



CPA-TEST^{Q&As}

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





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QUESTION 1

An auditor who discovers that a client's employees have paid small bribes to public officials most likely would withdraw from the engagement if the:

- A. Client receives financial assistance from a federal government agency.
- B. Audit evidence that is necessary to prove that the illegal acts were committed does not exist.
- C. Employees' actions affect the auditor's ability to rely on management's representations.
- D. Notes to the financial statements fail to disclose the employees' actions.

Correct Answer: C

Explanation:

Choice "c" is correct. When an auditor cannot rely on management's representations, he or she should withdraw from the engagement.

Choice "a" is incorrect. As long as the client takes appropriate remedial action, the auditor would not need to withdraw from the engagement simply because the client receives federal financial assistance.

However, the auditor would be subject to a variety of reporting requirements related to this discovery.

Choice "b" is incorrect. If there is no evidence that an illegal act was committed, management may be unable to take remedial action against the related employees. As long as the illegal act is immaterial and the auditor is satisfied that management's response is appropriate in the circumstances, there would be no reason for the auditor to withdraw.

Choice "d" is incorrect. The auditor should evaluate the adequacy of disclosure in the financial statements with respect to the potential effects of an illegal act. If the auditor concludes that disclosure is inadequate, he or she should express a qualified or adverse opinion, but would not necessarily need to withdraw from the engagement (unless the client refused to accept the modified report).

QUESTION 2

Which of the following is not considered a factor that increases the bargaining power of the customer?

- A. Much information is available to the customer to compare and contrast features of all products on the market.
- B. One group of customers makes up a large volume of the firm's business.
- C. Buyers have low switching costs of changing products.



D. The firm is unable to change suppliers easily.

Correct Answer: D

Explanation:

Choice "d" is correct. When a firm is unable to change suppliers easily, that is a factor that increases the bargaining power of the suppliers.

Choices "a", "b", and "c" are incorrect because they all are factors that increase the bargaining power of the customer, which are:

- Customers make up a large volume of a firm's business.
 - There is much information available to customers.
 - The buyers have low switching costs.
 - There are a high number of alternate suppliers.
-

QUESTION 3

For an entity's financial statements to be presented fairly in conformity with generally accepted accounting principles, the principles selected should:

- A. Be applied on a basis consistent with those followed in the prior year.
- B. Be approved by the Auditing Standards Board or the appropriate industry subcommittee.
- C. Reflect transactions in a manner that presents the financial statements within a range of acceptable limits.
- D. Match the principles used by most other entities within the entity's particular industry.

Correct Answer: C

Explanation:

Choice "c" is correct. Financial statements are presented fairly in conformity with GAAP when there are no material misstatements included therein. The fact that there may occasionally be immaterial misstatements means that the financial statements are correct "within a range of acceptable limits."

Choice "a" is incorrect. Accounting principles may change from year to year. As long as such changes are



properly accounted for, the financial statements are still in conformity with GAAP.

Choice "b" is incorrect. The AICPA and the FASB determine GAAP, not the Auditing Standards Board.

Choice "d" is incorrect. There is no requirement that an entity's financial statements be prepared in accordance with prevalent industry practices in order to be in conformity with GAAP.

QUESTION 4

Starr, a self-employed individual, purchased a piece of equipment for use in Starr's business. The costs associated with the acquisition of the equipment were:

Purchase price	\$55,000
Delivery charges	725
Installation fees	300
Sales tax	3,400

What is the depreciable basis of the equipment?

- A. \$55,000
- B. \$58,400
- C. \$59,125
- D. \$59,425

Correct Answer: D

Explanation: Choice "d" is correct. The rules for depreciable basis in tax are generally the same as the GAAP rules for capitalizing an asset. The depreciable basis is the cost associated with the purchase of the asset and with getting the asset ready for its intended use. Further improvements are also capitalized, and the basis is reduced for any accumulated depreciation. In this case, the cost of obtaining the equipment and getting the equipment ready for its intended use includes all the items shown above, as follows:

Purchase price	\$55,000
Delivery charges	725
Installation fees	300
Sales tax	<u>3,400</u>
Total depreciable basis	<u><u>\$59,425</u></u>

Choice "a" is incorrect. The costs of delivery charges, installation, and sales tax are all part of the cost of obtaining the asset and getting the asset ready for its intended use. All of these charges are included in the depreciable basis of the



equipment. Choice "b" is incorrect. The costs of delivery charges and installation are both part of the cost of obtaining the asset and getting the asset ready for its intended use. These charges are included in the depreciable basis of the equipment. Choice "c" is incorrect. The cost of installation is part of the cost getting the asset ready for its intended use. This charge is included in the depreciable basis of the equipment.

QUESTION 5

When unaudited financial statements are presented in comparative form with audited financial statements in a document filed with the Securities and Exchange Commission, such statements should be:

	<i>Marked as <u>"unaudited"</u></i>	<i>Withheld until <u>audited</u></i>	<i>Referred to in the auditors <u>report</u></i>
A.	Yes	No	No
B.	Yes	No	Yes
C.	No	Yes	Yes
D.	No	Yes	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Correct Answer: A

Explanation:

Choice "a" is correct. When unaudited financial statements (generally the first quarter of the following year in an annual report) are presented in comparative form with audited financial statements in documents filed with the SEC, such statements should be clearly marked as "unaudited," but should not be referred to in the auditor's report. The statements need not be withheld until audited.

Choices "b", "c", and "d" are incorrect, based on explanation above.