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QUESTION 1

In evaluating the reasonableness of an accounting estimate, an auditor would be least likely to use which of the following approaches?

- A. Review subsequent events or transactions occurring prior to audit completion.
- B. Develop an independent expectation of the estimate.
- C. Review and test the process used to develop the estimate.
- D. Review the minutes of board of directors and shareholder meetings for discussion of the estimate.

Correct Answer: D

Explanation: Choice "d" is correct. Even if estimates were discussed during board meetings and/or shareholder meetings, it is unlikely that review of such discussion would provide evidence that the estimate is reasonable. Choices "a", "b", and "c" are incorrect. Reviewing subsequent events, developing an independent expectation, and reviewing and testing the process used to develop the estimate are all appropriate methods used to evaluate the reasonableness of an accounting estimate.

QUESTION 2

Which of the following standards requires a critical review of the work done and the judgment exercised by those assisting in an audit at every level of supervision?

- A. Proficiency.
- B. Audit risk.
- C. Inspection.
- D. Due care.

Correct Answer: D

Explanation:

Choice "d" is correct. The third general standard is: "The auditor must exercise due professional care in the planning and performance of the audit and the preparation of the report." This standard is interpreted to require a critical review of the work performed and the judgment exercised at every level of supervision.

Choice "a" is incorrect. Proficiency relates to the first general standard (technical training and proficiency of an auditor).

Choice "b" is incorrect. Audit risk and materiality underlie the application of all the standards of fieldwork and reporting, but are not standards themselves.

Choice "c" is incorrect. Inspection pertains to the audit evidence standard, which is the third standard of



fieldwork.

QUESTION 3

Which of the following sets of information does an auditor usually confirm on one form?

- A. Accounts payable and purchase commitments.
- B. Cash in bank and collateral for loans.
- C. Inventory on consignment and contingent liabilities.
- D. Accounts receivable and accrued interest receivable.

Correct Answer: B

Explanation:

Choice "b" is correct. The standard AICPA bank confirmation form includes spaces for the bank to confirm both cash balances on deposit at the bank and collateral pledged on loans originating from the bank.

Choice "a" is incorrect. Purchase commitments are not typically confirmed on an accounts payable confirmation request.

Choice "c" is incorrect. Contingent liabilities (confirmed in a letter of inquiry to the client's attorney or bank) and inventory on consignment (confirmed with the consignee) are not confirmed together.

Choice "d" is incorrect. Accrued interest receivable (usually on investments held by a trust company) is not typically confirmed along with trade accounts receivable.

QUESTION 4

Rachel, CPA, is conducting an audit of ABC company, a nonissuer. Rachel has conducted her audit in accordance with generally accepted auditing standards, and she wishes to emphasize in her report that such standards do not require the same level of testing and reporting on internal control as is required for audits of issuers under the Sarbanes-Oxley Act. Which report modification would be most appropriate in this situation?

- A. Only the scope paragraph should be modified.
- B. An explanatory paragraph should be added following the opinion paragraph.
- C. An explanatory paragraph should be added preceding the opinion paragraph, and the opinion paragraph should state, "Except for the matter discussed in the preceding paragraph..."
- D. No report modification should be made in this scenario.

Correct Answer: A

Explanation: Choice "a" is correct. The auditor may expand the scope paragraph to state that internal control was



considered as a basis for designing appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control. This serves to emphasize that the extended level of testing and reporting on internal control required by the Sarbanes-Oxley Act did not apply in this case. Choice "b" is incorrect. The auditor should modify the scope paragraph, not add an additional explanatory paragraph. Choice "c" is incorrect. An "except for" qualified opinion would not be appropriate in this case. Choice "d" is incorrect. Although a report modification is not required, the question states that Rachel wishes to emphasize the scope of her work on internal control. In such situations, the scope paragraph should be modified.

QUESTION 5

Audit documentation serves mainly to:

- A. Provide the principal support for the auditor's report.
- B. Satisfy the auditor's responsibilities concerning the Code of Professional Conduct.
- C. Monitor the effectiveness of the CPA firm's quality control activities.
- D. Document the level of independence maintained by the auditor.

Correct Answer: A

Explanation:

Choice "a" is correct. Audit documentation serves mainly to provide 1) the principal support for the auditor's report; 2) assistance in the planning, conduct, and supervision of the audit; 3) accountability; and 4) useful information.

Choice "b" is incorrect. Audit documentation does not satisfy the auditor's responsibilities concerning the Code of Professional Conduct.

Choice "c" is incorrect. Audit documentation does not monitor the effectiveness of the CPA firm's quality control activities.

Choice "d" is incorrect. Audit documentation does not document the level of independence maintained by the auditor.

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