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**Vendor:** IIA

**Exam Code:** IIA-CFSA

**Exam Name:** Certified Financial Services Auditor

**Version:** Demo

**QUESTION 1**

Which of the following situation would not impair audit objectivity?

- A. An auditor is assigned to audit a business function that the auditor was responsible for nine months ago
- B. An individual temporarily assigned to the internal audit activity because of the individual's expert knowledge in a particular business function assigned to audit an activity that the individual was responsible for just prior to transferring to the internal audit activity
- C. An auditor is assigned to perform a post-implementation review on a system for which the auditor participated in the design process
- D. An auditor is assigned to perform a post-implementation review on a system for which the auditor performed a procedure review and made control recommendations prior to the system's implementation

**Correct Answer:** D

**QUESTION 2**

Internal auditing:

- A. Is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations
- B. Is an independent, performance measurement and consulting activity designed to add value and improve an organization's operations
- C. Helps an organization accomplish objectives by bringing a systematic, disciplined approach to evaluate but rarely improve the effectiveness of risk management, control and governance
- D. Helps an organization accomplish objectives by bringing a targeted, disciplined approach to evaluate but rarely improve the effectiveness of risk management, control and governance

**Correct Answer:** A

**QUESTION 3**

IIA's code of ethics applies to \_\_\_\_\_ that provide internal auditing services:

- A. Individuals
- B. Entities
- C. Individuals and entities
- D. Individuals, entities and indirect authorities

**Correct Answer:** C

**QUESTION 4**

Internal auditors are expected to uphold the following principles:

- A. Integrity, objectivity, competency
- B. Integrity, objectivity, confidentiality, and competency
- C. Integrity, objectivity, awareness and competency
- D. Integrity, objectivity, entirety

**Correct Answer:** B

**QUESTION 5**

"Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments." This statement best explains one of the following principles:

- A. Competency
- B. Confidentiality

- C. Objectivity
- D. Integrity

**Correct Answer: C**

**QUESTION 6**

Internal auditors, engaging in activities that are illegal and discreditable to the profession of internal auditing or the organization, violate which of the following principles:

- A. Objectivity
- B. Awareness
- C. Integrity
- D. Competence

**Correct Answer: C**

**QUESTION 7**

Which of the following statements is NOT related to competency principle of internal auditing? Internal auditors:

- A. Shall continually improve their proficiency and effectiveness and quality of their services
- B. Shall perform internal auditing services in accordance with the standards for the professional practice of internal auditing
- C. Shall engage only in those services for which they have the necessary knowledge, skills and experience
- D. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review

**Correct Answer: D**

**QUESTION 8**

While performing consulting services internal auditors should specifically maintain:

- A. Proficiency level
- B. Objectivity
- C. Competence
- D. Confidentiality

**Correct Answer: B**

**QUESTION 9**

All these statements elaborate purpose of standards EXCEPT:

- A. Foster improved organizational processes and operations
- B. Establish the basis for the evaluation of internal audit performance
- C. Subvert the framework for performing and promoting broad range of value-added internal audit activities.
- D. Delineate basic principles that represent the practice of internal auditing as it should be

**Correct Answer: C**

**QUESTION 10**

Nature of internal audit activities and quality criteria against which the performance of these services can be evaluated is best portrayed by:

- A. Performance Standards
- B. Attribute Standards
- C. Implementation Standards

D. Evaluation Standards

**Correct Answer:** A

**QUESTION 11**

There are multiple sets of attribute and performance standards:

- A. False
- B. True
- C. True- In specific conditions
- D. False- In specific conditions

**Correct Answer:** A

**QUESTION 12**

All of the following phrases are used to express the auditor's opinion EXCEPT:

- A. Give a true and fair view
- B. Present fairly, in all material respects
- C. Timely and consistent opinion
- D. Comprehensible and realistic view

**Correct Answer:** C

**QUESTION 13**

The auditor should plan an audit with an attitude of:

- A. Professional competence
- B. Professional skepticism
- C. Subject awareness
- D. Opinion sharing

**Correct Answer:** B

**QUESTION 14**

Which of the following is a limitation in an audit that affects auditors' ability to detect material misstatements?

- A. Scope of an audit
- B. The use of testing
- C. Over- generalization
- D. Unidentifiable risks

**Correct Answer:** B

**QUESTION 15**

Reasonable assurance relates to the:

- A. Audit planning process
- B. Scope of the internal audit
- C. End of the audit process
- D. Whole audit process

**Correct Answer:** D

**QUESTION 16**

The responsibility for preparing and presenting the audited financial statements is that of:

- A. Internal auditor
- B. Engagement client/ Management of the entity
- C. Process owner
- D. Auditing Agency

**Correct Answer:** B

**QUESTION 17**

All these are disparities in public and private sector audits EXCEPT:

- A. Objective and scope
- B. Specific requirements of relevant regulation, ordinances or ministerial directives
- C. Specific and broad range mandate in public sector
- D. Reasonable assurance

**Correct Answer:** D

**QUESTION 18**

Which one of the following is an internal control component?

- A. Compliance control
- B. Control activities
- C. Financial Reporting Controls
- D. Communication channels and network

**Correct Answer:** B

**QUESTION 19**

Management must \_\_\_\_\_ assess business risk and develop clearly defined control objectives:

- A. Continually
- B. Annually
- C. Periodically
- D. Weekly

**Correct Answer:** A

**QUESTION 20**

Internal audit routinely reviews compliance risk and also should be reviewing business risk. The efforts to control both risk types will purely enhance:

- A. The short-term profitability and viability of an organization
- B. The long-term profitability and viability of an organization
- C. Both short-term and long-term profitability and viability of an organization
- D. None of these

**Correct Answer:** C

**QUESTION 21**

Following statements define risk EXCEPT:

- A. Organization has knowledge of facts constituting a dangerous condition
- B. Organization voluntarily exposes itself to the danger
- C. The element of assurance in an undertaking
- D. Measured in terms of impact and likelihood

**Correct Answer:** C

**QUESTION 22**

Strategic planning is the process of taking a long-term view of the organization, the longer the view, the greater the uncertainty of risks and opportunities. Such reservations can better be handled by:

- A. Timely decisions
- B. Flexible/ Adaptive plans and processes
- C. Periodic risk assessments
- D. Focusing on current period organizational activity

**Correct Answer:** B

**QUESTION 23**

High-risk scores are those with an average of scores:

- A. 3.75 or more
- B. 3.25 or more
- C. 4.25 or more
- D. 4.00 or more

**Correct Answer:** C

**QUESTION 24**

Low-risk scores are those with an average of scores:

- A. 2.25 or less
- B. 2.75 or less
- C. 2.00 or less
- D. 3.25 or less

**Correct Answer:** A

**QUESTION 25**

Risks inherent in the management process are known as:

- A. Residual risks
- B. Long-term risks
- C. Control risks
- D. Strategic risks

**Correct Answer:** C

**QUESTION 26**

Both residual and control risk need to be \_\_\_\_\_ dealt with in project management.

- A. Timely
- B. Implicitly
- C. Professionally
- D. Explicitly

**Correct Answer:** D

**QUESTION 27**

"Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of control risk," is an objective of:

- A. Risk Identification

- B. Risk Measurement
- C. Risk Management Process
- D. Risk Prioritization

**Correct Answer:** C

**QUESTION 28**

Faulty human judgments, misunderstanding of instructions, errors, management override, and collusion and cost/benefit considerations are the limitations of:

- A. Reasonable Assurance
- B. Internal Control System
- C. Risk Management
- D. Compliance Control

**Correct Answer:** B

**QUESTION 29**

Five internal control components are:

- A. Control environment, Risk assessment, Control activities, Information and communication & Monitoring
- B. Control environment, Risk assessment, and Operational control, Information and communication & Monitoring
- C. Control environment, Risk Prioritization, Control activities, Information and communication & Monitoring
- D. Control environment, Risk Prioritization, Control activities, Information and communication & Monitoring

**Correct Answer:** A

**QUESTION 30**

Enterprise risk management encompasses all EXCEPT:

- A. Aligning risk appetite and strategy
- B. Enhancing risk responsibilities and decisions
- C. Increasing Operational Surprises
- D. Seizing Opportunities

**Correct Answer:** C

**QUESTION 31**

Organization's Objectives are described in three general categories:

- A. Effectiveness of operations, Efficiency of strategic plans, Reliability of internal and external reporting
- B. Effectiveness of operations, Efficiency of strategic plans, Reliability of internal and external reporting, compliance with applicable laws and regulations
- C. Effectiveness and Efficiency of operations, Compliance with applicable laws and regulations, Monitoring and management control system
- D. Effectiveness and Efficiency of operations, Reliability of internal and external reporting, Compliance with applicable laws and regulations

**Correct Answer:** D

**QUESTION 32**

The plans developed for the audit functions should be updated as circumstances dictate. Such specific types of plans include all EXCEPT:

- A. Activity Reports
- B. Target dates
- C. Opportunities and threats

D. Staffing plans and financial budgets

**Correct Answer:** C

**QUESTION 33**

Which one of the following statements is NOT the part of audit work schedule?

- A. The extent and type of findings in the last audit
- B. Loss of assets, errors and fraud
- C. The availability of audit staff resources
- D. Opportunities to achieve operations benefits

**Correct Answer:** B

**QUESTION 34**

Risk is the probability that an event or action may adversely affect the organization or activity under review. In other words, risk is anything that can prevent an organization from achieving an objective. Major components of risk are as follows EXCEPT:

- A. Non- Compliance with the laws, rules and regulations
- B. An event or cause that can interfere with achieving the objective (e.g. What can go wrong?)
- C. A probability or likelihood of occurrence
- D. The negative consequences of not achieving the objective

**Correct Answer:** A

**QUESTION 35**

The extent to which an organization has implemented controls to minimize the actual occurrences of the risk determines the vulnerability to the risk actually occurring, or the "\_\_\_\_\_"

- A. Inherent Risk
- B. Understanding Risk
- C. Control Risk
- D. Disguised Risk

**Correct Answer:** C

**QUESTION 36**

The major benefit of risk assessment is:

- A. To staff the plans and financial budgets
- B. To consider factor that may affect risk and giving the highest priority to audit areas that have the highest potential for adverse consequences
- C. To identify the possible adverse effects based solely on the type of activity, the type of resources, amount of assets or complexity of transactions
- D. Failure to achieve the organization's goal and objectives

**Correct Answer:** B

**QUESTION 37**

The risk analysis process involves all of the following steps EXCEPT:

- A. Identifying auditable activities (e.g. programs, accounts, contracts, transactions)
- B. Identifying relevant risk factors (e.g. Complexity of programs, size of program, adequacy of internal control system)
- C. Prioritizing Risks
- D. Determine the need for external assistance of outsourcing

**Correct Answer:** D

**QUESTION 38**

Which of the following steps is/are NOT considered in the audit planning process?

- A. Identifying what is to be audited?
- B. Assess risk and vulnerability
- C. Determine how to manage the risks
- D. Develop specific issues and Questions for the audit

**Correct Answer:** C

**QUESTION 39**

Following is a list of background items auditors should review to determine their impact on audit objectives EXCEPT:

- A. The history of the program or entire organization
- B. Results of prior audits and their working papers
- C. Applicable laws, rules and regulations. Specific items usually set forth in laws and regulations include the following: What the program is supposed to do? Who is supposed to do it? How much can be spent on what?
- D. Audit methods, strategies, tests, analysis and comparisons

**Correct Answer:** D

**QUESTION 40**

Auditors can use background information to define and modify:

- A. Scope of the audit
- B. The likelihood that a risk will occur
- C. Activity reports
- D. Audit Criteria (Reasonable, attainable, and relevant)

**Correct Answer:** A

**QUESTION 41**

The main purposes of the audit survey are to assist with following goals and tasks EXCEPT:

- A. Develop preliminary estimates of time and resource requirements
- B. Determine whether further auditing is necessary
- C. Documenting key control activities
- D. Identify potential critical control points, control deficiencies or excessive controls

**Correct Answer:** C

**QUESTION 42**

Auditors define audit objectives based on information gained:

- A. From external sources of the organization
- B. Either from knowledge they already have or from inquiries and observations
- C. From internal sources of the organization
- D. From external sources of the organization

**Correct Answer:** B

**QUESTION 43**

Which of the following is NOT included in the list of principles for formulating well- stated audit objectives?

- A. Clearly identify the client
- B. Clearly identify the type of performance to be audited and separate objectives if more than one element of performance is to be reviewed
- C. Frame objectives that consider a realistic scope and methodology
- D. Onsite Observation

**Correct Answer:** D

**QUESTION 44**

Carefully crafted audit objectives are important BECAUSE:

- A. Objectives provide direction
- B. Limit collection of unneeded information
- C. Control scope, methodology, timing and nature of audit work
- D. All of the above

**Correct Answer:** D

**QUESTION 45**

The scope of an audit defines the boundaries of the audit by addressing such items as the audit period or number of locations to be reviewed.. Some important considerations when defining the scope of an audit include:

- A. Needs of potential users of the audit report
- B. Preliminary judgment about materiality levels
- C. Both A and B
- D. None of the above

**Correct Answer:** C

**QUESTION 46**

Following elements should be documented in the audit scope EXCEPT:

- A. Time period to be covered by audit tests
- B. Available data:No. of recordsLocationsNeed to create dataFormReliability
- C. Prioritizing risks
- D. Both A and B

**Correct Answer:** D

**QUESTION 47**

Site Selection Rationale  
 Client officials client/requesters for audit results  
 Scope limitations encountered or anticipated  
 Expert advice

The above elements should be documented in the:

- A. Audit planning
- B. Risk assessment
- C. Audit scope
- D. None of these

**Correct Answer:** C

**QUESTION 48**

Considerations for determining required audit resources include:

- A. Training needed by the audit staff to meet the audit objectives

- B. Contractual assistance needed to meet the audit objectives
- C. Both A and B
- D. None of these

**Correct Answer:** C

**QUESTION 49**

Engagement client management often has a negative perception of audit process; therefore, communication throughout the audit process is essential to alleviate some of the concerns of management. The very first step in communicating the audit information with the client is:

- A. Entrance conference
- B. Formal notification of the audit
- C. Explanation of the scope of audit
- D. None of these

**Correct Answer:** B

**QUESTION 50**

Entrance Conference-- The entrance conference may be the auditor's first face-to-face contact with client. The objective/s of the entrance conference is/are to:

- A. Explain preliminary audit scope
- B. Present projected audit milestone dates and completion dates
- C. Identify key contacts and desired communication protocols
- D. All of these

**Correct Answer:** D

**QUESTION 51**

"Audit management must decide whether to sample (judgment or statistical) or use the entire universe, and which specific quantitative and qualitative methodologies will provide sufficient, competent and relevant evidence to answer the questions posed in the audit objectives." It is an example of:

- A. Determining appropriate audit methods and strategies
- B. Determining resources needed to conduct the audit
- C. Determining audit scope
- D. None of these

**Correct Answer:** A

**QUESTION 52**

Auditors must use professional judgment to determine the impact a risk factor may have on the use of audit resources. Risk can be controlled by various preventive measures such as:

- A. Adding personnel to a function
- B. Installing burglar alarms
- C. Increasing the frequency and level of management review implement tighter standards
- D. All of these

**Correct Answer:** D

**QUESTION 53**

An organization might decide that the risk of fire is high so it will pay a high premium on its fire insurance policy to transfer the risk as much as possible. However, the organization will still have to pay deductible amount on the policy if a fire occurs. This scenario depicts:

- A. Assessment of the likelihood that a given risk will occur

- B. Control the risk
- C. Accept the risk
- D. Transfer the risk

**Correct Answer:** C

**QUESTION 54**

Which of the following is not a characteristic of a control environment?

- A. Management communicates the importance of internal controls to all employees
- B. Employees have a vague idea of their responsibilities; so they work in a flexible environment
- C. Employees are held accountable for their performance
- D. A system is in place to monitor controls on a regular basis

**Correct Answer:** B

**QUESTION 55**

Factor/s that influences/influence the state of an organization's control environment is/are:

- A. Organizational history of control weakness or violations
- B. Whether management emphasizes and values competence, integrity, and ethical behavior
- C. An inconsistent or unfair employee performance evaluation, compensation and promotion system.
- D. All of these

**Correct Answer:** D

**QUESTION 56**

\_\_\_\_\_ help bring performance back into compliance, or address problems that have been identified such as employee grievance system, employee performance approvals, or an administrative appeal's process.

- A. Correction controls
- B. Detective controls
- C. Preventive controls
- D. None of These

**Correct Answer:** A

**QUESTION 57**

Internal auditing controls (e.g. segregation of duties, monitoring, reconciliation), management controls (e.g. the plan, methods and procedures adopted by management to ensure its goals are met, including systems for measuring reporting and monitoring program performance), physical controls (e.g. security), and Information technology control (e.g. access security controls ,data center operation controls). All these are examples of:

- A. Detective controls
- B. Control activitiesC Corrective controlsD Preventive controls

**Correct Answer:** B

**QUESTION 58**

Example/s of ongoing monitoring function/s is/are:

- A. Management's review of performance reports and comparing them to the budgets and other benchmarks
- B. Feedback obtained from external parties (e.g. complaints from stake holders)
- C. Direct supervision and review of work by functional level managers
- D. All of above

**Correct Answer:** D

**QUESTION 59**

\_\_\_\_\_ result from a failure to follow the logic of a series of statements.

- A. Deductive fallacies
- B. Inductive fallacies
- C. Corrective controls
- D. None of These

**Correct Answer:** A

**QUESTION 60**

An example of an invalid deductive argument is as follows: Major premises: All employees who are committing fraud drive luxury cars. Minor premises: \_\_\_\_\_ Conclusion: Therefore, John Doe is committing fraud. What will be the minor premise in this example?

- A. John Doe is an employee
- B. John Doe drives a luxury car
- C. John Doe is a senior management level employee
- D. John Doe drives an ordinary car

**Correct Answer:** B

**QUESTION 61**

A client makes the following statement: "If you make us put property tags and numbers on major equipment, next we will have to put tags on every pen, pencil, and paper clip in the place." This is the argument that if a particular action is taken, it will inevitably lead to another, less desirable action. We may call this:

- A. Slippery slope
- B. Hasty generalization
- C. False use of authority
- D. Ad Hominem

**Correct Answer:** A

**QUESTION 62**

After implementation of a drop out recovery program, employment rate rose. The drop out recovery program is responsible for increases in employment and look for possible economic or other factors that might have contributed to the rise. This example may be referred towards:

- A. Post Hoc, Ergo Propter Hoc
- B. Ad Hominem
- C. Non Sequiter
- D. False use of authority

**Correct Answer:** A

**QUESTION 63**

For Example one exception in 1000 cases is probably not the reason enough to recommend overhauling the entire system, although the final answer must be derived from the context and the condition of the related control system. Which one of the following statements is clearly supported by this example?

- A. Auditors should base findings and recommendations on significant information
- B. Auditors should be aware of that the concept of materiality and significance take on different meanings in the public and private sectors

- C. Both of these
- D. None of these

**Correct Answer:** A

**QUESTION 64**

A manager of a very controversial program may have stolen only \$200, but the controversy and public accountability aspects may make the 200 significant, where it would not be material private sector financial statement opinion audit. It means:

- A. Auditors should be aware that the concepts of materiality and significance take on different meanings in the public and private sector
- B. During the planning and reporting processes, government auditors may need to consider qualitative factors such as the visibility of the program under audit, or the newness of the program or changes in its condition
- C. Both of these
- D. None of these

**Correct Answer:** C

**QUESTION 65**

Audit evidence:

- A. Is sufficient when it is factual and would convince an informed person to reach the same conclusion
- B. Is competent if it consistently produces the same outcomes
- C. Is relevant when it is directly related to audit comments, recommendations and conclusions
- D. All of these

**Correct Answer:** D

**QUESTION 66**

Data gathering and evaluation during field work includes:

- A. Gaining and understanding of the activity, system, or process under review
- B. Observing conditions and operations
- C. Interviewing people and examining assets and accounting, and other operational business, and other operational records.
- D. All of these

**Correct Answer:** D

**QUESTION 67**

Compliance testing is designed primarily to:

- A. Hold detection risk to an acceptable level
- B. Determine whether policies and procedures have been followed
- C. Determine that account balances exist, are accurate, and are properly classified
- D. Provide evidence about monetary misstatements

**Correct Answer:** B

**QUESTION 68**

Which one of the following is NOT an indicator of control weakness in derivatives?

- A. Application of inappropriate valuation models
- B. Management not involved
- C. Evidence of a "Star Manager" syndrome
- D. Absence of fiduciary mentality

**Correct Answer:** A

**QUESTION 69**

Major categories of loans include all of the following EXCEPT:

- A. Commercial loans
- B. Residential loans
- C. Consumer loans
- D. Agricultural loans

**Correct Answer:** D

**QUESTION 70**

\_\_\_\_\_ allows businesses that sell durable goods such as auto-mobiles to finance inventories. As the business sells goods, the loan advance against those goods is repaid.

- A. Term loans
- B. Consumer loans
- C. Installment loans
- D. Floor-plan financing

**Correct Answer:** D

**QUESTION 71**

Common type/s of installment loans is/are:

- A. Credit card loans
- B. Residential loans
- C. Mortgage loans
- D. All of these

**Correct Answer:** C

**QUESTION 72**

Types of commercial loans are /are:

- A. Installment loans
- B. Floor plan financing
- C. Asset-based financing
- D. Both B and C

**Correct Answer:** D

**QUESTION 73**

Management of the lending institution sets a reserve for loan losses at a given point based on such factors as mentioned below EXCEPT:

- A. Number and type of loans made
- B. Quality of loans made
- C. Historical loss experience
- D. Loan portfolio

**Correct Answer:** D

**QUESTION 74**

If more funds than expected are needed to cover loans losses in a given period, the reserve must be increased and the difference is charged to:

- A. Administration expenses
- B. Prepaid assets
- C. Operating expenses
- D. Loan expenses

**Correct Answer:** C

**QUESTION 75**

When a loan becomes delinquent or when collection seems unlikely, banks often suspend:

- A. Accrual of interest
- B. Deferral of interest
- C. Loan losses
- D. Loan prepayments

**Correct Answer:** A

**QUESTION 76**

If principal is paid on a loan after it has been placed on non-accrual status, the bank must determine whether it should record the payment as a reduction of:

- A. The loan principal amount
- B. Income interest
- C. Both of these
- D. Any one of these

**Correct Answer:** D

**QUESTION 77**

Financial institutions regularly identify uncollectible accounts and charge them off against the reserve of:

- A. Unearned loan revenue
- B. Loan losses
- C. Loan expenses
- D. All of these

**Correct Answer:** B

**QUESTION 78**

Watch lists of loans that are in danger of becoming delinquent generally contain information on such as:

- A. Customers name and account information
- B. Loan balance outstanding
- C. Available collateral and its estimated value
- D. All of these

**Correct Answer:** D

**QUESTION 79**

Deposit accounts are:

- A. Interest bearing accounts
- B. Non-interest bearing accounts
- C. Tax bearing accounts
- D. Either A or B

**Correct Answer:** D

**QUESTION 80**

Some small businesses keep funds in a savings account to gain interest on:

- A. Fixed assets
- B. Liquid assets
- C. Loans
- D. All of these

**Correct Answer:** B

**QUESTION 81**

Which one of the following generally pays higher rates of interest than saving accounts?

- A. Money market deposit accounts
- B. Certificates of deposit
- C. Term loans
- D. Asset-based financing

**Correct Answer:** B

**QUESTION 82**

Interest rates offered on new CDs changes:

- A. Daily at most banks
- B. Twice a day at most banks
- C. Weekly at most banks
- D. Monthly at most banks

**Correct Answer:** A

**QUESTION 83**

Certificates of deposit may be:

- A. Bearable or registered
- B. Negotiable or non-negotiable
- C. None of these
- D. Both of these

**Correct Answer:** D

**QUESTION 84**

Many businesses generally find CDs to be a:

- A. Satisfactory money management approach
- B. More than satisfactory money management approach
- C. Less than satisfactory money management approach
- D. Dissatisfactory money management approach

**Correct Answer:** C

**QUESTION 85**

Non-interest bearing accounts including checking accounts and escrow accounts are known as:

- A. Term deposit accounts
- B. Demand deposit accounts

- C. Fixed deposit accounts
- D. Both A and C

**Correct Answer:** B

**QUESTION 86**

Demand deposit account allows customers to transfer money through the use of:

- A. Checks
- B. ATMs and EFTs
- C. Point of sale (POS) terminals
- D. All of these

**Correct Answer:** D

**QUESTION 87**

During the posting process of ledger records on deposit account banks may reject some transactions because:

- A. They lack proper endorsements
- B. They are subject to stop payments
- C. They would create an over draft
- D. All of these

**Correct Answer:** D

**QUESTION 88**

Which one of the following audit objectives and steps should not be considered when performing an audit of deposit account?

- A. Determine whether dormant accounts are closed in a timely manner and in accordance with policies
- B. Determine whether there are adequate controls to prevent unauthorized access and change to customer accounts
- C. Determine whether applicable fees and penalties are properly assessed and posted
- D. None of these

**Correct Answer:** D

**QUESTION 89**

Trust departments provide services to publicly held companies related to issuing and maintaining:

- A. Stock transactions
- B. Stock balances
- C. Stock threshold
- D. None off these

**Correct Answer:** A

**QUESTION 90**

Funds held in trust cannot be reinvented in:

- A. Term deposits
- B. Savings accounts
- C. Financial institution's own securities
- D. Floor-plan financing

**Correct Answer:** C

**QUESTION 91**

Banks provide the following personal trust service/services for the individuals:

- A. Estate settlement
- B. Co-fiduciary
- C. Agent
- D. All of these

**Correct Answer:** D

**QUESTION 92**

Some wills specify that more than one responsible party share the trustee's responsibilities of an estate .The condition depicts relation with which one of the following trust services:

- A. Guardians of estates
- B. Co-fiduciary
- C. Estate settlement
- D. Trusts

**Correct Answer:** B

**QUESTION 93**

Corporations, government entities and other organizations use banks as trustee to handle the \_\_\_\_\_ function associated with a stock or bond issue.

- A. Issuance and redemption of stocks or bonds
- B. Transfer and record keeping of stock or bonds
- C. None of these
- D. Both of these

**Correct Answer:** D

**QUESTION 94**

A trust agreement is called:

- A. Trust paper
- B. Trust agreement document
- C. Both of these
- D. None of these

**Correct Answer:** D

**QUESTION 95**

Stock transfer agent, Bond registrar, stock registrar and dividend reinvestments agent are the additional duties of:

- A. Brokers/Brokerage houses
- B. Corporate trust departments
- C. Mutual funds agencies
- D. None of these

**Correct Answer:** B

**QUESTION 96**

A bank may serve as \_\_\_\_\_ for a company's employee benefit and retirement plans.

- A. Administrator or agent

- B. Trustee or co-trustee
- C. Custodian or depository
- D. All of these

**Correct Answer:** D

**QUESTION 97**

Which one of the following is/are NOT the type of retirement plans that banks may administer?

- A. Pension plans
- B. Self-employed retirements trust
- C. Group retirement accounts
- D. Post-requirement accounts

**Correct Answer:** CD

**QUESTION 98**

Bank may serve as trustee or custodian for pension and profit sharing plans that self-employed individuals establish for themselves and their employees. These types of trust are referred to as:

- A. Defined benefit plans
- B. Keogh plans
- C. Individual retirement account
- D. None of these

**Correct Answer:** B

**QUESTION 99**

Which one of the following activities is not related to the trust committee activities that should be reviewed?

- A. Whether regular meetings are held and documented by meeting minutes
- B. Whether the trust committee contains at least one member who is not a bank officer
- C. Whether there is adequate oversight of the trust committee's activities by board of directors
- D. None of these

**Correct Answer:** D

**QUESTION 100**

When the maturity date of the annuity arrives, the insurer begins making a series of payment to the annuitant over a stated period (Known as \_\_\_\_\_).

- A. Accumulation period
- B. Lump-sum payment period
- C. Payment release period
- D. Pay-out period

**Correct Answer:** D

**QUESTION 101**

Annuities provide the annuitants with \_\_\_\_\_.

- A. Tax-deferred earnings
- B. Tax-accrued earnings
- C. Tax-free earnings
- D. Maximum level of earnings

**Correct Answer:** A

**QUESTION 102**

Surrender charges usually apply only if the annuity has been in free:

- A. For a year
- B. For a maximum period of time
- C. For a minimum period of time
- D. For less than a year

**Correct Answer:** C

**QUESTION 103**

"Insurers guarantee a minimum rate of interest during the time that the account is growing and periodic payment amounts of a specified amount for a stated period (either specific period 10 years indefinite period etc)." This statement is related to:

- A. Variable annuities
- B. Life time annuities
- C. Term period annuities
- D. Fixed annuities

**Correct Answer:** D

**QUESTION 104**

The actual amount of payment the annuitant pays is based on:

- A. Amount of money invested and interest rate
- B. Length of the time principle has been invested
- C. No of annuity payment to be made
- D. All of the above

**Correct Answer:** D

**QUESTION 105**

"A special type of annuity that involves a contract between the annuitant and insurer in which insurer credits the annuity account with return amounts based on changes in an equity index such as the S&P500 (composite price index)," is:

- A. Price indexed annuity
- B. Variable index annuity
- C. Stock indexed annuity
- D. Equity indexed annuity

**Correct Answer:** D

**QUESTION 106**

If participation rate in an equity indexed entity is 80% and the index increases 9%, the return credited to the annuity would be:

- A. 7.1%
- B. 7.2%
- C. 7.25%
- D. 7.3%

**Correct Answer:** B

**QUESTION 107**

In case of an annuity with a spread of 3%, if the index gained 9%, the return credited to the annuity would

be:

- A. 11%
- B. 27%
- C. 6%
- D. 3%

**Correct Answer: C**

**QUESTION 108**

Which one of the following does NOT depicts a common indexing method?

- A. The annual ratchet
- B. The point to point method
- C. The high water mark method
- D. The low water mark method

**Correct Answer: D**

**QUESTION 109**

An index method that credits index-linked interest based on any increase in index value from the index level at the beginning of the contract's term to the highest index value at various points during the contract's term is called:

- A. Point to point method
- B. Annual returned
- C. The high watermarks method
- D. The low water mark method

**Correct Answer: C**

**QUESTION 110**

Which one of the annuities, mentioned below, is not regulated by the SEC:

- A. Fixed annuities
- B. Variable annuities
- C. Mixed annuities
- D. Expired annuities

**Correct Answer: A**

**QUESTION 111**

Non-deposit investment product includes:

- A. Fixed annuities
- B. Variable annuities
- C. Mixed annuities
- D. Both A&B

**Correct Answer: D**

**QUESTION 112**

Under the interagency statement when a bank recommends or sells non-deposit investment product it should inform the customer that the product is:

- A. Having high interest rate
- B. Not insured by FDIC

- C. Not a deposit or other obligation of, or guaranteed by the depository institution
- D. Only B&C

**Correct Answer:** D

**QUESTION 113**

The interagency statement calls for these disclosures to be provided EXCEPT:

- A. Orally during any sales presentation
- B. Orally when investment advice concerning the non deposit investment products is provided
- C. In advertisement and other promotional materials as specified in the interagency statement
- D. None of these

**Correct Answer:** D

**QUESTION 114**

Derivates can be effective low cost tools for managing expose experience losses due to:

- A. Interest rate change
- B. Master agreements
- C. Commodity price change
- D. All of these

**Correct Answer:** D

**QUESTION 115**

In option- type securities contracts the option's price is called:

- A. Mark up
- B. Premium
- C. Return value
- D. Both A&B

**Correct Answer:** B

**QUESTION 116**

Derivatives can be:

- A. Exchange traded securities
- B. Exchange traded options
- C. Over-the-counter traded securities
- D. Either A or C

**Correct Answer:** D

**QUESTION 117**

Basic control/s to consider when auditing derivates strategies is/are:

- A. "Created" Reports
- B. Risk or position limits
- C. Highly volatile markets or illiquid markets
- D. Board-approved guidelines

**Correct Answer:** D

**QUESTION 118**

The entity has comprehensive, written credit risk management policies and procedures for derivative

activities. This addresses to:

- A. Counterparty Risk
- B. Market risk
- C. Market liquidity Risk
- D. Legal Risk

**Correct Answer:** A

**QUESTION 119**

Which of the following does NOT come under the consideration of systematic or interconnection risk?

- A. Risk management systems that include limits or controls on interconnection risk to which the entity is willing to expose itself.
- B. Provisions for monitoring systematic risk effectively
- C. Contingency plans setting forth actions to be taken when system-wide market disruptions occur
- D. Due diligence of enforcement activities

**Correct Answer:** D

**QUESTION 120**

Electronic financial services audits should focus on whether there are adequate internal controls in place to protect customer transactions information, and assets. Some key steps include all of the following EXCEPT:

- A. Determine whether disaster contingency plans for the failure of internet transactions or communication are adequate, regularly updated
- B. Determine whether disaster contingency plans for the failure of internet transactions or communication are adequate, regularly tested, and regularly updated
- C. Determine whether an access is controlled by a firewall
- D. Stress test analyzing changes in market and credit conditions are appropriate. The market assumptions are reasonable

**Correct Answer:** D

**QUESTION 121**

Visa and MasterCard have teamed up to develop payment card Industry (PCI) Data Security standards to govern the safekeeping of account information. Which of the following is NOT out of the major goals of PCI standards?

- A. Build and maintain secure network
- B. Protect Card holder Data
- C. Maintain vulnerability management program and regularly monitor and test networks
- D. Annual review of an information security policy

**Correct Answer:** D

**QUESTION 122**

I- Restrict access to data by business need-to-know  
II- Assign Unique ID to each person with computer access  
III- Restrict physical access to cardholder data

The above requirements of PCI (Payment Card Industry) achieve which one of the following goals?

- A. Implementation of Strong access control measures
- B. Protection of card holder
- C. Maintenance of information data security policy
- D. Building and maintenance of a secure network

**Correct Answer:** A

**QUESTION 123**

Cash equivalent may include:

- A. Commercial Papers
- B. Returned Checks
- C. Spotted debits
- D. Only A & B

**Correct Answer:** D

**QUESTION 124**

Cash on hand refers to:

- A. Funds in bank
- B. Funds at teller windows
- C. Funds in vault and in ATM
- D. All of these

**Correct Answer:** D

**QUESTION 125**

Due from bank balances are used to:

- A. Ensure liquid reserves
- B. Protect stored data
- C. Restrict physical access to cardholder
- D. Facilitate the transfer of funds and to use as compensation for correspondent bankingservices

**Correct Answer:** AD

**QUESTION 126**

When looking at account receivables auditors should ensure:

- A. Receipts are processed and recorded timely
- B. Collections are handled by an outside party
- C. Disbursements are made right after the original authorizations
- D. Collections are handled by a brokerage house

**Correct Answer:** A

**QUESTION 127**

At the end of the day all funds in a non-interest bearing checking account are cleared out and moved into a short-term investment account overnight. At the beginning of the next day, those funds are put back into the regular account for use that day. Such accounts are called:

- A. Zero-balance accounts
- B. Sweep Accounts
- C. Lock Boxes
- D. None of these

**Correct Answer:** B

**QUESTION 128**

Workpapers serve as the connecting link between the audit assignment, the auditor's fieldwork, and the final report. Most importantly, the workpapers document the auditor's conclusions and the reasons those conclusions were reached. Workpapers also provide a basis for demonstrating compliance with the IIA's

Standards. Among other things, workpapers may include all of the following EXCEPT:

- A. Planning documents and audit procedures
- B. Analysis and test of transactions, processes, and account balances
- C. Results of substantive testing
- D. Audit correspondence that documents the audit conclusions reached

**Correct Answer:** C

**QUESTION 129**

The reliability (competence) of evidence gathered by auditors is a \_\_\_\_\_. The reliability of evidence is a key factor in the audit analysis. Relevance is also a key factor in determining the quality of evidence.

- A. Fixed term
- B. Variable
- C. Determinant
- D. Subjective philosophy

**Correct Answer:** B

**QUESTION 130**

Continuous monitoring in systems and networks is a by-product of the increasing demand for immediate and continuous access to reliable information. Advancements in information monitoring and analysis are being accelerated both by increasing demands for timely and accurate information and by advances in technology that contribute to the:

- A. Intelligence
- B. Capabilities
- C. Timeliness of evaluating system
- D. Both A & B

**Correct Answer:** D

**QUESTION 131**

Continuous auditing is a method used to automatically perform control and risk assessment more frequently. Technology is the key to enable such an approach. Continuous auditing changes the audit paradigm from periodic reviews of a sample to ongoing audit testing of \_\_\_\_\_ percent of transactions.

- A. Ninety
- B. Ninety nine
- C. Seventy
- D. Hundred

**Correct Answer:** D

**QUESTION 132**

Obtaining feedback from client management throughout the audit is encouraged in order to ensure that appropriate information is being obtained and to alleviate problems at the conclusions of the audit. Some specific components of continual communication to consider include:

- A. Keep client management informed of audit issues and concerns as they arise.
- B. Submit a draft audit report ensure that accurate and appropriate information has been reported
- C. Advise client management of projected audit days and weeks
- D. Both A and B

**Correct Answer:** D

**QUESTION 133**

An objective of an exit conference is that it provides the client management with findings and recommendations identified during the audit which addresses all of the followings EXCEPT:

- A. Allow client management to state concerns and objections to the findings and recommendations
- B. Give the client management and the audit team the opportunity to identify and correct any errors or misinterpretations that may appear in the draft report
- C. It should include a description of significant noteworthy accomplishments and issues that need further work
- D. Provide the audit team with the formal opportunity to explain the remaining steps in the audit process prior to the release of the final report

**Correct Answer: C**

**QUESTION 134**

"An element of information, from a transaction to an entire system, is appropriately entered, developed, changed, or used with proper authority." Which of the following element of integrity supports this statement?

- A. Authorized
- B. Accurate
- C. Complete
- D. Timely

**Correct Answer: A**

**QUESTION 135**

Elements of information and process integrity are that it should be authorized, accurate, complete, timely, recorded processed, and reported in the proper time. Each of the elements in the above has a relationship to the:

- A. Selection of data
- B. Collection of data
- C. Classification of data
- D. All of these

**Correct Answer: D**

**QUESTION 136**

Some organizations have information protection policies that place the burden of information protection on managers in individual organizational units. An information protection policy may include:

- A. Statements that define information as an asset that must be protected to different degrees based on its sensitivity, criticality, and value, regardless of the media on which it is stored, the manual or automated systems that process it, or the methods by which it is distributed
- B. Statements outlining the responsibilities of information owners, custodians and users
- C. Definitions of the previously audited data and its classifications
- D. Both A & B

**Correct Answer: D**

**QUESTION 137**

A sound data classification scheme sets the foundation for the effective implementation of access control to ensure that data is adequately protected. The elements of a data classification scheme are as follows EXCEPT:

- A. Reporting
- B. Storing
- C. Collection

D. Public information

**Correct Answer:** CD

**QUESTION 138**

Information technology general controls set the foundation for effective control over computerized information system assets. General controls apply to the entire computer operation. Which of the following is/are NOT out of these controls?

- A. Administrative controls
- B. Security controls
- C. Security administration
- D. Input controls

**Correct Answer:** D

**QUESTION 139**

System tailoring is accomplished by setting optional system parameters and, therefore, has an impact on system performance and security. Control techniques for system's software include:

- A. Setting appropriate system parameters and security options for operating system
- B. Verifying the accuracy of output through manual or automated reconciliation activities
- C. Using the security features of security software effectively
- D. Controlling procurement and maintenance of software licenses

**Correct Answer:** ACD

**QUESTION 140**

Feasibility studies and cost benefit analysis Approval process for initiating system development and implementation of systems that are developed Change control procedures for new system developments and modifications to existing systems to ensure that only authorized changes are moved to production General and detailed design specification Project review, including periodic milestones reviews and post-implementation reviews Contracting procedures that include the requirements for describing expected project deliverables such as system components and source codes, project timeframes, estimated hours, and the maximum allowable expenses for each phase These are some of the standards of:

- A. System development methodology
- B. Output controls
- C. Security controls
- D. Collection of Classified information

**Correct Answer:** A

**QUESTION 141**

COBIT (Control Objectives for Information and Related Technology) is based on existing Information Systems Audit and Control Foundation, control objectives enhanced with existing and emerging international technical, professional, regulatory, and industry-specific standards. COBIT has four domains or high-level classifications. Which is of the following is NOT out of those domains?

- A. Planning and organization
- B. Acquisition and implementation
- C. Delivery and support
- D. Evaluation

**Correct Answer:** D

**QUESTION 142**

The purpose of audits of financial statements is to issue an opinion on the fairness of the financial

statements and to evaluate all of the following assertions (explicit or implicit) by management EXCEPT:

- A. Existence or occurrence assertions address whether available information addresses actual transactions, assets, and liabilities
- B. completeness assertions address whether all material financial information is included in financial statements
- C. Rights and obligations assertions address whether the entity has legal rights to the assets and obligations to the liabilities disclosed on the financial statements
- D. Presentation and disclosure assertions address whether the elements of the financial statements are properly organized, classified and disclosed

**Correct Answer: C**

#### **QUESTION 143**

Standards related to information technology are not as well-developed or universally accepted as standards in some other audit areas. Financial statements that are fairly presented meet the following \_\_\_\_\_: Generally accepted accounting principles are used. Appropriate accounting principles are used. Financial statements address matters that may affect their use or interpretation. Financial statements classify and summarize information in a reasonable manner. Financial statements reflect underlying transactions and events in a way that facilitates the presentation of the financial position, results of operation, and cash flows.

- A. Limitations
- B. Guidelines
- C. Objective controls
- D. Processing controls

**Correct Answer: B**

#### **QUESTION 144**

The balance sheet is the fundamental report of a company's financial position. An examination of a balance sheet will assist in determining:

- A. If the company meets its financial obligations
- B. The amount of money invested in outside the company
- C. The company's debt ratio
- D. The type of assets that company has purchased with its debt financing

**Correct Answer: AC**

#### **QUESTION 145**

A statement of cash flows in a financial report that shows incoming and outgoing money during a particular period (often monthly or quarterly). It does not include \_\_\_\_\_ items such as depreciation. The statement is a useful tool for determining the short-term viability of a company, particularly its ability to pay bills.

- A. Non-cash
- B. Depreciation related
- C. Depletion related
- D. Long-term debt

**Correct Answer: A**

#### **QUESTION 146**

Off-balance-sheet usually means an asset or debt or financing activity not on the company's balance sheet. It could involve a lease or a separate subsidiary or a contingent liability such as \_\_\_\_\_.

- A. A letter of credit
- B. Scrutiny

- C. Debt securities
- D. Term papers

**Correct Answer:** A

**QUESTION 147**

Commercial, residential and consumer are three basic types of:

- A. Short term working capital loans
- B. Asset-based financing
- C. Installment loans
- D. Loans

**Correct Answer:** D

**QUESTION 148**

\_\_\_\_\_ loans allow the consumer to repay a loan over a set period. They require periodic principal and interest payments. The loan is generally secured by the item being purchased. Automobile loans or real estate mortgage loans are common types of such types of loans.

- A. Installment loans
- B. Consumer loans
- C. Residential loans
- D. Asset-based loans

**Correct Answer:** A

**QUESTION 149**

"These are usually secured by mortgages, deeds of trust, land contracts, or other types of real estate liens. Interest rates for residential mortgages loans may be fixed or variable. Repayments of principal may be set up for full amortization, negative amortization, or partial amortization with a balloon payment at a specified rate." What are these?

- A. Asset-based loans
- B. Residential loans
- C. Consumer loans
- D. Term loans

**Correct Answer:** B

**QUESTION 150**

All lending institutions assume some loans will not be repaid and thus estimate the losses they expect from their loan portfolio. Management of the lending institution sets a reserve for loan losses at a given point based on factors such as:

- A. The number and type of loans made
- B. The quality of loans made
- C. The number of problem loans
- D. All of these

**Correct Answer:** D

**QUESTION 151**

Exception reports generated by the lending institution are designed to identify past-due loans. Auditors should review these exception reports to identify an unusually high number of exceptions and old or unusual exceptions that might indicate that:

- A. The institution is not following up on exceptions in a timely manner

- B. The institution is following up on exceptions in a timely manner
- C. The auditor is not following up on exceptions in a timely manner
- D. The competitor is not following up on exceptions in a timely manner

**Correct Answer: A**

**QUESTION 152**

Financial institutions regularly identify uncollectible and charge them off against the reserve for loan losses. Auditors should ensure that the institution has developed adequate criteria for charge-offs and select a sample of charged-off loans whether they are handled properly.

Another useful test is:

- A. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria and assess why they have not been charged off
- B. To select a sample of loans that are significantly paid in order to determine whether they meet the past criteria and assess why they have not been charged off
- C. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria and assess why they have not been charged off
- D. To select a sample of loans that are significantly paid in order to determine whether they meet the charge-off criteria to meet the current requirements

**Correct Answer: A**

**QUESTION 153**

Deposit accounts are either interest bearing or non-interest bearing. Interest bearing accounts includes \_\_\_\_\_ and \_\_\_\_\_. The types of accounts bear interest for a fixed period of time and are known as time deposits.

- A. Savings accounts, certificates of deposit
- B. Savings accounts, term deposit
- C. Certificate of deposit, Savings accounts and certificates of deposit
- D. Savings accounts, certificates of deposit and non-interest bearing account

**Correct Answer: A**

**QUESTION 154**

In the United States, banks are required to report cash deposits that exceed \$10,000 a day to any one account, regardless of how many branches or deposits have been used in the transactions. Banks are also required to report when cash is used to purchase cashier's checks, money orders, traveler's checks, or bank checks in excess of \$3000. In the United States, accounts are federally insured by the Federal Deposit Insurance Corporation (FDIC). An individual is limited to \_\_\_\_\_ in insurance coverage at each bank (including branches).

- A. \$50,000
- B. \$75,000
- C. \$100,000
- D. \$10,000

**Correct Answer: C**

**QUESTION 155**

The financial institutions' general ledger records activity on deposit accounts. Posting of time deposit transactions usually occurs on the day transaction occurs or the next day. The following audit objectives and steps should be considered when performing an audit of deposit accounts EXCEPT:

- A. Assess the adequacy of policies, procedures, and internal controls regarding deposit accounts
- B. Determine whether documentation exists to show that accounts are properly opened and closed in a timely manner and in accordance with established policies. Ensure that applications and signature cards

are on file. Send confirmations on a sample of accounts. If any confirmations are not received, compare the signature on recent checks or transactions to the signature card for the account

- C. Determine whether deposit transactions and any expense is posted properly
- D. Ensure that there is adequate separation of duties between the posting and reconciling functions. Recalculate a sample of reconciliations to verify accuracy. Note whether any unusual transactions were properly verified and authorized

**Correct Answer: C**

**QUESTION 156**

Most corporations have an annual meeting where stockholders have the opportunity to vote on important issues. These issues include:

- A. Election of the board of directors (the officers of the corporation)
- B. Changes to the corporate charter
- C. Reconciliation
- D. Takeovers

**Correct Answer: AB**

**QUESTION 157**

Stockholders are generally allowed one vote per share held. As a result, individuals who hold large blocks of share are more likely to be board members. Which of the following are out of the basic rights of stockholders?

- A. Proxy rights
- B. Reorganization rights
- C. Exception rights
- D. Liquidation rights

**Correct Answer: AD**

**QUESTION 158**

Although these rights do not always exist, if they do, shareholders are entitled to buy any new issue of stock in proportion to their holdings. If a person owns 5% of a corporation, then he or she would have the right to buy 5% of newly issued shares. These are:

- A. Proxy rights
- B. Preemptive rights
- C. Inspection rights
- D. Liquidation rights

**Correct Answer: B**

**QUESTION 159**

Shareholders also have the right to receive declared dividends. Besides the potential for capital appreciation, investors also have the potential to receive dividend income. There are several types of dividends. For instance, an investor with 500 shares of stock selling at \$50 per share would have 1,000 shares at \$25 per share after a 2-for-1 split. These types of dividends are called:

- A. Cash dividends
- B. Stock split
- C. Preferred dividends
- D. None of these

**Correct Answer: D**

**QUESTION 160**

Preferred stock is similar to common stock in that it represents ownership in a corporation. Preferred stockholders generally receive a fixed dividend rate. The types of preferred stock include all of the following EXCEPT:

- A. Cumulative preferred stock
- B. Non-cumulative preferred stock
- C. Participating preferred stock
- D. Invertible preferred stock

**Correct Answer:** D

**QUESTION 161**

\_\_\_\_\_ stock generally costs more than \_\_\_\_\_ because of the additional rights its stockholders receive.

- A. Cumulative preferred stock, Non- Cumulative preferred stock
- B. Non- Cumulative preferred stock, Cumulative preferred stock
- C. Cumulative preferred stock, Cash dividends
- D. Preferred stock, Common Stock

**Correct Answer:** D

**QUESTION 162**

Although generally attached to bonds or preferred stock, warrants can also be attached to other securities, such as speculative stock. Warrants allow holder to buy more stock as its value appreciates. Below are the terms that must be considered in order to understand warrants EXCEPT:

- A. Warrants are generally attached to a bond or preferred stock and carry the right to purchase common stock at a fixed price
- B. Detached warrants can be traded and have their own value based on the current market and exercise prices. If a warrant is not detachable, it has no individual market value
- C. Warrants typically expire after a number of years
- D. When exercised, a warrant is relinquished in return for shares of common stock at the current market price

**Correct Answer:** D

**QUESTION 163**

\_\_\_\_\_ are investment securities that do not fall under one of the other types of securities. Examples of these are Type III securities including corporate bonds and municipal bonds.

- A. Type II Securities
- B. Type III Securities
- C. Type I Securities
- D. Type IV Securities

**Correct Answer:** A

**QUESTION 164**

A residential mortgage-related security that is rated investment grade or is the credit equivalent thereof, or a residential mortgage security that is rated investment grade in one of the two highest investment grade rating categories. It usually qualifies as:

- A. Type II Securities
- B. Type III Securities
- C. Type I Securities
- D. Type IV Securities

**Correct Answer:** D

**QUESTION 165**

These are used to speculate on the direction of interest rates. The trading of these contracts is limited. The future market is the main trading market for securities based on interest-rate movements. What are these?

- A. Put Options
- B. Call Options
- C. Interest rate options
- D. Index options

**Correct Answer:** C

**QUESTION 166**

Options are quoted daily in the newspapers. The listing provides the name of the underlying stock and:

- A. Its closing price that day
- B. The strike price of the option
- C. Its closing price that day, the strike price of the option, the closing prices (premiums) of the call and 3 put contracts trading closest to expiration
- D. The closing prices (premiums) of the 3 call and 3 put contracts trading closest to expiration

**Correct Answer:** C

**QUESTION 167**

Options are quoted daily in the newspapers. The listing provides the name of the underlying stock and its closing price that day, the strike price of the option, the closing prices (premiums) of the 3 call and 3 put contracts trading closest to expiration. Listings can be divided into categories. Which of the following is/are out of those categories?

- A. Option Class
- B. Option Series
- C. Option Statuses
- D. Option Lists

**Correct Answer:** AB

**QUESTION 168**

Banks generally record securities transactions as of trade date. However, it is acceptable to record the transactions as of the \_\_\_\_\_ if the difference between the settlement date and trade date is not materially different.

- A. Market closing date
- B. Settlement date
- C. A day before the closing date
- D. None of these

**Correct Answer:** B

**QUESTION 169**

Banks can record interest earned on trading securities as either interest income or trading income. However, the recommended method is:

- A. To report interest income separately from trading income if the amount is material
- B. To report interest income with trading income if the amount is material
- C. To report interest income separately from trading income if the amount is not material
- D. To report interest income with trading income if the amount is not material

**Correct Answer:** A

**QUESTION 170**

Securities available for sale should be reported at current market value. When this type of security has an unrealized gain or loss:

- A. It is reported on balance sheet
- B. It is reported on income statement
- C. It is not reported on income statement
- D. It is reported on cash flow statement

**Correct Answer:** C

**QUESTION 171**

When conducting an audit of securities investments, the following objectives and audit steps should be considered EXCEPT:

- A. Determine whether policies, procedures, practices, and internal controls over security investments are adequate and being followed
- B. Determine whether transactions are properly authorized and recorded. Verify that dividend or interest income is accurately calculated and recorded in the general ledger
- C. Determine that the institution has an adequate process for reconciling subsidiary records to the general ledger on a regular basis
- D. Determine whether the institution adequately control and records the sold securities in balance sheet

**Correct Answer:** D

**QUESTION 172**

Which of the following is/are included in the specific steps for auditing short-term investments?

- A. Ensure that policies and procedures for short-term trading activities exist, are periodically reviewed for changes, and are properly approved
- B. Review to ensure that trading policies include allowed and restricted trading instruments, approved traders
- C. Review the short-term trading activity to ensure compliance with trading policies and procedures and applicable regulatory environment
- D. All of the above

**Correct Answer:** D

**QUESTION 173**

Notes and bonds are long-term debt instruments. Long-term debt instruments are sold at \_\_\_\_\_ when the market rate \_\_\_\_\_ the stated interest rate.

- A. Discount, exceeds
- B. Premium, exceeds
- C. Discount, less than
- D. Premium, less than

**Correct Answer:** A

**QUESTION 174**

These are similar to coupon bonds in that ownership is based on possession. These have not been issued for the last couple of decades, however those previously issued will continue to exist until they reach maturity. What are these?

- A. Registered bonds
- B. Bearer bonds

- C. Book-entry bonds
- D. Putable bonds

**Correct Answer:** B

**QUESTION 175**

A bond currently priced at \$1,250 with a 10% nominal yield of \$100 would have a current yield of \_\_\_\_\_. The same bond priced at \$800 would have a current yield of \_\_\_\_\_.

- A. 9%, 12.5%
- B. 12.5%, 9%
- C. 8%, 12.5%
- D. 12.5%, 8%

**Correct Answer:** C

**QUESTION 176**

Bond yield is the return on a bond. Which of the following terms may apply to bond yields?

- A. Nominal yield
- B. Market yield
- C. Yield to Maturity
- D. Both A & C

**Correct Answer:** D

**QUESTION 177**

It is a contract that defines corporation and bondholders responsibilities and is designed to protect the right of the bondholders. A trustee (most often a commercial bank) is generally appointed to ensure that the obligations defined in the agreement are of trust indenture must e filled with SEC. What is it?

- A. Bond certificate
- B. Trust indenture
- C. Secured bonds
- D. Collateral trust

**Correct Answer:** B

**QUESTION 178**

Unsecured bonds are not backed by assets and provide no claim on assets for bondholders These include:

- A. Debenture
- B. Subordinated debenture
- C. Collateral trust bonds
- D. Trust indenture

**Correct Answer:** AB

**QUESTION 179**

The U.S government is the largest borrower in the world and has a variety of debt instruments. These government obligations or issues are a safe form of debt security, and there has never been a default. The "full faith and credit of the government" back these issues. Some terms and definitions include:

- A. Negotiable securities
- B. Non-negotiable securities
- C. Series YY bonds
- D. Series NN bonds

**Correct Answer:** AB

**QUESTION 180**

\_\_\_\_\_ are the instruments with maturities of 30 years for new issues (10-to-30-years issues were allowed in the past). The amounts range from \$1,000 to \$1,000,000 and are sold at auction in a manner similar to that for treasury notes.

- A. Treasury notes
- B. Treasury receipts
- C. Treasury bonds
- D. Treasury bills

**Correct Answer:** C

**QUESTION 181**

Municipal bonds are issued by state and local governments, U.S. territories, and non-federal public agencies such as school districts, cities, and airport authorities. Municipal debt is considered the second safest form of debt security after U.S. government obligations. Some types of municipal bonds include all of the following EXCEPT:

- A. General obligation bonds
- B. Revenue bonds
- C. Single barreled bonds
- D. Moral obligation bonds

**Correct Answer:** C

**QUESTION 182**

These are the most common type of municipal bonds and are backed by projected revenue streams from the infrastructure built by the bond. These revenues can be in the form of rental r user fees for facilities or even tolls for road improvements. What are these?

- A. Doubled barreled bonds
- B. Moral obligation bonds
- C. Special tax bonds
- D. Revenue bonds

**Correct Answer:** D

**QUESTION 183**

Negotiable certificates are:

- A. Mutual funds that invests in short-term liquid securities.
- B. Tradable certificates issued by commercial banks in exchange for time deposits.
- C. Are instruments issued by corporations with good credit ratings and are in effect an unsecured promissory note
- D. Are U.S. currency deposited in banks outside the United States

**Correct Answer:** B

**QUESTION 184**

As interest rate change, the price of an issued bond also changes. The change in price has an inverse relationship to changes in interest rates (if one rises, the other falls). If new bond issues are paying a higher interest rate than existing bonds, investors will not purchase existing bonds unless:

- A. The bond is discounted
- B. The new bond prices fall

- C. The new issue is finished
- D. The interest rate declines

**Correct Answer: A**

**QUESTION 185**

Banks should develop policies related to ALM, including specific guidelines regarding risk/reward tradeoffs. The goal is to manage risks while achieving acceptable returns on investments. In developing these policies bank officials analyze:

- A. Cash flows
- B. Liabilities
- C. Cash flows and liabilities by reviewing historical reports, ratio reports, balance sheet, the income statement, liquidity reports and other available information
- D. Liabilities by reviewing historical reports, ratio reports, balance sheet, the income statement, liquidity reports and other available information

**Correct Answer: C**

**QUESTION 186**

Most municipal and corporate bonds are rated by an independent rating firm such as Standard & Poor's (S&P) or Moody's. These ratings provide investors with information regarding the risk of default on the bond issue. The higher rated bonds are considered \_\_\_\_\_.

- A. Investment grade bonds
- B. Speculative bonds
- C. Junk bonds
- D. Blue chip bonds

**Correct Answer: A**

**QUESTION 187**

Auditors should be aware that the investment objectives of a mutual fund are usually based on a risk profile outlined in the fund prospectus. For example, aggressive growth funds may invest in highly volatile stock issues and a money market fund may invest in low risk money market instruments. Other funds have investment objectives based on the type or location of companies they invest in, such as:

- A. Funds that invest only in non-profit organizations
- B. Funds that invest only in environmentally conscious companies
- C. Funds that invest only in U.S. government organizations
- D. None of these

**Correct Answer: B**

**QUESTION 188**

Risks related to assets/liability management that auditors should be aware of include all of the following EXCEPT:

- A. Deficient information processing, accounting, reconciliation, and reporting systems in relation to transaction volume and complexity
- B. Failure to effectively manage third-party vendors
- C. Failure to use legal counsel effectively
- D. Deficiencies in the integration of purchase-oriented businesses with the responsibilities associated with fiduciary relationships

**Correct Answer: D**

**QUESTION 189**

The management of index funds is \_\_\_\_\_ than the management of non-index funds, because an

index fund manager only needs to track a relatively fixed index of securities.

- A. More "Passive"
- B. More "Active"
- C. Less "Passive"
- D. Relatively less "Active"

**Correct Answer:** A

**QUESTION 190**

A mutual fund that invested primarily in utility companies and bonds would be an example for an income mutual fund. Which of the following risk/s is/are NOT associated with bond funds?

- A. Credit risk
- B. Prepayment risk
- C. Liquidity risk
- D. Interest rate risk

**Correct Answer:** C

**QUESTION 191**

\_\_\_\_\_ are a type of mutual funds that is required by law to invest in highly liquid and low-risk securities such as certificates of deposits or government securities. These funds pay dividends that generally reflect short-term interest rates and are not federally insured. Due to low-risk nature of the investments, these funds rarely lose money.

- A. Money market funds
- B. Trust funds
- C. Collateral funds
- D. Index funds

**Correct Answer:** A

**QUESTION 192**

This agreement occurs when a security is sold with an agreement to buy it back. The repurchase date is usually very short term, often one day. Dealers sell a portion of their securities to entities with cash reserves and agree to buy them back for the principal plus interest. What is this?

- A. Certificate of deposit
- B. Commercial Paper
- C. Money market fund
- D. Repurchase agreement

**Correct Answer:** D

**QUESTION 193**

The fund prospectus is the document that provides a general overview and description of the fund. The intent is to provide a potential investor with enough information to make a sound financial decision. The following information is generally placed in a prospectus EXCEPT:

- A. General description of the fund
- B. Condensed financial information (including annual rate of return and fees)
- C. All the management staff
- D. How to purchase and redeem shares

**Correct Answer:** C

**QUESTION 194**

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