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

Tracing copies of computer-prepared sales invoices to copies of the corresponding computer-prepared shipping documents provides evidence that:

A. Shipments to customers were properly billed.

B. Entries in the accounts receivable subsidiary ledger were for sales actually shipped.

C. Sales billed to customers were actually shipped.

D. No duplicate shipments to customers were made.

Correct Answer: C

Explanation: Choice "c" is correct. Tracing from invoices to shipping documents would provide evidence that sales billed to customers were actually shipped. An invoice for which the corresponding shipping documents could not be located might be indicative of fictitious sales (i.e., sales that were recorded but never actually shipped). Choice "a" is incorrect. The auditor would need to start with shipping documents and trace to invoices to ensure that shipments were properly billed. Choice "b" is incorrect. An invoice may exist for which no entry was made in the accounts receivable subsidiary ledger. Therefore, the auditor would need to trace from entries in the accounts receivable subsidiary ledger (and not from invoices) to shipping documents, to obtain evidence that recorded receivables were for sales actually shipped. Choice "d" is incorrect. Tracing from invoices to shipping documents would not necessarily indicate when a duplicate shipment was made, as the auditor would not necessarily realize that two sets of shipping documents related to the same invoice.

QUESTION 2

Sam, CPA, is one of the partners in a limited liability partnership with other CPAs. Sam avoids personal liability for:

A. The wrongful acts of employees acting under his supervision.

B. His own negligent acts.

C. The malpractice of his partners regarding errors and omissions.

D. The negligent actions of his subordinates under his direct control.

Correct Answer: C

Explanation:

Choice "c" is correct.

Rule: A partner in a LLP is personally liable for tort liabilities arising from his own negligence and the

negligence of his direct subordinates and for breach of contract damages. He is NOT personally liable for

the negligent actions committed by his partners.

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

QUESTION 3

According to the FASB conceptual framework, the usefulness of providing information in financial statements is subject to the constraint of:

A. Consistency.

B. Cost-benefit.

C. Reliability.

D. Representational faithfulness.

Correct Answer: B

Explanation:

Choice "b" is correct. The pervasive constraint on providing information in financial statements is that the cost should be outweighed by the benefit to be derived from providing the information. SFAC 1 para. 23, SFAC 2 para. 133.

Choice "a" is incorrect. Consistency is an underlying concept for financial statements (and a secondary quality of accounting information), but it is not a constraint on providing information. SFAC 2 para. 120.

Choice "c" is incorrect. Reliability is a primary quality of accounting information and an underlying concept for financial statements, but it is not a constraint on providing information. SFAC 2 para. 58.

Choice "d" is incorrect. Representational faithfulness is an underlying concept for financial statements (as an element of reliability), but it is not a constraint on providing information.

QUESTION 4

When the overall price level is rising, nominal interest rates tend to be:

A. Unaffected by changes in the price level.

B. Falling.

C. Rising.

D. None of the above.

Correct Answer: C

Explanation:

Choice "c" is correct. The relationship between nominal interest rates and inflation can be seen by rearranging the equation for real interest rates as follows:

Nominal Interest Rate = Real Interest Rate + Inflation

Thus, if real interest rates do not change, a 1% increase in the inflation rate will lead to a 1% increase in nominal interest rates.

QUESTION 5

Capital budgeting decisions include all but which of the following?

A. Selecting among long-term investment alternatives.

B. Financing short-term working capital needs.

C. Making investments that produce returns over a long period of time.

D. Financing large expenditures.

Correct Answer: B

Explanation:

Choice "b" is correct. Capital budgeting decisions do not include the financing of short-term working capital needs, which are more operational in nature.

Choices "a", "c", and "d" are incorrect, as these are all types of capital budgeting decisions.