



# 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

Which of the following internal controls most likely would reduce the risk of diversion of customer receipts by an entity's employees?

- A. A bank lockbox system.
- B. Prenumbered remittance advices.
- C. Monthly bank reconciliations.
- D. Daily deposit of cash receipts.

Correct Answer: A

Explanation:

Choice "a" is correct. A lockbox system is the best means of preventing defalcation of cash by employees because the employees never have direct access to cash receipts.

Choice "b" is incorrect. The use of prenumbered remittance advices is not effective in preventing theft of receipts by employees because it does not prevent employee access to cash receipts.

Choice "c" is incorrect. While the performance of monthly bank reconciliations is a good control, it would not be effective in preventing the theft of receipts because it does not prevent employee access to cash receipts. (However, it might be effective at detecting a theft that has already occurred).

Choice "d" is incorrect. Daily deposit of cash receipts is not an effective control for preventing theft of receipts by employees because it does not prevent employee access to cash receipts.

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### QUESTION 2

ABC sells to retail stores on credit terms of 2/10, net 30. Daily sales average 150 units at a price of \$300 each. Assuming that all sales are on credit and 60 percent of customers take the discount and pay on Day 10 while the rest of the customers pay on Day 30, the amount of Jackson's accounts receivable is:

- A. \$990,000
- B. \$900,000
- C. \$810,000
- D. \$450,000

Correct Answer: C

Explanation:



Choice "c" is correct. \$810,000 accounts receivable.

	<u>60%</u>	<u>40%</u>	<u>100%</u>
Unit Sales Price	\$ 300	\$ 300	\$ 300
Daily Sales Average Units	× 90	× 60	× 150
Daily Sales	<u>\$27,000</u>	<u>\$18,000</u>	<u>\$ 45,000</u>
Days Outstanding	× 10	× 30	
	<u><u>270,000</u></u>	<u><u>540,000</u></u>	<u><u>\$810,000</u></u>

Choices "a", "b", and "d" are incorrect, per the above calculation.

### QUESTION 3

Morris, CPA, suspects that a pervasive scheme of illegal bribes exists throughout the operations of ABC, Inc., a new audit client. Morris notified the audit committee and ABC's legal counsel, but neither could assist Morris in determining whether the amounts involved were material to the financial statements or whether senior management was involved in the scheme. Under these circumstances, Morris should:

- A. Express an unqualified opinion with a separate explanatory paragraph.
- B. Disclaim an opinion on the financial statements.
- C. Express an adverse opinion on the financial statements.
- D. Issue a special report regarding the illegal bribes.

Correct Answer: B

Explanation:

Choice "b" is correct. Since the CPA could not determine whether the suspected illegal bribes were material to the financial statements, or whether senior management was involved in the scheme, Morris should disclaim an opinion on the financial statements.

Choice "a" is incorrect. An unqualified opinion with a separate explanatory paragraph is not appropriate if suspected material illegal bribes cannot be disproven.

Choice "c" is incorrect. An adverse opinion is inappropriate since the suspected material illegal bribes have not been proven, nor has any material effect on the financial statements been determined.

Choice "d" is incorrect. Special reports are not issued regarding illegal bribes.

### QUESTION 4



Commercial paper:

- A. Has a maturity date greater than one year.
- B. Is generally sold only through investment banking dealers.
- C. Generally does not have an active secondary market.
- D. Has an interest rate lower than treasury bills.

Correct Answer: C

Explanation:

Choice "c" is correct. Although commercial paper has a secondary market available, it is generally not an active secondary market. Commercial paper is usually sold to the money markets by highly creditworthy companies.

Choice "a" is incorrect. The maturity dates are generally less than 270 days.

Choice "b" is incorrect. Commercial paper can be sold to the money markets through a variety of intermediaries including brokers, dealers, investment brokers, etc. It can also be sold direct from one company to another.

Choice "d" is incorrect. The interest rate on commercial paper is below the prime rate, but generally above the Treasury bill rate.

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#### QUESTION 5

The primary purpose of sending a standard confirmation request to financial institutions with which the client has done business during the year is to:

- A. Detect kiting activities that may otherwise not be discovered.
- B. Corroborate information regarding deposit and loan balances.
- C. Provide the data necessary to prepare a proof of cash.
- D. Request information about contingent liabilities and secured transactions.

Correct Answer: B

Explanation:

Choice "b" is correct. The primary purpose of sending a standard confirmation request to financial institutions is to corroborate information regarding deposit and loan balances.

Choice "a" is incorrect. The bank cut-off statement, not the standard bank confirmation form, is used to



detect kiting activities that may otherwise not be discovered.

Choice "c" is incorrect. The standard confirmation does not provide all of the information necessary to prepare a proof of cash (i.e., bank reconciliation) since it only confirms information at the end of a period, and not activity (e.g., deposits, checks, etc.) occurring during the period.

Choice "d" is incorrect. The standard confirmation request seeks information on contingent liabilities and security agreements, but this is not the primary purpose of sending the confirmation.

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