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QUESTION 1

In which of the following situations should a company report a prior-period adjustment?

- A. A change in the estimated useful lives of fixed assets purchased in prior years.
- B. The correction of a mathematical error in the calculation of prior years' depreciation.
- C. A switch from the straight-line to double-declining balance method of depreciation.
- D. The scrapping of an asset prior to the end of its expected useful life.

Correct Answer: B

Explanation:

Choice "b" is correct. Prior period adjustments consist of: corrections of errors in the financial statements of prior periods, retroactive restatements required by new GAAP pronouncements, and changes from a non-GAAP method of accounting to a GAAP method of accounting (which are corrections of errors).

Choice "a" is incorrect. This change is a change in accounting estimate.

Choice "c" is incorrect. This change is a change for one GAAP method of depreciation to another GAAP method of depreciation. Under SFAS No. 154, it is treated as a change in accounting estimate effected by a change in accounting principle and is handled prospectively, and not as a prior-period adjustment.

Choice "d" is incorrect. This is a business activity ordinary in nature.

QUESTION 2

A period during which real GDP is rising and unemployment is falling is called a(n):

- A. Recession.
- B. Peak.
- C. Expansion.
- D. Trough.

Correct Answer: C

Explanation:

Choice "c" is correct. During an expansion, real GDP is rising and unemployment is falling.

Choice "a" is incorrect. A recession is when real GDP is falling NOT rising.

Choice "b" is incorrect. A peak is the highest point of economic activity. It is the point where real GDP is at



its highest level in the cycle and unemployment is at its lowest level in the cycle.

Choice "d" is incorrect. A trough is the lowest level of economic activity. It is the point where real GDP is at its lowest level in the cycle and unemployment is at its highest level in the cycle.

QUESTION 3

The standard report issued by an accountant after reviewing the financial statements of a nonissuer should state that:

- A. A review is limited to presenting in the form of financial statements information that is the representation of management.
- B. A review consists of inquiries of company personnel and analytical procedures applied to financial data.
- C. The accountant does not express an opinion or any other form of assurance on the financial statements.
- D. The accountant did not obtain an understanding of the entity's internal control or assess control risk.

Correct Answer: B

Explanation: Choice "b" is correct. The standard report issued by an accountant after reviewing the financial statements of a nonissuer states that a review consists of inquiries of company personnel and analytical procedures applied to financial data. Choice "a" is incorrect. A compilation report uses language similar to this, stating that a compilation is limited to presenting, in the form of financial statements, information that is the representation of management. Choice "c" is incorrect. A compilation report uses language similar to this, stating that the accountant does not express an opinion or any other form of assurance on the financial statements. A review provides negative assurance. Choice "d" is incorrect. While it is true that a review of the financial statements of a nonpublic entity does not require the accountant to obtain an understanding of the entity's internal control or assess control risk, the report does not explicitly state this.

QUESTION 4

When assessing an internal auditor's objectivity, an independent auditor should: A. Evaluate the adequacy of the internal auditor's audit plans.

- B. Inquire about the internal auditor's educational background and professional certification.
- C. Consider the organizational level to which the internal auditor reports.
- D. Review the internal auditor's audit documentation.

Correct Answer: C

Explanation:

Choice "c" is correct. When assessing an internal auditor's objectivity, an independent auditor should consider the organizational level to which the internal auditor reports.

Choice "a" is incorrect. Evaluating the adequacy of the internal auditor's audit plans would be performed when assessing an internal auditor's competence.



Choice "b" is incorrect. Inquiring about the internal auditor's educational background and professional certification would be performed when assessing an internal auditor's competence.

Choice "d" is incorrect. Reviewing the internal auditor's audit documentation (to determine the quality of the reports and recommendations) would be performed when assessing an internal auditor's competence.

QUESTION 5

Park and Graham entered into a written partnership agreement to operate a retail store. Their agreement was silent as to the duration of the partnership. Park wishes to dissociate from the partnership. Which of the following statements is correct?

- A. Park may dissociate from the partnership at any time.
- B. Unless Graham consents to the dissociation, Park must apply to a court and obtain a decree ordering the dissociation.
- C. Park may not dissociate from the partnership unless Graham consents.
- D. Park may dissociate from the partnership only after notice of the proposed dissolution is given to all partnership creditors.

Correct Answer: A

Explanation:

Choice "a" is correct. Because the agreement is silent as to duration, it is a partnership at will. A partner may dissociate from a partnership at will at any time.

Choice "b" is incorrect. Because the agreement is silent as to duration, it is a partnership at will. A partner may dissociate from a partnership at will at any time. No court order is required.

Choice "c" is incorrect. Partnerships are consensual relationships, so any partner has the power to dissociate at any time; he or she need not obtain the consent of the other partners (though absent consent, the partner will be liable for damages if the dissociation is wrongful).

Choice "d" is incorrect. There is no requirement of giving partnership creditors a formal notice of intent to dissociate, but it is a good idea to do so to avoid liability on future partnership obligations.