



# 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**

If a company is not presenting comparative financial statements, the correction of an error in the financial statements of a prior period should be reported, net of applicable income taxes, in the current:

- A. Retained earnings statement after net income but before dividends.
- B. Retained earnings statement as an adjustment of the opening balance.
- C. Income statement after income from continuing operations and before extraordinary items.
- D. Income statement after income from continuing operations and after extraordinary items.

Correct Answer: B

Explanation:

Choice "b" is correct. The correction of an error in the financial statements of a prior period should be reported, net of tax, in the current statement of retained earnings as an adjustment of the opening balance.

Choice "a" is incorrect. The adjustment is before net income, not after net income.

Choices "c" and "d" are incorrect. Corrections of errors of prior periods go to retained earnings and do not affect the income statement.

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**QUESTION 2**

Eugene Entrepreneur developed his waste collections and disposal business from one truck 20 years ago to a fleet of 2,000 trucks serving an entire region today. Gene is looking to retire and knows that he cannot find a suitable buyer for the entire business. Gene has developed a series of short range plans with his senior management group that include generous bonuses, funded in part by deferred repair and maintenance expenses and prior earnings, sales of business segments where possible or transfers of assets to the counties and municipalities that had engaged the waste collection and disposal service. Gene has frozen all new capital investment. The mission that Eugene Entrepreneur has mapped out for his company can best be described as:

- A. Build.
- B. Hold.
- C. Harvest.
- D. Sunset.

Correct Answer: C

Explanation:

Choice "c" is correct. Eugene Entrepreneur has mapped out a harvest mission for his company. As Gene retires and pulls assets and value from the company, he is clearly taking a short-term view toward reaping



immediate benefit.

Choice "a" is incorrect. A "build" mission anticipates that the business is positioned to expand markets or market share and is characterized by a long-term view that promotes investment.

Choice "b" is incorrect. A "hold" mission contemplates that the business is trying to hold on to current market share and is characterized by appropriate investment and competitive positioning.

Choice "d" is incorrect. The term "sunset" mission is a distracter.

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### QUESTION 3

Which of the following statements is the best definition of real property?

- A. Real property is only land.
- B. Real property is all tangible property including land.
- C. Real property is land and intangible property in realized form.
- D. Real property is land and everything permanently attached to it.

Correct Answer: D

Explanation:

Choice "d" is correct. Real property includes land and all items permanently affixed to the land (e.g., buildings, paving, etc.)

Choice "a" is incorrect. Real property includes more than just the land (as per the explanation above); it includes all items permanently affixed to land.

Choice "b" is incorrect. "All" tangible property could include moveable personal property and is therefore, incorrect.

Choice "c" is incorrect. "Intangible property in realized form" is a distracter and a contradiction in terms.

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### QUESTION 4

When management's assertion about the effectiveness of a nonissuer's internal control is presented in a representation letter that will not accompany the CPA's report:

- A. Use of the report is restricted to management and the board of directors.
- B. The report should contain a statement of management's assertion.
- C. The CPA should not accept the engagement.



D. The report should include a negative assurance with respect to the effectiveness of the entity's internal control.

Correct Answer: B

Explanation:

Choice "b" is correct. When management's assertion does not accompany the CPA's report, the first paragraph of the report should contain a statement of management's assertion.

Choice "a" is incorrect. There is no requirement to limit the use of the report, but the report must include a statement of management's assertion.

Choice "c" is incorrect. The CPA may accept such an engagement but is required to include management's assertion in the report.

Choice "d" is incorrect. Negative assurance is prohibited with respect to a report on the effectiveness of an entity's internal control.

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#### QUESTION 5

Which of the following factors most likely would influence an auditor's determination of the auditability of an entity's financial statements?

A. The complexity of the information system relevant to financial reporting.

B. The existence of related party transactions.

C. The adequacy of the accounting records.

D. The operating effectiveness of controls.

Correct Answer: C

Explanation:

Choice "c" is correct. Inadequate financial records may preclude the auditor from obtaining sufficient appropriate audit evidence.

Choice "a" is incorrect. The complexity of the client's information system generally would not influence an auditor's determination of auditability, although it might indicate the need for an information technology expert.

Choice "b" is incorrect. The existence of related party transactions generally would not influence the auditor's determination of auditability.

Choice "d" is incorrect. The operating effectiveness of internal controls is determined long after the



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decision about auditability is made.

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