



# 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**

In financial reporting of segment data, which of the following must be considered in determining if an industry segment is a reportable segment?

	<u>Sales to unaffiliated customers</u>	<u>Intersegment sales</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

Explanation:

Choice "a" is correct. A segment is considered reportable if its reported revenue, including sales to unaffiliated customers and intersegment sales, is 10% or more of the combined revenue (unaffiliated and intersegment) of all operating segments.

Choices "b", "c", and "d" are incorrect, per the above Explanation.

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**QUESTION 2**

A vendor offered ABC Co. \$25,000 compensation for losses resulting from faulty raw materials.

Alternately, a lawyer offered to represent ABC in a lawsuit against the vendor for a \$12,000 retainer and 50% of any award over \$35,000. Possible court awards with their associated probabilities are:



<u>Award</u>	<u>Probability</u>
\$75,000	0.6
0	0.4

Compared to accepting the vendor's offer, the expected value for ABC to litigate the matter to verdict provides a:

- A. \$4,000 loss.
- B. \$18,200 gain.
- C. \$21,000 gain.
- D. \$38,000 gain.

Correct Answer: A

Explanation:

Choice "a" is correct.

### Step 1:

Cost of award if Wyatt wins:

Retainer	12,000
Add: $(\$75,000 - \$35,000) \times 50\%$	<u>20,000</u>
	<u>32,000</u>

Cost if Wyatt loses retainer \$12,000.

### Step 2:

<u>Award</u>	<u>Cost</u>		<u>Net to Wyatt</u>		<u>Probability</u>		<u>Expected</u>
75,000	– 32,000	=	43,000	×	.60	=	25,800
0	– (12,000)	=	(12,000)	×	.40	=	<u>(4,800)</u>
							<u>21,000</u>

### Step 3:

Expected value of litigation	21,000
Less: Settlement offer	<u>(25,000)</u>
Loss from choosing to litigate	<u>(4,000)</u>



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

### QUESTION 3

To address the problem of a recession, the Federal Reserve Bank most likely would take which of the following actions?

- A. Lower the discount rate it charges to banks for loans.
- B. Sell U.S. government bonds in open-market transactions.
- C. Increase the federal funds rate charged by banks when they borrow from one another.
- D. Increase the level of funds a bank is legally required to hold in reserve.

Correct Answer: A

Explanation: Choice "a" is correct. During a recession, real GDP has fallen and unemployment has risen. To stimulate the economy, the Fed can lower the discount rate. This causes the money supply to increase, which, in turn, causes aggregate demand to shift right. As a result, real GDP would increase and unemployment would decrease. Choice "b" is incorrect. If the Fed sells U.S. government bonds in the open market, the money supply will decrease. This causes aggregate demand to shift left. As a result, real GDP would decrease and unemployment would increase. Choice "c" is incorrect. Increasing the federal funds rate would increase interest rates. Higher interest rates cause the aggregate demand curve to shift left. As a result, real GDP would decrease and unemployment would increase. Choice "d" is incorrect. An increase in the required reserve ratio causes the money supply to decrease. This causes aggregate demand to shift left. As a result, real GDP would decrease and unemployment would increase.

### QUESTION 4

Which of the following procedures would an auditor most likely include in the initial planning of a financial statement audit?

- A. Obtaining a written representation letter from the client's management.
- B. Examining documents to detect illegal acts having a material effect on the financial statements.
- C. Considering whether the client's accounting estimates are reasonable in the circumstances.
- D. Determining the extent of involvement of the client's internal auditors.

Correct Answer: D

Explanation:

Choice "d" is correct. The auditor considers several factors in planning the nature, timing and extent of auditing procedures. One of these factors is the extent of involvement of the client's internal auditors.

Choice "a" is incorrect. Representation letters are obtained by the auditor at the end of the audit. The representation letter should not be dated earlier than the date of the auditor's report.

Choice "b" is incorrect. The auditor does not perform tests to detect illegal acts during the planning



process.

Choice "c" is incorrect. The auditor does obtain and evaluate evidence to support significant accounting estimates, but this occurs subsequent to initial planning.

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#### QUESTION 5

Which of the following internal controls would an entity most likely use to assist in satisfying the completeness assertion related to long-term investments?

- A. Senior management verifies that securities in the bank safe deposit box are registered in the entity's name.
- B. The internal auditor compares the securities in the bank safe deposit box with recorded investments.
- C. The treasurer vouches the acquisition of securities by comparing brokers' advices with canceled checks.
- D. The controller compares the current market prices of recorded investments with the brokers' advices on file.

Correct Answer: B

Explanation: Choice "b" is correct. Requiring the internal auditor to compare the securities in the bank safe deposit box with recorded investments is the procedure an entity most likely would use in satisfying the completeness assertion related to long-term investments. Choice "a" is incorrect. Verifying that securities in the bank safe deposit box are registered in the entity's name provides evidence regarding rights and obligations, not completeness. Choice "c" is incorrect. Vouching the acquisition of securities by comparing brokers' advices with canceled checks provides evidence regarding rights and obligations, not completeness. Choice "d" is incorrect. The controller comparing the current market prices of recorded investments with the broker advices on file provides assurance that the long-term investments are properly valued, and that unrealized gains and losses are properly recognized.

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