



# CPA-TEST<sup>Q&As</sup>

Certified Public Accountant Test: Auditing and Attestation, Business Environment and Concepts, Financial Accounting and Reporting, Regulation





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### QUESTION 1

Tracing copies of computer-prepared sales invoices to copies of the corresponding computer-prepared shipping documents provides evidence that:

- A. Shipments to customers were properly billed.
- B. Entries in the accounts receivable subsidiary ledger were for sales actually shipped.
- C. Sales billed to customers were actually shipped.
- D. No duplicate shipments to customers were made.

Correct Answer: C

Explanation: Choice "c" is correct. Tracing from invoices to shipping documents would provide evidence that sales billed to customers were actually shipped. An invoice for which the corresponding shipping documents could not be located might be indicative of fictitious sales (i.e., sales that were recorded but never actually shipped). Choice "a" is incorrect. The auditor would need to start with shipping documents and trace to invoices to ensure that shipments were properly billed. Choice "b" is incorrect. An invoice may exist for which no entry was made in the accounts receivable subsidiary ledger. Therefore, the auditor would need to trace from entries in the accounts receivable subsidiary ledger (and not from invoices) to shipping documents, to obtain evidence that recorded receivables were for sales actually shipped. Choice "d" is incorrect. Tracing from invoices to shipping documents would not necessarily indicate when a duplicate shipment was made, as the auditor would not necessarily realize that two sets of shipping documents related to the same invoice.

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### QUESTION 2

In which case would the accountant be least likely to perform a review of interim financial information under PCAOB (auditing) standards?

- A. Quarterly reports are required to be filed with the SEC.
- B. Selected quarterly financial data is included in an annual report.
- C. Quarterly financial data is included in the financial statements of a nonissuer.
- D. The accountant is performing an initial audit of financial statements that include selected quarterly data.

Correct Answer: C

Explanation: Choice "c" is correct. A review of data included in financial statements of a nonissuer is performed under Statements on Standards for Accounting and Review Services, not under PCAOB (auditing) standards. A review of interim financial information under PCAOB (auditing) standards is only conducted for public companies (or companies anticipating going public). Choice "a" is incorrect. When an entity is required by the SEC to file a quarterly report, the SEC also requires that an independent accountant perform a review (of the interim financial information) in accordance with PCAOB (auditing) standards before the report is filed. Choice "b" is incorrect. When a company is required by the SEC to include selected quarterly financial data in its annual report or in other SEC filings, a review (of the interim financial information) in accordance with PCAOB (auditing) standards is required. Choice "d" is incorrect. An accountant performing an initial audit of financial statements that include selected quarterly data should also perform a review (of the interim financial information) in accordance with PCAOB (auditing) standards as part of the overall audit.

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### QUESTION 3

Under monopoly, strategic plans focus on:

- A. Profitability from production levels that maximize profits.
- B. Maintaining the market share and being responsive to market conditions related to sales price.
- C. Maintaining the market share and planning for enhanced product differentiation.
- D. Maintaining the market share, ensuring product differentiation, and adapting to price changes or required changes in production volume.

Correct Answer: A

Explanation:

Choice "a" is correct. Under monopoly, strategic plans ignore market share and focus on profitability from production levels that will maximize profits.

Choices "b", "c", and "d" are incorrect because they are characteristics of other types of market structures.

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### QUESTION 4

Of the following items, the one item that would not be considered in evaluating the adequacy of the budgeted annual operating income for a company is:

- A. Return on assets.
- B. Long-range profit objectives.
- C. Industry average for earnings on sales.
- D. Internal rate of return.

Correct Answer: D

Explanation:

Choice "d" is correct. In evaluating the adequacy of the budgeted annual operating income, you would not use the internal rate of return calculation. The internal rate of return is used for capital budgeting.

Choices "a", "b", and "c" are incorrect. Return on assets, long range profit objectives, industry average for earnings on sales, and earnings per share [not mentioned as an option] are all measures for evaluating the adequacy of the budgeted annual operating income.

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### QUESTION 5

Under the expenditure approach, GDP can be calculated as the sum of:



- A. Consumption, money supply, government purchases, and exports.
- B. Consumption, investment, transfer payments, and imports.
- C. Consumption, investment, government purchases, and net exports.
- D. Consumption, investment, government purchases, and foreign exchange.

Correct Answer: C

Explanation:

Choice "c" is correct. Under the expenditure approach, GDP is calculated as the sum of: consumption expenditures + investment expenditures + government purchases + net exports.

Choice "a" is incorrect. See definition above.

Choice "b" is incorrect. See definition above.

Choice "d" is incorrect. See definition above.

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