to-date and comprehensively cover all material necessary for successful completion of these examinations.

Thank you for your interest in this study manual. We deeply appreciate the many letters and suggestions received from accounting and auditing students and educators during the past years, as well as from CDP, CIA, CISA, CMA, CPA, and EA candidates. Please send us your suggestions, comments, and corrections concerning this manual. The last two pages of this book have been designed to help you note corrections and suggestions throughout your study process.

To continue providing our customers with first-rate service, we request that questions about our books and software be sent to us via mail, e-mail, or fax. The appropriate staff member will give each question thorough consideration and a prompt response. Questions concerning orders, prices, shipments, or payments will be handled via telephone by our competent and courteous customer service staff.

Please read the introduction carefully. It is short but nonetheless very important.

Good Luck on Your Exams,

*Irvin N. Gleim*  
*William A. Hillison*

June 1999



## PREFACE FOR ACCOUNTING PRACTITIONERS

The first purpose of this study manual is to permit you to assess your technical proficiency concerning auditing standards, ethics, and special skills such as systems and statistical sampling. The second purpose is to facilitate your review and update of auditing standards and techniques with our compendium of nearly 1,800 objective questions. The third purpose is to provide CPE credit for your self-assessment and review/update study effort.

This approach to CPE is both interactive and intense. You should be continually challenged to answer each question correctly. When you answer a question incorrectly or have difficulty, you should pursue a complete understanding by reading the answer explanation and consulting reference sources as necessary.

In this Eighth Edition, we have included the CPE questions at the back of the book as Appendix B: Auditing & Systems CPE. Please read the instructions carefully before you begin.

Most of the questions were taken from various professional examinations, but many have been revised, adapted, etc., to provide broader, up-to-date coverage of the auditing and systems body of technical knowledge. While some are from the CPA exam, many are from other exams, such as CISA, CDP, CMA, and CIA. Thus, you have an opportunity to consider the appropriateness of pursuing these other accounting certifications. In addition, hundreds of publisher questions cover material not directly tested on the accounting certification examinations.

Finally, we ask for any supplemental comments, reactions, suggestions, etc., that you may have as you complete our CPE program. Please attach them to the Course Evaluation (handwritten notes are fine).

CPE candidates should read carefully the "Introduction: How to Use This CPE Program" in Appendix B: Auditing & Systems CPE.

To continue providing our customers with first-rate service, we request that questions about our books and software be sent to us via mail, e-mail, or fax. The appropriate staff member will give each question thorough consideration and a prompt response. Questions concerning orders, prices, shipments, or payments will be handled via telephone by our competent and courteous customer service staff.

Thank you for your interest, and we look forward to hearing from you. If you would like information on other CPE programs available from Gleim, please call us for a free brochure.

Best Wishes in Your CPE Endeavors,

*Irvin N. Gleim*  
*William A. Hillison*

June 1999

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**ACRONYMS:** All acronyms used in this book are listed in the index. See pages 18 - 23 for definitions of and cross-references to APB, AR, AT, AU, BL, CS, FASB, QC, PR, SAS, SFAS, SSAE, SSARS, and TX pronouncements.



# INTRODUCTION

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The format and content of this study manual are innovative in the accounting text market. The first purpose is to provide auditing students with a well-organized, comprehensive compendium of objective questions covering the topics taught in typical auditing and information systems undergraduate courses. The second purpose is to provide accounting professionals with a comprehensive presentation of objective questions for self-diagnostic use and/or review of auditing standards and procedures.

The Gleim exam question and explanation books really work! You can pretest yourself before class to see if you are strong or weak in the assigned area. You can retest after class to see if you really understand the material. The questions in these books cover **all** topics in your related courses, so you will encounter few questions on your exams for which you will not be well prepared.

The titles and organization of Chapters 1 through 9 are based on the current auditing and information systems textbooks listed in Appendix A. Appendix A contains the table of contents of each of the listed books with cross-references to chapters and modules in this book. Some textbooks may have been inadvertently omitted. If you are using a textbook that is not included in our list, please fax, mail, or e-mail us the table of contents so that we may provide you with a cross-reference. In your correspondence to us, please include your name, address, school, professor, and course name.

## OUR USE OF MODULES

Each chapter of this book is divided into subtopics to assist your study program. We call these subtopics “modules.” Modules permit broad and perhaps overwhelming topics to be divided into more manageable study components.

Choosing modules and arranging questions within these subtopics was difficult. As a result, topics and questions may overlap somewhat. The number of questions is large enough for comprehensive coverage but does not present an insurmountable task. We have defined each module narrowly enough to cover a single topic but broadly enough to prevent questions from being repetitious.

Within each module, the multiple-choice questions are presented in a sequence moving from the general to the specific, elementary to advanced, etc., to provide an effective learning sequence. Duplicate questions and redundant explanations have been kept to a minimum.

## SOURCES OF OBJECTIVE QUESTIONS

Past CIA, CISA, CMA, CPA, and CPA examinations and sample questions are the primary sources of questions included in this study manual.

Gleim Publications will continue to prepare questions (coded in this text as *Publisher*) based upon the content of auditing and information systems textbooks, SASs, SSARSs, etc. These *Publisher* questions were developed to review topics not adequately covered by questions from the other sources. We will continue to develop challenging, current questions to provide you with complete review materials. Also, professionals and professors from schools around the country have contributed questions. See page iv for a list of their names. We invite professors and students to submit questions for future editions.

## IDENTIFICATION OF THE SOURCE OF EACH QUESTION

The source of each question appears in the first line of its answer explanation, in the column to the right of the question. Summary of source codes:

<i>CDP</i>	<i>CDP</i> Instruction Manual
<i>CIA</i>	Certified Internal Auditor Examination
<i>CISA</i>	Study Guide -- CISA
<i>CMA</i>	Certified Management Accountant Examination
<i>CPA</i>	Uniform Certified Public Accountant Examination
<i>Publisher</i>	Your authors
<i>Individual name</i>	Name of professional or professor who contributed the question

If you, your professor, or your classmates wish to submit questions, we will consider using them in future editions. Please send questions you develop, complete with answers and explanations, to the following address:

Gleim Publications, Inc.  
EQE Question Bank  
P.O. Box 12848, University Station  
Gainesville, FL 32604

Writing and analyzing multiple-choice questions is an excellent way to prepare yourself for your exams. We will make every effort to consider, edit, and use questions you submit. However, we ask that you send us only serious, complete, carefully considered efforts.

## UNIQUENESS OF OBJECTIVE QUESTIONS

The major advantage of objective questions is their ability to cover a large number of topics with little time and effort when compared to essay questions and/or computational problems.

A multiple-choice question is actually a series of statements of which all but one are incorrect given the facts of the question. The advantage of multiple-choice questions over true-false questions is that they require more analysis and result in a lower score for those with little or no knowledge. Random guessing on questions with four answer choices results in an expected grade of 25%. Random guessing on a true-false test results in an expected grade of 50%.

Students and practitioners both like multiple-choice questions. Because they present alternative answers from which only one needs to be selected, students find them relatively easy to answer. Professors also like objective questions because they are easy to grade and because much more material can be tested in the same period of time. Most professors will also ask students to complete essay or computational questions.

## ANSWER EXPLANATIONS ALONGSIDE THE QUESTIONS

Our format presents objective questions and their answer explanations side by side. The answer explanations are to the right of each question. The example below is from the CPA exam.

Proper segregation of duties reduces the opportunities for persons to be in positions to both

- A. Journalize entries and prepare financial statements.
- B. Record cash receipts and cash disbursements.
- C. Establish internal controls and authorize transactions.
- D. Perpetrate and conceal errors and fraud.

The correct answer is (D). (CPA, adapted)

**REQUIRED:** The effects of the segregation of duties and responsibilities.

**DISCUSSION:** Proper segregation of duties and responsibilities reduces the opportunity for an individual to both perpetrate and conceal an error or fraud in the normal course of his/her duties. Hence, different people should be assigned the responsibilities for authorizing transactions, recordkeeping, and asset custody.

Answer (A) is incorrect because accountants typically journalize entries and prepare financial statements. Answer (B) is incorrect because accountants may record both cash receipts and cash disbursements as long as they do not have custody of the cash. Answer (C) is incorrect because management establishes internal controls and ultimately has the responsibility to authorize transactions.

The format in this study manual is designed to facilitate your study of objective questions, their answers, and the answer explanations. The intent is to save you time and effort by eliminating the need to turn pages back and forth from questions to answers.

Be careful, however. Do not misuse this format by consulting the answers before you have answered the questions. Misuse of the readily available answers will give you a false sense of security and result in poor performance on examinations and decreased benefit from your studies. The best way to use this study manual is to cover the answer explanations with the bookmark provided for this purpose in the back of the book (or a sheet of paper) as you read and answer each question. As a crucial part of the learning process, you must honestly commit yourself to an answer before looking at the answer explanation. Whether you are right or wrong, your memory of the correct answer will be reinforced by this process.



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- Updates and Corrections for Gleim Books and Software
- Listings of Bookstores that Carry Gleim's **CPA Review**
- Technical Support Request Form
- Links to Other Helpful Sites
- Information about Other Gleim Products
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<b>CIA Review:</b>		
<b>Part I, Internal Audit Process</b>	CIA I	CIATP I
<b>Part II, Internal Audit Skills</b>	CIA II	CIATP II
<b>Part III, Management Control and Information Technology</b>	CIA III	CIATP III
<b>Part IV, The Audit Environment</b>	CIA IV	CIATP IV
<b>CMA/CFM Review:</b>		
<b>Part 1, Economics, Finance, and Management</b>	CMA/CFM Part 1	CMA/CFMTP 1
<b>Part 2CFM, Corporate Financial Management</b>	CMA/CFM Part 2CFM	CMA/CFMTP 2 CFM
<b>Part 2CMA, Financial Accounting and Reporting</b>	CMA/CFM Part 2CMA	CMA/CFMTP 2CMA
<b>Part 3, Management Reporting, Analysis, and Behavioral Issues</b>	CMA/CFM Part 3	CMA/CFMTP 3
<b>Part 4, Decision Analysis and Information Systems</b>	CMA/CFM Part 4	CMA/CFMTP 4
<b>CPA Review:</b>		
<b>Auditing</b>	CPA AUD	CPATP AUD
<b>Business Law</b>	CPA LAW	CPATP LAW
<b>TAX-MAN-GOV</b>	CPA TAX	CPATP TAX
<b>Financial</b>	CPA FIN	CPATP FIN
<b>A System for Success</b>	CPA SFS	

\*Add the printing-edition of your book or version of your software to this acronym to get your update.

## OVERVIEW OF ACCOUNTING CERTIFICATION PROGRAMS

The CPA (Certified Public Accountant) exam is the grandparent of all the professional accounting examinations. Its origin was in the 1896 public accounting legislation of New York. In 1917 the American Institute of CPAs (AICPA) began to prepare and grade a uniform CPA exam. It is currently used to measure the technical competence of those applying to be licensed as CPAs in all 50 states, Guam, Puerto Rico, the Virgin Islands, and the District of Columbia. More than 60,000 candidates sit for each CPA exam which is given twice a year in May and November.

The CIA (Certified Internal Auditor), CMA (Certified Management Accountant), and CFM (Corporate Financial Management) examinations are relatively new certification programs compared to the CPA. The CMA exam was first administered in 1972, and the first CIA exam in 1974. The CFM was first administered in December 1996. Why were these certification programs begun? Generally, the requirements of the CPA designation instituted by the boards of accountancy, especially the necessity for public accounting experience, led to the development of the CIA, CMA, and CFM programs.

Certification is important to professional accountants because it provides

1. Participation in a recognized professional group
2. An improved professional training program arising out of the certification program
3. Recognition among peers for attaining the professional designation
4. An extra credential for the employment market/career ladder
5. The personal satisfaction of attaining a recognized degree of competency

These reasons hold particularly true in the accounting field due to wide recognition of the CPA designation. Accountants and accounting students are often asked if they are CPAs when people learn they are accountants. Thus, there is considerable pressure for accountants to become *certified*.

A new development is multiple certifications, which is important for the same reasons as initial certification. Accounting students and recent graduates should look ahead and obtain multiple certifications. Obtaining multiple certifications will help to broaden your career opportunities. The table of selected CIA, CMA, CFM, and CPA examination data on page 12 provides an overview of these accounting examinations.

## RATIONALE FOR ACCOUNTING CERTIFICATION PROGRAMS

The primary purpose of the CIA, CMA, CFM, and CPA examinations is to measure the technical competence of candidates. Competence includes technical knowledge, ability to apply such knowledge with good judgment, and comprehension of professional responsibility. Additionally, the nature of these examinations (low pass rate, broad and rigorous coverage, etc.) has several very important effects.

1. Candidates are forced to learn all of the material that should have been presented and learned in a good accounting educational program.
2. Relatedly, candidates must integrate the topics and concepts that are presented in individual courses in accounting education programs.
3. The content of each examination provides direction to accounting education programs; i.e., what is tested on the examinations will be taught to accounting students.

## EXAMINATION CONTENT

The content of these examinations is specified by their governing boards with lists of topics to be tested. In the Gleim review manuals -- *CIA Review*, *CMA/CFM Review*, and *CPA Review* -- the material tested is divided into subtopics called study units. A study unit is a more manageable undertaking than an overall part of each exam. The listings of topics on pages 7 through 9 provide an overview of the content of these exams.

### CIA, CMA/CFM, CPA EXAMINATION SUMMARY

	CIA	CMA/CFM	CPA
<b>Sponsoring Organization</b>	Institute of Internal Auditors 249 Maitland Avenue Altamonte Springs, FL 32701 (407) 830-7600 www.theiia.org	Institute of Certified Management Accountants 10 Paragon Drive Montvale, NJ 07645-1759 (201) 573-9000 (800) 638-4427 www.imanet.org	American Institute of Certified Public Accountants Harborside Financial Center 201 Plaza III Jersey City, NJ 07311-3881 (212) 596-6200 www.aicpa.org
<b>Passing Score</b>	75%	70%	75%
<b>Average Pass Rate by Exam Part</b>	45%	40%	33%
<b>Cost</b>	\$300 (50% student discount)	\$240 (50% student discount; requires IMA membership)	\$35-315 (Varies by state)
<b>Year Examination Was First Administered</b>	1974	1972	1916
<b>Major Exam Sections and Length</b>	I. Internal Audit Process (3½ hours)  II. Internal Audit Skills (3½ hours)  III. Management Control and Information Tech. (3½ hours)  IV. The Audit Environment (3½ hours)	1. Economics, Finance, and Management (3 hours)  2. Financial Accounting and Reporting (3 hours)  2CFM. Corporate Financial Management (3 hours)  3. Management Reporting, Analysis, and Behavioral Issues (3 hours)  4. Decision Analysis and Information Systems (3 hours)	1. Business Law & Professional Responsibilities (3 hours)  2. Auditing (4½ hours)  3. Accounting & Reporting -- Taxation, Managerial, & Governmental and Not-for-Profit Organizations (3½ hours)  4. Financial Accounting & Reporting -- Business Enterprises (4½ hours)
<b>Length of Exam</b>	14 hours	12 hours (CMA or CFM) 15 hours (CMA and CFM)	15½ hours
<b>When Administered</b>	2 weeks after CPA Wed, Thur	On Demand	1st week of May, Nov Wed, Thur
<b>Candidates Sitting for Exam:</b>	Total number of candidates sitting for two examinations; many are repeaters.		
1990	4,363	4,839	143,572
1991	4,597	6,404	140,042
1992	4,961	7,464	136,541
1993	5,103	7,879	140,100
1994	4,557	8,259	131,000
1995	4,649	8,675	126,000
1996	4,646	8,679	122,232
1997	5,169	*5,456	121,437
1998	7,959	*5,276	117,000

\*Does not include double-counting which occurred in previous years.

Other professional accounting-related designations include: CBA (Certified Bank Auditor), CDP (Certificate in Data Processing), CFA (Chartered Financial Analyst), CFE (Certified Fraud Examiner), CISA (Certified Information Systems Auditor), Enrolled Agent (one enrolled to practice before the IRS).



### CIA REVIEW

Gleim makes your study process straightforward with 10 study units per exam part. Pass the first time with Gleim.

**Part I: Internal Audit Process**

Introduction to Internal Auditing  
 Independence, Status, and Objectivity  
 Standards and Proficiency  
 Internal Control  
 Planning and Administering the Audit Assignment  
 Audit Evidence and Procedures  
 Managing the Internal Auditing Department  
 Information Technology Auditing  
 Ethics  
 Fraud

**Part II: Internal Audit Skills**

Problem Solving  
 Decision Making  
 Pronouncements on Audit Evidence  
 Types of Audit Evidence  
 Flowcharting and Data Gathering  
 Using Electronic Media  
 Working Papers  
 Communicating Results  
 Mathematics  
 Statistics and Sampling

**Part III: Management Control and Information Technology**

Internal Control Concepts  
 The Controlling Process  
 Budgeting  
 Responsibility Accounting  
 Product Cost Control Systems  
 Decision Analysis I  
 Decision Analysis II  
 Information Technology I  
 Information Technology II  
 Information Technology - Control

**Part IV: The Audit Environment\***

Standards and Statements  
 Assets  
 Liabilities and Shareholders' Equity  
 Financial Accounting - Special Topics  
 Finance I  
 Finance II  
 Managerial Accounting - Cost Behavior and Allocation  
 Managerial Accounting - Additional Topics  
 Regulatory Environment I  
 Regulatory Environment II

\*Persons who have passed the CPA or CMA exams (and many other professional exams) are not required to take Part IV of the CIA exam.

Each of the four parts consists of 80 multiple-choice questions and is 3½ hours in length (8:30 - 12:00 and 1:30 - 5:00).

The first two parts of the CIA exam focus on the theory and practice of internal auditing. The body of knowledge of internal auditing and the auditing skills to be tested consist of

1. The typical undergraduate auditing class (as represented by auditing texts, e.g., Arens and Loebbecke, Taylor and Glezen, etc.)
2. Internal auditing textbooks (e.g., Sawyer and Sumners, *The Practice of Modern Internal Auditing*, and Atkisson, Brink, and Witt, *Modern Internal Auditing*)
3. Various IIA (Institute of Internal Auditors) pronouncements (e.g., *The IIA Code of Ethics*, *Standards for the Professional Practice of Internal Auditing*, and *Statement of Responsibilities of Internal Auditing*)
4. Reasoning ability, communications, and problem-solving skills, and dealing with auditees within an audit context (i.e., the questions will cover audit topics, but test audit skills)

The remaining 50% of the exam, parts III and IV, assures that internal auditors are conversant with topics, methodologies, and techniques ranging from individual and organizational behavior to economics.

Management cannot personally observe the functioning of all officers, employees, and specialized functions (finance, marketing, operations, etc.). Each has a unique perspective. Only internal auditing is in a position to take a total company point of view.

### **CMA and CFM REVIEW**

Gleim makes your study process straightforward with 10 study units per exam part. Pass the first time with Gleim.

#### **Part 1: Economics, Finance, and Management**

Microeconomics  
Macroeconomics  
International Business Environment  
Domestic Institutional Environment of Business  
Working Capital Finance  
Capital Structure Finance  
Risk  
Organizational Theory  
Motivation and the Directing Process  
Communication

#### **Part 2CMA: Financial Accounting and Reporting\***

Accounting Standards  
Financial Statements  
Conceptual Framework  
Assets  
Liabilities  
Shareholders' Equity  
Other Income Items  
Other Reporting Issues  
Financial Statement Analysis  
External Auditing

\*Persons who have passed the CPA exam are not required to take Part 2 of the CMA exam.

\*\*CMAs in good standing need only pass this part to earn the CFM designation.

#### **Part 2CFM: Corporate Financial Management\*\***

Financial Statements and Annual Reports  
Financial Statements: Special Topics  
Long-Term Capital Financing  
Financial Markets and Interest Rates  
Investment Banking and Commercial Banking  
Financial Statement Analysis  
Business Combinations and Restructurings  
Risk Management  
External Financial Environment  
Accounting Standard Setting

#### **Part 3: Management Reporting, Analysis, and Behavioral Issues**

Cost and Managerial Accounting Definitions  
Product Costing and Related Topics  
Cost Behavior  
Statements on Management Accounting  
Planning  
Budgeting  
The Controlling Process  
Standard Costs and Variance Analysis  
Responsibility Accounting  
Behavioral Issues

#### **Part 4: Decision Analysis and Information Systems**

Decision Analysis  
Cost-Volume-Profit Analysis  
Capital Budgeting  
Decision Making Under Uncertainty  
Quantitative Methods I  
Quantitative Methods II  
Information Systems I  
Information Systems II  
Internal Control  
Internal Auditing

The CMA and CFM exams have broader coverage than the CPA exam in several areas. For example,

1. Management information systems is tested more extensively on the CMA exam.
2. SEC Financial Reporting Releases and Cost Accounting Standards Board pronouncements are covered on the CMA exam but not on the CPA exam.
3. Topics like economics, finance, and management on Part 1 and Part 2CFM are covered lightly, if at all, on the CPA exam.
4. The CMA exam tests internal auditing to a far greater degree than does the CPA exam.
5. The CMA exam tests business ethics, but not business law.

CMA questions are generally more analysis oriented than CPA questions. On the CPA exam, the typical requirement is the solution of an accounting problem, e.g., consolidated worksheet, funds statement, etc.

Each part of the CMA/CFM consists of 110 multiple-choice, computer-administered questions, of which five will be unscored for pretesting.



## CPA REVIEW

Gleim makes your study process straightforward with 19 to 21 study units per exam part. Pass the first time with Gleim.

### **Business Law**

AICPA Ethics  
CPAs and the Law  
Agency  
Partnerships  
Corporations  
Estates and Trusts  
Contract Formation  
Contract Performance  
Rights and Duties  
Guarantors  
Bankruptcy  
Securities  
Employment  
Environmental Regulation  
Commercial Paper  
Sales  
Secured Transactions  
Documents of Title  
Real Property and Insurance  
Personal Property, Bailments, and Computers

### **Auditing**

Engagement Responsibilities  
Risk Assessment  
Strategic Planning Issues  
Internal Control Concepts  
Internal Control -- Sales-Receivables-Cash Receipts Cycle  
Internal Control -- Purchases-Payables-Cash Disbursements Cycle  
Internal Control -- Payroll and Other Cycles  
Tests of Controls  
Internal Control Communications  
Evidence -- Objectives and Nature  
Evidence -- The Sales-Receivables-Cash Cycle  
Evidence -- The Purchases-Payables-Inventory Cycle  
Evidence -- Other Assets, Liabilities, and Equities  
Evidence -- Key Considerations  
Evidence -- Sampling  
Reports -- Standard, Qualified, Adverse, and Disclaimer  
Reports -- Other Modifications  
Special Reports  
Related Reporting Topics  
Review and Compilation  
Governmental Audits

### **TAX-MAN-GOV**

Gross Income  
Deductions  
Tax Computations  
Tax Procedures  
Property Transactions  
Corporate Taxable Income  
Corporate Tax Computations  
Corporate Tax Special Topics  
S Corporations  
Partnerships  
Estates and Trusts  
Exempt Organizations/Preparer's Responsibilities  
Governmental Concepts  
Governmental Accounting and Reporting  
Not-for-Profit Concepts  
Not-for-Profit Accounting and Reporting  
Cost Accounting  
Budgeting  
Analytical Methods

### **Financial**

Concepts and Standards  
Revenue Recognition  
Financial Statements  
Other Income Statement Items  
Financial Statement Disclosure  
Statement of Cash Flows  
Cash and Investments  
Receivables and Accruals  
Inventories  
Property, Plant, and Equipment  
Intangibles and Other Assets  
Payables and Accruals  
Accounting for Income Taxes  
Employee Benefits  
Bonds and Notes Payable  
Leases and Contingencies  
Equity Accounts -- Corporations  
Equity Accounts -- Other  
Business Combinations  
Foreign Currency Issues and Other Topics

1. The table below presents the CPA exam schedule and exam composition by question type.

Section	Day	Time	Objective		Essay/Problem
			MC	Other	
Business Law	Wednesday	9:00-12:00	50-60%	20-30%	20-30%
Auditing	Wednesday	1:30-6:00	50-60%	20-30%	20-30%
TAX-MAN-GOV	Thursday	8:30-12:00	50-60%	40-50%	0
Financial	Thursday	1:30-6:00	50-60%	20-30%	20-30%

2. The "other objective question format" (OOF) is any question that can be answered on an answer sheet that can be optically scanned, except four-answer multiple-choice.
3. Essay questions will be graded for writing skills.
4. Calculators will be provided for both Thursday sessions (Sharp Model EL-231L).
5. Every aspect of the exam is explained and analyzed in *CPA Review: A System for Success*. Faculty and student organizations should order this free booklet in bulk for distribution.



## EXAMINATION SCHEDULES AND FUTURE DATES

The CPA exam is given during the first week of May and November on Wednesday and Thursday. The CIA exam is given on a Wednesday and Thursday 1 or 2 weeks after the CPA examination. The CMA and CFM exams are offered in a computer-based, on-demand format.

Note that all four examinations can be taken within a 3-week period, which is ideal owing to the great amount of overlap of the material tested.

	1999	2000	2001
<b>CPA EXAM</b>	Nov. 3, 4	May 3, 4*      Nov. 1, 2*	May 2, 3*      Nov. 7, 8*
<b>CIA EXAM</b>	Nov. 17, 18*	May 17, 18*      Nov. 15, 16*	May 16, 17*      Nov. 21, 22*
<b>CMA EXAM</b>	Computer-Based/On-Demand	Computer-Based/On-Demand	Computer-Based/On-Demand
<b>CFM EXAM</b>	Computer-Based/On-Demand	Computer-Based/On-Demand	Computer-Based/On-Demand

\*Predicted dates. Check your registration card for actual dates.

### When to Sit for the Exams

Sit for all four examinations as soon as you can. The CIA, CMA, and CFM exams can be taken in your last undergraduate quarter or semester, and both offer a 50% reduction in fees to full-time students. In many states you may also take the CPA exam in your last quarter or semester. If you are graduating in May, consider taking the CPA exam the first week of May, the CIA exam 1 or 2 weeks thereafter, and the CMA or CFM exam in early June. Your preparation program for all of these exams is very synergistic and not appreciably more work than preparing for just the CPA exam.

### EXAMINATION PASS RATES

The pass rates on the CIA and CMA exams are about the same and are somewhat higher than the pass rate on the CPA exam. Nationally, the pass rate on the CPA exam is about 33% on each of the four parts. The pass rates on the CIA and CMA exams average 40%-45% per part (see the tables on page 11).

Unfortunately, a great deal of confusion surrounds CPA exam pass rates. There is considerable variation in the pass rate from state to state, even though the national rate is fairly constant. Nationally, about 20% pass all four parts on the first sitting, even though the pass rate on each part is about 33%. Approximately 20% of all candidates sitting for each CPA exam successfully complete the exam (this includes those passing the entire exam on one sitting and those passing their final parts for successful completion). Over 80% of *serious* CPA candidates eventually complete the CPA exam.

There is confusion between CPA pass rates and condition rates. While 75% is the passing grade for each part, *conditional* status is assigned to candidates who pass some, but not all, parts. The combined pass and condition rate is therefore higher than the pass rate. Relatedly, the qualifications and the requirements of conditional status vary from state to state.

Many schools and CPA review courses advertise the quality of their programs by reporting pass rates. Obviously, the best rates are emphasized. Thus, the reported percentage may be that for first-time candidates, all candidates, candidates passing a specific section of the examination, candidates completing the examination, or even candidates successfully completing the exam after a specified number of sittings.