



CPA-TEST^{Q&As}

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





Pass AICPA CPA-TEST Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

<https://www.passapply.com/cpa-test.html>

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by AICPA
Official Exam Center

-  **Instant Download** After Purchase
-  **100% Money Back** Guarantee
-  **365 Days** Free Update
-  **800,000+** Satisfied Customers





QUESTION 1

ABC Golf Course has raised green fees to a nine-hole game due to an increase in demand.

	<u>Previous Rate</u>	<u>New Rate</u>	<u>Average Games Played at Previous Rate</u>	<u>Average Games Played at New Rate</u>
Regular weekday	\$10	\$11	80	70
Senior citizen	6	8	150	82
Weekend	15	20	221	223

Which of the following is correct?

- A. The regular weekday and weekend demand is inelastic.
- B. The regular weekday and weekend demand is elastic.
- C. The senior citizen and weekend demand is inelastic.
- D. The senior citizen demand is elastic and weekend demand is inelastic.

Correct Answer: D

Explanation:

Choice "d" is correct. Demand is elastic if a decline in price (P) results in an increase in total revenue (TR); or if an increase in P results in a decline in TR. On the other hand, if demand is inelastic, a decline in P will result in a decline in TR or an increase in P will result in an increase in TR.

First, the total revenues at both the new and the previous rate must be computed. The (new or previous) rate* average games played (AGP) = the total revenue. As a result, TR at the previous rate (PR) is 800 for regular weekday (RW), 900 for senior citizen (SC), and 3315 for the weekend (WE). TR at the new rate (NR) is 770 for RW, 656 for SC, and 4460 for WE.

So, demand for RW and SC is elastic because the increase in P results in a decline in total revenue. The demand for WE is inelastic because the increase in P results in an increase in TR.

As a result, choices "a", "b", and "c" are incorrect.

Note: if TR remains constant after a change in P, the demand is unit elastic.



QUESTION 2

On December 1, 1997, Krest, a self-employed cash basis taxpayer, borrowed \$200,000 to use in her business. The loan was to be repaid on November 30, 1998. Krest paid the entire interest amount of \$24,000 on December 1, 1997. What amount of interest was deductible on Krest's 1997 income tax return?

- A. \$0
- B. \$2,000
- C. \$22,000
- D. \$24,000

Correct Answer: B

Explanation: Choice "b" is correct. Cash basis taxpayers deduct interest in the year paid or the year to which the interest relates, whichever is later. Even though all of the interest on this loan was paid on December 1, 1997, only the interest relating to December 1997 can be deducted in 1997. The question does not give an interest rate, but because the loan is to be repaid in a lump sum at maturity, 1/12 of the interest, or \$2,000 applies to each month. Choice "a" is incorrect. Because \$2,000 of the interest relates to 1997, this amount is deductible in 1997. Choice "c" is incorrect. This is the amount that cannot be deducted until 1998, the year to which the interest relates. Be sure to read questions like this very carefully, because if you had simply misread the question as seeking the amount deductible in 1998, you would get the question wrong despite understanding the rule. Choice "d" is incorrect. Cash basis taxpayers can deduct interest in the year paid or the year to which the interest relates, whichever is later, thus 11 months of the interest will not be deductible until 1998.

QUESTION 3

Parker, whose spouse died during the preceding year, has not remarried. Parker maintains a home for a dependent child. What is Parker's most advantageous filing status?

- A. Single.
- B. Head of household.
- C. Married filing separately.
- D. Qualifying widow(er) with dependent child.

Correct Answer: D

Explanation: Choice "d" is correct. A qualifying widow(er) is a taxpayer who may use the joint tax return standard deduction and rates (but not the exemption for the deceased spouse) for each of two taxable years following the year of death of his or her spouse, unless he or she remarries. The surviving spouse must maintain a household that, for the whole entire taxable year, was the principal place of abode of a son, stepson, daughter, or stepdaughter (whether by blood or adoption). The surviving spouse must also be entitled to a dependency exemption for such individual. Parker may file as a qualifying widow(er) since her spouse died in the previous tax year, she did not remarry and she maintained a home for a dependent child. Since, qualifying widow(er) is the most advantageous status and Parker qualifies, Parker would file as a qualifying widow(er). Choice "a" is incorrect. Even though Parker would qualify as single, filing single would give Parker a high tax liability than the qualifying widow(er) status and therefore is not most advantageous. Choice "b" is incorrect. Parker would not qualify as head of household for the first two years after the death of Parker's spouse because one of the requirements for Head of Household status is that the taxpayer is NOT a surviving spouse. (Also, note that the likely reason for this requirement is that filing as Head of Household status would give the qualifying surviving spouse taxpayer a higher tax liability than the Qualifying Widow(er) status, which would be



less advantageous.). Choice "c" is incorrect. Parker would not qualify to file married filing separately.

QUESTION 4

An entity changed from the straight-line method to the declining balance method of depreciation for all newly acquired assets. This change has no material effect on the current year's financial statements, but is reasonably certain to have a substantial effect in later years. If the change is disclosed in the notes to the financial statements, the auditor should issue a report with a(an):

- A. "Except for" qualified opinion.
- B. Explanatory paragraph.
- C. Unqualified opinion.
- D. Consistency modification.

Correct Answer: C

Explanation: Choice "c" is correct. If an accounting change has no material effect on the financial statements in the current year, but a material future effect, the auditor must ensure that the change is disclosed in the footnotes whenever the financial statements of the change period are presented, but does not have to recognize the change in the current year's audit report. Choice "a" is incorrect. Accounting changes that are accounted for properly do not result in qualified opinions. Choices "b" and "d" are incorrect. A consistency modification (explanatory paragraph) is not necessary when the effect of a change is immaterial.

QUESTION 5

Which of the following factors most likely would cause an auditor not to accept a new audit engagement?

- A. An inadequate understanding of the entity's internal control.
- B. The close proximity to the end of the entity's fiscal year.
- C. Concluding that the entity's management probably lacks integrity.
- D. An inability to perform preliminary analytical procedures before accepting the engagement.

Correct Answer: C

Explanation:

Choice "c" is correct. A conclusion that management lacks integrity would probably cause the auditor not to accept a new engagement.

Choice "a" is incorrect. Inadequate understanding of the client's internal control would not prevent the auditor from accepting the engagement, since that understanding could be obtained later.

Choice "b" is incorrect. Proximity to year-end would not prevent an auditor from accepting a new audit engagement.



Choice "d" is incorrect. While analytical procedures are required during planning, this generally occurs subsequent to accepting the engagement.

[CPA-TEST Study Guide](#)

[CPA-TEST Exam Questions](#)

[CPA-TEST Braindumps](#)